

Economic Value Management  
**2016 Annual Report**



**For a  
resilient  
future**

# Key information

## Financial highlights

For the years ended 31 December

USD millions, unless otherwise stated	2015	2016	Change in %
<b>Group</b>			
EVM profit	480	1 399	191
Total contribution to ENW	3 672	4 231	15
Premiums and fees	40 562	46 566	15
Economic net worth (ENW)	37 358	36 648	-2
Economic net worth per share in USD	110.61	112.42	2
<i>Profit margin – new business, %</i>	<i>2.4</i>	<i>3.1</i>	
<i>Profit margin – previous years' business, %</i>	<i>3.2</i>	<i>-2.9</i>	
<b>Property &amp; Casualty Reinsurance</b>			
EVM profit	1 697	562	-67
Total contribution to ENW	2 724	1 589	-42
Premiums and fees	18 693	18 440	-1
<i>Profit margin – new business, %</i>	<i>9.7</i>	<i>1.9</i>	
<i>Profit margin – previous years' business, %<sup>2</sup></i>	<i>8.5</i>	<i>5.1</i>	
<b>Life &amp; Health Reinsurance<sup>1</sup></b>			
EVM profit	294	1 197	-
Total contribution to ENW	1 570	1 916	22
Premiums and fees	17 964	24 060	34
<i>Profit margin – new business, %</i>	<i>9.9</i>	<i>11.0</i>	
<i>Profit margin – previous years' business, %<sup>2</sup></i>	<i>-0.5</i>	<i>-4.7</i>	
<b>Corporate Solutions</b>			
EVM profit	26	-111	-
Total contribution to ENW	197	140	-29
Premiums and fees	3 549	3 708	4
<i>Profit margin – new business, %</i>	<i>-1.1</i>	<i>-4.2</i>	
<i>Profit margin – previous years' business, %</i>	<i>19.8</i>	<i>-2.1</i>	
<b>Life Capital<sup>1</sup></b>			
EVM profit	-983	115	-
Total contribution to ENW	-331	599	-
Premiums and fees	356	358	1
<i>Profit margin – new business, %</i>	<i>-4.2</i>	<i>-</i>	
<i>Profit margin – previous years' business, %</i>	<i>-1.0</i>	<i>-17.8</i>	
<b>Group items</b>			
EVM profit	-554	-364	-34
Total contribution to ENW	-488	-13	-97

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the Life Capital segment instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

<sup>2</sup> The overall previous years' business profit margin for the Business Unit Reinsurance was 2.8% and -1.1% for 2015 and 2016, respectively.

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# Introduction

EVM is an integrated economic accounting and steering framework based on market consistent valuations, which measures value creation for all business activities at Swiss Re

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

EVM allows us to see the connection between risk-taking and value creation and provides a consistent framework to evaluate the outcome of controlled risk-taking and capital allocation decisions throughout a performance cycle. We are able to compare economic returns across business and product lines and therefore steer capital capacity, taking into account risk appetite constraints.

We separate performance evaluation between underwriting and investment activities. This separation allows our underwriters to focus on the costing parameters that require their expert judgement, while our investment professionals apply their expertise to decisions on systematic financial market risk. Economic value for shareholders is created if underwriting deploys capital in a manner that generates economic profit from core cash flows (after the cost of capital is charged), and investments outperform a minimum risk benchmark that is linked to underwriting liabilities (after the cost of capital is charged).

The performance cycle for underwriting is measured consistently over time by comparing costing at inception with the subsequent development of the business written. The underlying cause for any subsequent development can be analysed and fed back into costing and ultimately strategy. Investment activities are evaluated based on the performance of asset allocation decisions, taking into account our liability driven risk budgeting framework. The overall performance is then considered in compensation discussions.

EVM provides a consistent measurement tool to support business steering decisions underlying value creation.

The EVM framework rests on a set of formal valuation and accounting principles. These include:

- market consistent valuation of assets and liabilities,
- exclusion of potential future new business (closed book approach),
- recognition of profits and losses on new business at inception and of changes in estimates as they occur,
- best estimates of future projected cash flows,
- performance measurement after capital costs,
- performance segmented between underwriting and investment activities.

The EVM valuation and reporting principles are consistently applied to all assets, liabilities and business activities of Swiss Re and are subject to strict governance guidelines.

In assessing whether changes to the EVM accounting principles are required, we monitor developments in other frameworks such as US Generally Accepted Accounting Principles (US GAAP), the European Solvency II framework (Solvency II), the Swiss Solvency Test (SST) and other relevant sources. A more detailed description of the EVM valuation and reporting principles is included in Note 1 to the EVM financial statements.

Our EVM financial statements provide an economic view of our business performance and include an economic balance sheet, income statement and related notes.

### EVM profit

EVM profit is a risk-adjusted measure of performance that can be compared across all business activities.

### Total contribution to ENW

Total contribution to ENW is the total return generated for shareholders and includes the release of capital costs. Total contribution to ENW is therefore not a risk-adjusted performance measure.

### Economic net worth

Economic net worth (ENW) is defined as the difference between the market consistent value of assets and liabilities. ENW is an economic measure of shareholders' equity and the starting point in determining available capital under the Swiss Solvency Test (SST).

### EVM capital

EVM capital is the capital required to support uncertainty related to estimated cash flows arising from existing underwriting and investment activities.

### Profit margin

Profit margin is calculated for new business, previous years' business and investment activities. The new business profit margin is the ratio of new business profit/loss to EVM capital allocated to new business over the lifetime of the business. The previous years' business profit margin is the ratio of previous years' business profit/loss to EVM capital allocated to previous years' business in the current year. Investment profit margin is the ratio of investment profit/loss to EVM capital allocated to investment activities in the current year. These ratios can be used to compare profitability across all underwriting and investment activities on a consistent, risk-adjusted basis.

The composition of the EVM balance sheet is illustrated as follows:



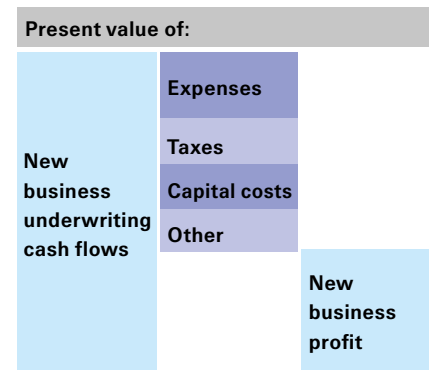
Assets are carried at market consistent values. The market consistent value of liabilities is determined by replicating best estimate liability cash flows using a portfolio of traded financial market instruments. It takes into account the time value of money by using risk-free interest rates for discounting. Since EVM is based on replication, no liquidity premium is included in the interest rates used to value liabilities and hence in the determination of the Group's ENW.

The EVM income statement includes:

- new business profit/loss from underwriting,
- previous years' business profit/loss from underwriting,
- the profit/loss from investment activities.

New business is defined as business that incepted in the current reporting year. In determining new business profit/loss, all cash flows resulting from new reinsurance and insurance contracts that incepted in the current reporting year are recognised at inception on a present value basis. Embedded financial options and guarantees are valued on a market consistent basis.

The composition of new business profit is illustrated as follows:



The underwriting result from previous years' business represents the present value of all changes in estimated cash flows on reinsurance and insurance contracts incepting in prior reporting years. These changes in cash flows reflect changes in best estimates as they occur.

In addition, many contracts written in prior years have a policy term that extends into the current year (e.g., contracts incepting on 1 April, for a 12-month policy term). Therefore, the impact of insurance events occurring in the current reporting year can be included in the result of previous years' business.

**The EVM concept of investment performance**

*Mark-to-market investment result*

Includes net investment income, realised gains and losses and changes in unrealised gains and losses reported under the accounting principles generally accepted in the United States of America (US GAAP). In addition, it includes changes in market value of investment positions carried at amortised cost under US GAAP. It excludes the following US GAAP items: investment income from cedants, unit-linked and with-profit business and certain loans as well as minority interest and depreciation on real estate.

*Benchmark investment result*

Includes changes in the economic value of liabilities as a result of movements in risk-free discount rates, the passage of time, changes in credit spreads, changes in equity prices or changes in the economic value of embedded options and guarantees.

*Gross outperformance*

Defined as the difference between the mark-to-market investment result and the benchmark investment result.

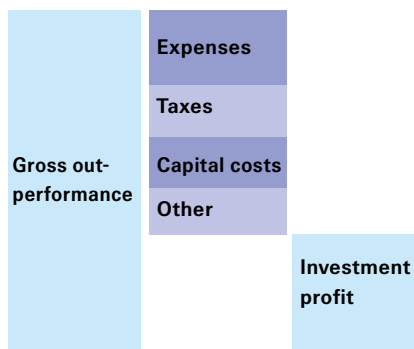
*Net outperformance*

Defined as the gross outperformance after deducting the actual costs incurred by managing our actual investment portfolio in excess of the internal fee paid by underwriting for the purchase and maintenance of the investment portfolio replicating the best estimate liability and backing the associated capital requirements.

In determining the result from investment activities, the gross outperformance represents the mark-to-market return on invested assets, after deducting the benchmark investment result. The latter is deducted because it is credited to underwriting activities in determining the underwriting profit. This ensures that our client facing and costing teams are evaluated on the success in delivering economic value through underwriting profitability, while our investment activities are evaluated on their success in delivering risk-adjusted investment returns.

- frictional capital costs, which compensate for agency costs, cost of potential financial distress and regulatory (illiquidity) costs, and
- an allowance for double taxation on the risk-free return on capital allocated to business activities.

The composition of investment profit can be illustrated as follows:



EVM explicitly recognises that there is a cost to shareholders of taking risk and thus value creation needs to be assessed after taking these costs into account.

Capital costs include:

- base cost of capital reflected through a charge for risk-free return on available capital and market risk premiums. Market risk premiums compensate for systematic, non-diversifiable risk exposure, mainly assumed through investment activities,

The EVM information in this report contains non-GAAP financial measures. The EVM framework differs significantly from 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. As it is a proprietary framework, Swiss Re may change its EVM methodology from time to time.

The most significant differences between EVM and US GAAP are as follows:

<b>Comparison of EVM and US GAAP</b>		
	<b>EVM</b>	<b>US GAAP</b>
Profit recognition on new contracts	At inception	Over lifetime of the contract
Actuarial assumptions	Best estimate	Non-life business: best estimate Life and health business: generally locked-in assumptions
Liability cash flows	Discounted using risk-free rates; market consistent valuation of embedded options and guarantees	Non-life business: generally no discounting Life and health business: 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 real estate for own use
Goodwill and intangibles	Not recognised	Recognised, subject to impairment test
Debt (including hybrid instruments)	Market values	Generally at amortised cost
Changes in interest rates	Asset change offset by change in insurance liability	Unrealised gains or losses on available-for-sale securities recognised in shareholders' equity; generally no change in insurance liability
Capital cost recognition	Yes	No

# Group EVM results

## Solid underwriting results with strong new business contribution from Life & Health Reinsurance and strong investment result

Swiss Re reported a total contribution to ENW of USD 4.2 billion in 2016 compared to USD 3.7 billion in 2015. EVM profit amounted to USD 1.4 billion, above the 2015 result of USD 480 million.

As of 31 December 2016, ENW was USD 36.6 billion, compared to USD 37.4 billion as of 31 December 2015. The decrease was driven by the impact of changes in EVM methodology, dividends and the share buy-back programme, partially offset by the total contribution to ENW.

The Group EVM profit in 2016 reflected a strong Life & Health Reinsurance new business result driven by large and tailored transactions as well as a strong overall investment result mainly due to tightening credit spreads. Property & Casualty Reinsurance added to the positive new business result, though to a lesser extent than in 2015 due to softening market conditions and increased natural catastrophe losses in 2016. Corporate Solutions generated a new business EVM loss driven by the non-recognition of intangibles related to the IHC Risk Solutions, LLC (IHC) acquisition. Life Capital reported an EVM profit driven by a strong investment result.

The profit margin for new business amounted to 3.1% in 2016, increasing from 2.4% in 2015. The profit margin for previous years' business was -2.9% in 2016 compared to 3.2% in 2015. The profit margin for investment activities was 12.0% in 2016 compared to -10.5% in 2015.

Property & Casualty Reinsurance reported an EVM profit of USD 562 million in 2016 compared to USD 1.7 billion in 2015. The 2016 result was impacted by the challenging environment and a higher burden of natural catastrophe losses compared to 2015.

Life & Health Reinsurance reported an EVM profit of USD 1.2 billion in 2016 compared to USD 294 million in 2015. The 2016 result includes a strong new business profit of USD 1.1 billion, mainly driven by large and tailored transactions. The strong Life & Health Reinsurance new business result was partially offset by an unfavourable previous years' business result due to higher capital costs. The EVM result from investment activities amounted to a profit of USD 596 million mainly due to tightening credit spreads.

Corporate Solutions reported an EVM loss of USD 111 million in 2016 compared to a profit of USD 26 million in 2015. The new business loss amounted to USD 144 million, compared to a loss of USD 41 million in 2015. The variance mainly reflects the non-recognition of intangible assets related to the IHC acquisition. The previous years' business loss was USD 26 million due to large man-made losses.

Life Capital generated an EVM profit of USD 115 million in 2016 compared to an EVM loss of USD 983 million in 2015. The 2016 result was driven by a strong investment result across all asset classes. This was almost offset by a new business loss driven by increased expenses as well as a previous years' business loss due to increased capital

costs and expenses allocated to the in-force book. The EVM loss in 2015 was driven by the Guardian acquisition while in 2016 no new transaction was executed.

In 2016, an EVM loss of USD 364 million was reported in Group items compared to a loss of USD 554 million in 2015. The EVM loss from new business was USD 184 million in 2016, driven by overhead expenses, partially offset by trademark licence fees charged to the business segments. The previous years' business profit was USD 36 million. The EVM loss from investment activities recorded in Group items was USD 216 million in 2016, driven by underperformance in Principal Investments.

### New business

The new business profit was USD 884 million in 2016, a decline of USD 108 million compared to 2015. The drop was mainly driven by lower Property & Casualty and Corporate Solutions new business results, partially offset by a stronger new business result for Life & Health Reinsurance.

Premiums and fees amounted to USD 46.6 billion in 2016 compared to USD 40.6 billion in 2015. The increase was mainly driven by Life & Health Reinsurance due to large and tailored transactions in the US.

Claims and benefits amounted to USD 31.7 billion in 2016, an increase of USD 5.1 billion compared to 2015, driven by large and tailored transactions in Life & Health Reinsurance in the US.

Commissions amounted to USD 8.5 billion, an increase of USD 1.4 billion compared to 2015. The increase was primarily driven by large Life & Health Reinsurance transactions in the US. Property & Casualty Reinsurance added to the increase with higher business volumes and a greater share of proportional business.



Expenses amounted to USD 3.3 billion in 2016, slightly higher than the USD 3.2 billion reported in 2015.

Capital costs on new business amounted to USD 1.2 billion in 2016, almost in line with the USD 1.1 billion reported in 2015.

#### **Previous years' business**

The EVM loss from previous years' business amounted to USD 579 million in 2016 compared to an EVM profit of USD 470 million in 2015. The result was primarily driven by higher capital costs in Life & Health Reinsurance and Life Capital as well as higher expenses in Life Capital. These impacts were partially offset by favourable claims experience in Property & Casualty Reinsurance.

#### **Investment activities**

Investment activities generated an EVM profit of USD 1.1 billion in 2016 compared to a loss of USD 982 million in 2015. The 2016 profit was mainly driven by the impact of credit spread tightening and outperformance across equities and alternative investments, partially offset by a loss in Principal Investments. The loss from investment activities in 2015 was primarily driven by the impact of credit spread widening and losses within Principal Investments.

**EVM income statement**

USD millions, unless otherwise stated	2015	2016	Change in %
<b>Underwriting result</b>			
Gross premiums and fees	40 968	47 235	15
<i>Gross premiums and fees growth rate, %</i>	<i>10.1</i>	<i>15.3</i>	
Premiums and fees	40 562	46 566	15
<i>Premiums and fees retention rate, %</i>	<i>99.0</i>	<i>98.6</i>	
<i>Premiums and fees growth rate, %</i>	<i>13.1</i>	<i>14.8</i>	
Claims and benefits	-26 601	-31 668	19
Commissions	-7 053	-8 492	20
Other	-779	-240	-69
<b>Gross underwriting result – new business</b>	<b>6 129</b>	<b>6 166</b>	<b>1</b>
Expenses	-3 161	-3 314	5
<b>Net underwriting result – new business</b>	<b>2 968</b>	<b>2 852</b>	<b>-4</b>
Taxes	-829	-744	-10
Capital costs	-1 147	-1 224	7
<b>EVM profit – new business</b>	<b>992</b>	<b>884</b>	<b>-11</b>
<b>EVM profit – previous years' business</b>	<b>470</b>	<b>-579</b>	<b>-</b>
<b>EVM profit – underwriting</b>	<b>1 462</b>	<b>305</b>	<b>-79</b>
<b>Investment result</b>			
Mark-to-market investment result	1 095	7 500	-
Benchmark investment result	-902	-4 266	-
<b>Gross outperformance (underperformance)</b>	<b>193</b>	<b>3 234</b>	<b>-</b>
Other	74	121	64
Expenses	-275	-274	0
<b>Net outperformance (underperformance)</b>	<b>-8</b>	<b>3 081</b>	<b>-</b>
Taxes	-3	-743	-
Capital costs	-971	-1 244	28
<b>EVM profit – investments</b>	<b>-982</b>	<b>1 094</b>	<b>-</b>
<b>EVM profit</b>	<b>480</b>	<b>1 399</b>	<b>191</b>
Cost of debt	-151	-461	205
Release of current year capital costs	2 520	2 778	10
Additional taxes	823	515	-37
<b>Total contribution to ENW</b>	<b>3 672</b>	<b>4 231</b>	<b>15</b>
<i>Profit margin – new business, %</i>	<i>2.4</i>	<i>3.1</i>	
<i>Profit margin – previous years' business, %</i>	<i>3.2</i>	<i>-2.9</i>	
<i>Profit margin – investments, %</i>	<i>-10.5</i>	<i>12.0</i>	

## Summary EVM income statement by business segment

USD millions, unless otherwise stated	2015	2016	Change in %
<b>Underwriting result</b>			
Property & Casualty Reinsurance	1 219	280	-77
Life & Health Reinsurance <sup>1</sup>	730	1 095	50
Corporate Solutions	-41	-144	-
Life Capital <sup>1</sup>	-750	-163	-78
Group items	-166	-184	11
<b>EVM profit – new business</b>	<b>992</b>	<b>884</b>	<b>-11</b>
Property & Casualty Reinsurance	386	311	-19
Life & Health Reinsurance <sup>1</sup>	-37	-494	-
Corporate Solutions	121	-26	-
Life Capital <sup>1</sup>	-20	-406	-
Group items	20	36	80
<b>EVM profit – previous years' business</b>	<b>470</b>	<b>-579</b>	<b>-</b>
<b>EVM profit – underwriting</b>	<b>1 462</b>	<b>305</b>	<b>-79</b>
<b>Investment result</b>			
Property & Casualty Reinsurance	92	-29	-
Life & Health Reinsurance <sup>1</sup>	-399	596	-
Corporate Solutions	-54	59	-
Life Capital <sup>1</sup>	-213	684	-
Group items	-408	-216	-47
<b>EVM profit – investments</b>	<b>-982</b>	<b>1 094</b>	<b>-</b>
<b>EVM profit</b>	<b>480</b>	<b>1 399</b>	<b>191</b>
Cost of debt	-151	-461	205
Release of current year capital costs	2 520	2 778	10
Additional taxes	823	515	-37
<b>Total contribution to ENW</b>	<b>3 672</b>	<b>4 231</b>	<b>15</b>

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the Life Capital segment instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

# Property & Casualty Reinsurance

## Underwriting performance reflected market softening and a higher burden of large losses in 2016

Property & Casualty Reinsurance reported an EVM profit of USD 562 million for 2016, compared to USD 1.7 billion in 2015.

As of 31 December 2016, ENW was USD 14.3 billion, compared to USD 16.1 billion as of 31 December 2015. The decrease was primarily driven by dividends paid to Swiss Re Ltd and the impact of changes in EVM methodology, partly offset by total contribution to ENW.

### New business

Property & Casualty Reinsurance reported an EVM profit on new business of USD 280 million for 2016 compared to USD 1.2 billion in 2015. The decline compared to 2015 was primarily driven by market softening, less favourable current year natural catastrophe experience and higher capital costs.

The result for 2016 was impacted by various large losses, including wildfires in Canada, an earthquake in New Zealand, and Hurricane Matthew. The impact of large man-made losses in 2016 was lower than the previous year, which included losses from the explosion in Tianjin, China. Capital costs increased by USD 301 million to USD 598 million in 2016, mainly reflecting the non-recurrence of a significant funding credit related to a large and tailored transaction in EMEA in 2015.

The new business profit margin was 1.9% in 2016, compared to 9.7% for 2015.

Premiums and fees were USD 18.4 billion for 2016 compared to USD 18.7 billion in 2015. The growth in casualty business, driven by large and tailored transactions, was more than offset by lower property volumes across all regions.

Compared to 2015, claims and benefits increased by USD 337 million to USD 11.5 billion, mainly because the prior year benefited from benign natural catastrophe experience.

Commissions increased to USD 4.3 billion in 2016 compared to USD 4.1 billion in 2015. This increase was mainly driven by the continued growth in casualty and a shift towards more proportional business.

The ratio of expenses to premiums and fees (expense ratio) of 7.2% for 2016 was in line with 2015.

The EVM profit on new business for property & specialty was USD 405 million in 2016 compared to USD 968 million in 2015. 2016 was impacted by various large losses, whereas 2015 benefited from an exceptionally benign natural catastrophe loss experience. In addition, 2016 included a higher commission ratio driven by the underlying change in business mix.

The EVM loss on new business for casualty was USD 125 million in 2016 compared to a profit of USD 251 million in 2015, mainly due to the non-recurrence of the funding credit related to a large and tailored transaction in EMEA.

### Previous years' business

EVM profit on previous years' business was USD 311 million in 2016 compared to USD 386 million in 2015. The variance was driven by lower reserve releases and higher man-made losses, partially offset by revised cost allocation for collateral.

### Investment activities

Investment activities resulted in an EVM loss of USD 29 million in 2016, reflecting negative rates performance on a short duration position in 2016, partially offset by the impact of spread tightening on credit investments.

In 2015, the investment activities resulted in an EVM profit of USD 92 million, primarily due to the performance of alternative investments and positive performance on a net short duration position as interest rates generally increased, partially offset by the impact of credit spread widening.

## Property & Casualty Reinsurance

USD millions, unless otherwise stated	2015	2016	Change in %
<b>Underwriting result</b>			
Gross premiums and fees	18 812	18 493	-2
<i>Gross premiums and fees growth rate, %</i>	<i>9.9</i>	<i>-1.7</i>	
Premiums and fees	18 693	18 440	-1
<i>Premiums and fees retention rate, %</i>	<i>99.4</i>	<i>99.7</i>	
<i>Premiums and fees growth rate, %</i>	<i>10.6</i>	<i>-1.4</i>	
Claims and benefits	-11 202	-11 539	3
Commissions	-4 144	-4 308	4
Other	-5	-34	-
<b>Gross underwriting result – new business</b>	<b>3 342</b>	<b>2 559</b>	<b>-23</b>
Expenses	-1 330	-1 335	0
<b>Net underwriting result – new business</b>	<b>2 012</b>	<b>1 224</b>	<b>-39</b>
Taxes	-496	-346	-30
Capital costs	-297	-598	101
<b>EVM profit – new business</b>	<b>1 219</b>	<b>280</b>	<b>-77</b>
<b>EVM profit – previous years' business</b>	<b>386</b>	<b>311</b>	<b>-19</b>
<b>EVM profit – underwriting</b>	<b>1 605</b>	<b>591</b>	<b>-63</b>
<b>Investment result</b>			
Mark-to-market investment result	964	1 626	69
Benchmark investment result	-369	-1 073	191
<b>Gross outperformance (underperformance)</b>	<b>595</b>	<b>553</b>	<b>-7</b>
Other	37	53	43
Expenses	-93	-88	-5
<b>Net outperformance (underperformance)</b>	<b>539</b>	<b>518</b>	<b>-4</b>
Taxes	-141	-124	-12
Capital costs	-306	-423	38
<b>EVM profit – investments</b>	<b>92</b>	<b>-29</b>	<b>-</b>
<b>EVM profit</b>	<b>1 697</b>	<b>562</b>	<b>-67</b>
Cost of debt	-56	-212	-
Release of current year capital costs	887	1 008	14
Additional taxes	196	231	18
<b>Total contribution to ENW</b>	<b>2 724</b>	<b>1 589</b>	<b>-42</b>
<i>Profit margin – new business, %</i>	<i>9.7</i>	<i>1.9</i>	
<i>Profit margin – previous years' business, %</i>	<i>8.5</i>	<i>5.1</i>	
<i>Profit margin – investments, %</i>	<i>3.1</i>	<i>-1.0</i>	

# Life & Health Reinsurance

## Strong investment and underwriting performance

Life & Health Reinsurance reported an EVM profit of USD 1.2 billion in 2016 compared to USD 294 million in 2015.

As of 31 December 2016, ENW was USD 10.8 billion compared to USD 10.2 billion as of 31 December 2015. The increase was primarily driven by total contribution to ENW, partially offset by dividends paid to Swiss Re Ltd and the impact of changes in EVM methodology.

### **New business**

The new business profit was USD 1.1 billion in 2016, compared to USD 730 million in 2015. The primary drivers for the favourable result were large and tailored transactions in the US, health initiatives and business growth in Asia and lower capital costs.

Premiums and fees were 34% higher than in 2015, primarily driven by large and tailored transactions in the US and growth in health business in Asia.

Claims and benefits amounted to USD 17.7 billion in 2016, an increase of 35% compared to 2015, primarily driven by large and tailored transactions in the US.

The ratio of commissions to premiums and fees (commission ratio) was 15.0% in 2016, a slight increase compared to 13.2% for 2015. The increase was mainly driven by large and tailored transactions in the US written in 2016.

The ratio of expenses to premiums and fees (expense ratio) was 3.6% compared to 4.6% for 2015. The lower expense ratio was driven by premium increases, while expenses were in line with 2015.

In 2016, the new business profit for life was USD 794 million or 25% higher than in 2015. The increase was mainly attributable to several transactions in the US and lower capital costs.

In 2016, the new business profit for health was USD 301 million or 221% higher than 2015. The increase was primarily driven by strong business growth and health initiatives in Asia and lower capital costs.

### **Previous years' business**

The loss from previous years' business was USD 494 million in 2016 compared to a loss of USD 37 million in 2015. The loss in 2016 was mainly driven by higher capital costs, partially offset by favourable assumption updates in EMEA.

### **Investment activities**

Investment activities generated a profit of USD 596 million in 2016, primarily driven by the impact of spread tightening on credit investments as well as performance across equities and alternative investments. The loss from investment activities of USD 399 million in 2015 was primarily driven by the impact of spread widening on credit investments.

## Life & Health Reinsurance

USD millions, unless otherwise stated	2015 <sup>1</sup>	2016	Change in %
<b>Underwriting result</b>			
Gross premiums and fees	17 666	23 796	35
<i>Gross premiums and fees growth rate, %</i>	<i>12.2</i>	<i>34.7</i>	
Premiums and fees	17 964	24 060	34
<i>Premiums and fees retention rate, %</i>	<i>101.7</i>	<i>101.1</i>	
<i>Premiums and fees growth rate, %</i>	<i>22.3</i>	<i>33.9</i>	
Claims and benefits	-13 131	-17 748	35
Commissions	-2 368	-3 609	52
Other	-58	-57	-2
<b>Gross underwriting result – new business</b>	<b>2 407</b>	<b>2 646</b>	<b>10</b>
Expenses	-830	-862	4
<b>Net underwriting result – new business</b>	<b>1 577</b>	<b>1 784</b>	<b>13</b>
Taxes	-311	-408	31
Capital costs	-536	-281	-48
<b>EVM profit – new business</b>	<b>730</b>	<b>1 095</b>	<b>50</b>
<b>EVM profit – previous years' business</b>	<b>-37</b>	<b>-494</b>	<b>-</b>
<b>EVM profit – underwriting</b>	<b>693</b>	<b>601</b>	<b>-13</b>
<b>Investment result</b>			
Mark-to-market investment result	160	2 317	-
Benchmark investment result	-256	-1 086	-
<b>Gross outperformance (underperformance)</b>	<b>-96</b>	<b>1 231</b>	<b>-</b>
Other	19	23	21
Expenses	-79	-69	-13
<b>Net outperformance (underperformance)</b>	<b>-156</b>	<b>1 185</b>	<b>-</b>
Taxes	39	-289	-
Capital costs	-282	-300	6
<b>EVM profit – investments</b>	<b>-399</b>	<b>596</b>	<b>-</b>
<b>EVM profit</b>	<b>294</b>	<b>1 197</b>	<b>-</b>
Cost of debt	-53	-154	191
Release of current year capital costs	804	757	-6
Additional taxes	525	116	-78
<b>Total contribution to ENW</b>	<b>1 570</b>	<b>1 916</b>	<b>22</b>
<i>Profit margin – new business, %</i>	<i>9.9</i>	<i>11.0</i>	
<i>Profit margin – previous years' business, %</i>	<i>-0.5</i>	<i>-4.7</i>	
<i>Profit margin – investments, %</i>	<i>-11.1</i>	<i>14.7</i>	

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the Life Capital segment instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly. The 2015 premiums and fees growth rates shown above are relative to the originally published 2014 premiums and fees. Adjusting the originally published 2014 premiums and fees for the transfer of the primary life and health insurance business would increase the Gross premiums and fees growth rate from 12.2% to 17.7% and the Premiums and fees growth rate from 22.3% to 25.4%.

# Corporate Solutions

## Economic performance impacted by the non-recognition of intangible assets and higher than expected large man-made losses

Corporate Solutions reported an EVM loss of USD 111 million in 2016 compared to an EVM profit of USD 26 million in 2015. The deviation was mainly driven by:

- the non-recognition of intangible assets (including goodwill) related to acquisitions (USD 148 million in 2016 and USD 41 million in 2015), and
- unfavourable underwriting performance including insurance in derivative form (USD 22 million loss in 2016 compared to a profit of USD 121 million in 2015), impacted by large man-made losses, partially offset by
- improved result from investment activities (USD 59 million profit in 2016 compared to a loss of USD 54 million in 2015).

As of 31 December 2016, ENW decreased to USD 2.8 billion, compared to USD 3.0 billion as of 31 December 2015, primarily reflecting a dividend paid to Swiss Re Ltd of USD 250 million.

### New business

The new business profit margin was -4.2% in 2016 compared to -1.1% in 2015. The EVM loss from new business was USD 144 million in 2016, compared to a loss of USD 41 million in 2015, primarily driven by the non-recognition of intangible assets (including goodwill) related to the IHC Risk Solutions, LLC (IHC) acquisition (USD 148 million).

Premiums and fees were USD 3.7 billion in 2016 compared to USD 3.5 billion in 2015. Premiums including insurance in derivative form, excluding external and internal retrocession increased by 6%, or 7% at constant exchange rates, mainly due to the IHC acquisition.

Property & Specialty's new business profit of USD 30 million was materially unchanged compared to 2015.

Casualty generated a new business loss of USD 39 million in 2016 compared to a loss of USD 52 million in 2015. The improvement was driven by the new business generated from the IHC acquisition.

Other new business resulted in a loss of USD 135 million in 2016 compared to a loss of USD 21 million in 2015. The 2016 result was primarily driven by the loss on the IHC acquired intangible assets of USD 148 million, partially offset by gains from insurance business in derivative form of USD 18 million, which offers protection against weather perils and other insurable risks.

### Previous years' business

The previous years' business generated a loss of USD 26 million in 2016, compared to a profit of USD 121 million in 2015, impacted by large man-made casualty losses.

Property & Specialty's profit from previous years' business increased to USD 94 million in 2016 from USD 12 million in 2015. The increase was driven by lower capital costs, partially offset by a higher frequency of small- and medium-sized losses on credit.

Casualty previous years' business generated a loss of USD 123 million in 2016 compared to a profit of USD 108 million in 2015, impacted by large man-made losses in North America and higher capital costs.

Other previous years' business resulted in a profit of USD 3 million in 2016, materially unchanged compared to 2015.

### Investment activities

Investment activities generated a profit of USD 59 million for 2016 compared to a loss of USD 54 million in 2015. The 2016 result was primarily driven by the impact of spread tightening on credit investments and positive performance from equity investments.



## Corporate Solutions

USD millions, unless otherwise stated	2015	2016	Change in %
<b>Underwriting result</b>			
Gross premiums and fees	3 740	4 067	9
<i>Gross premiums and fees growth rate, %</i>	<i>-2.9</i>	<i>8.7</i>	
Premiums and fees	3 549	3 708	4
<i>Premiums and fees retention rate, %</i>	<i>94.9</i>	<i>91.2</i>	
<i>Premiums and fees growth rate, %</i>	<i>-5.7</i>	<i>4.5</i>	
Claims and benefits	-1 980	-2 092	6
Commissions	-520	-570	10
Other	-28	-137	-
<b>Gross underwriting result – new business</b>	<b>1 021</b>	<b>909</b>	<b>-11</b>
Expenses	-823	-842	2
<b>Net underwriting result – new business</b>	<b>198</b>	<b>67</b>	<b>-66</b>
Taxes	-78	-68	-13
Capital costs	-161	-143	-11
<b>EVM profit – new business</b>	<b>-41</b>	<b>-144</b>	<b>-</b>
<b>EVM profit – previous years' business</b>	<b>121</b>	<b>-26</b>	<b>-</b>
<b>EVM profit – underwriting</b>	<b>80</b>	<b>-170</b>	<b>-</b>
<b>Investment result</b>			
Mark-to-market investment result	77	261	239
Benchmark investment result	-68	-100	47
<b>Gross outperformance (underperformance)</b>	<b>10</b>	<b>161</b>	<b>-</b>
Other	5	8	60
Expenses	-23	-19	-17
<b>Net outperformance (underperformance)</b>	<b>-8</b>	<b>150</b>	<b>-</b>
Taxes	4	-36	-
Capital costs	-50	-55	10
<b>EVM profit – investments</b>	<b>-54</b>	<b>59</b>	<b>-</b>
<b>EVM profit</b>	<b>26</b>	<b>-111</b>	<b>-</b>
Cost of debt	-15	-14	-7
Release of current year capital costs	241	202	-16
Additional taxes	-55	63	-
<b>Total contribution to ENW</b>	<b>197</b>	<b>140</b>	<b>-29</b>
<i>Profit margin – new business, %</i>	<i>-1.1</i>	<i>-4.2</i>	
<i>Profit margin – previous years' business, %</i>	<i>19.8</i>	<i>-2.1</i>	
<i>Profit margin – investments, %</i>	<i>-11.4</i>	<i>10.9</i>	

# Life Capital

EVM profit driven by strong investment result, partially offset by adoption of Solvency II and higher expenses

Life Capital reported an EVM profit of USD 115 million in 2016, compared to a loss of USD 983 million in 2015. The primary driver for this result was the strong investment result, partially offset by higher capital costs following the adoption of Solvency II, and new business acquisition costs.

As of 31 December 2016, ENW was USD 3.8 billion compared to USD 3.6 billion as of 31 December 2015, reflecting total contribution to ENW for 2016 and capital injections, partially offset by dividends paid to Swiss Re Ltd and foreign exchange remeasurement losses.

## **New business**

The EVM loss on new business was USD 163 million for 2016, compared to a loss of USD 750 million in 2015.

The new business loss included acquisition costs for both closed and open book business, and expenses associated with the establishment of an individual open book business in the US.

The 2015 new business loss of USD 750 million included the estimated loss of USD 673 million on the Guardian transaction.

## **Previous years' business**

The EVM loss on previous years' business was USD 406 million, compared to a loss of USD 20 million in 2015. The 2016 loss was mainly driven by an increase in capital requirements following the move from Solvency I to Solvency II as of 1 January 2016 for ReAssure (formerly Admin Re®) and Guardian businesses resulting in higher capital costs, combined with strengthened expense and tax provisions.

The loss on the Guardian acquisition as of 6 January 2016 was USD 696 million, USD 23 million higher than the provision of USD 673 million recognised in 2015. The change was due to market movements between 31 December 2015 and 6 January 2016.

## **Investment activities**

Investment activities generated a profit of USD 684 million in 2016, compared to a loss of USD 213 million in 2015. The 2016 profit was driven by positive performance across all asset classes.

## Life Capital

USD millions, unless otherwise stated	2015 <sup>1</sup>	2016	Change in %
<b>Underwriting result</b>			
Gross premiums and fees	750	879	17
<i>Gross premiums and fees growth rate, %</i>	<i>48.5</i>	<i>17.2</i>	
Premiums and fees	356	358	1
<i>Premiums and fees retention rate, %</i>	<i>47.5</i>	<i>40.7</i>	
<i>Premiums and fees growth rate, %</i>	<i>-29.5</i>	<i>0.6</i>	
Claims and benefits	-288	-289	0
Commissions	-21	-5	-76
Other	-676	-5	-99
<b>Gross underwriting result – new business</b>	<b>-629</b>	<b>59</b>	<b>-</b>
Expenses	-98	-188	92
<b>Net underwriting result – new business</b>	<b>-727</b>	<b>-129</b>	<b>-82</b>
Taxes		15	-
Capital costs	-23	-49	113
<b>EVM profit – new business</b>	<b>-750</b>	<b>-163</b>	<b>-78</b>
<b>EVM profit – previous years' business</b>	<b>-20</b>	<b>-406</b>	<b>-</b>
<b>EVM profit – underwriting</b>	<b>-770</b>	<b>-569</b>	<b>-26</b>
<b>Investment result</b>			
Mark-to-market investment result	116	3 211	-
Benchmark investment result	-173	-1 960	-
<b>Gross outperformance (underperformance)</b>	<b>-57</b>	<b>1 251</b>	<b>-</b>
Other	13	37	185
Expenses	-32	-52	63
<b>Net outperformance (underperformance)</b>	<b>-76</b>	<b>1 236</b>	<b>-</b>
Taxes	18	-296	-
Capital costs	-155	-256	65
<b>EVM profit – investments</b>	<b>-213</b>	<b>684</b>	<b>-</b>
<b>EVM profit</b>	<b>-983</b>	<b>115</b>	<b>-</b>
Cost of debt	-8	-63	-
Release of current year capital costs	262	426	63
Additional taxes	398	121	-70
<b>Total contribution to ENW</b>	<b>-331</b>	<b>599</b>	<b>-</b>
<i>Profit margin – new business, %</i>	<i>-4.2</i>	<i>-</i>	
<i>Profit margin – previous years' business, %</i>	<i>-1.0</i>	<i>-17.8</i>	
<i>Profit margin – investments, %</i>			

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the Life Capital segment instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly. The 2015 premiums and fees growth rates shown above are relative to the originally published 2014 premiums and fees. Adjusting the originally published 2014 premiums and fees for the transfer of the primary life and health insurance business would decrease the Gross premiums and fees growth rate from 48.5% to -39.5% and the Premiums and fees growth rate from -29.5% to -59.2%.

Financial year

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# EVM income statement

For the years ended 31 December

USD millions, unless otherwise stated	2015	2016
<b>Underwriting result</b>		
Gross premiums and fees	40 968	47 235
<i>Gross premiums and fees growth rate, %</i>	<i>10.1</i>	<i>15.3</i>
Premiums and fees	40 562	46 566
<i>Premiums and fees retention rate, %</i>	<i>99.0</i>	<i>98.6</i>
<i>Premiums and fees growth rate, %</i>	<i>13.1</i>	<i>14.8</i>
Claims and benefits	-26 601	-31 668
Commissions	-7 053	-8 492
Other	-779	-240
<b>Gross underwriting result – new business</b>	<b>6 129</b>	<b>6 166</b>
Expenses	-3 161	-3 314
<b>Net underwriting result – new business</b>	<b>2 968</b>	<b>2 852</b>
Taxes	-829	-744
Capital costs	-1 147	-1 224
<b>EVM profit – new business</b>	<b>992</b>	<b>884</b>
<b>EVM profit – previous years' business</b>	<b>470</b>	<b>-579</b>
<b>EVM profit – underwriting</b>	<b>1 462</b>	<b>305</b>
<b>Investment result</b>		
Mark-to-market investment result	1 095	7 500
Benchmark investment result	-902	-4 266
<b>Gross outperformance (underperformance)</b>	<b>193</b>	<b>3 234</b>
Other	74	121
Expenses	-275	-274
<b>Net outperformance (underperformance)</b>	<b>-8</b>	<b>3 081</b>
Taxes	-3	-743
Capital costs	-971	-1 244
<b>EVM profit – investments</b>	<b>-982</b>	<b>1 094</b>
<b>EVM profit</b>	<b>480</b>	<b>1 399</b>
Cost of debt	-151	-461
Release of current year capital costs	2 520	2 778
Additional taxes	823	515
<b>Total contribution to ENW</b>	<b>3 672</b>	<b>4 231</b>
<i>Profit margin – new business, %</i>	<i>2.4</i>	<i>3.1</i>
<i>Profit margin – previous years' business, %</i>	<i>3.2</i>	<i>-2.9</i>
<i>Profit margin – investments, %</i>	<i>-10.5</i>	<i>12.0</i>

The accompanying notes are an integral part of the Swiss Re Group EVM financial statements.

# EVM balance sheet

As of 31 December

USD millions	2015	2016
<b>Assets</b>		
Investments	146 856	164 314
Cash and cash equivalents	8 204	9 007
In-force business assets	191 179	197 647
External retrocession assets	25 355	24 457
Other assets	2 890	3 017
<b>Total assets</b>	<b>374 484</b>	<b>398 442</b>
<b>Liabilities</b>		
In-force business liabilities	281 403	304 359
External retrocession liabilities	21 178	19 663
Provision for capital costs	5 933	9 260
Future income tax liabilities	5 102	4 606
Debt	15 385	14 199
Other liabilities	8 125	9 707
<b>Total liabilities</b>	<b>337 126</b>	<b>361 794</b>
<b>Economic net worth</b>	<b>37 358</b>	<b>36 648</b>
<b>Total liabilities and economic net worth</b>	<b>374 484</b>	<b>398 442</b>

The accompanying notes are an integral part of the Swiss Re Group EVM financial statements.

# Statement of economic net worth

For the years ended 31 December

USD millions	2015	2016
Economic net worth as of 1 January	38 365	37 358
Change in EVM methodology (refer to Note 1)		-1 699
<b>Adjusted economic net worth as of 1 January</b>	<b>38 365</b>	<b>35 659</b>
Total contribution to ENW	3 672	4 231
Dividends and share buy-back	-3 055	-2 662
Other, including foreign exchange on economic net worth	-1 624	-580
<b>Economic net worth as of 31 December</b>	<b>37 358</b>	<b>36 648</b>
Common shares outstanding as of 31 December	337 739 705	325 978 727
Economic net worth per share in USD as of 31 December	110.61	112.42

The accompanying notes are an integral part of the Swiss Re Group EVM financial statements.

# Notes to the EVM financial statements

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## Note 1 Organisation and summary of significant EVM principles

Economic Value Management (EVM) is Swiss Re's proprietary integrated economic valuation and accounting framework used for planning, pricing, reserving and steering the business. In addition, the EVM balance sheet provides the basis for determining available capital under the Swiss Solvency Test (SST). EVM best estimate cash flow information also forms the basis for the calculation of Solvency II technical provisions.

### **Nature of operations**

The Swiss Re Group, which is headquartered in Zurich, Switzerland, comprises Swiss Re Ltd (the parent company) and its subsidiaries (collectively, the "Swiss Re Group" or the "Group"). The Swiss Re Group is a wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Working through brokers and a network of offices around the globe, the Group serves a client base made up of insurance companies, mid-to-large-sized corporations and public sector clients.

### **Basis of presentation**

The accompanying consolidated EVM financial statements have been prepared in accordance with the Group's EVM principles. All significant intra-group transactions and balances have been eliminated in consolidation.

### **Principles of consolidation**

The Group's EVM financial statements follow the same consolidation principles as used in the preparation of the Group's consolidated US GAAP financial statements, except for holdings with non-controlling interests to which proportionate consolidation is applied to reflect Swiss Re's economic share.

### **Use of estimates in the preparation of financial statements**

The preparation of EVM financial statements requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The valuation of assets and liabilities reflects best estimates of underlying cash flows (e.g., premiums, claims, commissions, expenses, etc.), using models and taking into consideration all relevant information available at the balance sheet date. In line with other valuation methods based on projections of future cash flows, EVM involves significant judgement when establishing assumptions to be used. The Group actively and carefully reviews assumptions, selecting those which are considered appropriate and seeking consistency among business activities. Valuations are updated at each balance sheet date as experience develops and more information becomes available. In-force business assets and liabilities include estimates for premiums as well as claims and benefit payments not received from ceding companies at the balance sheet date. In addition, the Group has certain assets and liabilities for which liquid market prices do not exist. These estimates are determined on a market consistent basis using all relevant information available at the time of valuation. However, actual results could differ significantly from these estimates.

### **Foreign currency translation**

Assets and liabilities denominated in foreign currencies are translated to the reporting currency at year-end exchange rates. Revenues and expenses denominated in foreign currencies are translated to the reporting currency at average exchange rates for the reporting year. Foreign currency translation gains and losses are recognised directly in ENW with no impact on the EVM income statement.

### **Closed book principle**

EVM excludes the recognition of all potential future new business activities, including future renewals. EVM recognises all profits and losses resulting from expected cash flows from contractual rights and obligations at inception or the effective date of a business transaction. Acquisitions do not result in the recording of goodwill or intangible assets. Changes to previous assumptions and estimates are recognised as they occur.

The closed book principle does not imply that EVM is a run-off reporting framework. Capital costs and expenses are projected on a going concern basis, reflecting diversification benefits and economies of scale.

The closed book principle is largely in line with other economic valuation frameworks such as Solvency II or SST.



### Valuation of assets and liabilities

All traded assets and liabilities are marked to market, based on quoted prices in active markets or observable inputs. Non-traded assets and liabilities are valued on a market consistent basis. The Group's insurance liabilities are valued on a market consistent basis by replicating future best estimate expected cash flows with liquid financial market instruments. As the majority of the Group's insurance liabilities do not contain embedded financial market risks other than interest rate risk, the market consistent value of liabilities is determined by discounting estimated future cash flows using prevailing risk free interest rates. If insurance liabilities include embedded options or guarantees (e.g., variable annuities or interest sensitive life business), they are valued on a market consistent basis using stochastic models and other appropriate valuation techniques.

As of 31 December 2016 and 31 December 2015, selected risk-free rates used for discounting estimated future cash flows were as follows:

	2015	2016
<b>USD</b>		
1 year	0.8%	0.9%
5 years	1.8%	2.0%
10 years	2.4%	2.5%
15 years	2.7%	2.7%
20 years	2.8%	2.9%
30 years	3.2%	3.2%
<b>GBP</b>		
1 year	0.4%	0.0%
5 years	1.4%	0.6%
10 years	2.0%	1.3%
15 years	2.5%	1.7%
20 years	2.8%	1.9%
30 years	2.8%	1.9%
<b>EUR</b>		
1 year	-0.3%	-0.7%
5 years	0.0%	-0.4%
10 years	0.9%	0.5%
15 years	1.4%	0.9%
20 years	1.7%	1.1%
30 years	1.9%	1.3%
<b>CAD</b>		
1 year	0.5%	0.6%
5 years	0.8%	1.2%
10 years	1.5%	1.8%
15 years	2.1%	2.3%
20 years	2.3%	2.5%
30 years	2.2%	2.4%

### In-force business assets and liabilities

In-force business assets are assets associated with (re-)insurance contracts and include estimated future premiums and other expected cash inflows related to those contracts. They are carried at market consistent values as described above.

In-force business liabilities are liabilities associated with (re-)insurance contracts and include best estimate reserves for expected claims, commissions and expenses. They are carried at market consistent values as described above.

### External retrocession assets and liabilities

External retrocessions are carried at market consistent values in line with the methods applied to inward business.

A market consistent allowance for counterparty credit risk is applied to uncollateralised external net retrocession assets.

### Investments

All investments are carried at fair value. For non-traded assets, fair values are determined using a mark-to-model approach or other market consistent techniques.

### 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.

### Tax assets and liabilities

The EVM valuation of tax assets and liabilities is determined in two steps. In step one, the portion of total EVM tax expense relevant for business steering and performance measurement is determined by applying standard tax rates to pre-tax results driven by the respective EVM cash flows. This portion of the total EVM tax expense is recognised in EVM profit. In step two, the total EVM tax expense is determined as the sum of (a) the change in US GAAP tax assets and liabilities and (b) the change in deferred tax assets and liabilities for temporary balance sheet valuation differences between US GAAP and EVM. The difference between the total EVM tax expense (step two) and the portion of the total EVM tax expense recognised in EVM profit (step one) is recognised in total contribution to ENW and presented in a separate line below EVM profit as 'Additional taxes'.

### Other assets

Other assets include derivative financial instrument assets, receivables related to investing activities, real estate for own use, property, plant and equipment, accrued income, and prepaid assets. Real estate for own use is carried at fair value.

### Other liabilities

Other liabilities include derivative financial instrument liabilities, payables related to investing activities, provisions for employee incentive plans, pension and other post-retirement benefits, and a provision for estimated future overhead expenses.

### Debt

Swiss Re's external debt, including hybrid instruments, is fair valued. Where available, market prices are used to determine the fair value of debt. Debt that is not publicly traded is valued using market consistent valuation techniques, which take into account, where applicable, the impact of own credit risk. In EVM, all hybrid debt instruments, including convertible instruments, are treated as liabilities.

The line item 'Cost of debt' in the EVM income statement includes the impact of changes in Swiss Re's credit spreads, the unwind of the discount attributable to Swiss Re's credit spreads, letter of credit fees and the current year costs of other forms of leverage. The impact of changes in risk free interest rates and the unwind of the discount attributable to risk free interest rates are included in the benchmark investment result.

### Provision for capital costs

Frictional capital costs provide compensation to shareholders for agency costs, costs for potential financial distress and regulatory (illiquidity) costs. Frictional capital costs include risk capital costs and funding costs. Risk capital costs are charged at 4.5% of eligible economic capital which consists of ENW and eligible hybrid debt. Funding costs are charged or credited at the legal entity level depending on the liquidity the respective legal entity uses or generates. In addition, the provision for capital costs includes an allowance for double taxation on the risk free return on capital allocated to underwriting activities.

### Economic net worth

Economic net worth (ENW) is defined as the difference between the market consistent value of assets and liabilities. ENW is an economic measure of shareholders' equity and the starting point in determining available capital under the Swiss Solvency Test (SST).

### Premiums and fees

Premiums and fees in the EVM income statement represent the present value of all estimated future premiums and fees on contracts written during the year. Changes in premium estimates on contracts written in prior years are reflected in previous years' business profit, along with changes in other underwriting cash flows relating to previous years.

Gross premiums and fees represent premiums and fees before external retrocessions. Gross premiums and fees in the EVM income statement of the business segments also exclude retrocessions to other segments of the Group.

### **Claims and benefits**

Claims and benefits in the EVM income statement represent the present value of all estimated future claims and benefits on contracts written during the year. Changes in estimates of claims and benefits payable on contracts written in prior years are reflected in previous years' business profit, along with changes in other underwriting cash flows relating to previous years. For example, many property and casualty contracts written in the previous year cover losses in the current year (e.g., natural catastrophes) which are included in previous years' business profit.

### **Gross underwriting result – new business**

Gross underwriting result from new business is defined as present value of new business underwriting cash flows (e.g., premiums, claims, commissions, etc.) before internal expenses, taxes and capital costs.

### **Net underwriting result – new business**

Net underwriting result from new business is defined as the gross underwriting result from new business net of the present value of internal expenses allocated to new business but before taxes and capital costs.

### **EVM profit and total contribution to ENW**

EVM profit is a risk-adjusted measure of performance that can be compared across all business activities. Total contribution to ENW is the total return generated for shareholders and includes, in addition to EVM profit, cost of debt, the release of current year capital costs, and additional taxes. Total contribution to ENW is therefore not a risk-adjusted performance measure.

EVM profit consists of profit from underwriting activities and profit from investment activities. The profit from underwriting activities in turn segregates results from new business and previous years' business. New business is defined as business with an inception date within the current reporting year. For property and casualty business, performance resulting from contracts written or renewed within the reporting year is recognised as new business. This also applies to multi-year transactions. For life and health business, new business includes new individual business cessions in the year, renewals of and additions to existing group schemes, new group schemes, new Life Capital blocks and new cessions on existing blocks still open to new business, and renewals of business that is subject to active annual renewal. Previous years' business results reflect the impact of changes in cash flow projections on contracts incepting in previous accounting periods.

Investment activities are marked to market and recognised as new business. The result from investment activities reflects the extent to which our investment management business has outperformed the liability-based benchmark returns on a risk adjusted basis.

### **EVM capital**

EVM capital is the capital required to support uncertainty related to estimated cash flows arising from existing underwriting and investment activities.

### **Profit margin**

Profit margin is calculated for new business, previous years' business and investment activities. The new business profit margin is the ratio of new business profit/loss to EVM capital allocated to new business over the lifetime of the business. The previous years' business profit margin is the ratio of previous years' business profit/loss to EVM capital allocated to previous years' business in the current year. Investment profit margin is the ratio of investment profit/loss to EVM capital allocated to investment activities in the current year.

### **Performance separation between underwriting and investment activities**

EVM values and discloses underwriting and investment activities separately. Underwriting activities create value by writing insurance contracts at a higher price than their economic production costs including the cost of taking risk (capital costs). The performance of investment activities is assessed on a risk adjusted basis. This enables consistent comparison of underwriting and investment activities.

### **Performance measurement after capital costs**

EVM explicitly recognises opportunity costs for shareholder capital. Capital charges cover the base cost of capital and frictional capital costs. The base cost of capital consists of the risk free return on ENW and market risk premiums. Market risk premiums provide a market-derived estimate of the premium required by investors for taking systematic financial market risk. Market risk premiums are charged to EVM profit as part of the capital costs to assess performance on a risk adjusted basis. The majority of the Group's market risk premiums stem from market risk embedded in the investment portfolio.

### Adjustments relating to prior reporting periods

In 2016, the adjustments relating to prior reporting periods included the impact of model updates and calibrations in Life & Health Reinsurance and tax adjustments in Life Capital and Property & Casualty Reinsurance. The estimated impact of the adjustments relating to model updates and calibrations in L&H Reinsurance on the 2015 EVM balance sheet is an increase in total assets of USD 1.7 billion and liabilities of USD 1.9 billion. In 2015, the adjustments relating to prior reporting periods included a tax adjustment in Life Capital related to the sale of Aurora National Life Assurance Company in 2014 and the impact of model updates and conversions in Life & Health Reinsurance.

For the years ended 31 December, the adjustments relating to prior reporting periods were as follows:

USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Group items	Total
2015						
<b>Underwriting result</b>						
<b>EVM profit – new business</b>						
<b>EVM profit – previous years' business</b>		<b>-119</b>				<b>-119</b>
<b>EVM profit – underwriting</b>		<b>-119</b>				<b>-119</b>
<b>EVM profit – investments</b>						
<b>EVM profit</b>		<b>-119</b>				<b>-119</b>
Cost of debt						
Release of current year capital costs						
Additional taxes				402		402
<b>Total contribution to ENW</b>		<b>-119</b>		<b>402</b>		<b>283</b>

USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Group items	Total
2016						
<b>Underwriting result</b>						
<b>EVM profit – new business</b>						
<b>EVM profit – previous years' business</b>	<b>76</b>	<b>-182</b>	<b>2</b>	<b>-75</b>		<b>-179</b>
<b>EVM profit – underwriting</b>	<b>76</b>	<b>-182</b>	<b>2</b>	<b>-75</b>		<b>-179</b>
<b>EVM profit – investments</b>						
<b>EVM profit</b>	<b>76</b>	<b>-182</b>	<b>2</b>	<b>-75</b>		<b>-179</b>
Cost of debt						
Release of current year capital costs						
Additional taxes	-67	-26	-9	244		142
<b>Total contribution to ENW</b>	<b>9</b>	<b>-208</b>	<b>-7</b>	<b>169</b>		<b>-37</b>

### Change in EVM methodology

The Group performed a holistic review of the EVM methodology in 2015, with a particular focus on the methodology for setting EVM capital cost assumptions and other parameters subject to management discretion. As a result of the review, the Group decided to implement the following changes in EVM methodology as of 1 January 2016:

- The methodology for setting EVM capital cost parameters has been changed to align the total EVM capital costs with the total cost of equity estimated on the basis of external benchmarks. As a result of the methodology change, the debt funding cost rates for non-life business have been lowered, the liquidity benefit credited to subsidiaries has been eliminated, and the risk frictional capital costs have been increased from 4% to 4.5%. These changes in EVM methodology reduced the Group's ENW by USD 1.2 billion.
- Where applicable, the methodology for calculating EVM capital has been changed to apply a scaling factor to shortfall rather than explicitly linking EVM capital to SST target capital. In addition, the methodology for projecting Life & Health Reinsurance EVM capital has been aligned with the internal capital adequacy model. Prior to 1 January 2016, Life & Health Reinsurance risk frictional capital costs were based on costing assumptions. These changes in EVM methodology reduced the Group's ENW by USD 0.7 billion.
- To increase consistency with the other Business Units, the recognition of debt funding has been allowed for business written by Life Capital entities. Prior to 1 January 2016, the EVM methodology assumed that the entire Life Capital funding requirements were financed by equity capital. This change in EVM methodology increased the Group's ENW by USD 0.3 billion.
- The methodology for setting market risk premiums for total return assets (e.g., listed equity and private equity investments) has been changed to align the EVM base cost of capital to market implied forward looking total return expectations. As a result of this change, the market risk premiums for those asset classes increased. This change in EVM methodology did not affect the Group's ENW.
- The methodology of modelling non-life expenses has been changed and aligned to US GAAP unallocated loss adjustment expenses (ULAE). In addition, the methodology for estimating Group overhead expenses has been refined. These changes in EVM methodology reduced the Group's ENW by USD 0.1 billion.

The transition impact of the above changes in EVM methodology was recorded as an adjustment to the opening balance of 2016 ENW. In total, the changes in EVM methodology resulting from the holistic review of the EVM framework reduced the Group's ENW by USD 1.7 billion.

In addition, the internal Asset Management fees charged to underwriting activities and credited to investment activities were increased to reflect external benchmarks. The impact of this parameter change was recognised in the line item 'EVM profit - previous years' business' in the EVM income statement. The higher internal Asset Management fees decreased EVM profit and total contribution to ENW by USD 0.2 billion.

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## Note 2 Information on business segments

The definition of business segments used in this report is aligned with the Group's US GAAP business segment reporting. The Group presents four core operating business segments: Property & Casualty Reinsurance, Life & Health Reinsurance, Corporate Solutions and Life Capital (which includes the former Business Unit Admin Re<sup>®</sup>). The presentation of each segment's balance sheet is closely aligned to the segment legal entity structure. The assignment of assets and liabilities for entities that span more than one segment is determined by considering local statutory requirements, legal and other constraints, the economic view of duration and currency requirements of the reinsurance business written, and the capacity of the segments to absorb risks.

Items not allocated to the business segments are included in the 'Group items' column, which encompasses Swiss Re Ltd, the Group's ultimate parent company, the former Legacy business in run-off, Principal Investments and certain Treasury items.

**a) Business segment results – income statement**

For the year ended 31 December

USD millions, unless otherwise stated	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Corporate Solutions	Life Capital <sup>1</sup>	Group items	Total
2015						
<b>Underwriting result</b>						
Gross premiums and fees	18 812	17 666	3 740	750		40 968
<i>Gross premiums and fees growth rate, %</i>	<i>9.9</i>	<i>12.2</i>	<i>-2.9</i>	<i>48.5</i>		<i>10.1</i>
Premiums and fees	18 693	17 964	3 549	356		40 562
<i>Premiums and fees retention rate, %</i>	<i>99.4</i>	<i>101.7</i>	<i>94.9</i>	<i>47.5</i>		<i>99.0</i>
<i>Premiums and fees growth rate, %</i>	<i>10.6</i>	<i>22.3</i>	<i>-5.7</i>	<i>-29.5</i>		<i>13.1</i>
Claims and benefits	-11 202	-13 131	-1 980	-288		-26 601
Commissions	-4 144	-2 368	-520	-21		-7 053
Other	-5	-58	-28	-676	-12	-779
<b>Gross underwriting result – new business</b>	<b>3 342</b>	<b>2 407</b>	<b>1 021</b>	<b>-629</b>	<b>-12</b>	<b>6 129</b>
Expenses	-1 330	-830	-823	-98	-80	-3 161
<b>Net underwriting result – new business</b>	<b>2 012</b>	<b>1 577</b>	<b>198</b>	<b>-727</b>	<b>-92</b>	<b>2 968</b>
Taxes	-496	-311	-78		56	-829
Capital costs	-297	-536	-161	-23	-130	-1 147
<b>EVM profit – new business</b>	<b>1 219</b>	<b>730</b>	<b>-41</b>	<b>-750</b>	<b>-166</b>	<b>992</b>
<b>EVM profit – previous years' business</b>	<b>386</b>	<b>-37</b>	<b>121</b>	<b>-20</b>	<b>20</b>	<b>470</b>
<b>EVM profit – underwriting</b>	<b>1 605</b>	<b>693</b>	<b>80</b>	<b>-770</b>	<b>-146</b>	<b>1 462</b>
<b>Investment result</b>						
Mark-to-market investment result	964	160	77	116	-222	1 095
Benchmark investment result	-369	-256	-68	-173	-36	-902
<b>Gross outperformance (underperformance)</b>	<b>595</b>	<b>-96</b>	<b>10</b>	<b>-57</b>	<b>-259</b>	<b>193</b>
Other	37	19	5	13		74
Expenses	-93	-79	-23	-32	-48	-275
<b>Net outperformance (underperformance)</b>	<b>539</b>	<b>-156</b>	<b>-8</b>	<b>-76</b>	<b>-307</b>	<b>-8</b>
Taxes	-141	39	4	18	77	-3
Capital costs	-306	-282	-50	-155	-178	-971
<b>EVM profit – investments</b>	<b>92</b>	<b>-399</b>	<b>-54</b>	<b>-213</b>	<b>-408</b>	<b>-982</b>
<b>EVM profit</b>	<b>1 697</b>	<b>294</b>	<b>26</b>	<b>-983</b>	<b>-554</b>	<b>480</b>
Cost of debt	-56	-53	-15	-8	-19	-151
Release of current year capital costs	887	804	241	262	326	2 520
Additional taxes	196	525	-55	398	-241	823
<b>Total contribution to ENW</b>	<b>2 724</b>	<b>1 570</b>	<b>197</b>	<b>-331</b>	<b>-488</b>	<b>3 672</b>
<i>Profit margin – new business, %</i>	<i>9.7</i>	<i>9.9</i>	<i>-1.1</i>	<i>-4.2</i>		<i>2.4</i>
<i>Profit margin – previous years' business, %<sup>2</sup></i>	<i>8.5</i>	<i>-0.5</i>	<i>19.8</i>	<i>-1.0</i>		<i>3.2</i>
<i>Profit margin – investments, %</i>	<i>3.1</i>	<i>-11.1</i>	<i>-11.4</i>		<i>-20.4</i>	<i>-10.5</i>

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the Life Capital segment instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly. The 2015 premiums and fees growth rates shown above are relative to the originally published 2014 premiums and fees. For Life & Health Reinsurance, adjusting the originally published 2014 premiums and fees for the transfer of the primary life and health insurance business would increase the Gross premiums and fees growth rate from 12.2% to 17.7% and the Premiums and fees growth rate from 22.3% to 25.4%. For Life Capital, adjusting the originally published 2014 premiums and fees for the transfer of the primary life and health insurance business would decrease the Gross premiums and fees growth rate from 48.5% to -39.5% and the Premiums and fees growth rate from -29.5% to -59.2%.

<sup>2</sup> The overall previous years' business profit margin for the Business Unit Reinsurance was 2.8%.



## Business segment results – income statement

For the year ended 31 December

USD millions, unless otherwise stated	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Group items	Total
<b>2016</b>						
<b>Underwriting result</b>						
Gross premiums and fees	18 493	23 796	4 067	879		47 235
<i>Gross premiums and fees growth rate, %</i>	<i>-1.7</i>	<i>34.7</i>	<i>8.7</i>	<i>17.2</i>		<i>15.3</i>
Premiums and fees	18 440	24 060	3 708	358		46 566
<i>Premiums and fees retention rate, %</i>	<i>99.7</i>	<i>101.1</i>	<i>91.2</i>	<i>40.7</i>		<i>98.6</i>
<i>Premiums and fees growth rate, %</i>	<i>-1.4</i>	<i>33.9</i>	<i>4.5</i>	<i>0.6</i>		<i>14.8</i>
Claims and benefits	-11 539	-17 748	-2 092	-289		-31 668
Commissions	-4 308	-3 609	-570	-5		-8 492
Other	-34	-57	-137	-5	-7	-240
<b>Gross underwriting result – new business</b>	<b>2 559</b>	<b>2 646</b>	<b>909</b>	<b>59</b>	<b>-7</b>	<b>6 166</b>
Expenses	-1 335	-862	-842	-188	-87	-3 314
<b>Net underwriting result – new business</b>	<b>1 224</b>	<b>1 784</b>	<b>67</b>	<b>-129</b>	<b>-94</b>	<b>2 852</b>
Taxes	-346	-408	-68	15	63	-744
Capital costs	-598	-281	-143	-49	-153	-1 224
<b>EVM profit – new business</b>	<b>280</b>	<b>1 095</b>	<b>-144</b>	<b>-163</b>	<b>-184</b>	<b>884</b>
<b>EVM profit – previous years' business</b>	<b>311</b>	<b>-494</b>	<b>-26</b>	<b>-406</b>	<b>36</b>	<b>-579</b>
<b>EVM profit – underwriting</b>	<b>591</b>	<b>601</b>	<b>-170</b>	<b>-569</b>	<b>-148</b>	<b>305</b>
<b>Investment result</b>						
Mark-to-market investment result	1 626	2 317	261	3 211	85	7 500
Benchmark investment result	-1 073	-1 086	-100	-1 960	-47	-4 266
<b>Gross outperformance (underperformance)</b>	<b>553</b>	<b>1 231</b>	<b>161</b>	<b>1 251</b>	<b>38</b>	<b>3 234</b>
Other	53	23	8	37		121
Expenses	-88	-69	-19	-52	-46	-274
<b>Net outperformance (underperformance)</b>	<b>518</b>	<b>1 185</b>	<b>150</b>	<b>1 236</b>	<b>-8</b>	<b>3 081</b>
Taxes	-124	-289	-36	-296	2	-743
Capital costs	-423	-300	-55	-256	-210	-1 244
<b>EVM profit – investments</b>	<b>-29</b>	<b>596</b>	<b>59</b>	<b>684</b>	<b>-216</b>	<b>1 094</b>
<b>EVM profit</b>	<b>562</b>	<b>1 197</b>	<b>-111</b>	<b>115</b>	<b>-364</b>	<b>1 399</b>
Cost of debt	-212	-154	-14	-63	-18	-461
Release of current year capital costs	1 008	757	202	426	385	2 778
Additional taxes	231	116	63	121	-16	515
<b>Total contribution to ENW</b>	<b>1 589</b>	<b>1 916</b>	<b>140</b>	<b>599</b>	<b>-13</b>	<b>4 231</b>
<i>Profit margin – new business, %</i>	<i>1.9</i>	<i>11.0</i>	<i>-4.2</i>	<i>-</i>		<i>3.1</i>
<i>Profit margin – previous years' business, %<sup>1</sup></i>	<i>5.1</i>	<i>-4.7</i>	<i>-2.1</i>	<i>-17.8</i>		<i>-2.9</i>
<i>Profit margin – investments, %</i>	<i>-1.0</i>	<i>14.7</i>	<i>10.9</i>		<i>-15.7</i>	<i>12.0</i>

<sup>1</sup> The overall previous years' business profit margin for the Business Unit Reinsurance was -1.1%.

**b) Business segment results – balance sheet**

As of 31 December

USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Corporate Solutions	Life Capital <sup>1</sup>	Group items	Consolidation	Total
2015							
<b>Assets</b>							
Investments	51 596	33 606	8 178	52 448	7 848	-6 820	146 856
Cash and cash equivalents	4 281	280	675	1 592	1 376		8 204
In-force business assets	14 484	172 988	2 607	9 899	3	-8 802	191 179
External retrocession assets	3 180	20 326	5 458	8 489		-12 098	25 355
Other assets	5 594	2 337	192	2 080	225	-7 538	2 890
<b>Total assets</b>	<b>79 135</b>	<b>229 537</b>	<b>17 110</b>	<b>74 508</b>	<b>9 452</b>	<b>-35 258</b>	<b>374 484</b>
<b>Liabilities</b>							
In-force business liabilities	47 799	174 715	11 471	59 028	488	-12 098	281 403
External retrocession liabilities	540	20 248	1 024	8 168		-8 802	21 178
Provision for capital costs	-584	5 249	125	1 140	3		5 933
Future income tax liabilities	1 711	2 594	471	315	11		5 102
Debt	5 654	13 376	498	811	516	-5 470	15 385
Other liabilities	7 869	3 180	532	1 450	3 982	-8 888	8 125
<b>Total liabilities</b>	<b>62 989</b>	<b>219 362</b>	<b>14 121</b>	<b>70 912</b>	<b>5 000</b>	<b>-35 258</b>	<b>337 126</b>
<b>Economic net worth</b>	<b>16 146</b>	<b>10 175</b>	<b>2 989</b>	<b>3 596</b>	<b>4 452</b>	<b>0</b>	<b>37 358</b>
<b>Total liabilities and economic net worth</b>	<b>79 135</b>	<b>229 537</b>	<b>17 110</b>	<b>74 508</b>	<b>9 452</b>	<b>-35 258</b>	<b>374 484</b>

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the Life Capital segment instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

## Business segment results – balance sheet

As of 31 December

USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Group items	Consolidation	Total
<b>2016</b>							
<b>Assets</b>							
Investments	51 155	37 082	8 252	68 155	6 420	-6 750	164 314
Cash and cash equivalents	4 922	410	469	2 636	570		9 007
In-force business assets	14 725	177 930	2 891	10 003		-7 902	197 647
External retrocession assets	2 640	18 541	4 697	9 021		-10 442	24 457
Other assets	5 631	1 258	401	438	955	-5 666	3 017
<b>Total assets</b>	<b>79 073</b>	<b>235 221</b>	<b>16 710</b>	<b>90 253</b>	<b>7 945</b>	<b>-30 760</b>	<b>398 442</b>
<b>Liabilities</b>							
In-force business liabilities	48 803	180 098	11 170	74 072	658	-10 442	304 359
External retrocession liabilities	472	18 520	983	7 590		-7 902	19 663
Provision for capital costs	212	7 033	214	1 801			9 260
Future income tax liabilities	1 541	2 574	317	251	-77		4 606
Debt	5 111	12 536	497	1 590	513	-6 048	14 199
Other liabilities	8 655	3 708	721	1 148	1 841	-6 366	9 707
<b>Total liabilities</b>	<b>64 794</b>	<b>224 469</b>	<b>13 902</b>	<b>86 452</b>	<b>2 935</b>	<b>-30 758</b>	<b>361 794</b>
<b>Economic net worth</b>	<b>14 279</b>	<b>10 752</b>	<b>2 808</b>	<b>3 801</b>	<b>5 010</b>	<b>-2</b>	<b>36 648</b>
<b>Total liabilities and economic net worth</b>	<b>79 073</b>	<b>235 221</b>	<b>16 710</b>	<b>90 253</b>	<b>7 945</b>	<b>-30 760</b>	<b>398 442</b>

USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Group items	Consolidation	Total
<b>2016</b>							
Economic net worth as of 1 January	16 146	10 175	2 989	3 596	4 452		37 358
Change in EVM methodology (refer to Note 1)	-527	-910	-82	-60	-120		-1 699
<b>Adjusted economic net worth as of 1 January</b>	<b>15 619</b>	<b>9 265</b>	<b>2 907</b>	<b>3 536</b>	<b>4 332</b>	<b>0</b>	<b>35 659</b>
Total contribution to ENW	1 589	1 916	140	599	-13		4 231
Dividends and share buy-back	-2 500	-400	-250	-350	838		-2 662
Other, including foreign exchange on economic net worth	-429	-29	11	16	-147	-2	-580
<b>Economic net worth as of 31 December</b>	<b>14 279</b>	<b>10 752</b>	<b>2 808</b>	<b>3 801</b>	<b>5 010</b>	<b>-2</b>	<b>36 648</b>

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## Note 3 Acquisitions

### **IHC Risk Solutions, LLC**

On 31 March 2016, the Group completed the acquisition of IHC Risk Solutions, LLC (IHC), a leading US employer stop loss company and the direct employer stop loss business of Independence Holding Company. The cost of the acquisition was USD 153 million. The transaction includes IHC's operations, its team of experts and business portfolio, including in-force, new and renewal business and is reflected in the Corporate Solutions Business Unit results. This acquisition broadens the Group's current employer stop loss capabilities in the small- and middle-market self-funded healthcare benefits segment.

The projected loss on the IHC acquisition is USD 148 million, driven by the non-recognition of intangible assets.

### **Guardian Holdings Europe Limited**

On 6 January 2016, the Group acquired 100% of the shares of Guardian Holdings Europe Limited, the holding company for operations trading under the name Guardian Financial Services ("Guardian") from the private equity company Cinven. Guardian provides insurance solutions to financial institutions and insurance companies, either through the acquisition of closed books of business or through entering reinsurance agreements with its customers.

The transaction has further demonstrated progress against the strategy of Life Capital (formerly Admin Re®) as a leading closed life book consolidator in the UK, adding approximately 900 000 policies including a mixture of annuities, life insurance and pensions. As a result, the policyholder and asset base of the Group has expanded and Life Capital has diversified its current business mix, with a total of approximately four million policies under administration.

The estimated loss of USD 673 million on the acquisition of Guardian was reflected in the line item 'Other' in the 2015 underwriting new business result of the Life Capital segment. In 2016, the Group increased the initially estimated loss by USD 23 million to USD 696 million.

## Note 4 Reconciliation to US GAAP

USD billions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Group items	Total
2015						
<b>US GAAP shareholders' equity</b>	<b>13.3</b>	<b>6.6</b>	<b>2.3</b>	<b>4.9</b>	<b>6.4</b>	<b>33.5</b>
Discounting	4.4	-0.3	0.1	-1.9	0.0	2.3
Investments and debt	1.4	-1.9	0.0	0.1	0.5	0.1
Reserving basis						
GAAP margins	0.0	13.6	0.0	1.4	0.0	15.0
Other	0.1	-0.1	1.0	-0.3	-0.5	0.2
Recognition differences	-0.1	0.3	0.0	0.2	-1.6	-1.2
Goodwill and other intangibles	-2.0	-1.9	-0.2	0.0	-0.5	-4.6
Taxes	-1.7	-0.9	-0.3	0.2	0.0	-2.7
Capital costs	0.9	-5.2	0.0	-1.1	0.0	-5.4
Other	-0.2	0.0	0.1	0.1	0.2	0.2
<b>Total EVM valuation adjustments</b>	<b>2.8</b>	<b>3.6</b>	<b>0.7</b>	<b>-1.3</b>	<b>-1.9</b>	<b>3.9</b>
<b>Economic net worth</b>	<b>16.1</b>	<b>10.2</b>	<b>3.0</b>	<b>3.6</b>	<b>4.5</b>	<b>37.4</b>
2016						
<b>US GAAP shareholders' equity</b>	<b>13.0</b>	<b>7.6</b>	<b>2.2</b>	<b>7.3</b>	<b>5.5</b>	<b>35.6</b>
Discounting	4.1	-0.4	0.2	-3.8	0.0	0.1
Investments and debt	1.3	-2.1	0.0	0.0	0.4	-0.4
Reserving basis						
GAAP margins	0.0	15.2	0.0	2.8	0.0	18.0
Other	-0.3	-0.2	1.0	-0.6	-0.6	-0.7
Recognition differences	-0.1	0.1	0.0	-0.7	0.0	-0.7
Goodwill and other intangibles	-2.0	-1.8	-0.3	-0.1	-0.5	-4.7
Taxes	-1.5	-0.5	-0.3	0.6	0.1	-1.6
Capital costs	0.2	-7.1	-0.1	-1.7	-0.1	-8.8
Other	-0.5	0.0	0.1	0.0	0.2	-0.2
<b>Total EVM valuation adjustments</b>	<b>1.2</b>	<b>3.2</b>	<b>0.6</b>	<b>-3.5</b>	<b>-0.5</b>	<b>1.0</b>
<b>Economic net worth</b>	<b>14.2</b>	<b>10.8</b>	<b>2.8</b>	<b>3.8</b>	<b>5.0</b>	<b>36.6</b>

**Discounting:** For EVM, all future expected cash flows are discounted using risk free interest rates. Under US GAAP, most property and casualty reserves are undiscounted (except for reserves accounted for at the acquisition method under US GAAP), whereas life and health reserves are usually discounted based on locked-in interest rate assumptions.

**Investments and debt:** For EVM, all investments and debt positions are carried at fair value. Under US GAAP, investment in real estate and debt are carried at depreciated and amortised cost, respectively.

**Reserving basis:** For EVM, best estimate current assumptions are used for all insurance/reinsurance reserves. Under US GAAP, life and health assumptions are usually locked-in and can include a provision for adverse deviation.

**Recognition differences:** EVM considers counterparty credit risk in the valuation of insurance-related assets.

**Goodwill and other intangibles:** EVM excludes the recognition of potential future new business activities as well as potential renewals. As a result, no goodwill or intangible assets are carried on the EVM balance sheet. Goodwill and acquired intangibles are written off as of the acquisition date.

**Taxes:** For EVM, deferred tax assets and liabilities are recognised for temporary differences between US GAAP and EVM.

**Capital costs:** EVM recognises opportunity costs for shareholder capital. The present value of capital costs allocated to existing contracts is recognised in the EVM balance sheet.

# Independent Assurance Report

## **To the Board of Directors of Swiss Re Ltd on the Group Economic Value Management financial statements as of 31 December 2016**

We have been engaged to perform a reasonable assurance engagement on the Economic Value Management (“EVM”) consolidated financial statements of Swiss Re Ltd (the “Company”) for the year ended 31 December 2016 (the “EVM financial statements”) as set out on pages 19 to 35 of the enclosure.

All other information included in the Company’s EVM Annual Report 2016 was not subject to assurance procedures and, accordingly, we do not report on this information.

### **Criteria**

The reporting criteria used by the Company are described in Note 1 ‘Organisation and summary of significant EVM principles’, on pages 22 to 27 of the EVM financial statements enclosed (hereafter referred to as “EVM principles”).

### **Board of Directors’ responsibility**

The Board of Directors is responsible for the preparation of the EVM financial statements in accordance with the Company’s EVM principles including data, valuation and accounting principles, assumptions and factors used and the related internal controls as determined necessary to enable the preparation of the EVM financial statements that are free from material misstatement.

### **Our responsibility**

Our responsibility is to express an opinion on the EVM financial statements based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standards on Assurance Engagements 3000 ‘Assurance engagements other than audits or reviews of historical financial information’ issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform this engagement to obtain reasonable assurance about the conclusions.

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (art. 728 of the Swiss Code of Obligations and art. 11 AOA) and that there are no circumstances incompatible with our independence.

A reasonable assurance engagement involves performing procedures to obtain evidence about the execution of the valuation and accounting for the purpose of the EVM financial statements in accordance with the Company’s EVM principles. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the EVM financial statements, whether due to omissions, misrepresentation, fraud or error. In making those risk assessments, we consider internal controls relevant to the preparation of the EVM financial statements in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal controls regarding the EVM financial statements. A reasonable assurance engagement also includes evaluating the appropriateness of the policies used and reasonableness of significant estimates made, as well as evaluating the adequacy of the overall presentation of the EVM financial statements in accordance with the Company’s EVM principles.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

This report does not extend to any other financial statements of the Company.

**Opinion**

In our opinion, the EVM financial statements of the Company for the year ended 31 December 2016 are prepared, in all material respects, in accordance with the Company's EVM principles applied as explained in Note 1 to the EVM financial statements.

PricewaterhouseCoopers Ltd



**Alex Finn**  
Audit expert



**Bret Griffin**

Zurich, 15 March 2017

# Sensitivities

Estimated sensitivities of EVM new business profit and ENW to changes in key EVM assumptions are as follows:

USD billions	Property & Casualty Reinsurance	
	Change in 2016 EVM new business profit	Change in Economic net worth as of 31.12.2016
Change in frictional capital costs:		
Increase by 100bps (from 4.5% to 5.5%)	-0.1	-0.3
Financial market shocks:		
10% decrease in equity values	-0.3	-0.3
10% decrease in property values	-0.4	-0.4
100bps increase in credit spreads	na	-0.6
Change in reference rates (yield curve): <sup>1</sup>		
Increase by 100bps	na	0.5
Decrease by 100bps	na	-0.6
Inclusion of a liquidity premium in the valuation of EVM net insurance liabilities:		
Set reference rates equal to government rates plus 10bps	na	0.2
Set reference rates equal to government rates plus 50bps	na	1.0
Set reference rates equal to government rates plus 100bps	na	1.9
Reduce lapse rates by 10% (e.g. from 8.0% to 7.2%)	na	na
Mortality and morbidity rates reduced by 5%: <sup>2</sup>		
Mortality	na	na
Longevity	na	na
Morbidity	na	na
Remove all allowance for future mortality improvement: <sup>3</sup>		
Mortality	na	na
Longevity	na	na
Increase future mortality improvement assumption by 100bps p.a.: <sup>4</sup>		
Mortality	na	na
Longevity	na	na
Change in weighted average term to settlement:		
Increase by 10%	0.1	0.4
Decrease by 10%	-0.1	-0.4
Projected future claims cost:		
Increase new business claims by 10% (e.g. increase loss ratio from 60% to 66%)	-0.9	-0.9

<sup>1</sup> This sensitivity illustrates the impact of parallel shifts in risk free interest rates on the balance sheet. The business volume is assumed to be constant.

<sup>2</sup> The assumption is that future mortality/morbidity rates are lower than those assumed in the base calculations by a uniform 5% in all future years. The related impact on profit share agreements and changes in premium rates have been reflected.

<sup>3</sup> The base calculations reflect gradual future improvements in mortality rates. The impact of excluding such future improvements is illustrated here. The related impact on profit share agreements and changes in premium rates have been reflected.

<sup>4</sup> This sensitivity illustrates the impact of increasing the improvement in mortality rates by 100bps for all ages throughout the projections. The related impact on profit share agreements and changes in premium rates have been reflected.

All sensitivities exclude the impact on additional taxes.



Life & Health Reinsurance		Corporate Solutions		Life Capital		Swiss Re Group	
Change in 2016 EVM new business profit	Change in Economic net worth as of 31.12.2016	Change in 2016 EVM new business profit	Change in Economic net worth as of 31.12.2016	Change in 2016 EVM new business profit	Change in Economic net worth as of 31.12.2016	Change in 2016 EVM new business profit	Change in Economic net worth as of 31.12.2016
-0.1	-1.1	0.0	0.0	0.0	-0.3	-0.3	-1.7
-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.8	-0.8
-0.1	-0.1	0.0	0.0	0.0	0.0	-0.4	-0.4
na	-1.8	na	-0.2	na	-1.8	na	-4.4
na	-0.6	na	0.0	na	0.0	na	-0.1
na	0.6	na	0.0	na	0.0	na	0.0
na	0.2	na	0.0	na	0.3	na	0.7
na	0.8	na	0.1	na	1.2	na	3.2
na	1.6	na	0.3	na	2.3	na	6.1
0.0	0.2	na	na	0.0	0.0	0.0	0.2
0.3	2.3	na	na	0.0	0.1	0.3	2.4
-0.1	-0.3	na	na	0.0	-0.1	-0.1	-0.4
0.1	0.6	na	na	0.0	0.0	0.1	0.6
-0.4	-7.2	na	na	0.0	-0.1	-0.4	-7.4
0.1	0.8	na	na	0.0	0.3	0.1	1.1
0.4	5.2	na	na	0.0	0.1	0.4	5.4
-0.1	-0.7	na	na	0.0	-0.3	-0.1	-1.0
na	na	0.0	0.0	na	na	0.1	0.5
na	na	0.0	0.0	na	na	-0.1	-0.5
na	na	-0.2	-0.2	na	na	-1.1	-1.1

# 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 the Group’s EVM results or the Group’s US GAAP actual results of operations, or financial condition, its solvency ratios, capital or liquidity positions or its prospects to be materially different from any future EVM results or US GAAP results of operations, or financial condition, solvency ratios, capital or liquidity positions or prospects expressed or implied by such statements or cause the Group to not achieve its published targets.

Such factors include, among others:

- further instability affecting the global financial system and developments related thereto;
- further deterioration in global economic conditions;
- the Group’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 the Group’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 the Group’s investment assets;
- changes in the Group’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 the Group’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 the Group's hedging arrangements may not be effective;
- the lowering or loss of financial strength or other ratings of one or more Group companies, and developments adversely affecting the Group's ability to achieve improved ratings;
- the cyclical nature 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 the Group's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting the Group 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. The Group operates in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on forward-looking statements. The Group 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.

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