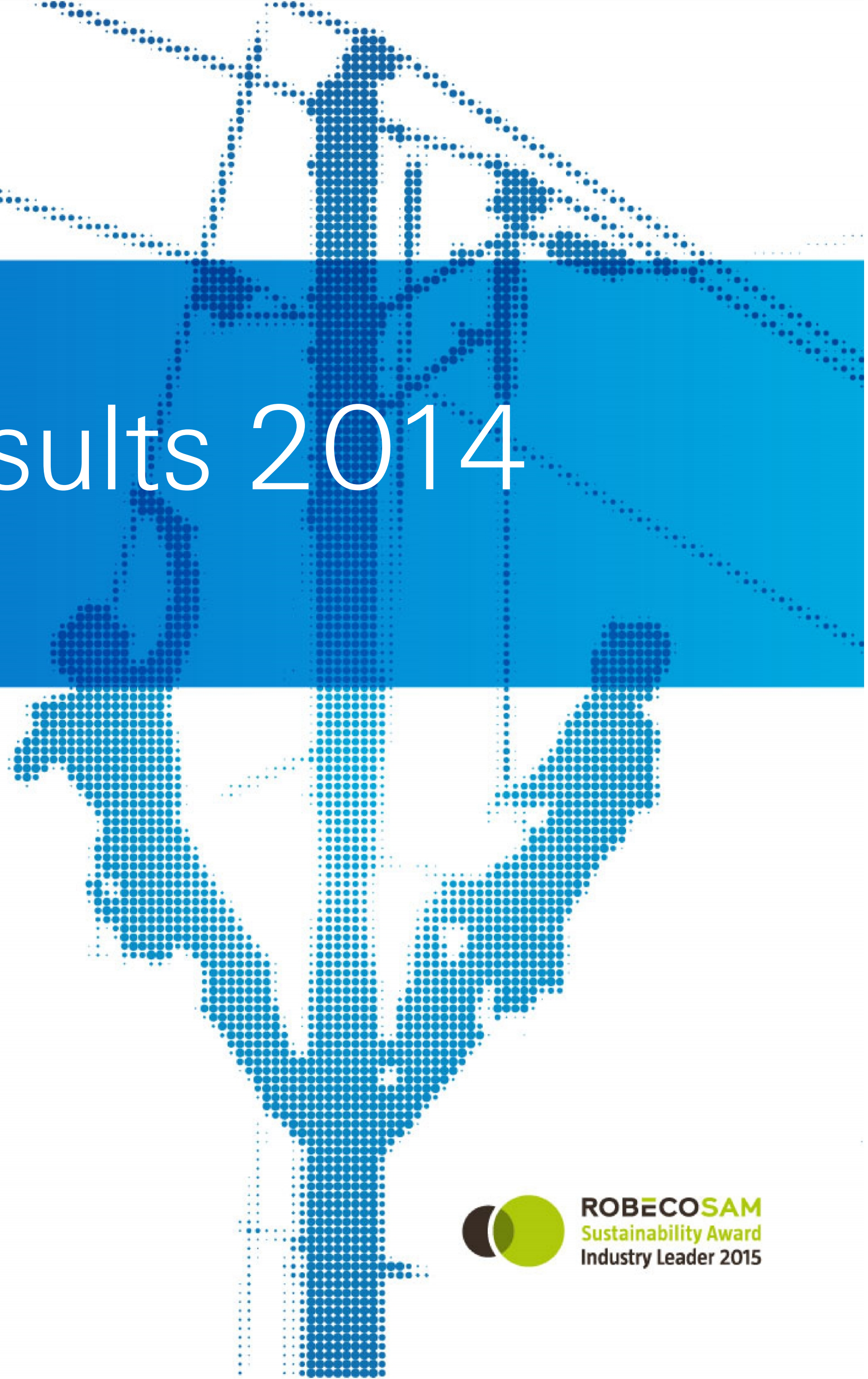
Swiss Re

# Annual EVM Results 2014

Zurich, 18 March 2015



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# EVM methodology

**An integrated economic valuation and accounting framework for business planning, pricing, reserving, and steering**

- Shows direct connection between risk taking and value creation
- Provides consistent economic framework for evaluating risk taking outcomes and capital management decisions
- Enables comparing economic returns across businesses and product lines for capital allocation decisions on a risk-adjusted basis

**Key features**

- Market consistent valuation of assets and liabilities
- Exclusion of potential future new business (closed book approach)
- Recognition of all profits on new business at inception and of changes in estimates as they occur
- Best estimates of future projected cash flows on a discounted basis
- Risk-adjusted performance
- Segregation between underwriting and investment activities

- Segmentation of P&C Re, L&H Re, Corporate Solutions and Admin Re® balance sheet and income statement consistent with US GAAP methodology
- EVM results may be subject to significant volatility as assets and liabilities are measured on a market consistent basis

# 2014 highlights

- Swiss Re reports EVM profit of USD 1.3bn, supported by strong new business underwriting partially offset by losses on the Group's net short duration position
- P&C Reinsurance delivered EVM profit of USD 1.2bn, mainly driven by new business profit, partially offset by the impact of falling interest rates on the segment's short duration position
- L&H Reinsurance contributed EVM profit of USD 168m supported by large transactions and investment activities, partially offset by negative previous years' business development in Americas
- Corporate Solutions continued to grow profitably despite unfavourable investment performance, higher capital costs and a reduced contribution from previous years' business
- Admin Re® continued to expand its UK franchise through a new transaction adding USD 505m of new business premiums
- Economic net worth increased to USD 38.4bn or USD 112.1 per share (CHF 111.4 per share), providing further support to the proposed public share buy-back programme of up to CHF 1.0bn

# EVM key figures

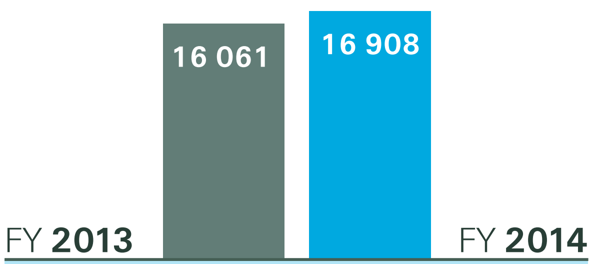
| USD millions, unless otherwise stated | P&C Re | L&H Re | Corporate Solutions | Admin Re® | Group items | **Total** FY **2014** | **Total** FY **2013** |
|---|---|---|---|---|---|---|---|
| • Premiums and fees | 16 908 | 14 692 | 3 764 | 505 | 0 | 35 869 | 36 660 |
| • EVM income | 2 367 | 2 034 | 357 | 304 | 127 | 5 189 | 6 339 |
| • EVM profit (loss) | 1 219 | 168 | 81 | 43 | -175 | 1 336 | 4 007 |
| *of which new business* | *1 547* | *519* | *99* | *173* | *-184* | *2 154* | *2 249* |
| *of which previous years' business* | *484* | *-441* | *9* | *-33* | *-14* | *5* | *496* |
| *of which investment activities* | *-812* | *90* | *-27* | *-97* | *23* | *-823* | *1 262* |
| • New business profit margin | 11.8% | 6.7% | 2.9% | 4.6% | n/a | 7.7% | 9.6% |
| • New business EROC | 16.4% | 14.7% | 8.1% | 8.4% | n/a | 13.7% | 15.3% |
| | P&C Re | L&H Re | Corporate Solutions | Admin Re® | Group items | | |
| • Economic net worth (ENW) | 16 645 | 9 542 | 3 015 | 3 293 | 5 870 | 38 365 | 37 188 |
| • Economic net worth per share (USD) | | | | | | 112.1 | 108.7 |
| • Economic net worth per share (CHF) | | | | | | 111.4 | 96.6 |

# P&C Reinsurance
## Continued strong underwriting performance partially offset by investment losses

### Premiums and fees new business

USD m

+5.3%

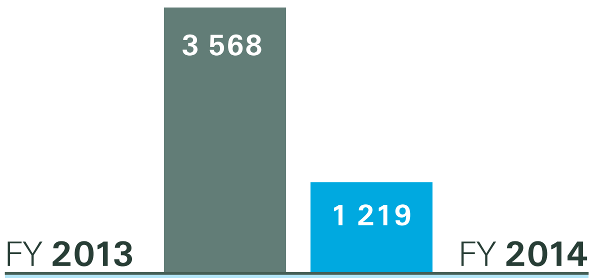



- Premium growth mainly driven by an increased share of Casualty business in the Americas and lower external retrocessions
- This increase was partially offset by lower volumes in EMEA and Asia, reflecting lower renewals and rates softening

### EVM profit

USD m

-65.8%




- New business profit USD 1.5bn (2013: USD 1.7bn) supported by strong underwriting performance
- Previous years' business profit USD 484m (2013: USD 918m), primarily driven by favourable claims experience and release of a premium tax provision
- Investment loss USD 812m (2013: USD 944m gain) mainly due to falling interest rates and a short duration position

### New business profit margin

%

-5.7%pts

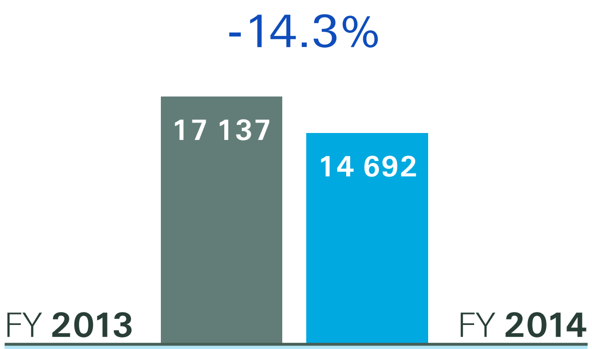

- New business profit margin reflects strong underwriting performance
- Reduction mainly due to increase in allocated capital for new business and pressure on rates

# L&H Reinsurance

## Strong new business performance partially offset by unfavourable previous years' business development

### Premiums and fees new business

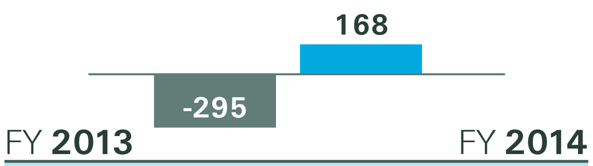
USD m




- The decrease was mainly attributable to the non-recurrence of a large health transaction written in Japan in the previous year, partially offset by other large transactions written in all regions

### EVM profit

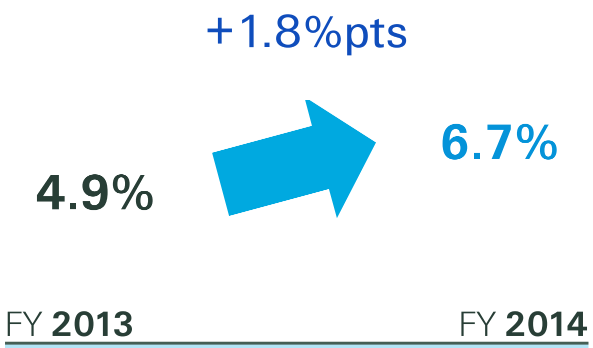
USD m




- New business profit USD 519m (2013: USD 565m), mainly driven by large deals in the US, UK and Asia
- Previous years' business loss USD 441m (2013: USD 779m loss) due to in-force updates, model and assumption changes
- Investment profit USD 90m (2013: USD 81m loss), mainly driven by falling interest rates and a long duration position

### New business profit margin

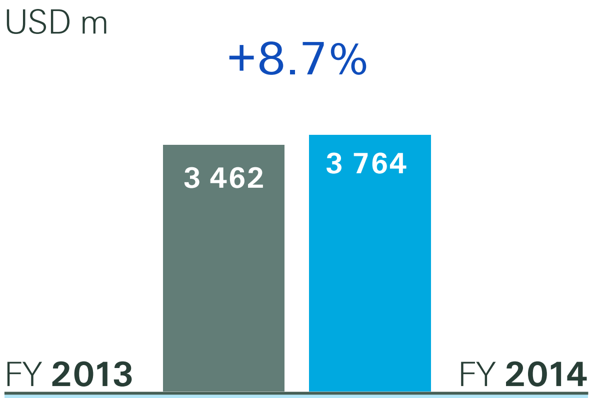
%




- Increase in new business profit margin due to reduction in allocated capital for new business and higher margins achieved on a number of deals

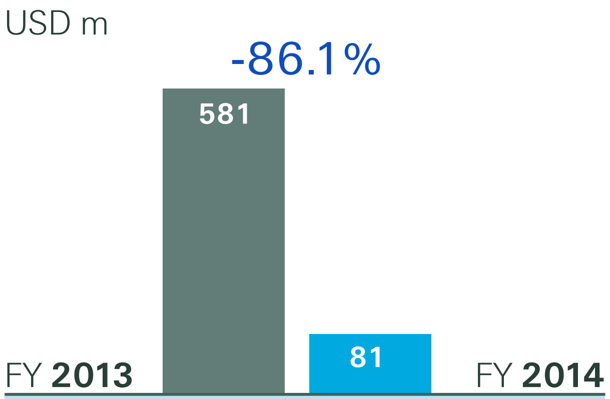
# Corporate Solutions
## Growth plan on track, result lower due to special impacts

### Premiums and fees new business



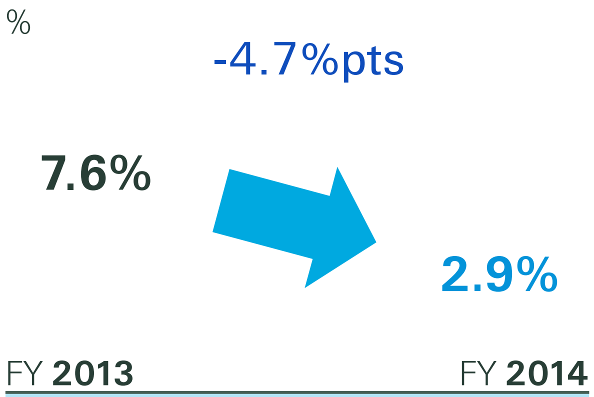

- Continued successful organic growth across all regions and most lines, with highest growth in Credit
- Gross premiums[1] increased by 5% to USD 4.0bn in 2014

### EVM profit




- EVM profit decrease compared to prior year due to special impacts:
  - reduced profit from investment activities and asset and liability management process mismatch (USD 369m)
  - higher capital costs due to update of EVM methodology (USD 144m)
  - non-recognition of Confianza goodwill (USD 52m)

### New business profit margin




- Profit margin reduction driven by special impacts and increased allocated capital, due to update of EVM methodology

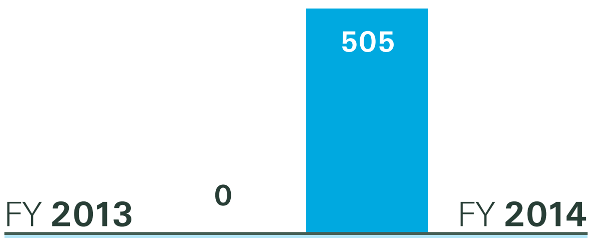
[1] Present value of premiums and fees excluding external and internal retrocession

# Admin Re®

## EVM profit driven by the sale of Aurora partially offset by unfavourable in-force development and investment losses

### Premiums and fees new business

USD m

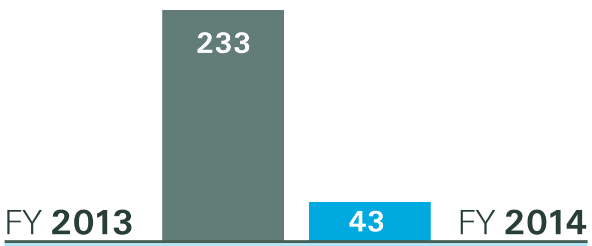



- Acquisition of HSBC's UK pensions business in 2014
- No new transactions were executed in 2013

### EVM profit

USD m

-81.5%

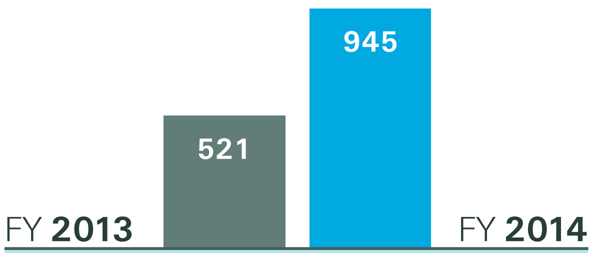



- New business profit USD 173m (2013: USD 129m loss) mainly driven by the Aurora sale
- Previous years' business loss USD 33m (2013: USD 82m gain), mainly due to unfavourable assumption changes
- Investment loss USD 97m (2013: USD 280m gain) driven by spread widening, partially offset by higher fee income, falling interest rates and a long position

### Gross cash generation[1]

USD m

+81.4%



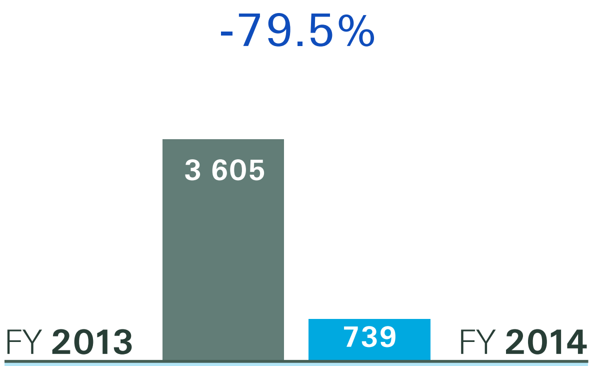

- Excellent gross cash generation driven by management actions
- 2014 includes USD 217m from the Aurora sale, as well as a USD 225m benefit from the release of reserves in the UK held against the risk of credit default

[1] Gross cash generation (GCG) is the change in excess capital over and above the target capital position

# Investment activities
## EVM loss driven by declining interest rates, partially offset by positive performance on equities and alternative investments

### Outperformance

USD m




- Short duration position during 2014 resulted in negative performance as interest rates declined
- Positive performance from equities and alternative investments as most equity markets increased during 2014
- Cumulative performance of asset re-balancing remains positive, consistent with a longer term investment view

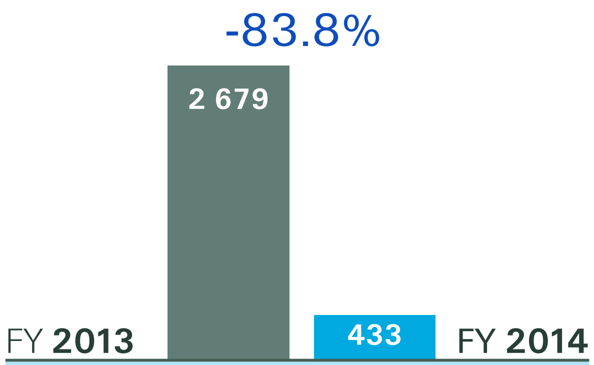
### EVM profit

USD m


- Negative result primarily driven by lower outperformance which did not fully cover capital costs
- Capital costs decreased in 2014 due to a reduction in equities and alternative investments during the year

### EVM income

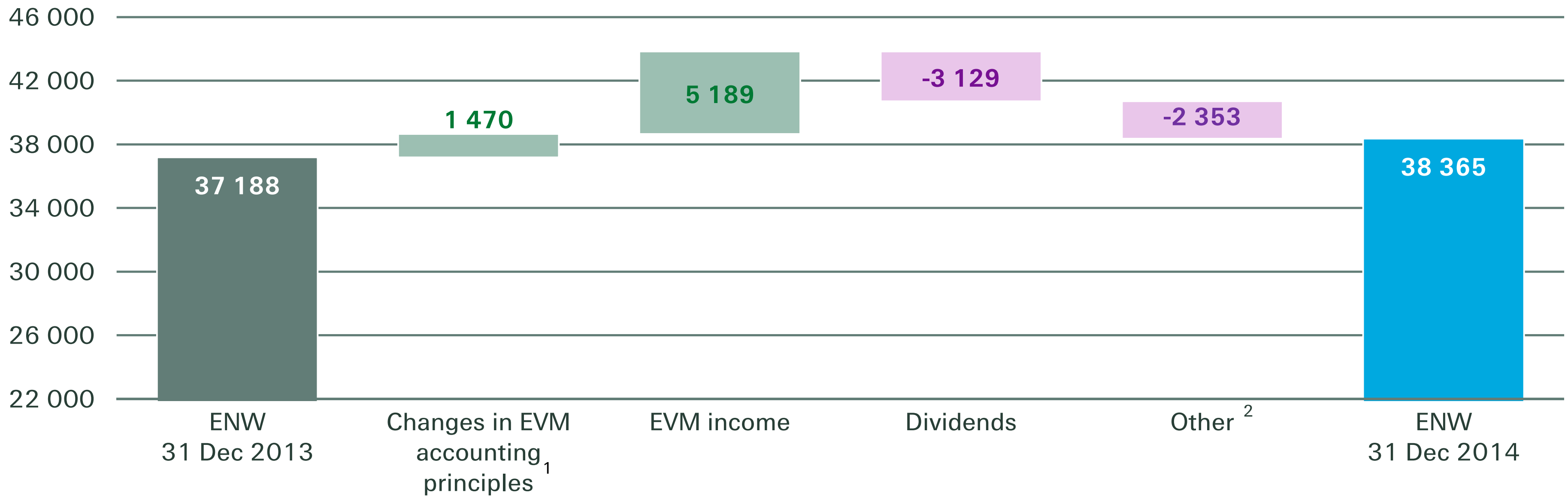
USD m




- Positive EVM income as performance from equities and alternative investments more than offset the impacts of the short duration position
- Principal Investments generated EVM income of USD 255m in 2014

# Economic net worth (ENW)
## Increase driven by EVM income partly offset by dividends

USD m




[1] Changes in EVM accounting principles relate to the implementation of a revised funding cost framework and an alignment of the valuation of employee incentive plans to US GAAP
[2] "Other" includes foreign exchange translation gains and losses, movements in treasury shares, and changes in pension and other post-retirement benefits

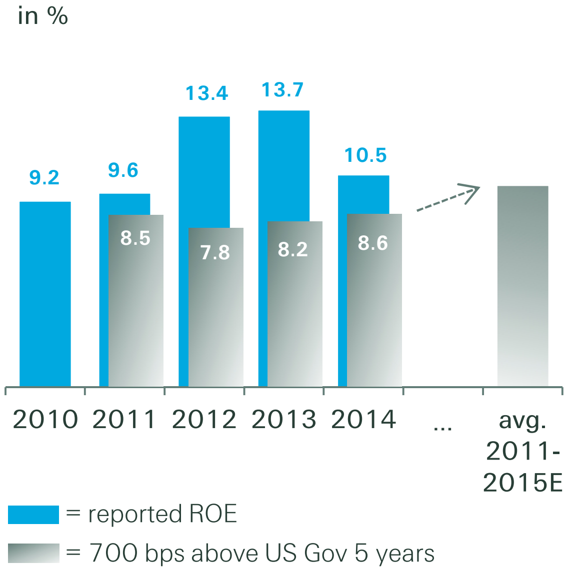
# Reconciliation of EVM economic net worth to US GAAP shareholders' equity

| USD billions | Re-insurance | P&C Re | L&H Re | Corporate Solutions | Admin Re® | Group items | **Total** (after consolidation) |
|---|---|---|---|---|---|---|---|
| **US GAAP shareholders' equity at 31 Dec 2014** | **21.1** | **14.2** | **6.9** | **2.3** | **6.4** | **6.1** | **35.9** |
| Discounting | 3.2 | 3.7 | -0.5 | 0.0 | -3.6 | 0.0 | -0.4 |
| Investments and debt | -1.0 | 1.2 | -2.2 | 0.0 | 0.0 | 0.5 | -0.5 |
| Reserving basis | | | | | | | |
| GAAP margins | 13.4 | 0.0 | 13.4 | 0.0 | 1.6 | 0.0 | 15.0 |
| Other | 0.5 | 0.4 | 0.1 | 0.9 | -0.5 | -0.5 | 0.4 |
| Recognition differences | 0.4 | 0.1 | 0.3 | 0.1 | -0.1 | 0.0 | 0.4 |
| Goodwill and other intangibles | -4.1 | -2.1 | -2.0 | -0.2 | 0.0 | -0.4 | -4.7 |
| Taxes | -2.2 | -1.4 | -0.8 | -0.2 | 0.5 | 0.1 | -1.8 |
| Capital costs | -4.9 | 0.9 | -5.8 | 0.0 | -1.0 | 0.0 | -5.9 |
| Other | -0.3 | -0.4 | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 |
| **Economic net worth at 31 Dec 2014** | **26.2** | **16.6** | **9.5** | **3.0** | **3.3** | **5.9** | **38.4** |

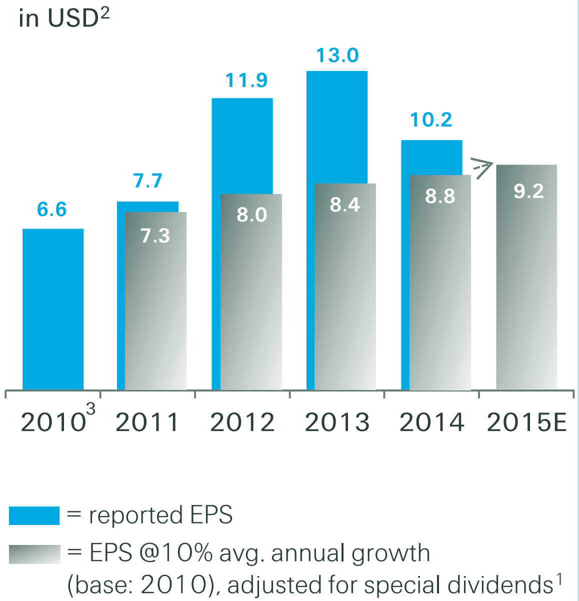
- Admin Re® ENW lower than US GAAP shareholders' equity mainly due to the current EVM discount rates being lower than the US GAAP locked-in discount rates
- For EVM, deferred tax assets and liabilities are recognised for temporary differences between US GAAP and EVM

# Group financial targets
## On track

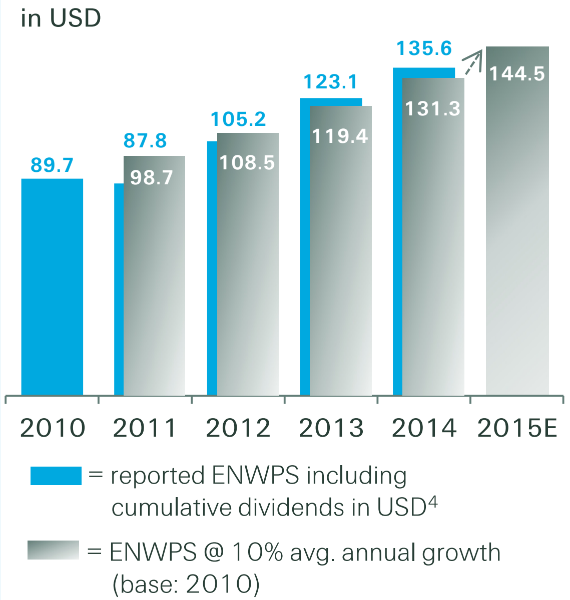
### ROE 700 bps above risk free average over 5 years (2011-2015)




### EPS growth 10% average annual growth rate, adjusted for special dividends[1]




### ENW per share growth plus dividends 10% avg. annual growth rate over 5 years

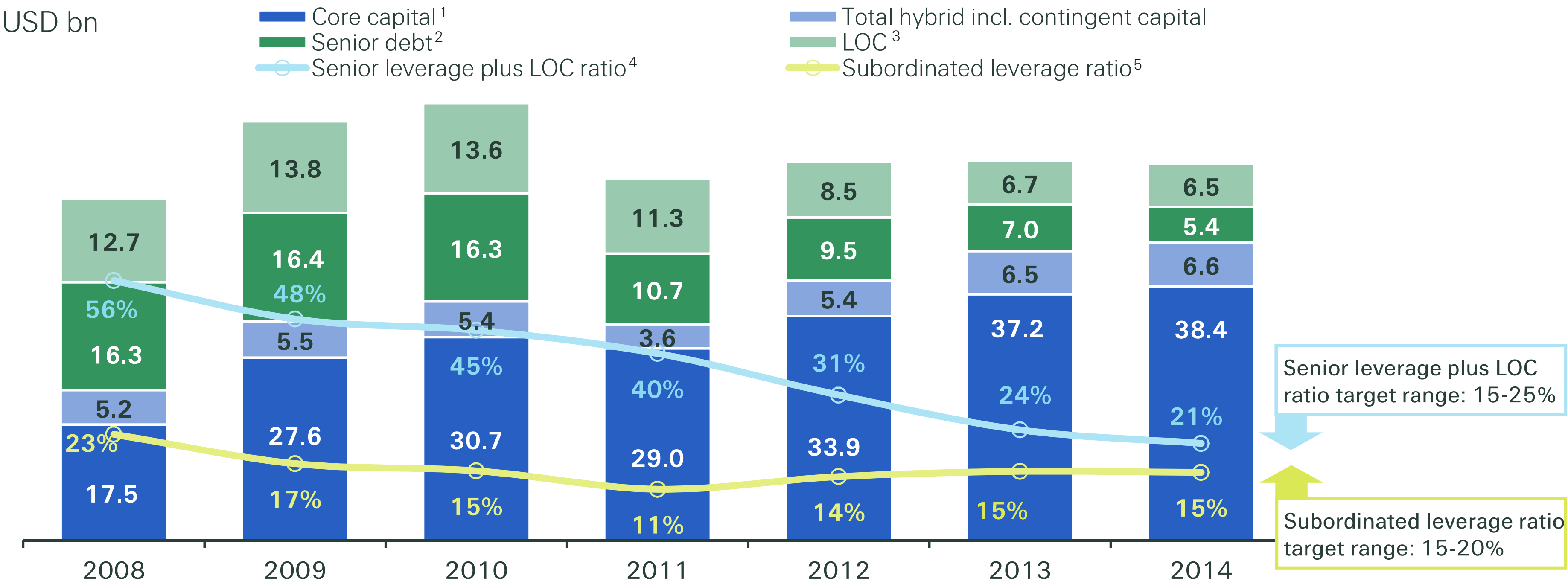



**Delivering the 2011-2015 financial targets remains Swiss Re's top priority**

1 Target EPS growth rate has been adjusted from 10% to 5% for 2014 to account for the proposed CHF 4.15 per share special dividend (approx USD 1.6bn) expected to be distributed in April 2014. Methodology is in line with the approach taken for the special dividend of CHF 4.00 per share paid in April 2013.
2 Assumes constant foreign exchange rate
3 Excl. CPCI
4 Cumulative dividends included in ENW per share were translated from CHF to USD using the fx rate of the dividend payment date; dividends included for 2011: USD 3.1 (CHF 2.75), 2012: USD 6.4 (CHF 3.00, or USD 3.30, in addition to the 2011 dividend), 2013: USD 14.5 (CHF 7.50, or USD 8.05, in addition to the 2011 and 2012 dividends), 2014: USD 23.5 (CHF 8.00, or USD 9.03, in addition to the 2011, 2012 and 2013 dividends)

# Swiss Re's capital structure

## On track to implement target capital structure, reducing cost of capital and optimising financial flexibility




**Senior leverage plus LOC and subordinated leverage ratios within target range**

1 Core capital of Swiss Re Group is defined as economic net worth (ENW)
2 Senior debt excluding non-recourse positions
3 Unsecured LOC capacity and related instruments (usage is lower)
4 Senior debt plus LOCs divided by total capital
5 Subordinated debt divided by sum of subordinated debt and ENW

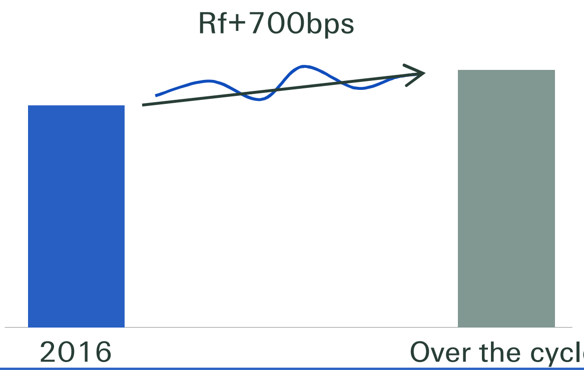
Note: 2009 and prior have been translated from CHF using respective year end fx rates

# Looking at 2016 and beyond, our new Group targets are focusing on profitability and economic growth

Two Group financial targets to be introduced in 2016

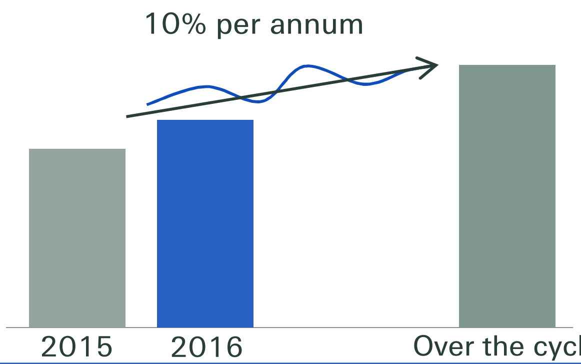
**Return on Equity**

700bps above risk free (10-year US Gov Bonds[1])




**ENW Per Share Growth**

(Year end ENW + dividends from current year divided by previous year end ENW; all per share)




- "Over the cycle" timeframe provides a long-term goal, without being distorted by outlying years
- New targets fully consistent with Swiss Re's capital priorities

Swiss Re remains committed to maintaining a strong capital position whilst deploying capital towards profitable growth and creating shareholder value

[1] Management to monitor a basket of rates reflecting Swiss Re's business mix

# Appendix

# EVM segmental income statement 2014

| USD millions | Re-insurance | P&C Re | L&H Re | Corporate Solutions | Admin Re® | Group items | **Total** |
|---|---|---|---|---|---|---|---|
| Underwriting result | | | | | | | |
| **New business result** | | | | | | | |
| Premiums and fees | 31 600 | 16 908 | 14 692 | 3 764 | 505 | 0 | 35 869 |
| Claims and benefits | -19 987 | -9 072 | -10 915 | -2 024 | -14 | 0 | -22 025 |
| Commissions | -5 174 | -3 711 | -1 463 | -536 | 0 | 0 | -5 710 |
| Expenses | -2 247 | -1 388 | -859 | -797 | -366 | -58 | -3 468 |
| Taxes | -950 | -666 | -284 | -135 | -32 | 0 | -1 117 |
| Capital costs | -1 146 | -550 | -596 | -158 | -129 | -140 | -1 573 |
| Other | -30 | 26 | -56 | -15 | 209 | 14 | 178 |
| **New business profit (loss)** | **2 066** | **1 547** | **519** | **99** | **173** | **-184** | **2 154** |
| **Previous years's business profit (loss)** | **43** | **484** | **-441** | **9** | **-33** | **-14** | **5** |
| **Underwriting profit (loss)** | **2 109** | **2 031** | **78** | **108** | **140** | **-198** | **2 159** |
| Investment result | | | | | | | |
| Outperformance (underperformance) | 254 | -373 | 627 | 58 | 131 | 296 | 739 |
| Expenses | -189 | -107 | -82 | -23 | -36 | -53 | -301 |
| Taxes | -33 | 111 | -144 | -12 | -28 | -61 | -134 |
| Capital costs | -811 | -481 | -330 | -55 | -179 | -159 | -1 204 |
| Other | 57 | 38 | 19 | 5 | 15 | 0 | 77 |
| **Investment profit (loss)** | **-722** | **-812** | **90** | **-27** | **-97** | **23** | **-823** |
| **EVM profit (loss)** | **1 387** | **1 219** | **168** | **81** | **43** | **-175** | 1 336 |
| Change in market value of debt | -391 | -149 | -242 | 15 | -5 | -23 | -404 |
| Release of current year capital costs | 1 984 | 1 203 | 781 | 195 | 302 | 320 | 2 801 |
| Additional taxes | 1 421 | 94 | 1 327 | 66 | -36 | 5 | 1 456 |
| **EVM income** | **4 401** | **2 367** | **2 034** | **357** | **304** | **127** | **5 189** |

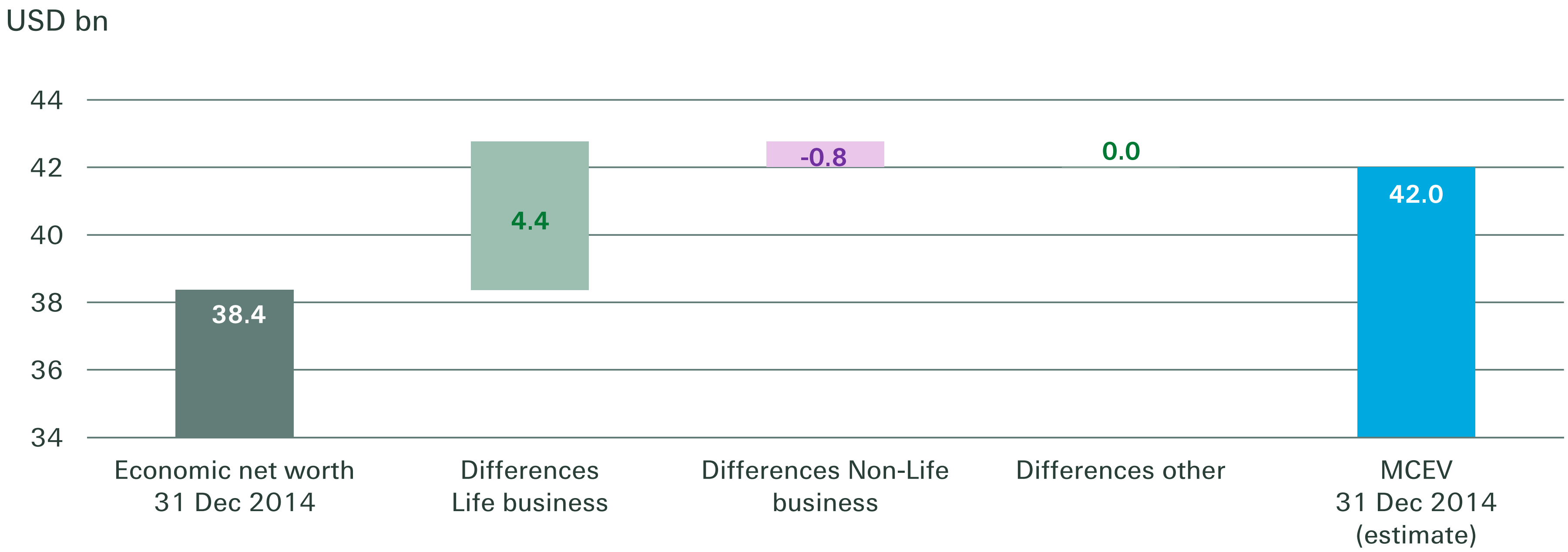
# EVM balance sheet 2014

| 31 December 2014, USD millions | Re-insurance | P&C Re | L&H Re | Corporate Solutions | Admin Re® | Group items | Consoli-dation | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Investments | 88 630 | 50 527 | 38 103 | 8 202 | 55 901 | 8 289 | -6 083 | 154 939 |
| Cash and cash equivalents | 5 643 | 5 069 | 574 | 730 | 1 029 | 64 | 0 | 7 466 |
| In-force business assets | 190 649 | 13 191 | 177 458 | 2 475 | 11 424 | -1 | -10 292 | 194 255 |
| External retrocession assets | 27 382 | 4 199 | 23 183 | 6 224 | 9 034 | 0 | -14 166 | 28 474 |
| Other assets | 6 093 | 5 046 | 1 047 | 118 | 688 | 362 | -4 063 | 3 198 |
| **Total assets** | **318 397** | 78 032 | 240 365 | 17 749 | 78 076 | 8 714 | **-34 604** | **388 332** |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| In-force business liabilities | 228 079 | 47 698 | 180 381 | 12 062 | 62 355 | 518 | -14 166 | 288 848 |
| External retrocession liabilities | 24 142 | 838 | 23 304 | 1 177 | 9 349 | 0 | -10 292 | 24 376 |
| Provision for capital costs | 5 549 | -367 | 5 916 | 175 | 1 036 | -1 | 0 | 6 759 |
| Future income tax liability | 4 841 | 2 029 | 2 812 | 466 | 658 | -100 | 0 | 5 865 |
| Debt | 19 349 | 5 712 | 13 637 | 500 | 862 | 545 | -3 886 | 17 370 |
| Other liabilities | 10 250 | 5 477 | 4 773 | 354 | 523 | 1 882 | -6 260 | 6 749 |
| **Total liabilities** | **292 210** | 61 387 | 230 823 | 14 734 | 74 783 | 2 844 | **-34 604** | **349 967** |
| | | | | | | | | |
| **Economic net worth (ENW)** | **26 187** | 16 645 | 9 542 | 3 015 | 3 293 | 5 870 | **0** | **38 365** |

# Key differences between EVM and US GAAP

| | EVM | US GAAP |
|---|---|---|
| **Profit recognition on new contracts** | • At inception | • Over lifetime of the contract |
| **Actuarial assumptions** | • Best estimate | • Property & Casualty: best estimate<br>• Life & Health: generally locked-in assumptions |
| **Liability cash flows** | • Discounted using risk free rates | • Property & Casualty: generally no discounting<br>• Life & Health: generally discounted at locked-in historical rates and without market consistent valuation of embedded options and guarantees |
| **Investment assets** | • Market values | • Mostly market values with exceptions such as real estate and own used property |
| **Goodwill and intangibles** | • Not recognised | • Recognised, subject to impairment test |
| **Debt** | • Market values | • Generally at amortised cost |
| **Changes in interest rates** | • Asset change offset by change in insurance liability | • Unrealised gains or loss on available-for-sale securities recognised in shareholders' equity. Generally no change in insurance liability |
| **Capital cost recognition** | • Yes | • No |

# MCEV and EVM 2014 comparison
## MCEV recognises higher value than EVM




- In line with MCEV guidelines, swap yield curves are used as reference rates, compared to government rates for EVM
- Differences between EVM and MCEV are mainly related to capital costs
  - EVM frictional capital costs are a 4% charge on EVM capital and approximately 2% charge on funding
  - Overall, MCEV costs of residual non-hedgeable risks, which are charged at 3% of 99.5% value-at-risk, are lower than EVM frictional capital costs
- A prudent approach to estimate the MCEV has been taken by not allowing for any yield curve adjustments such as illiquidity premiums
- Distinction between life and non-life business is based on the type of business rather than Swiss Re's business segments

# EVM developments

**EVM developments as of 1 January 2014**

- The application of frictional capital costs has been revised. Parent companies benefit from a funding credit for business that provides net liquidity. In addition, funding rates charged to users of funding have been lowered
- Swiss Re's risk tolerance framework has been applied to the calculation and allocation of capital costs
- The EVM valuation of liabilities for pension and other post-retirement benefits and employee incentive plans has been aligned to US GAAP

**EVM framework is subject to continuous review and development**

# Corporate calendar & contacts

## Corporate calendar

| | | |
|---|---|---|
| 21 April 2015 | **151st Annual General Meeting** | Zurich |
| 30 April 2015 | **First Quarter 2015 results** | Conference call |
| 30 July 2015 | **Second Quarter 2015 results** | Conference call |
| 29 October 2015 | **Third Quarter 2015 results** | Conference call |
| 8 December 2015 | **Investors' Day** | Rueschlikon |

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# Cautionary note on non-GAAP financial measures

Economic Value Management ("EVM") is Swiss Re's proprietary integrated economic valuation and accounting framework for business planning, pricing, reserving, and steering.

The EVM information in this presentation contains non-GAAP financial measures. The EVM framework differs significantly from the accounting principles generally accepted in the United States of America ("US GAAP"), which is the basis on which Swiss Re prepares its consolidated financial statements, and  should not be viewed as a substitute for US GAAP financial measures.

Swiss Re's EVM income statement (and its line items) should not be viewed as a substitute for the income statement (and its line items) in Swiss Re's US GAAP consolidated financial statements, and Swiss Re's EVM economic net worth ("ENW") should not be viewed as a substitute for shareholders' equity as reported in Swiss Re's US GAAP consolidated balance sheet. EVM results may be subject to significant volatility as assets and liabilities are measured on a market consistent basis. Nonetheless, Swiss Re believes that EVM provides meaningful additional measures to evaluate its business.

# Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements (including as to plans objectives, targets and trends) 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 of operations, financial condition, solvency ratios, liquidity position or prospects to be materially different from any future results of operations, financial condition, solvency ratios, liquidity position or prospects expressed or implied by such statements or cause Swiss Re to not achieve its published targets. Such factors include, among others:

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

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

This communication is not intended to be a recommendation to buy, sell or hold securities and does not constitute an offer for the sale of, or the solicitation of an offer to buy, securities in any jurisdiction, including the United States. Any such offer will only be made by means of a prospectus or offering memorandum, and in compliance with applicable securities laws.