Swiss Re

2015 Annual Report

Letter to Shareholders

We make the world more resilient.

SRE004E

Key information

Our 2015 performance was strong. We look forward to continued progress toward the targets we've set for 2016 and beyond.

Targets
We performed successfully over our 2011–2015 financial target period and look forward to continued strong performance on the targets for 2016 and beyond.

For details on our 2015 performance and the next set of targets, see our Financial Report.

Net income
(USD millions)

2015	4 597
2014	3 500
2013	4 444
2012	4 201
2011	2 626

Proposed regular dividend per share for 2015
(CHF)

4.60

(CHF 4.25 for 2014)

Financial strength rating
Standard & Poor's

AA–

stable
(as of 30.11.2015)

Moody's

Aa3

stable
(as of 15.12.2015)

A.M. Best

A+

stable
(as of 11.12.2015)

Shareholders' equity
(USD millions)

2015	33 517
2014	35 930
2013	32 952
2012	34 002
2011	29 590

Financial highlights

In a challenging business environment, our Group earned a strong 2015 net income of USD 4.6 billion.

Financial highlights
For the years ended 31 December

USD millions, unless otherwise stated	2014	2015	Change in %
Group			
Net income attributable to common shareholders	3 500	**4 597**	31
Premiums earned and fee income	31 262	**30 214**	–3
Earnings per share in CHF	9.33	**12.93**	39
Common shareholders' equity	34 828	**32 415**	–7
Return on equity[1] in %	10.5	**13.7**	
Return on investments in %	3.7	**3.5**	
Number of employees[2]	12 224	**12 767**	4
Property & Casualty Reinsurance			
Net income attributable to common shareholders	3 564	**2 977**	–16
Premiums earned	15 598	**15 090**	–3
Combined ratio in %	83.7	**86.0**	
Return on equity[1] in %	26.7	**22.2**	
Life & Health Reinsurance			
Net income attributable to common shareholders	–462	**939**	
Premiums earned and fee income	11 265	**10 963**	–3
Operating margin in %	2.6	**9.9**	
Return on equity[1] in %	–7.9	**15.7**	
Corporate Solutions			
Net income attributable to common shareholders	319	**340**	7
Premiums earned	3 444	**3 379**	–2
Combined ratio in %	93.0	**93.8**	
Return on equity[1] in %	12.5	**14.8**	
Admin Re®			
Net income attributable to common shareholders	34	**422**	
Premiums earned and fee income	955	**782**	–18
Gross cash generation[3]	945	**543**	–43
Return on equity[1] in %	0.6	**7.5**	

[1] Return on equity is calculated by dividing net income attributable to common shareholders by average common shareholders' equity.
[2] Regular staff
[3] Gross cash generation is the change in excess capital available over and above the target capital position, with the target capital being the minimum statutory capital plus the additional capital required by Admin Re®'s capital management policy.

Keeping the long term in view

The strategic priorities that will shape our future

"Three things set us apart: capital strength, client relationships and knowledge."

Dear shareholders,
Another very successful year for your company has just ended and the annual report explains it in great detail. For this success to happen we needed, of course, benign circumstances, but we also needed the full effort of dedicated employees, our loyal clients and, last but not least, the support of our shareholders. To the many that contributed throughout the year, my sincere thanks.

The conundrum: lower prices, but ever-higher margins and less demand
In 2015 we again observed high margins, and as a consequence high returns. The most significant were in Property & Casualty Reinsurance, but also in our life and health businesses, which have recovered from difficult results the year before.

At the same time many market participants speak about a significant erosion of pricing levels across all businesses. They complain about this and about a further reduction in investment returns. The relationship between demand and available capacity seems out of balance — and while we all complain, margins have remained strong for quite a few years now.

Particularly amazing is that the high margins are achieved despite continuously decreasing investment returns which in our business have always been an important contributor to margins. Central banks' extremely easy monetary policies in our main markets are certainly a challenge for an industry which carries large balance sheets full of financial assets.

What leaves me perplexed is, in addition, that our clients (the insurance industry and large corporate clients) are not taking advantage of this market. Quite the opposite: the lower prices get, the less reinsurance cover they buy. This is a period of high uncertainty (just to mention some: climate change, geopolitical security challenges, technology developments with huge consequences, economic growth is very unstable, and financial markets face the biggest monetary policy experiment ever). So what should a company like Swiss Re do in this situation?

Just to avoid any misunderstanding: we are clearly positive about the longer-term prospects for our business. Many trends in the world — in society, in science and in the economy — are positive for demand for our business: risk underwriting. But we have to successfully deal with important adverse forces in the short term.

Therefore we have presented an update last December on the strategic direction and priorities which should allow us both to succeed in the short term and not lose sight of long-term strategic direction.

Be quick on your feet!

In risk underwriting and in asset management, value is created by allocating capital to where pricing inefficiencies can be detected and exploited. There is nothing new in this really. The present situation, however, requires us to identify inefficient pricing in the risk markets quickly and react decisively by either investing or, more likely at present, withdrawing capital. Doing this systematically will move the needle.

Capital allocation matters, we all know that. But you have to be in a position to actually execute on your analysis. In this respect the reinsurance industry is in a better situation than primary insurers, who have to invest significantly in building the infrastructure in markets they operate in. Their flexibility is limited. Reinsurance on the other hand can react fairly quickly, not only on the asset side, but also on the underwriting side of the house. So we'll aim to take advantage of this and be quick on our feet.

Of course we spend a lot of time researching investible ideas in all our businesses. Sometimes with more success (like the acquisition of the Guardian life portfolio last year), sometimes with less … and if we don't find a good place to invest, then we can also distribute more money back to you. To some degree that has been the case this year, so we plan to propose a regular dividend of CHF 4.60 per share, as well as a new share buy-back programme of up to CHF 1 billion.

Proposed regular dividend per share for 2015
(CHF)
4.60
(CHF 4.25 for 2014)

Secure access to business opportunities!
Reinsurers traditionally have access to the risks they underwrite through intermediaries: direct insurance companies, brokers and others. However, and today more than ever, some of these intermediaries run the risk of getting disintermediated sooner rather than later because they are unable to adapt their business model, disruptors are penetrating their markets or technology is changing the entire industry.

Therefore for us it is of vital importance: don't let traditional distribution channels make efficient capital allocation impossible. Swiss Re has to have access to the risks it wants to underwrite. In this context we have built our Global Partnerships business, which is trying to develop opportunities with governments and supranational institutions. And we have just created our Life Capital Business Unit, which is underwriting individual and group life risks through and with the help of distribution partners or by acquiring closed life books.

Put your money where your mouth is!
A third pillar of our strategy is about resource allocation. Allocate resources to where you see the opportunities; reallocate radically. Again, this sounds trivial, but it is not.

Take the example of emerging markets. Our own projections show that about 50% of the top-line growth and incremental capital requirements over the next ten years will come from emerging markets. Not a big surprise if we think of topics like protection gaps, urbanisation, formation of middle classes and the build-up of sophisticated industries in these parts of the world.

At present only about 15% of our global resources are allocated to these markets, even less than that if we think of senior management, research and local footprint. Change is required.

Resources in our business are people and systems. Once you have made up your mind where you want to allocate the capital, develop them so that they can match the challenges. Maintain this even and deliberately when the margin pressure is intense. It will ultimately produce a high return for shareholders. Inadequate resource has never been a recipe for success, certainly not in our business of risk underwriting and tough investment decisions.

Be different and — of course — better than the others
We are convinced that the strength of the Swiss Re brand and reputation lies in a very clear development of three elements of differentiation: capital strength, client relationships and knowledge. These principal differentiation factors have been with our company since its foundation more than 150 years ago. Apparently it has been a great success. Let me quickly address what I sometimes call the wallet, the heart and the brain.

We are quite open about what we consider an adequate capital underpinning of our underwriting and investment activities. This gives our clients real peace of mind when they allocate large chunks of their reinsurance business with one provider: Swiss Re. Visibly and in addition we keep more free capital at the holding company level, at some short-term cost to you, our shareholders. We however are convinced that this strong capital position and the resulting financial flexibility is of great value in the longer term. It is there for the moment it can be deployed with great benefit for both the client and for you.

Clients in reinsurance are partners. Our clients regularly put us at the top of the league tables as best reinsurer, in all parts of the world and nearly all lines of business. We are enthusiastic about our clients and will continue to be so. This

"I believe the outlook is very positive indeed."

allows us to fix problems with our clients instead of abandoning them at a crucial moment. Our portfolio of reinsurance business is therefore superior in quality.

And last but not least: we are here to develop the body of knowledge available within the firm and share it with our clients. This allows us to develop better products with and for them and allows us to learn from each other. We spend a significant amount for research both at the product development level and at the portfolio level, supporting our capital allocation. It might lead to a higher operating cost than some of our peers have. But it should also lead to overall higher margins. No surprise. It would be strange if superior insight were not relevant to risk underwriting and investment decisions.

Christian Mumenthaler to become Group CEO on 1 July 2016, Michel M. Liès to retire

Finally, I must share some important news. Christian Mumenthaler, currently CEO of Reinsurance, will become our Group Chief Executive Officer on 1 July 2016, and Michel M. Liès will retire. On behalf of the entire Board I extend our warmest thanks to Michel for his more than 35 years of service to Swiss Re. Throughout his career, Michel has lived Swiss Re's highest values and been key to our Group's continued strong performance. Under his leadership net income has almost doubled, the capital base has increased significantly and we have distributed more than USD 12 billion of excess capital back to you, our shareholders. It is fitting that we make this announcement at the end of a successful 2011–2015 financial target period, and after having introduced a new strategic framework. We wish him the very best.

The good news is that we have a highly qualified successor. In Christian we have a candidate who can both transition smoothly into this new role and who brings an intimate understanding of our Group's strategy. Christian has been with us for 17 years, and for nearly the last five, as CEO of Reinsurance, and therefore responsible for approximately 85% of our revenue. He has been the driving spirit behind P&C Re's continued outperformance and a key figure in getting L&H Re back on track.
His nomination demonstrates both the depth of Swiss Re's talent and the importance of maintaining Swiss Re's distinctive culture. I wish Christian every success in the new role.

Dear shareholders, I hope you share my confidence for the future. Our strategic priorities are confirmed and we welcome Christian to implement them together with his team and the 12 000 colleagues at Swiss Re. I believe the outlook is very positive indeed and I look forward to continuing our success story together.

Zurich, 23 February 2016

Walter B. Kielholz
Chairman of the Board of Directors

A solid foundation for the road ahead

A strong 2015 performance and a new strategic framework set the foundation for 2016 and beyond.

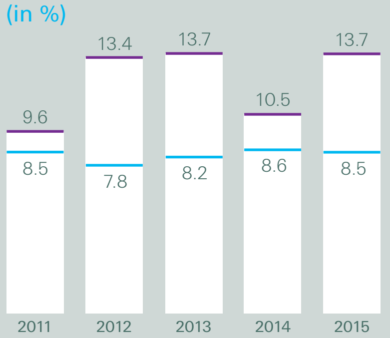
"All three Business Units contributed to our strong performance."

Dear shareholders,
Since Swiss Re was founded in 1863, we have managed risk and absorbed extreme events in many forms. From earthquakes to terrorism, we have enabled society to thrive and progress. However, protection alone is not enough — resilience is our ultimate goal. This vision permeates our daily actions and continues to inform our strategy.

It also contributed to our success in 2015: I am very pleased to report that we managed to navigate the challenging environment and can report another positive set of results, driven by strong performances from all three of our Business Units. Group net income reached USD 4.6 billion — one of our highest ever — up from USD 3.5 billion in 2014. These results clearly differentiate us in the industry. With the updated strategic framework we unveiled in December 2015, we believe we are well placed to continue to focus on profitable growth, strong capitalisation and unique client experience.

Our 2011–2015 Group financial targets

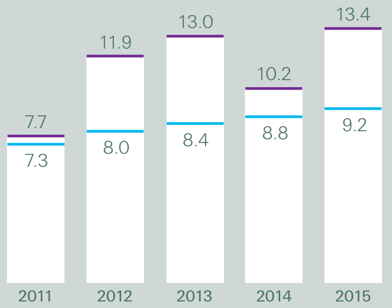
Return on equity
(in %)



– reported ROE
– 700 bps above US Gov 5yrs

700 bps above risk free average over five years

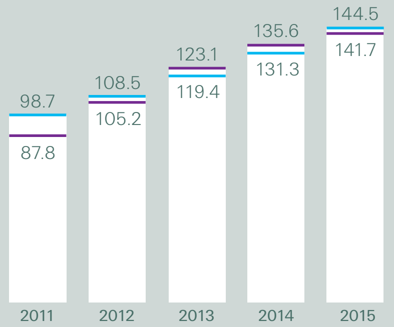
Earnings per share
(in USD*)



– reported EPS
– EPS @ 10% avg. annual growth (base: 2010)
* assumes constant foreign exchange rate

10% average annual growth rate, adjusted for special dividends

Economic net worth per share



– reported ENWPS including cumulative dividends in USD
– ENWPS @ 10% avg. annual growth (base: 2010)

10% average per share growth plus dividends over five years

"We remain confident that we will continue to capture attractive business opportunities."

Property & Casualty Reinsurance portfolio delivers; Life & Health Reinsurance meets target
The underwriting performance of P&C Re remained solid in 2015, generating USD 3.0 billion in net income and reflecting the underlying quality of our portfolio, as well as a relatively benign natural catastrophe experience. L&H Re has met the return on equity target we set for it at the June 2013 Investors' Day, in turn delivering a strong net income of USD 939 million.

Corporate Solutions continues to deliver in challenging market conditions and remains committed to disciplined underwriting, generating USD 340 million of net income for the year. The focus on high growth markets is as strong as ever, notably with the acquisition of Sun Alliance Insurance China Limited, which enables us to operate in mainland China, one of the world's most promising markets.

In 2015, we took an important step to tap into a growing market segment with the creation of the Life Capital Business Unit. Life Capital is managing closed and open life and health insurance books since 1 January 2016, including our Admin Re® business. We believe that consolidating these activities will fit our goal of diversifying our business and providing our clients with the expertise and capabilities they need to help them seize new opportunities. Admin Re®, which is the cornerstone of Life Capital, delivered a strong performance in 2015, with strong gross cash generation and a net income of USD 422 million. In January 2016, it completed the acquisition of UK-based Guardian Financial Services, a move that is in line with our strategy to become a leading closed life book consolidator in the UK.

Our new financial targets

Looking at 2016 and beyond, our new Group targets are focused on profitability and economic growth.

The 'over the cycle' timeframe provides a long-term goal, without being distorted by outlying years.

The new targets are fully consistent with Swiss Re's capital priorities.

Return on equity

At least 700 basis points greater than the risk-free rate, as measured by ten-year US government bonds.

Economic net worth per share

10% growth per annum, using year-end Economic Net Worth (ENW) plus dividends, divided by previous year-end ENW.

Delivering on our targets

Over the last five years, we have grown the regular dividend and we have executed our internal growth initiatives while making sensible acquisitions. At the same time we distributed excess capital to our shareholders and maintained our very strong capital position. We have successfully reached the return on equity (ROE) and earnings per share (EPS) targets we set five years ago in very different circumstances. This is an impressive achievement under any conditions, though especially so in light of the turbulent markets and uncertain macroeconomic conditions that prevailed during much of the 2011–2015 target period. At 9.6%, we almost achieved our economic net worth per share (ENWPS) average annual growth target of 10%, following the previously announced agreement to acquire Guardian Financial Services.

Where do we go from here?

Our vision "We make the world more resilient" is supported by our mission — to create smarter solutions for our clients through fresh perspectives, knowledge and capital. The combination of these strengths makes Swiss Re a partner of choice for our clients. Together, we believe we can close the gap between the rising costs of natural disasters and other hazards and the share of those costs that is covered by re/insurance solutions.

In 2015, the world experienced some tragic events and great uncertainty — an evolving terrorism threat, wars and epidemics, a fragile global economy. Against this backdrop, the re/insurance industry needs to step up its game and extend the boundaries of insurability, building a safety net around those who need it most.

2016 has been off to a volatile start amid concerns about the strength of the global economy. Many of the challenges we've experienced over the past years, such as continued low interest rates and ample capital in our core business areas, will continue to exist. As communicated in December 2015, we believe our four pillar strategic framework equips us with an agile business model that makes us able to respond more quickly and effectively to change and to drive change ourselves. This is why we remain confident that we will continue to capture attractive business opportunities and we thank you, our shareholders, for placing your confidence in us.

No strategic framework can be put to good use without the help and dedication of our people. We need our employees' enthusiasm and commitment to bring our vision closer to reality. We'd like to thank them for their hard work: without them, we couldn't celebrate another successful year.

As you can see I am passionate about Swiss Re's future. I am convinced that Christian Mumenthaler and his team will further strengthen the role of Swiss Re in our industry and our society more generally. It is an honour and a privilege to work for this great company. I will always be proud to have been part of Swiss Re.

Zurich, 16 March 2016

Michel M. Liès
Group Chief Executive Officer

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, capital or liquidity positions or prospects to be materially different from any future results of operations, financial condition, solvency ratios, capital or liquidity positions or prospects expressed or implied by such statements or cause Swiss Re to not achieve its published targets.

Such factors include, among others:

- 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 by regulators;
- 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.

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Corporate calendar

22 April 2016
152nd Annual General Meeting

29 April 2016
First quarter 2016 results

29 July 2016
Second quarter 2016 results

3 November 2016
Third quarter 2016 results

2 December 2016
Investors' Day in Zurich

2015 Annual Report

We present our business performance, strategy and economic position. We tell our stories, talk about our vision and mission and share our knowledge as a leader in wholesale reinsurance, insurance and other risk transfer solutions.

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