Swiss Re

2007 Annual Report
Shareholders' letter

Key information

Corporate highlights

- Strong net income of CHF 4.2 billion with excellent underlying performance; earnings per share of CHF 11.95; book value per share of CHF 92.00
- Property & Casualty reported its best performance ever with operating income of CHF 5.9 billion and a combined ratio of 90.2%, despite an increase in natural catastrophe events compared to the previous year
- Life & Health improved on a very strong prior year result with operating income of CHF 2.7 billion and a return on operating revenues of 14.7%
- Financial Markets activities delivered a solid return of investments of 4.9%
- Mark-to-market loss on structured credit default swaps of CHF 1.2 billion reported in fourth quarter
- Shareholders' equity increased 3% to CHF 31.9 billion on strong earnings
- Return on equity remains above target at 13.5%
- Total capital returned to shareholders in 2007 through dividend and share buy-back was CHF 3.7 billion
- 2007 dividend increased to CHF 4.00 per share
- Share buy-back programme increased to CHF 7.75 billion and expected to be completed over the next 24 months

Financial highlights

CHF millions unless otherwise stated	2006	2007	Change in %
Property & Casualty			
Premiums earned	18 541	**18 999**	2
Combined ratio, traditional business in %	90.5	**90.2**	
Life & Health			
Premiums earned	10 974	**12 665**	15
Return on operating revenues in %	9.2	**14.7**	
Financial Markets			
Operating income	7 021	**7 332**	4
Return on investments in %	5.0	**4.9**	
Group			
Premiums earned	29 515	**31 664**	7
Net income	4 560	**4 162**	–9
Earnings per share in CHF	13.49	**11.95**	–11
Dividend per share in CHF	3.40	**4.00**[1]	18
Shareholders' equity	30 884	**31 867**	3
Return on equity in %	16.3	**13.5**	
Number of employees[2]	10 891	**11 702**	7

[1] Subject to approval at the Annual General Meeting on 18 April 2008
[2] Permanent staff

Financial strength ratings

as of 22 February 2008	S&P	Moody's	A.M. Best
Rating	AA–	Aa2	A+
Outlook	stable	stable	under review, negative

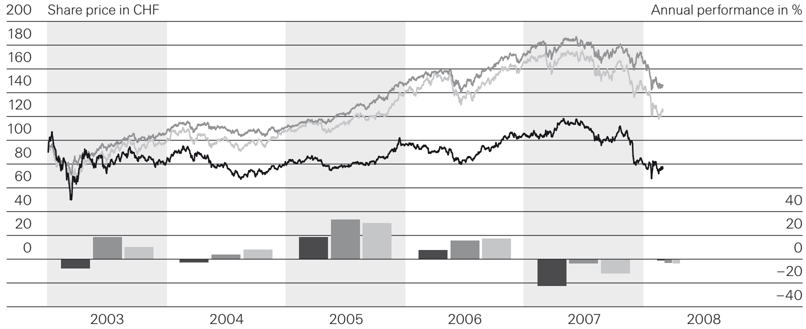
Share information

as of 22 February 2008

Share price in CHF	77.05
Market capitalisation in CHF millions	26 212
Number of shares entitled to dividend	340 196 856

Share performance

in %	2003 – 22 February 2008 (p.a.)	2007
Swiss Re	–3.1	**–22.4**
Swiss Market Index	9.7	**–3.4**
DJ Europe STOXX Insurance Index	6.4	**–12.1**



— Swiss Re — Swiss Market Index — DJ Europe STOXX Insurance Index

Letter to shareholders

From left:
Peter Forstmoser
Chairman of the Board of Directors
Jacques Aigrain
Chief Executive Officer

Dear shareholders, ladies and gentlemen

As you are well aware, 2007 was a year of contrasts. Your company delivered the second-best result in its 144-year-history, with net income of 4.2 billion (CHF 11.95 per share) and outstanding performance across almost all areas of our business. However, in November we suffered an isolated, yet very significant, loss from our credit underwriting activities. There is no doubt that we failed to live up to your expectations, a fact we take very seriously.

But before we review the year in more detail and explain our outlook for your company's future success, allow us to recognise our employees for their achievements in delivering our 2007 results.

Outstanding results across the business
Our Property & Casualty segment had its best performance ever, achieving a combined ratio of 90.2%. This resulted in an outstanding operating income of CHF 5.9 billion. We would like to underline that this success reflects the quality of our underwriting and is not simply the result of good luck. In 2007, the level of weather events was higher than in the previous year, despite the low intensity of natural catastrophes in the US. Winter storm Kyrill in Germany, a series of floods in the UK, storms in Australia, and Cyclone Gonu in the Middle East, among others, caused industry-wide claims of USD 23 billion. While there is no room for complacency, our underwriting and client teams can be very proud of their contribution to our success.

Life & Health also improved on an already very strong prior year result. The return on operating revenues increased from 9.2% to 14.7% as we leveraged our position as the leading reinsurer in this segment. We also benefited from our geographic diversity, as well as greater diversification by lines of business following the integration of the portfolio acquired from General Electric. Operating income grew to CHF 2.7 billion, a 76% increase over 2006. New mortality and critical illness business was slightly lower as a result of increased competition, but this was more than offset by growth in our Admin Re® segment and the excellent development of our variable annuity and longevity businesses.

The Financial Markets segment developed positively, despite a generally difficult market environment. In 2007, we generated operating income of CHF 7.3 billion and a solid return on investments of 4.9%. The quality of this result is demonstrated by the fact that it does not rely on capital gains: net realised losses in 2007 were CHF 1.2 billion, compared to net realised gains of CHF 0.8 billion in 2006. The investment portfolio quality is strong and impairments were modest at 37 basis points of assets under management. New business written, in particular in the Admin Re® and longevity areas, led to a sharp increase in managed assets to CHF 176.0 billion, a rise of 9% since the end of 2006. In addition, we benefited from the credit market dislocation, reinvesting our cash flow in higher-yielding but very high quality assets, thus ensuring enhanced returns for the future.

Our insurance-related capital market capabilities enabled us to respond to clients' needs with broader, more comprehensive products. We leveraged our established strengths in this area by extending our Successor programme, issuing the first-ever securitisations of Mediterranean and Central American earthquake risks, and acting as an underwriter of catastrophe and life securitisations for clients such as Allianz, Groupama and the Savings Bank Life Insurance Company of Massachusetts (SBLI).

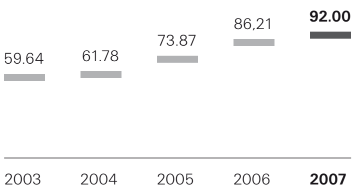
In addition, we extended our capabilities by establishing the first catastrophe bond indices in association with Standard & Poor's, and by developing solutions for variable annuity, longevity and environmental risks. Our capital market capabilities are a key part of our business, allowing us to assign more capacity to natural catastrophe risks and improving our asset performance with a wide range of hedging and equity overlay techniques, without increasing the volatility of our earnings.

The integration of GE Insurance Solutions has advanced well, with synergies on track. Business retention at the end of 2007 was 77%, significantly exceeding our expectations, and talent retention was also strong, with 85% of targeted executives staying with Swiss Re. The quality of the assets acquired was borne out by our ability to significantly reduce retrocession recoverables from CHF 10.2 billion at the date of acquisition to CHF 5.1 billion at the end of 2007. The acquisition not only extended our market reach, it also allowed us to strengthen our expertise in several areas, including health, engineering and marine.

The strong performance across almost all business segments clearly demonstrates the underlying strength of your company. In 2007, we delivered a return on equity of 13.5% and increased your shareholders' equity by CHF 1.0 billion to CHF 31.9 billion. Book value per share also rose to CHF 92.00, a 7% increase over the end of 2006, despite the return of CHF 3.7 billion to you in 2007, in the form of dividends and through our share buy-back programme. Based on the Group's strong capital position, the Board of Directors will propose an increased dividend of CHF 4.00 per share.

Book value

Per common share (CHF), as of 31 December



These results show the significant cash value we added for you, our shareholders, but are also a reflection of our success in serving clients across the world, helping them manage complex risks and protecting them against uncertainty.

Actions in response to the loss in credit underwriting

As mentioned earlier, our fourth quarter result was impacted by a significant loss in our structured credit activities. This was triggered by two related transactions providing credit risk protection against the default of a basket of US mortgage-backed securities – a risk that was considered to be remote at inception. Unprecedented action by the rating agencies in October led to a rapid wave of downgrades of these securities. This resulted in a mark-to-market loss for Swiss Re of CHF 1.2 billion before tax.

Regrettably, we remain exposed to continued fluctuation in the market value of the underlying securities. We are working hard to mitigate the resulting risks. As of 31 December 2007, the mark-to-market loss had not changed materially. Based on market movements as of 20 February 2008, we estimate a further mark-to-market impact of CHF 240 million. This change in value is currently offset by positive developments in Swiss Re's investment portfolio.

The structured credit activities of our Credit Solutions business had been successful for more than a decade. While guidelines were respected, in this underwriting case, the business model was pushed beyond its limit. In retrospect, the decision to underwrite this risk was unfortunate. The wider impact of this event was far greater than the actual size of the write-down, and the resulting loss of confidence has been plain to see. The responsibility for this ultimately lies with the leadership of the firm.

The business unit in which the loss occurred is marginal to our credit reinsurance business and we have ceased writing structured credit derivative transactions, putting the existing portfolio into run-off. We have learned from the mistake and are confident that we have a stronger organisation as a result.

We took immediate action to strengthen the risk taking and supervision processes by introducing a more rigorous product approval process, and further enhancing our risk monitoring and stress testing. We are focused on restoring trust in Swiss Re through decisive actions and transparency.

It is a reflection of Swiss Re's scale and quality that such a significant loss impacted our fourth quarter earnings only – now a profit of CHF 170 million – and had no impact on the superior ratings or capital strength of the firm.

Outlook for 2008 and beyond

Your company is strongly positioned to deliver continuous improvement in its earnings per share over the near future. New product development, in particular in our life and health business, is supporting the positive momentum in our revenues.

With property and casualty rates softening and client retentions increasing, the industry is entering a more challenging business environment compared to the very favourable markets of 2006 and 2007. In these conditions, Swiss Re will not pursue premium growth; instead, we will strictly apply the same approach to underwriting that has delivered the successful results we are now sharing with you. Our disciplined underwriting and careful risk selection were reflected in a 12% reduction in volume during the January 2008 renewals. Our focus continues to be on achieving attractive margins and delivering strong earnings per share for you.

We have already taken steps to prepare for the changing property and casualty market by extending our approach to the trading of insurance risk. In January 2008, we entered into a significant quota share arrangement to increase your company's operational leverage by ceding a 20% share in our new and renewed property and casualty business. The agreement includes a ceding commission of 14% after acquisition costs. It offers Swiss Re both downside protection and upside flexibility, enabling us to further advance our capital management and allowing us to increase capacity rapidly should underwriting conditions improve. This is further evidence of our commitment to actively manage the insurance price cycle in the best interest of our shareholders.

In 2007, we also accelerated our worldwide efforts to simplify and optimise our corporate structure. In Europe, we are benefiting from the new Reinsurance Directive by consolidating our EU business (excluding Admin Re®) into two entities in Luxembourg. Together with the capital released by the quota share arrangement, these efforts will deliver significant improvements in the Group's capital flexibility, allowing us to increase our share buy-back or invest the capital elsewhere for higher returns at a moment in the cycle when capital is in surplus.

With these opportunities in mind, we are confident in your company's growth prospects. We remain focused on our medium-term objective of 10% growth in earnings per share and have increased our return on equity target to 14% over the cycle. Our earnings power is strong and we look to the future with confidence.

Talent is at the centre of our performance. Swiss Re can only deliver on its earnings ambition through the skills and innovation of the professionals in its midst. In 2007, we launched graduates@swissre, our new global training programme, attracting 49 outstanding university graduates from Asia, the Americas and Europe. In 2008, we are targeting an influx of 150 graduates. This is the future of your company. Swiss Re could not have succeeded over its 144-year history without constantly nurturing fresh talent and ideas. Graduates@swissre advances this proud tradition and extends it to a global level. Together with a strong intake of new employees in 2007, our focus on talent will ensure the success of your firm over the decades to come.

In the context of attracting talent, we are pleased to welcome Raj Singh, our new Chief Risk Officer, to our Executive Committee. Raj joins us from Allianz, where he held the position of Chief Risk Officer for more than five years. He takes over from Christian Mumenthaler, who has moved to the frontline of our business and assumed worldwide responsibility for our Life & Health segment.

We are also pleased that Raymond K.F. Ch'ien and Mathis Cabiallavetta have made themselves available to join the Board of Directors. Their election will be proposed at the Annual General Meeting on 18 April 2008. Mr Ch'ien is chairman of CDC Corporation and chairman of the board of Hang Seng Bank. Among others, he also serves on the board of directors of the Hongkong and Shanghai Banking Corporation. Mr Cabiallavetta is vice chairman of Marsh & McLennan Companies and chairman of Marsh & McLennan International. He is also a former chairman of the board of UBS AG.

Finally, we would like to thank our more than 11 000 employees around the world. The strong result for 2007 would not have been possible without their hard work, dedication and expertise. We are confident that their commitment to performance will continue to deliver strong, sustainable value to our clients and, ultimately, to you, our shareholders in the year ahead.

Zurich, 29 February 2008

Peter Forstmoser
Chairman of the Board of Directors

Jacques Aigrain
Chief Executive Officer

Cautionary note on forward-looking statements/Information

Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements and illustrations provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact. Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase" and "may fluctuate" and similar expressions or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause Swiss Re's actual results, performance, achievements or prospects to be materially different from any future results, performance, achievements or prospects expressed or implied by such statements. Such factors include, among others:

- changes in global economic conditions and the risk of a global economic downturn;
- direct and indirect impact of continuing deterioration in the credit markets, and further adverse rating actions by credit rating agencies in respect of structured credit products or other credit-related exposures and of monoline insurance companies;
- the occurrence of other unanticipated market developments or trends;
- the ability to maintain sufficient liquidity and access to capital markets;
- the cyclicality of the reinsurance industry;
- uncertainties in estimating reserves;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, currency values and other market indices;
- expected changes in our investment results as a result of the changed composition of our investment assets or changes in our 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;
- changes in rating agency policies or practices;
- the lowering or loss of one of the financial or claims-paying ratings of one or more of our subsidiaries;
- 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;
- the impact of current, pending and future legislation, regulation and regulatory and legal actions;
- the impact of significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions, including, in the case of acquisitions, issues arising in connection with integrating acquired operations;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

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

Corporate calendar

31 March 2008
EVM teach-in

18 April 2008
144th Annual General Meeting

6 May 2008
First quarter results and 2007 EVM

5 August 2008
Second quarter results

25 September 2008
Investors' Day

4 November 2008
Third quarter results

19 February 2009
2008 annual results

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2007 Annual Report
Shareholders' letter

Original version in English

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is also available in German and French.

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