Swiss Re

Economic Value Management Report 2007

Preface

Scope

The Economic Value Management (EVM) Report 2007 shows Swiss Re's EVM results for the full year 2007.

Basis of presentation

The EVM report has been prepared in accordance with the EVM framework adopted by Swiss Re to measure and manage economic value creation. EVM is an integrated economic accounting framework based on market consistent valuations. The EVM framework prescribes the method for measuring value creation within Swiss Re and applies to all business activities.

Swiss Re's EVM framework has been used as an internal steering tool to support business and strategic financial decisions since 2003. An overview of the methodology and assumptions are provided in section 4 "Notes on the EVM methodology". This report also includes a comparison of Swiss Re's EVM results 2007 and 2006.

PricewaterhouseCoopers review report

PricewaterhouseCoopers (PwC) has conducted a review of Swiss Re's EVM 2007 results in accordance with the International Standard on Review Engagements 2400 and the Swiss Auditing Standard 910. These standards establish rules for planning and performing reviews of supplementary financial information as well as achieving a moderate assurance that this information is free of material misstatement. PwC's review report can be found in section 5 of this report.

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1 EVM income statement

Overview

Swiss Re generated an EVM income before capital costs of CHF 4 889 million in 2007. Capital costs released were CHF 3 196 million and EVM profit after capital costs was CHF 1 693 million, compared to CHF 3 700 million in the previous year.

New business performance

EVM profit on new business was CHF 784 million, 74% lower than EVM profit on new business of CHF 3 010 million in 2006.

EVM profit on new business for Property & Casualty was CHF 1 768 million, 4.3% higher than the 2006 EVM profit of CHF 1 695 million, driven by low natural catastrophe claims partially offset by lower volumes in the casualty line of business.

EVM profit on new business for Life & Health was CHF 1 247 million, 219% higher than the EVM 2006 profit on new business of CHF 391 million, mainly attributable to large Admin Re® and variable annuity transactions written in 2007. Admin Re® contributed CHF 772 million.

The EVM loss for Financial Markets was CHF –2 301 million, compared to an EVM profit of CHF 995 million in 2006. Credit & Rates reported an EVM loss of CHF –1 613 million, mainly attributable to widening credit spreads and the impact of lower risk-free interest rates on a short duration position relative to the benchmark. Equities & Alternative Investments reported an EVM profit of CHF 514 million, including the sale of the St Mary Axe building in London. The negative result is also affected by a mark-to-market loss on two structured credit default swap transactions which amounted to CHF –1 203 million.

EVM profit on new business for Group items was CHF 70 million, reflecting the result of various corporate centre positions and other items excluded from business segment performance measures.

Previous years business performance

EVM profit on previous years business was CHF 909 million.

EVM profit on previous years business for Property & Casualty was CHF 851 million. Property & Specialty generated an EVM profit of CHF 1 387 million, reflecting improved claims projections across all divisions. The casualty line of business generated an EVM loss of CHF –536 million, driven by adverse development in Asbestos & Environmental and Workers' Compensation lines of business in the Americas, and large claims by corporate clients.

Life & Health reported an EVM loss for previous years business of CHF –42 million. Traditional Life & Health contributed CHF –19 million, with adverse mortality assumption changes and experience variances on traditional business in North America of CHF –665 million, offset by favourable mortality and morbidity assumption changes and experience variances in Europe of CHF 571 million and other countries of CHF 75 million. Admin Re® contributed CHF –23 million, with favourable morbidity experience that was more than offset by UK reversionary property revaluations and US lapses.

EVM profit on previous years business for Group items was CHF 100 million, mainly due to changes in risk capital and pension fund projections, partly offset by tax charges for current and prior years.

EVM income statement

CHF millions	Property & Casualty	Life & Health	Financial Markets	Group items	**2007 Total**	2006 Total
EVM profit after capital costs						
New business	1768	1247	–2301	70	**784**	3010
Previous years business	851	–42	n.a.	100	**909**	690
Total EVM profit after capital costs	**2619**	**1205**	**–2301**	**170**	**1693**	3700
Release of capital costs	**1610**	**1136**	**791**	**–341**	**3196**	3541
EVM income before capital costs	**4229**	**2341**	**–1510**	**–171**	**4889**	7241

EVM key ratios

CHF millions	Property & Casualty	Life & Health	Financial Markets	Group items	**2007 Total**	2006 Total
EROC[1] (EVM income before capital costs/EVM capital)						
New business	21.6%	18.3%	–38.1%	n.a.	**13.2%**	22.4%
Previous years business	17.7%	8.2%	n.a.	n.a.	**13.2%**	11.7%
Profit margin[1] (EVM profit after capital costs/EVM capital)						
New business	13.0%	9.7%	–58.0%	n.a.	**2.6%**	11.8%
Previous years business	9.2%	–0.4%	n.a.	n.a.	**4.6%**	3.2%

[1] Definition of economic return on capital (EROC) and profit margin is provided in the notes on the EVM methodology

The accompanying notes on the EVM methodology are an integral part of Swiss Re's EVM Report 2007

2 EVM balance sheet

EVM balance sheet

CHF billions as of 31 December	2007
Assets	
Investments and cash	247.4
In-force business assets	193.0
Other assets	0.3
Total assets	**440.7**
Liabilities	
In-force business liabilities	340.9
Debt	28.3
Other liabilities	33.1
Total liabilities	**402.3**
Economic net worth	**38.4**

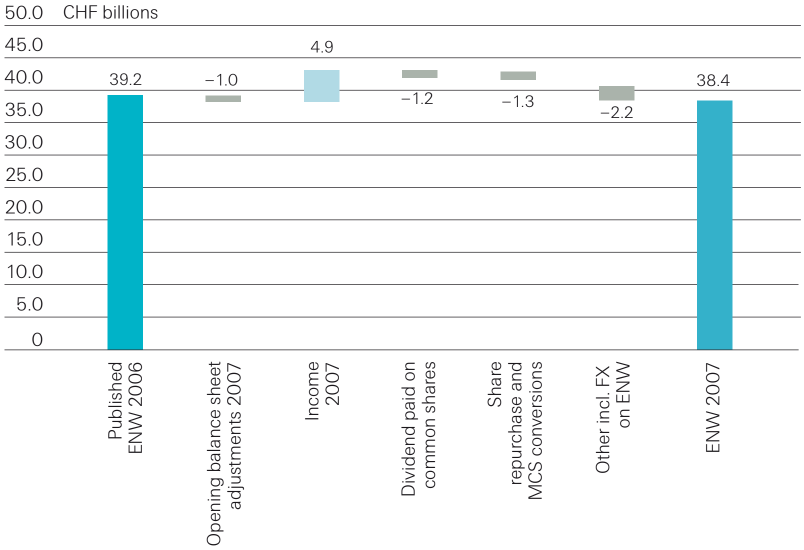
The accompanying notes on the EVM methodology are an integral part of Swiss Re's EVM Report 2007

Economic net worth

The economic net worth (ENW) of Swiss Re is estimated at CHF 38.4 billion as of 31 December 2007, compared to US GAAP shareholders' equity of CHF 31.9 billion. ENW is the value of shareholder net assets; it excludes hybrid debt and mandatory convertibles. Under EVM, total assets amounted to CHF 440.7 billion, compared to CHF 307.3 billion under US GAAP. Total liabilities were CHF 402.3 billion compared to CHF 275.4 billion under US GAAP. The higher EVM figures are primarily due to the gross valuation approach in EVM and differences in valuation principles.

ENW roll-forward

The following chart shows the changes in ENW from 2006 to 2007:



3 EVM capital information

Measures of capital under EVM

Under EVM, available capital is assumed equal to ENW as shown on page 6, whereas required capital is assumed equal to EVM capital as shown below. EVM capital is a measure of capital that is required to support the business, taking internal risk, regulatory and rating agency capital requirements into consideration. EVM capital is projected until the business runs off, and serves as the basis for the allocation of capital costs.

EVM capital employed by segment

The following table shows EVM capital employed:

CHF billions	**2007 (average)**	2006 (average)
Property & Casualty	19.2	18.1
Life & Health	11.8	12.2
Financial Markets	4.0	4.4
Group items	0.2	0.2
Total EVM capital employed	**35.2**	34.9

Changes in 2007 EVM capital were driven by the following factors:

- Property & Casualty increase reflects higher rating agency capital requirements for natural catastrophes;
- Life & Health decrease reflects reduction of lethal epidemic scenario in the Swiss Re risk model;
- Financial Markets decrease reflects the implementation of hedges in 2007.

4 Notes on the EVM methodology

Description of EVM methodology

EVM is Swiss Re's integrated economic measurement and steering framework used for planning, pricing, reserving and steering the business. The most important differences between EVM and other valuation standards such as US GAAP or traditional Embedded Value are summarised below. For more details, please refer to the EVM teach-in materials published on 31 March 2008 and the technical publication "The Economics of Insurance" available at www.swissre.com.

Market consistent valuations
All traded assets and liabilities are marked to market. Untraded assets and liabilities are consistently valued with market prices. Swiss Re's insurance liabilities are valued by replicating future expected cash flows with liquid financial market instruments. As the bulk of Swiss Re's insurance liabilities does not contain embedded financial market risk exposure other than to interest rates ("standard insurance liabilities"), the market consistent value of liabilities can be determined by discounting future cash flows using prevailing risk-free interest rates. If insurance liabilities include embedded options or guarantees ("non-standard insurance liabilities"), they are valued using market consistent valuation techniques.

Performance splits of insurance underwriting and investment activities
EVM values and discloses underwriting and investment decisions separately. Underwriting activities create value by raising funds on insurance markets at a lower cost than through other sources and are benchmarked against risk-equivalent sources of funds. Investment functions create value by choosing attractive investment opportunities, and are benchmarked against other risk-equivalent investment opportunities. This method makes a like-for-like comparison of underwriting and investment activities possible.

Closed book approach
EVM recognises all cash flows associated with a new contract once the contract is bound, and changes in estimates as they occur. In comparison, US GAAP deferral and matching postpones recognition of revenues until they are earned and matches expenses to those revenues. EVM excludes the recognition of all potential future new business activities.

Best estimates
The valuation of assets and liabilities reflects best estimates of underlying cash flows – e.g. premiums, claims, expenses, taxes, capital costs, etc. – taking into consideration all the information available at the time a contract is bound or revalued. In line with other valuation methods based on projections of future cash flows, EVM involves significant judgement when establishing assumptions to be used. Swiss Re actively and carefully reviews assumptions, selecting those which are considered appropriate and seeking consistency among business activities, whilst reflecting all information available. The sensitivity of EVM results to changes in certain key assumptions is illustrated in section 6 of this report. For the Group, these include frictional capital costs and financial market movements; for Property & Casualty, expected loss ratios and the timing of claims settlements; for Life & Health, future mortality, longevity, morbidity and lapse rates.

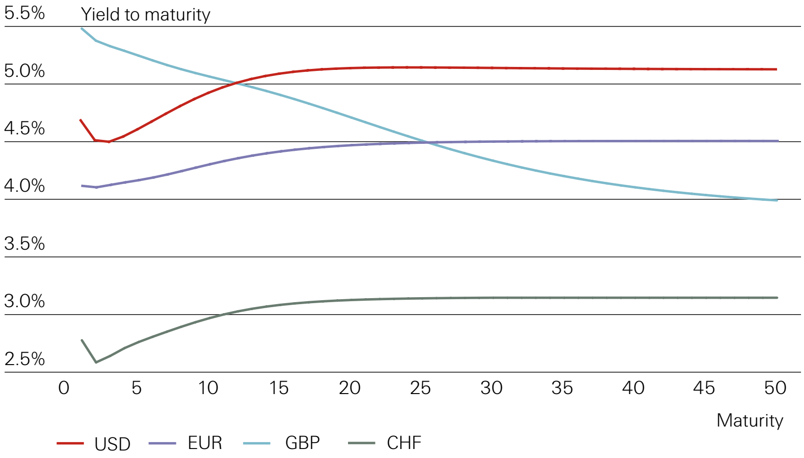
Performance measurement after capital costs
EVM explicitly recognises opportunity costs for shareholder capital. Cost of capital charges cover the base cost of capital, frictional capital costs and systematic risk. The base cost of capital is reflected through a charge for risk-free returns on available capital. Frictional capital costs provide compensation for agency costs, costs of potential financial distress, and regulatory (illiquidity) costs; they are reflected through a 4% charge on available capital. Market risk premiums provide compensation for systematic, non-diversifiable risk exposure assumed in financial markets.

Transfer price of funds

In order to implement the split between underwriting and investment activities, a mechanism to price the internal transfer of funds is necessary. The investment functions pay a return to the business origination functions to provide compensation for the funds raised. For standard insurance liabilities, the transfer price of funds (TPF) is the interest rate paid. TPF rates are equivalent to risk-free rates, based on Libor swap spot rates, differentiated for 25 currencies and for durations up to 50 years. A charge is deducted from Libor swap spot rates for all currencies and durations to reflect credit risk in Libor swap markets. TPF rates are updated on a monthly basis. For non-standard insurance liabilities with embedded financial market risk, the internal price of funds is driven by the market value of a corresponding replicating portfolio. No credit is taken for own credit risk.

TPF rates for 2007

Average TPF spot rates used in 2007 for the main currencies were as follows:



EVM profit and EVM income

EVM profit after capital costs is the consistent, risk-adjusted measure of profitability that can be compared across all business activities. EVM income before capital costs is the total return generated for shareholders and includes the release of capital costs earned during the year.

New business and previous years business

EVM recognises all expected cash flows from contractual rights and obligations at inception, and separately discloses results from new business and previous years business. New business is defined as business with an inception date within the current calendar year. For Property & Casualty, insurance or reinsurance contracts written or renewed within the calendar year are recognised as new business. This also applies to multi-year transactions. For Life & Health, new business includes new individual business cessions in the year, renewals of existing group schemes, increments to existing group schemes, new group schemes, new blocks of Admin Re® business and new cessions in the year on any Admin Re® blocks still open to new business, and renewals of business that is subject to active annual renewal. For Financial Markets, all investment and trading activities are marked-to-market and recognised as new business. Previous years business results reflect the impact of changes in cash flow projections on business written in previous periods.

EVM capital

EVM capital is the measure of capital required to support the in-force book, which takes internal risk, regulatory and rating agency capital requirements into consideration.

Return on capital employed ratios

Economic return on capital employed (EROC)
EROC is the ratio of EVM income before capital costs divided by EVM capital employed, calculated separately for new business and previous years business:
EROC = EVM income before capital costs / net present value of EVM capital

Profit margin
Profit margin is the ratio of EVM profit after capital costs divided by EVM capital employed, calculated separately for new business and previous years business:
Profit margin = EVM profit after capital costs/net present value of EVM capital

New business ratios reflect returns on EVM capital allocated for the lifetime of the business. Previous years ratios reflect returns on EVM capital allocated for previous years business in the current year.

In-force business assets and liabilities

In-force business assets and liabilities are comprised of assets and liabilities associated with contracts underwritten. In-force assets mainly include estimated future premiums and reinsurance recoverables. In-force liabilities mainly include reserves for estimated future claims, commissions, expenses, taxes and capital costs. In-force business assets and liabilities are carried at market-consistent valuations as described above.

Exchange rates in EVM

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange on the balance sheet date. Income statement positions are translated at average 2007 exchange rates.

5 PricewaterhouseCoopers review report

To the Board of Directors of Swiss Reinsurance Company Ltd Zurich

We have reviewed the Economic Value Management financial information of Swiss Reinsurance Company Ltd as set out on pages 5 to 11 as of and for the year ended 31 December 2007, ("the supplementary financial information"). This supplementary financial information is the responsibility of the Company's management. Our responsibility is to issue a report on this supplementary financial information based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400 and Swiss Auditing Standard 910. These Standards require that we plan and perform the review to obtain moderate assurance as to whether the supplementary financial information is free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying supplementary financial information is not presented fairly, in all material respects in accordance with the principles and policies as stated in the notes on the EVM methodology to the supplementary financial information.

This review report has been prepared for and only for the Directors in accordance with our letter of engagement and for no other purpose. We do not, in giving this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers AG

Dawn M Kink David JA Law

Zurich, 5 May 2008

6 Sensitivities

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

CHF billions	Change in 2007 EVM profit new business	Change in economic net worth as of 31.12.2007
Group sensitivities		
Change in frictional capital costs:		
Increase by 100bps (from 4% to 5%)	–0.3	–1.3
Equity market shock:		
10% fall in global equity markets	n.a.	–1.0
Change in interest rate environment:[1]		
Increase by 100bps	n.a.	0.2
Decrease by 100bps	n.a.	–0.8
Life & Health specific sensitivities		
Reduce lapse rates by 10% (e.g. from 8.0% to 7.2%)	0.0	0.9
Mortality and morbidity rates reduced by 5%:[2]		
Mortality	0.2	3.5
Longevity	–0.2	–0.3
Morbidity	0.0	0.7
Remove all allowance for future mortality improvement:[3]		
Mortality	–0.3	–5.2
Longevity	0.9	1.1
Mortality/Longevity trend rates:[4]		
Set future mortality improvement assumption at 1% p.a. (mortality business)	0.2	3.2
Increase future mortality improvement assumption by 100bps p.a. (longevity business)	–0.7	–1.0
Property & Casualty specific sensitivities		
Change in weighted average term to settlement:		
Increase by 10%	0.1	0.8
Decrease by 10%	–0.1	–0.8
Projected future claims cost		
Increase new business claims by 10% (e.g. increase loss ratio from 60% to 66%)	–0.8	n.a.

[1] This sensitivity illustrates the impact of parallel shifts in TPF yield curves on the Group balance sheet. The business volume is assumed to be constant.

[2] 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 at future renewal dates have been allowed for.

[3] In certain territories the projected regulatory profits allow for future gradual 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 at future renewal dates have been allowed for.

[4] For the mortality business this sensitivity illustrates the impact of setting the improvement in mortality rates equal to 1% for all ages throughout the projections in place of the allowance made in the base calculations. For the longevity business this sensitivity illustrates the impact of increasing the improvement in mortality rates by 100bps for all ages throughout the projections. In both cases, the related impact on profit share agreements and changes in premium rates at future renewal dates have been allowed for.

6 Sensitivities

Sensitivities contained in the table on page 13 isolate the effects of changes in single parameters, leaving all other inputs in the calculation constant. All sensitivities are calculated on the assumption that no management action (such as changes in pricing or valuation bases) is taken in reaction to changes.

The figures shown on page 13 illustrate the impact on EVM profit new business and ENW. The sensitivities on EVM profit new business are calculated assuming a change just before the point of sale (contract inception). The sensitivities on ENW show the impact of a change to Swiss Re's 2007 closing EVM balance sheet.

All sensitivities take into account second order effects that arise as a result of EVM calculation mechanics. This includes impacts on required EVM capital and taxes.

7 Cautionary note

Non-GAAP financial measures

The EVM report contains non-GAAP financial measures. EVM is not based on US GAAP, which are the principles in accordance with which Swiss Re prepares its financial statements, and should not be viewed as a substitute for US GAAP financial measures. Among other items, the EVM income statement (and its components) should not be viewed as a substitute for the income statement (and its line items) included as part of Swiss Re's US GAAP consolidated financial statements, and the economic net worth figure should not be viewed as a substitute for shareholders' equity as reported in Swiss Re's US GAAP consolidated balance sheet. Nonetheless, Swiss Re believes that EVM provides meaningful additional measures to evaluate its business.

Forward-looking statements

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

- changes in global economic conditions and the risk of a global economic downturn;
- direct and indirect impact of continuing deterioration in the credit markets, and further adverse rating actions by credit rating agencies in respect of structured credit products or other credit-related exposures and of monoline insurance companies;
- the occurrence of other unanticipated market developments or trends;
- the ability to maintain sufficient liquidity and access to capital markets;
- the cyclicality of the reinsurance industry;
- uncertainties in estimating reserves;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, currency values and other market indices;
- changes in Swiss Re's investment results;
- uncertainties in valuing credit default swaps and other credit-related instruments;
- the frequency, severity and development of insured claim events;
- acts of terrorism and acts of war;
- mortality and morbidity experience;
- policy renewal and lapse rates;
- changes in rating agency policies or practices;
- the lowering or loss of one of the financial or claims-paying ratings of one or more of Swiss Re's subsidiaries;
- political risks in the countries in which Swiss Re operates or in which it insures risks;
- extraordinary events affecting Swiss Re's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- risks associated with implementing Swiss Re's business strategies;
- the impact of current, pending and future legislation, regulation and regulatory and legal actions;
- the impact of significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions, including, in the case of acquisitions, issues arising in connection with integrating acquired operations;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

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

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