Swiss Re

Economic Value Management Report 2008

Preface

Scope

The Economic Value Management (EVM) Report 2008 shows Swiss Re's EVM results for the full year 2008.

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 5 "Notes on the EVM methodology". This report also includes a comparison of Swiss Re's EVM results for 2008 and 2007.

The results for 2007 are disclosed in line with the 2008 segments presentation basis.

PricewaterhouseCoopers review report

PricewaterhouseCoopers (PwC) has conducted a review of Swiss Re's EVM 2008 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 6 of this report.

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1 EVM income statement

Overview

Swiss Re generated a negative EVM income before capital costs of CHF –13 124 million in 2008. Capital costs released were CHF 5 610 million, and the EVM loss after capital costs was CHF –18 734 million, compared to an EVM profit of CHF 1 693 million in the previous year.

New business performance

EVM loss on new business was CHF –16 291 million, compared to an EVM profit on new business of CHF 784 million in 2007.

EVM profit on new business for Property & Casualty was CHF 658 million, 63.2% lower than the 2007 EVM profit of CHF 1 787 million. This result reflects natural catastrophe losses in line with expectations but higher than in 2007, lower volumes and margins, negative results in lines exposed to financial market risks (including trade credit) and negative foreign currency exchange movements.

EVM profit on new business for Life & Health was CHF 595 million, 52.3% lower than the EVM 2007 profit on new business of CHF 1 247 million. Strong positive results for Life & Health traditional were partially offset by negative Variable Annuity performance. Admin Re® reported a strong new business result, but volumes for new business were lower than in 2007.

EVM loss for Asset Management was CHF –12 366 million, compared to an EVM loss of CHF –761 million in 2007. The negative result was primarily driven by the performance of the corporate bond and securitised asset portfolio, that significantly underperformed the liability-based benchmark, and losses on the private equity and hedge fund portfolios.

EVM loss on new business for Legacy was CHF –2 396 million, compared to an EVM loss of CHF –1 534 million in 2007. This result is largely due to trading losses on total return swap portfolios relating to insurance-linked securities activities.

EVM loss on new business for Group items was CHF –2 782 million, reflecting negative performance on portfolios excluded from the liability-based benchmark, negative mark-to-market movements on inflation-linked bonds and an increased valuation allowance on deferred tax positions.

Previous years' business performance

EVM loss on previous years' business was CHF –2 443 million.

EVM profit on previous years' business for Property & Casualty was CHF 618 million. This result reflects lower claims projections in all regions, partially offset by increased claims projections in workers' compensation and a large liability loss.

Life & Health reported an EVM loss for previous years' business of CHF –141 million. Positive experience variances were more than offset by net increased claims projections and negative developments for variable annuity business.

EVM loss on previous years' business for Legacy was CHF –2 624 million, driven by additional mark-to-market losses on the Structured CDS portfolio.

EVM loss on previous years' business for Group items was CHF –296 million, mainly due to increased expense projections for letters of credit, partially offset by lower EVM capital cost allocations to the segments.

EVM income statement

CHF millions	Property & Casualty	Life & Health	Asset Management	Legacy	Group items	2008 Total	2007 Total
EVM profit/loss after capital costs							
New business	658	595	–12 366	–2 396	–2 782	**–16 291**	784
Previous years' business	618	–141	0	–2 624	–296	**–2 443**	909
Total EVM profit/loss after capital costs	**1 276**	**454**	**– 12 366**	**–5 020**	**–3 078**	**–18 734**	1 693
Release of capital costs	**978**	**666**	**1 213**	**488**	**2 265**	**5 610**	3 196
EVM income before capital costs	**2 254**	**1 120**	**–11 153**	**–4 532**	**–813**	**–13 124**	4 889

EVM key ratios

CHF millions	Property & Casualty	Life & Health	Asset Management	Legacy	Group items	2008 Total	2007 Total
EROC[1] (EVM income before capital costs/EVM capital)							
New business	14.7%	12.4%	–204.0%	–639.6%	n/a	**–50.9%**	13.2%
Previous years' business	15.4%	5.4%	n/a	–7084.7%	n/a	**–8.6%**	13.2%
Profit margin[1] (EVM profit/loss after capital costs/EVM capital)							
New business	6.8%	5.4%	–226.2%	–645.9%	n/a	**–61.1%**	2.6%
Previous years' business	8.4%	–1.6%	n/a	–7091.7%	n/a	**–15.4%**	4.6%

[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 2008

2 EVM balance sheet

EVM balance sheet

CHF billions as of 31 December	2007	**2008**
Assets		
Investments and cash	247.4	190.1
In-force business assets	193.0	221.2
Other assets	0.3	5.1
Total assets	440.7	**416.4**
Liabilities		
In-force business liabilities	340.9	351.4
Debt	28.3	25.6
Other liabilities	33.1	20.8
Total liabilities	402.3	**397.8**
Economic net worth	38.4	**18.6**

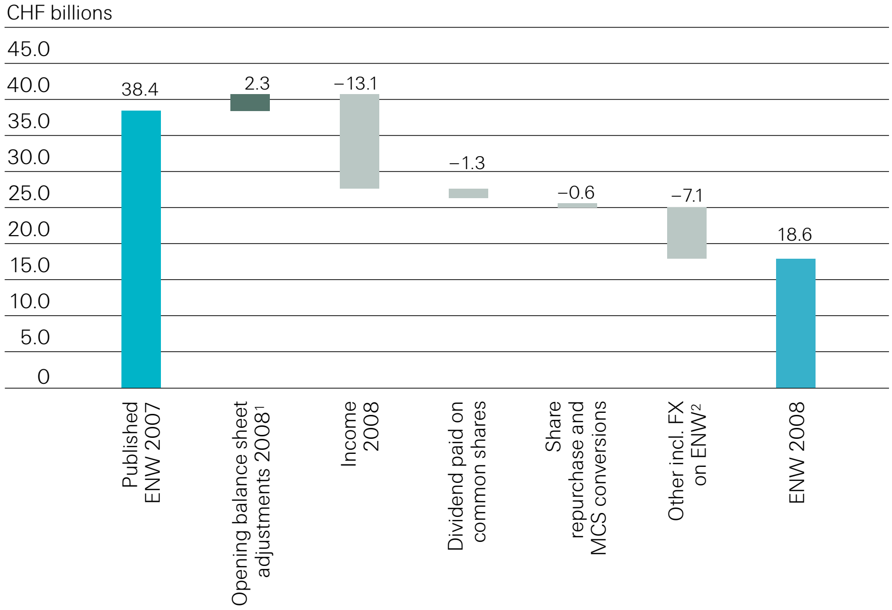
The accompanying notes on the EVM methodology are an integral part of Swiss Re's EVM Report 2008

Economic net worth

The economic net worth (ENW) of Swiss Re is estimated at CHF 18.6 billion as of 31 December 2008, compared to US GAAP shareholders' equity of CHF 20.5 billion. ENW is the value of shareholders' net assets. Under EVM, total assets amounted to CHF 416.4 billion, compared to CHF 239.9 billion under US GAAP. Total liabilities were CHF 397.8 billion compared to CHF 219.4 billion under US GAAP. The higher EVM assets and liabilities are primarily due to a gross valuation approach in EVM.

ENW roll-forward

The following chart shows the changes in ENW from 2007 to 2008:



[1] Primarily includes the change in reference rates and the reduction of the internal asset management fees
[2] Primarily includes foreign currency exchange movements on ENW and a change in reference rates. Further details on reference rate conventions are provided in section 5

3 EVM capital allocation by segment

Capital cost allocation in EVM

EVM capital costs are allocated taking internal risk, regulatory and rating agency capital requirements into consideration.

EVM capital allocation by segment

For illustration, the following table shows EVM capital allocation as of 31 December:

CHF billions	2007[1]	**2008**
Property & Casualty	21.3	13.7
Life & Health	12.7	6.7
Asset Management	3.9	5.3
Legacy	0.2	0.4
Group items	–1.1	–0.5
Total EVM capital cost allocation keys	37.0	**25.6**

[1] Capital figures are disclosed in line with the 2008 segments presentation basis

The decrease in 2008 figures was mainly driven by the following factors:
- foreign currency devaluations against the Swiss Franc
- inclusion of the Berkshire quota share arrangement in 2008
- lower new business volumes

4 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 2008 EVM profit new business	Change in economic net worth as of 31.12.2008
Group sensitivities		
Change in frictional capital costs:		
Decrease by 100bps (from 4% to 3%)	0.2	1.1
Equity market shock:		
10% decrease in equity/property capital values	n/a	–1.2
Change in reference rates (yield curve):[1]		
Increase by 100bps	n/a	0.2
Decrease by 100bps	n/a	–0.3
Inclusion of a liquidity premium in the valuation of EVM insurance liabilities		
Set reference rates equal to Government rates plus 50bps	n/a	4.2
Set reference rates equal to Government rates plus 100bps	n/a	8.0
Set reference rates equal to Government rates plus 150bps	n/a	11.5
Life & Health specific sensitivities		
Reduce lapse rates by 10% (e.g. from 8.0% to 7.2%)	0.1	1.5
Mortality and morbidity rates reduced by 5%:[2]		
Mortality	0.2	4.7
Longevity	0.0	–0.3
Morbidity	0.0	0.5
Remove all allowance for future mortality improvement:[3]		
Mortality	–0.3	–7.7
Longevity	0.1	0.8
Mortality/Longevity trend rates:[4]		
Set future mortality improvement assumption at 100 bps p.a. (mortality business)	0.3	5.2
Increase future mortality improvement assumption by 100 bps p.a. (longevity business)	–0.1	–0.9
Property & Casualty specific sensitivities		
Change in weighted average term to settlement:		
Increase by 10%	0.1	0.5
Decrease by 10%	–0.1	–0.5
Projected future claims cost:		
Increase new business claims by 10% (e.g. increase loss ratio from 60% to 66%)	–0.6	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

4 Sensitivities

Sensitivities contained in the table on page 9 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 9 illustrate the impact on EVM profit new business and ENW. The sensitivities on EVM profit new business are calculated assuming a change just after the point of sale (contract inception). The sensitivities on ENW show the impact of a change to Swiss Re's 2008 closing EVM balance sheet.

5 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, 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 do 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 split 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.
The performance of investment functions is assessed on a risk-adjusted basis. This 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 4 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

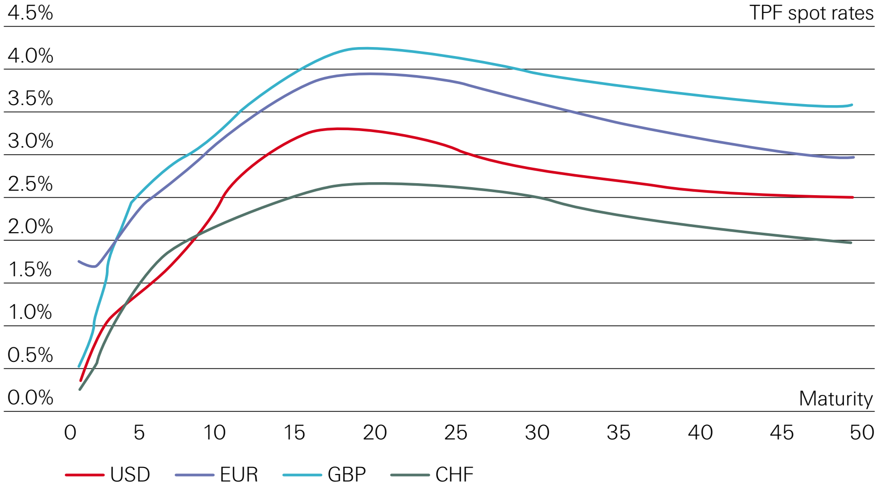
EVM explicitly recognises opportunity costs for shareholder capital. Cost of capital charges cover the base cost of capital, frictional capital costs and systematic risk. The base cost of capital is reflected through a charge for risk-free returns on available capital. Frictional capital costs provide 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 mainly assumed by Asset Management.

Transfer price of funds (reference rates)

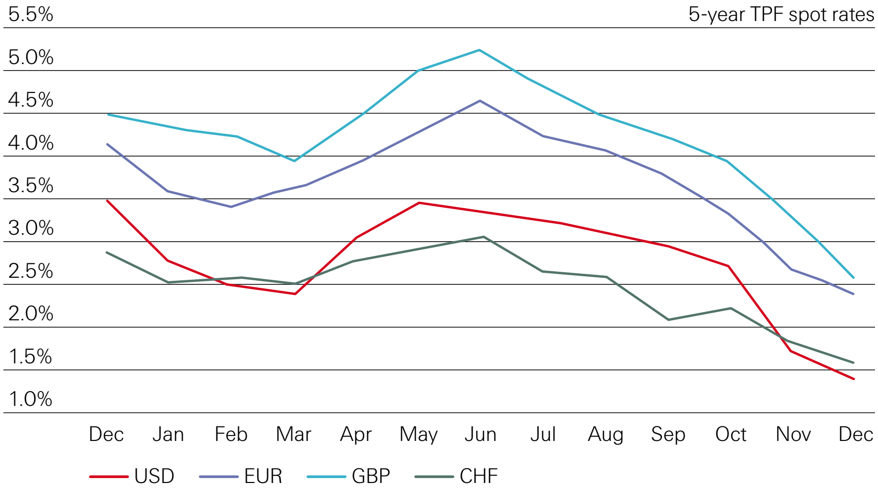
In order to implement the split between underwriting and investment activities, a mechanism to price the internal transfer of funds is necessary. The investment functions pay a return to the business origination functions to provide compensation for the funds raised. For standard insurance liabilities, the transfer price of funds (TPF) is the interest rate paid. TPF are risk-free yields derived from government bond prices differentiated for 29 currencies and for durations up to 50 years. 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.

TPF rates for Factual 2008

TPF spot rates for the main currencies as of 31 December 2008 were as follows:



Between 31 December 2007 and 31 December 2008 the 5-year TPF spot rates for the main currencies developed 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 Asset Management, 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.

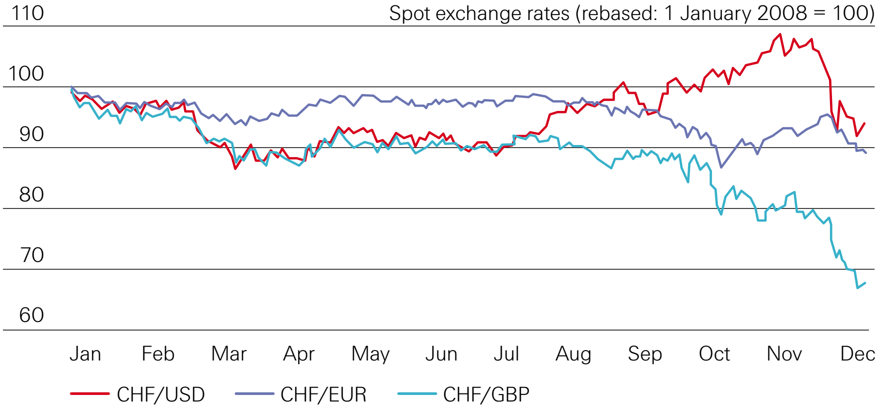
In-force business assets and liabilities

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 2008 exchange rates. At year end, most currencies experienced strong devaluations against the Swiss Franc.

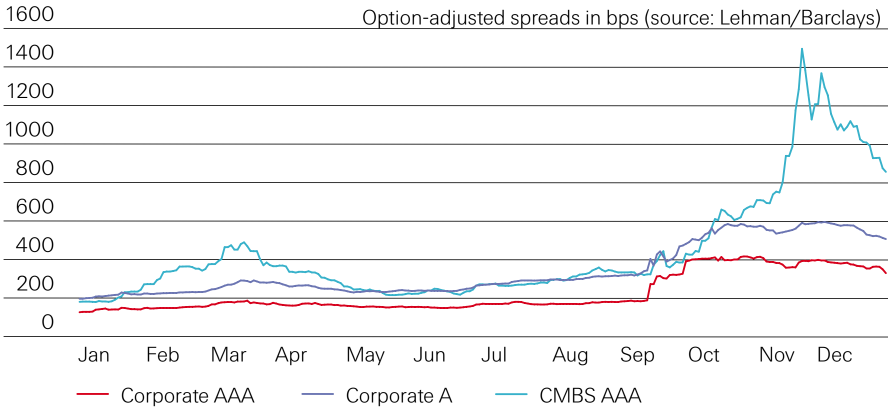
Between 1 January 2008 and 31 December 2008 the exchange rates (rebased) of the main currencies versus the Swiss Franc developed as follows:



Market risk premia 2008

EVM market risk premia (MRP) provide a market-derived estimate of the premium required by investors for taking systematic financial market risk. The MRP is deducted from EVM income as part of the capital costs to assess performance on a risk-adjusted basis. The bulk of the Group MRP stems from the credit risk embedded in the portfolios of Asset Management, Legacy and Credit Solutions. Accordingly, credit spreads were the main drivers of the MRP charges in 2008.

Between 1 January 2008 and 31 December 2008 the credit spreads of selected assets developed as follows:



Putative class action suit

A number of lawsuits have been filed against financial service firms raising claims tied to the unprecedented market turmoil. Swiss Re is already subject to one such action, which is a putative securities class action filed in the United States District Court for the Southern District of New York in February 2008 against it and certain of its executive officers alleging false and misleading statements in connection with the mark-to-market loss, announced on November 19, 2007. The Group cannot predict whether it could be subject to further claims arising out of the market turmoil.

6 PricewaterhouseCoopers review report

To the Board of Directors of Swiss Reinsurance Company Ltd, Zurich

We have reviewed the Economic Value Management ("EVM") financial information of Swiss Reinsurance Company Ltd as set out on pages 5 to 15 as of and for the year ended 31 December 2008, ("the supplementary financial information").

This supplementary financial information is the responsibility of the Board of Directors. Our responsibility is to issue a report on this supplementary financial information based on our review.

Our review was conducted in accordance with the International Standard on Review Engagements 2400 and Swiss Auditing Standard 910, which require that a review be planned and performed to obtain moderate assurance about whether the supplementary financial information is free from 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 has not been properly prepared, in all material respects, in accordance with the EVM 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 Board of 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 whom this report is shown or in whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers AG

David JA Law   Dawn M Kink

Zurich, 6 May 2009

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 typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase" and "may fluctuate" and similar expressions or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause Swiss Re's actual results, 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:

- the direct and indirect impact of the continuing deterioration in the financial markets and the efficacy of efforts to strengthen financial institutions and stabilise the credit markets and the broader financial system;
- changes in global economic conditions and the effects of the global economic downturn;
- the occurrence of other unanticipated market developments or trends;
- Swiss Re's ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recapture of reinsurance agreements, early calls of debt or debt-like arrangements and collateral calls under derivative contracts due to actual or perceived deterioration of Swiss Re's financial strength;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on Swiss Re's investment assets;
- changes in Swiss Re's investment result as a result of changes in its investment policy or the changed composition of Swiss Re's investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- uncertainties in valuing credit default swaps and other credit-related instruments;
- possible inability to realise amounts on sales of securities on Swiss Re's balance sheet equivalent to its mark-to-market values recorded for accounting purposes;
- the outcome of tax audits, the ability to realise tax loss carryforwards and the ability to realise deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings;
- the possibility that Swiss Re's hedging arrangements may not be effective;
- the lowering or loss of one of the financial strength or other ratings of one or more companies in the Group;
- risks associated with implementing Swiss Re's business strategies;
- the cyclicality of the reinsurance industry;
- uncertainties in estimating reserves;
- 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;
- extraordinary events affecting Swiss Re's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- political risks in the countries in which Swiss Re operates or insures risks;
- the impact of current, pending and future legislation and regulation affecting Swiss Re or its ceding companies, and regulatory and legal actions;

- the impact of changes in accounting standards;
- 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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