



Walter B. Kielholz
Chairman of the Board of Directors



Stefan Lippe
Chief Executive Officer

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

Dear shareholders

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

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

Resilient performance in challenging market conditions

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

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

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

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

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

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

Swiss Re set to benefit from industry developments

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

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

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

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

Zurich, 5 August 2010



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