Swiss Re

Life & Health Reinsurance

Christian Mumenthaler, CEO Reinsurance
Alison Martin, Head of Life & Health Business Management

Investors' Day, Zurich, 24 June 2013

SWISS RE 150 YEARS

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Key messages

1. L&H Reinsurance is strategically attractive for Swiss Re

2. Outcome of a recently conducted in depth review of the L&H business:
   - Vast majority of the business has been performing at or above our profitability requirements
   - Fixing the problematic pre-2004 US business is expected to have a negative US GAAP impact of approx. USD 500m in 2014

3. Management actions to significantly improve the performance of the L&H Reinsurance business are underway

- We expect L&H Reinsurance to generate ROEs of 10-12% by 2015

Agenda

Life & Health as an integral part of Swiss Re's business model	Christian Mumenthaler CEO Reinsurance
In depth review of Swiss Re's Life & Health In-force business	Alison Martin Head of Life & Health Business Management
Management actions to improve Life & Health Reinsurance business performance	Christian Mumenthaler CEO Reinsurance
Summary and Q&A	

There is a strong strategic case for L&H reinsurance

- Large amounts of historical data are a key advantage when pricing new business
- R&D enables better risk selection
- Largest clients have both P&C and L&H needs
- High entry barriers
- Diversification benefit with P&C Re
  - P&C Re would be allocated approx. USD 2bn more capital without the diversification benefit of L&H Re according to SST calculations
- Growth of underlying demand in **high growth markets**, in **ageing societies** and due to the **withdrawal of the welfare state** in developed markets

The fundamental challenges of L&H reinsurance business

General challenges

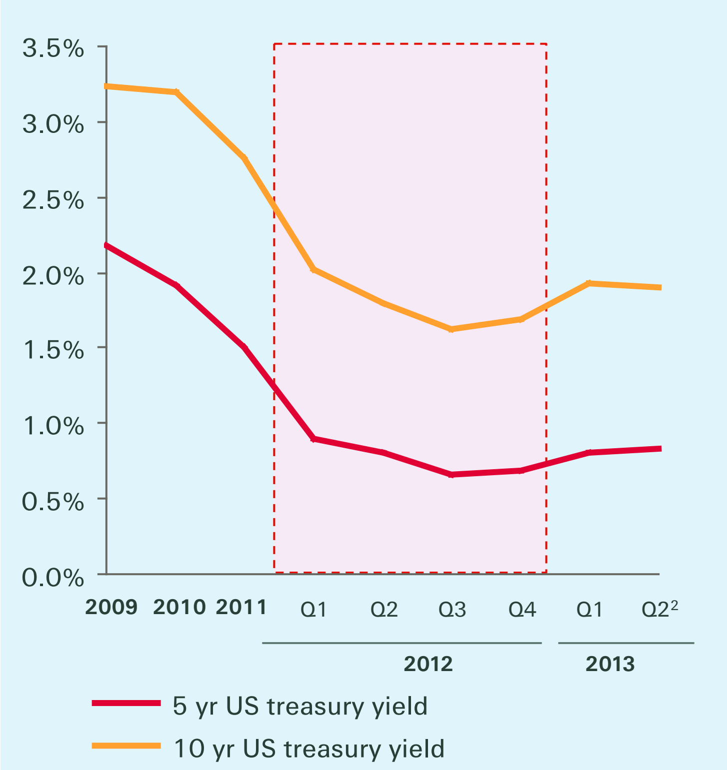
- Very long tail business where coverage periods can be in excess of 50 years
- Wide difference in regulation creates uneven playing fields, particularly between the US and Europe
- US GAAP accounting rules do not require updating of locked-in reserve assumptions for long-term insurance business in most cases, yet do allow for short term earnings volatility driven by financial markets

Current situation

- Low yield environment increases pressure on reinvestment rate and investment income
- Pre-2004 US business has been identified by several reinsurers as causing a drag on profits; Swiss Re had a leading market share in those years

The L&H market suffers from lower yields

Development of risk-free interest rates [1]



- Interest rates have continued to fall since year-end 2011 (data point for April 2012 Investors' Day), the average
  - 5-year US treasury yield fell below 1%
  - 10-year US treasury yield fell below 2%
- Lower yields and realised gains reduced L&H Reinsurance investment income in 2012
  - Negative impact from lower yields was USD 138m compared to the prior year levels; translates into an ROE "headwind" of almost -2% pts[3] for L&H Re in 2012

[1] Average of period [2] As at 18 June 2013 [3] Post-tax impact, common shareholders' equity as at 31 March 2013

Swiss Re

Pre-2004 US business is depressing the underlying ROE

- Our pre-2004 Post Level Term (PLT) US business has produced poor GAAP results recently
  - Negative pre-tax earnings impact of USD 112m[1] in 2012
- In March 2013 we recaptured from Berkshire Hathaway part of the Yearly Renewable Term (YRT) business that had been ceded in 2010
  - Swiss Re received a cash payment of USD 610m
- The recapture will have a negative impact on income in the short term

- L&H Re ROE drag of 1.5% from pre-2004 PLT US business in 2012

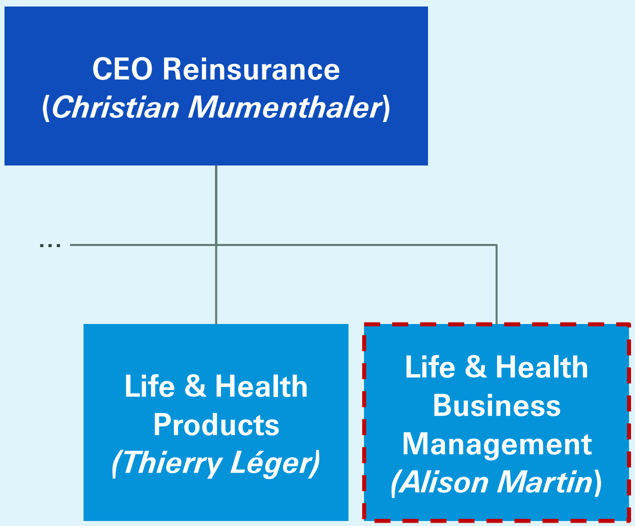
[1] Based on comprehensive impact analysis as part of the in depth L&H review, including underwriting income, investment income and expenses

We have taken action to improve our performance

1. Completed an in-depth review of all our material L&H business
   - Global scope down to most granular portfolio level
   - 9 years retrospective and +50 years prospective analysis
   - Portfolios with performance issues under particular scrutiny
2. Extracted USD 2.7bn of capital via cash dividends to Group since Q1 2012
3. Started with asset rebalancing towards L&H Re's mid-term plan
4. Established a dedicated L&H Business Management Division to deal with the In-force portfolio

New Division established to focus on improving the value of our In-force book

Dedicated In-force Division



- The new Division will be operational on 1 July 2013
- It will control the full value chain after the business is bound, including
  - Technical Accounting
  - Claims
  - Valuation/Reserving
  - Asset Liability Management
- Alison Martin will lead the new Division
- Thierry Léger, former Head of Global Clients Division, will be the new Head of Life & Health Products

Swiss Re

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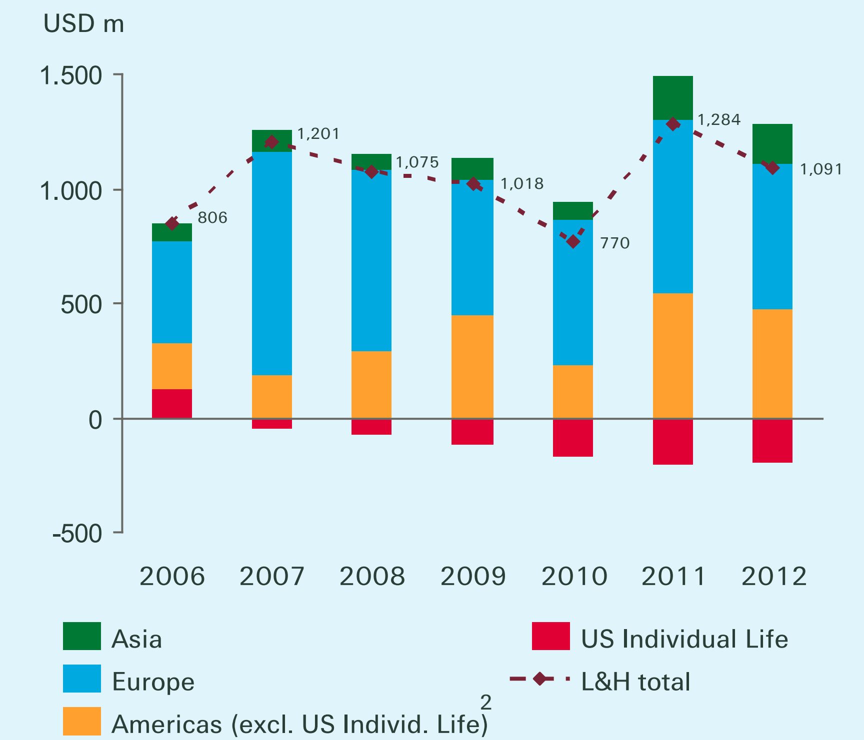
A thorough review of all material portfolios has been conducted

Scope of review

- Global in depth assessment of In-force book covering US GAAP, EVM and statutory valuations and all material drivers of earnings and sources of volatility
- Approximately 80% of the present value of claims and all material life and health portfolios
- 9 years retrospective and +50 years prospective analysis
- Report and recommendations presented to the Board of Directors

L&H US GAAP divisional operating income
Consistently strong, except for US individual life

L&H US GAAP divisional operating income before interest expense and tax[1]



- Excluding the pre-2004 US Individual Life business, L&H consistently delivers strong GAAP profits
- Europe has made a large stable contribution to US GAAP earnings, averaging USD 690m over the last seven years
- Americas, excluding US Individual Life, has consistently contributed positive results
- Asia's contribution has been smaller but positive and growing
- US Individual Life has generated operating losses since 2007 due to the pre-2004 business

[1] Pre-tax excluding Admin Re®, realised gains (except those that belong to policyholders), VA, pre-2000 GMDB and B36. Also excludes interest expense and certain other items that are not allocated to the divisions

[2] Canada, Latin America, Other US

L&H Economic operating income

Significant EVM profits over the last seven years

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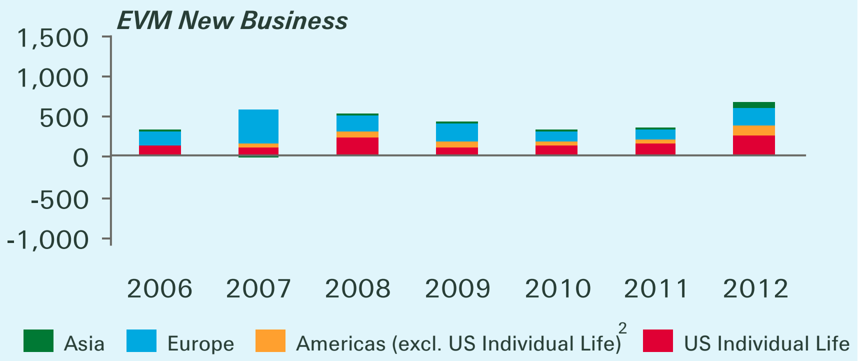
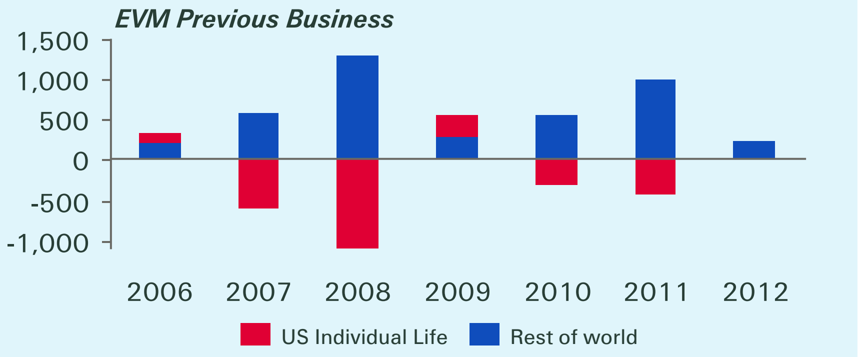
L&H EVM profit (USD m)[1]



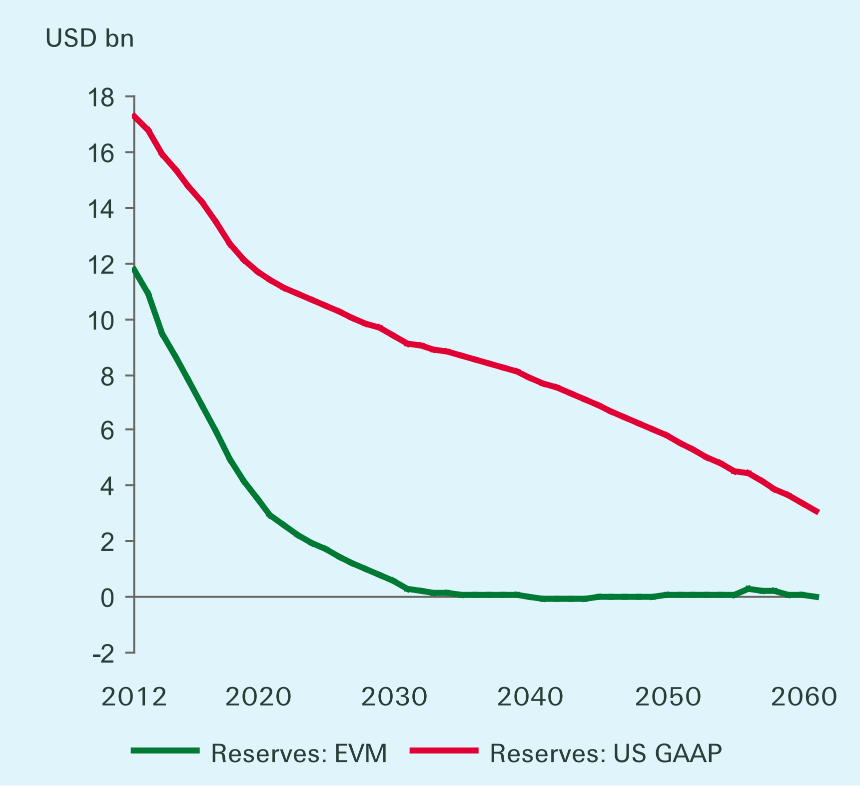


- L&H has been a key contributor to EVM profits. The cumulative EVM underwriting profit[1] (previous and new business) from 2006-2012 was USD 5.4bn
- EVM new business profit[1] since 2006 is USD 3.2bn
  - Americas and Europe have been the main drivers of new business profits; Asia has increased in recent years
- Cumulative EVM profit[1] from previous business 2006-2012: USD 2.2bn
  - Losses on previous business in the US are largely due to recognition of under-pricing in the 1999-2003 pricing era

[1] Excludes certain items such as Variable Annuity and Admin Re® [2] Canada, Latin America, Other US

L&H reserve margins
Significant margins above those shown on the US GAAP balance sheet

Reserves 2012-2061 (year end) – In-force book



- Significant margins exist in our In-force book, notwithstanding challenges of pre-2004 US business
- Margins[1] expected to emerge as business runs off; volumes of new business written will alter profit emergence pattern

[1] Margins are for business already written as at 2012; does not include new business that will be written post this date

US Individual Life business
Two major problem areas: PLT and YRT

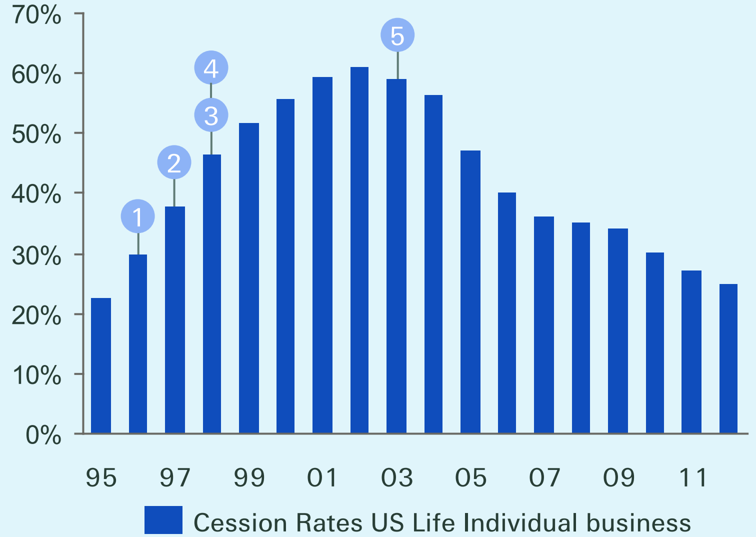
Individual Life business

Post Level Term (PLT)	■ Underlying 10, 15, 20 and 30 year level term products ("T-10", "T-15", ...), reinsured via coinsurance between 1999 and 2003
Yearly Renewable Term (YRT)	■ Underlying permanent and term life products, reinsured via YRT pre-2004

US Individual Life business

Issues caused by industry wide market practices in the 1990s/early 2000s

Cession Rates US Life Individual business



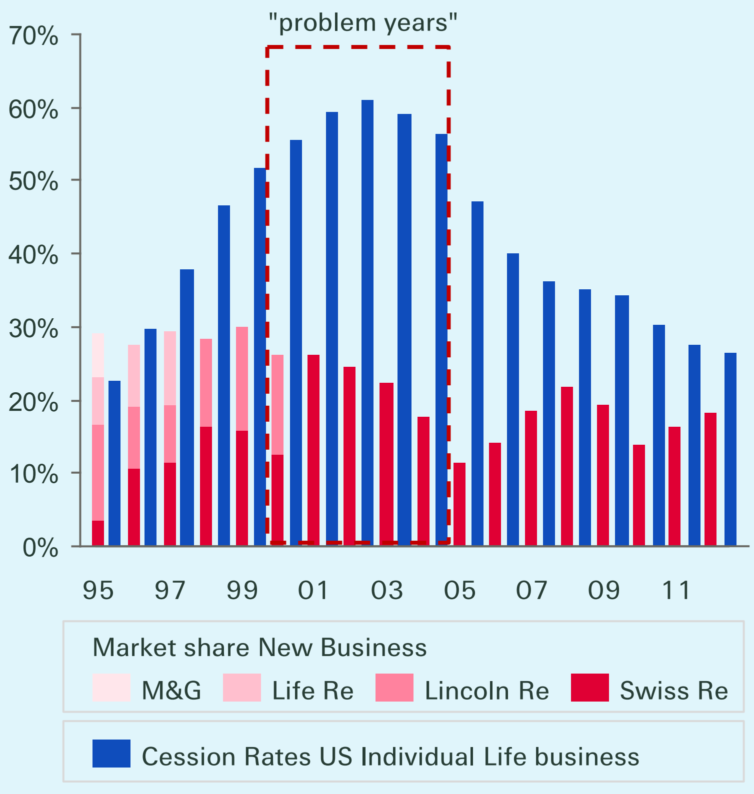
1. Introduction of preferred non smoker
2. NAIC viatical settlements act
3. Super preferred
4. Start of aggressive sales to the over 65s
5. Preferred Industry study available

- Introduction of preferred risk underwriting
  - Led to the availability of cheaper products, and thereby anti-selective lapse
- High cession rates
  - Led to poor alignment of interests and significant underwriting exceptions
- Aggressive sales to the over 65s
  - In the late 1990s and early 2000s, partly due to changes facilitating stranger owned life insurance (STOLI)
- Industry pricing based on out of date mortality tables and risk classifications

US Individual Life business

We grew through acquisitions in the late 1990s and early 2000s

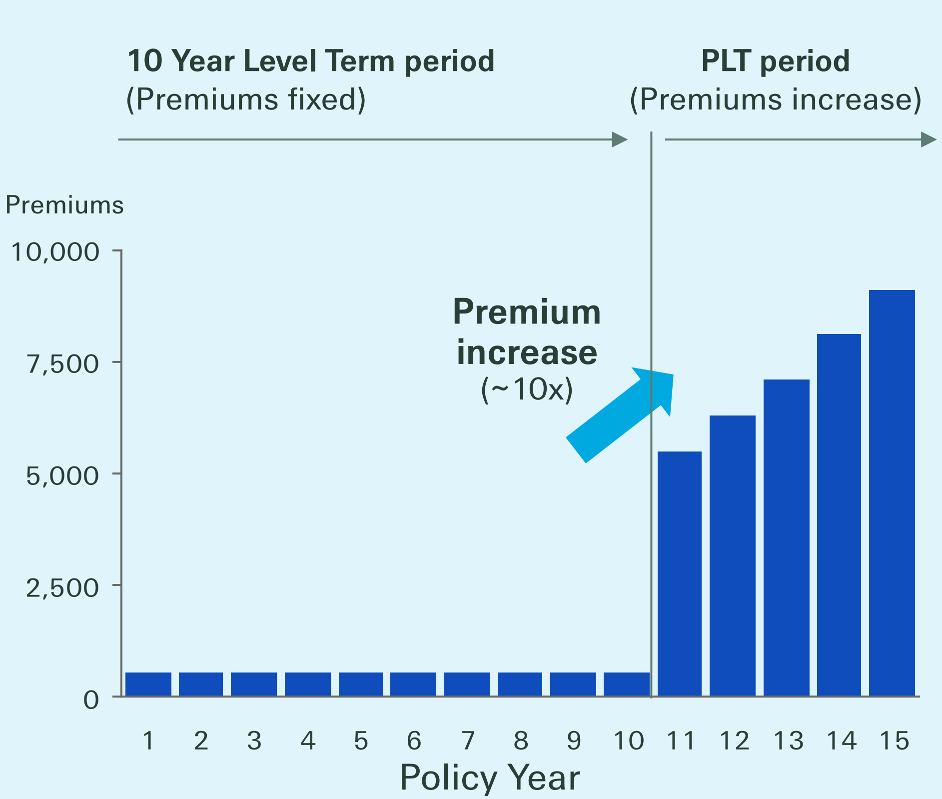
Cession rates and Swiss Re market share



- During the late 1990s / early 2000s we acquired M&G Re, Life Re and Lincoln Re
- This led to a significant increase in new business market share, to an equivalent peak of approximately 30%
- When adverse experience emerged by 2003 we led the market in repricing new business and enhancing underwriting standards
- This led to a significant fall in Swiss Re's market share as other reinsurers absorbed this business

PLT
Experience has been worse than our pre-2003 locked in PLT assumptions...

Example 10 year PLT policy



- The PLT period is the time after the fixed 10, 15, 20 or 30-year level premium paying period ends and premiums increase
- These increased premiums were set at high multiples with high lapses assumed
- Elevated mortality was expected on any remaining policies, however actual experience has been worse than expected

PLT
...which has caused a drag on earnings since 2010

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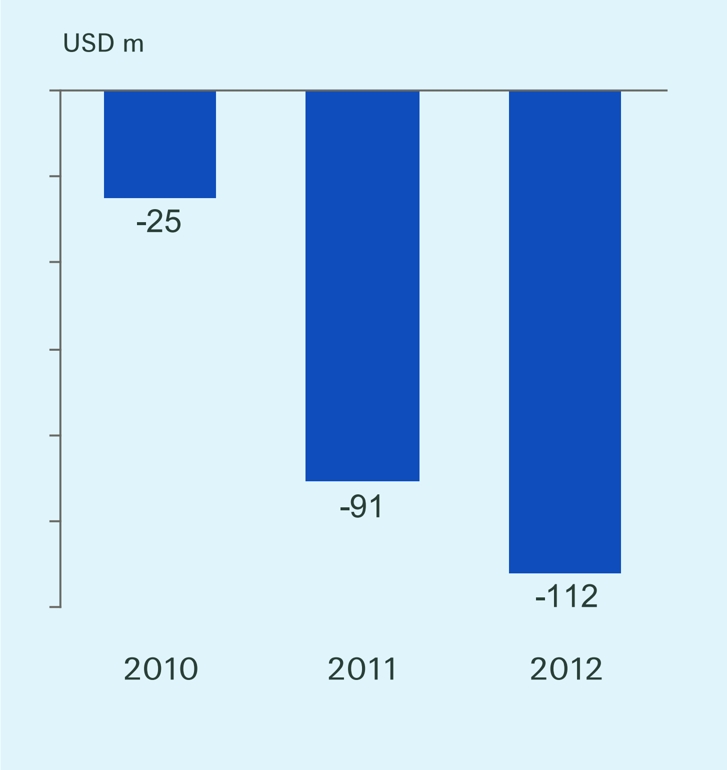
US GAAP pre tax net income impact from pre-2004 US business [1]



- As the T-10 policies crossed into the PLT period from 2009 to 2013, the negative deviation between locked-in reserve assumptions and actual experience emerged
- The negative US GAAP effect on net income of the PLT block as a whole was USD 112m in 2012; from 2003 we updated our assumptions and assumed no profits in the PLT period
- We expect the negative impact from T-10 business to reduce significantly going forward due to the changes made to our pricing and reserve assumptions from 2003
- With management actions we expect to reduce the drag on US GAAP earnings from T-15 to T-30 pre-2004 PLT business in future years

[1] Based on comprehensive impact analysis as part of the in depth L&H review, includes underwriting income, investment income and expenses

YRT

Pre-2004 YRT treaties are underperforming relative to original pricing due to persistent elevated mortality

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Pre-2004 US YRT proportion of overall underperformance (2010-2012[1])

Actual vs. Expected (Measured by pre tax US GAAP income)		Issue age	
		0-69	70+
Pricing era	Pre 1995	-11%	-3%
	1995-1998	-4%	-10%
	1999-2003	-3%	**-69%**

- Following the repricing in the years from 2003 to 2008 we recognised approximately USD 1.2bn of negative variance in our economic reporting relating to pre-2004 YRT business
- In January 2010 we announced this business was being 100% retroceded to Berkshire Hathaway, subject to a Stop Loss limit of USD 1.5bn and a net asset transfer of USD 0.6bn
- This segment of our US YRT business has suffered from significantly elevated claims since we entered into the retrocession
- Poor experience has been driven primarily by a small number of cedants with high proportions of over 70s issue-age business

[1] Accepted basis before retrocession to Berkshire Hathaway

YRT
We will recognise an additional economic negative from the pre-2004 YRT during 2013

- As a result of poor experience it became increasingly probable that the Stop Loss would trigger in the future with a corresponding negative economic impact
- In March 2013 we agreed with Berkshire Hathaway to recapture a portion of the portfolio for a payment of USD 0.6bn, to ensure flexibility in dealing with the underlying issues on those treaties
- Since inception, the retrocession has provided approximately USD 0.8bn of loss protection, including the recapture payment we received
- Our global review included this portfolio. Detailed analysis indicates further adverse experience to emerge and we expect to record an EVM charge of approx. USD 0.65bn during 2013

- US GAAP earnings are expected to be reduced by approx. USD 500m in 2014 as we work on resolving the underlying poor performing treaties

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US Individual Life business
We made substantial improvements to our pricing and risk management frameworks

Pricing

- Extensive repricing from 2002-2004 to adjust for higher mortality and lapse rates; 97% of open treaties repriced with average increases of 15%

Data quality

- Significant increase in processing of policy level data has been achieved from <20% in 2002 to >70% in 2008

Treaty terms

- 80% of treaty provisions modified, of which 25% were extensively overhauled

Claims practices

- More rigorous review of cedent underwriting in adjudicating early large claims

Underwriting

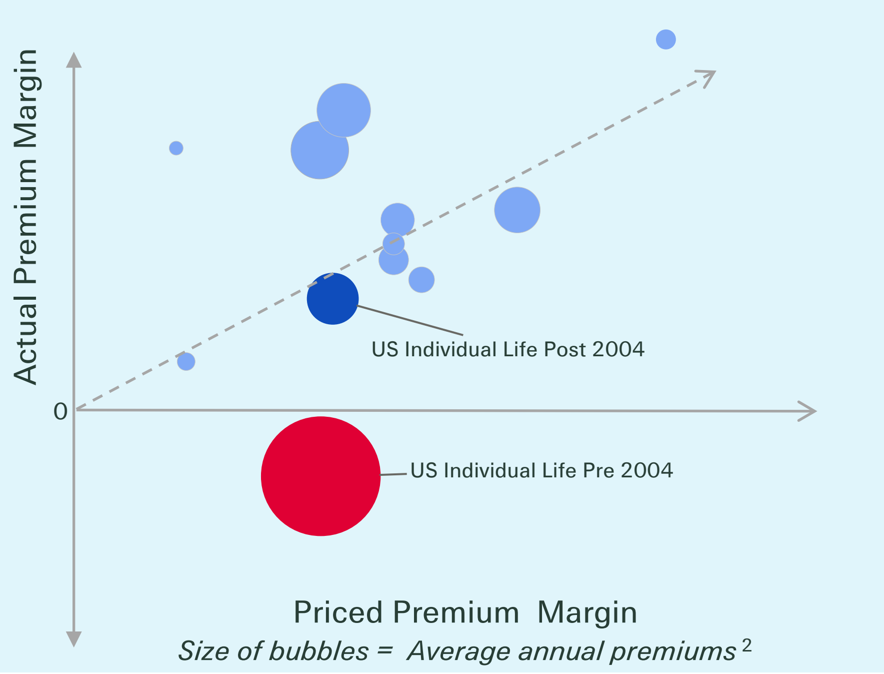
- Increased frequency and granularity of under-writing audits and reduced % of disagreements from a peak of 15% in 2005 to less than 2% today

Controls

- Control framework improved, with systematic In-force reviews, a closely monitored limit framework and strict new business approval process

Summary of review
Most portfolios are performing in line with or above expectations

Overview Life business: Achieved US GAAP margin vs. pricing (business lines)[1]



- The majority of our life and health portfolios generate substantial US GAAP margins
- They largely meet expectations or are outperforming compared to the key demographic and biometric pricing assumptions and our financial targets
- Experience has been worse than expected at pricing for pre-2004 US Individual Life Business

- **Pre-2004 US business is masking substantial underlying US GAAP profitability**

[1] Chart represents approx. 90% of the total Life business measured by premiums
[2] Premium average calculated over 4-14 years, depending on business line

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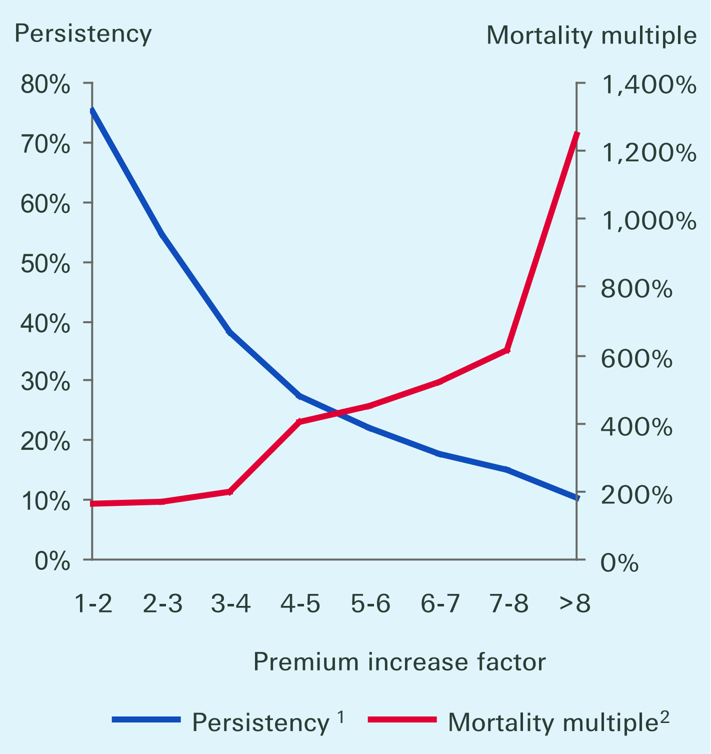
Management actions to improve the L&H Re ROE

Management actions

Liability management (pre-2004 US book)	■ Actively manage pre-2004 US PLT policies ■ Actively manage recaptured pre-2004 YRT
Capital management	■ Extract excess capital ■ Deleverage the balance sheet
Asset management	■ Accelerate shift of the asset allocation towards L&H Re's revised mid-term plan
New business	■ Grow profitable business, e.g. transactions and health

Liability management: PLT
Sufficient policy level data to actively manage book

Persistency and mortality multiple by premium jump

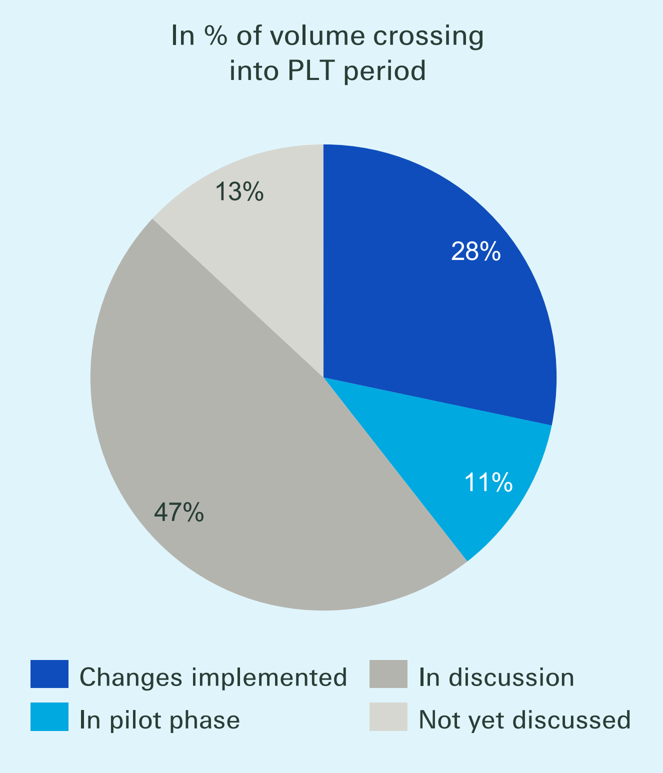


- We have collected a significant amount of data on policyholder behaviour in the PLT period since 2007
- We measure both lapse behaviour driven by the magnitude of PLT premium increases, and also the mortality impact of higher lapse levels
- Both lapse behaviour and resulting mortality are necessary to determine the optimal change in premium rate after the level term period

[1] Persistency is the % of people who pay the first PLT premium (in year 11)
[2] Mortality multiple is the ratio of mortality results in the PLT period compared to the level premium period (years 11 and 12 cf years 1-10)

Liability management: PLT
Working with clients on 10+ year contracts

Implementation status with T-10 treaties crossing over in 2013-2014



- We established a dedicated team in 2011 to work with clients on improving the value of PLT business
- We focused on our 20 biggest PLT clients. This covers almost 90% of the overall sum at risk transitioning into PLT in 2013-2014
- PLT management actions led to:
  - Persistency improvement from 19% to 60%
  - Mortality improvements by 65% all other things being equal (age/gender/risk class)
- We plan to extend this approach to PLT contracts of all durations (T-15, T-20,...)

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Liability management: YRT
Recapture of pre-2004 US YRT business

- There is a small number of strongly underperforming treaties
- We have a range of options to deal with these
- We will discuss all options with the clients, but expect recapture to be the preferred option in most cases
- Discussions are taking place this year, with resolutions expected mostly in 2014
- The impact of these actions is expected to reduce US GAAP earnings by approx. USD 500m in 2014

- Liability management actions on both PLT and YRT are expected to improve L&H Re's ROE by approx. 1% points by 2015

Capital management
Excess capital released, capital efficiency target achieved

L&H Re common shareholders' equity

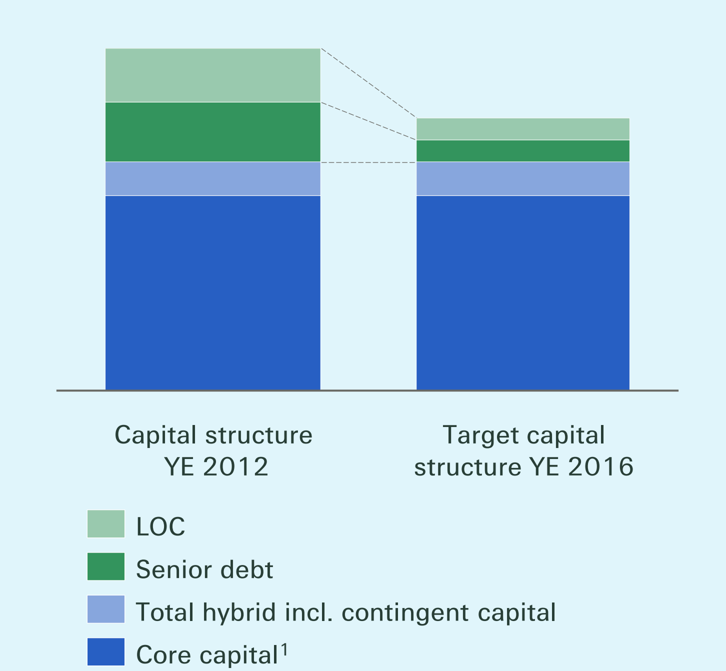
	L&H Re
Common shareholders' equity, USDm 31 Dec 2011	8,972
Net income to common shareholders	961
Dividends	**-2,733**
Other (incl. Fx, acquisition of ownership interest)	-465
Net change in unrealised gains/losses	-256
Common shareholders' equity 31 March 2013	6,479

- Capital management actions to release excess capital were taken in 2012 and 2013
- USD 1.7bn extracted in 2012 via cash dividends to Group, plus an additional USD 1bn in Q1 2013
- After capital management actions in 2013, we arrived at an optimal capitalisation level for L&H Re
- Further actions will focus on improving liquidity efficiency and capital fungibility

- The extraction of USD 1bn excess capital in Q1 2013 leads to an increase of our ROE of approx. 1% points

Capital management
De-leveraging

Swiss Re Group - balance sheet deleverage



- L&H Re will be a significant contributor to improvements in the Group's capital structure, particularly via reductions in senior debt
- The funding structures for redundant reserves will also be optimised, increasing investment freedom and allowing additional benefits from higher spreads on assets
- Interest expenses in L&H Re are expected to decrease by approximately USD 100m (post tax) by 2015

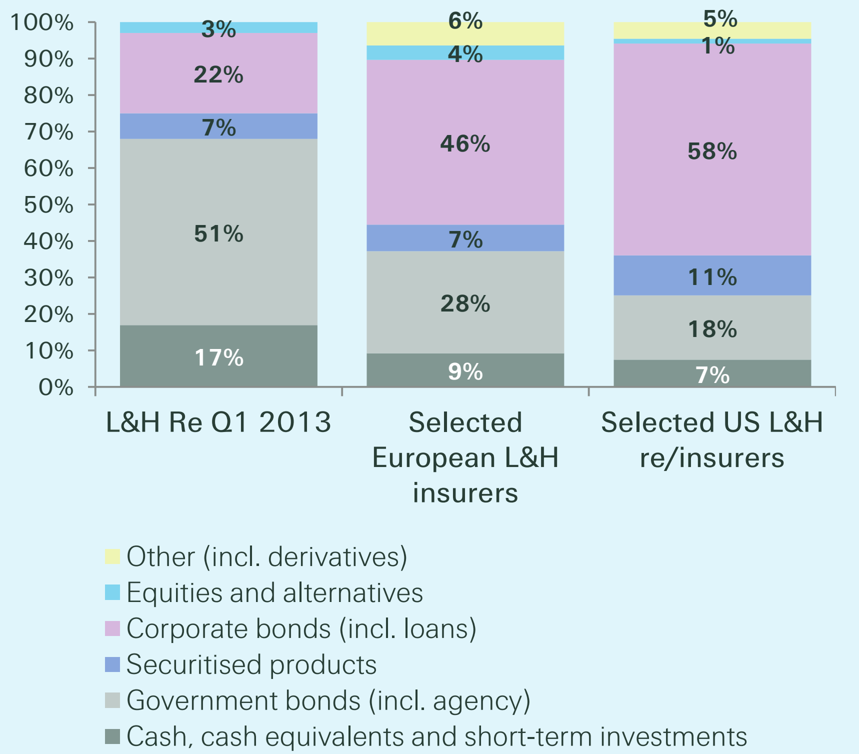
- Deleveraging of our L&H balance sheet leads to approx. 1.5% points uplift in ROE

[1] Core capital of Swiss Re Group is defined as ENW

Asset Management

Asset allocation has further room for rebalancing

Swiss Re investment mix comparison[1]

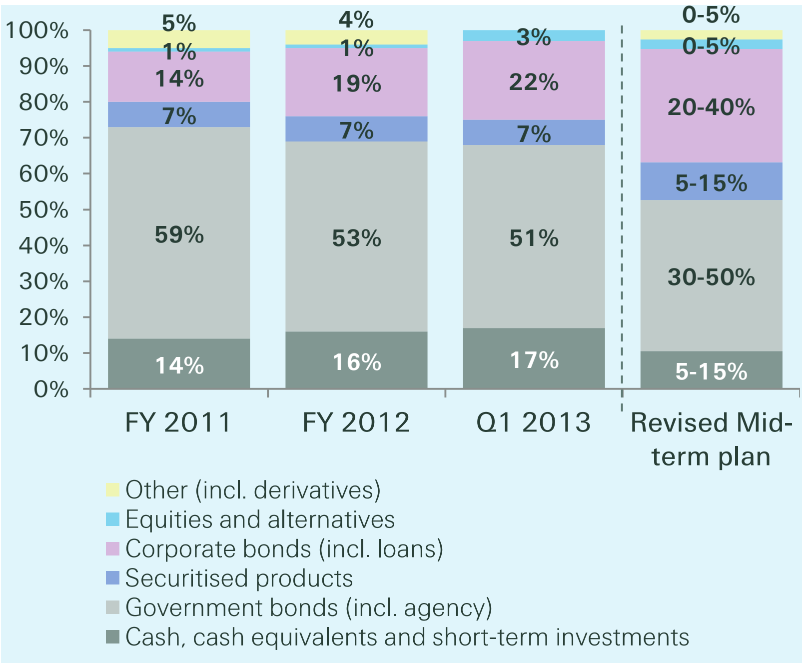


- Other players in the L&H industry typically have a lower allocation to cash and government bonds and a higher allocation to credit, equities and alternatives

[1] Sources: Swiss Re Economic Research & Consulting, company reports

Asset Management
Rebalancing towards L&H Re's revised mid-term plan expected to increase investment income

L&H Re's investment portfolio mix

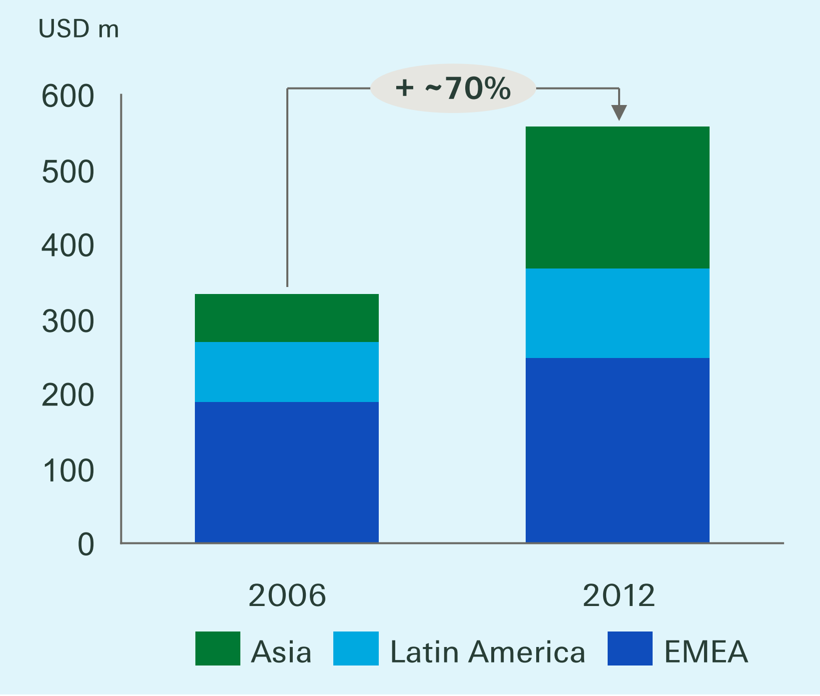


- We plan to move the asset allocation towards the upper range of L&H Re's revised mid-term plan
  - Additional purchases of credit and equity securities in the course of 2013
- Our economic outlook of moderate growth continues to favour credit
- The planned changes will move the portfolio allocation towards peers' asset allocations, while still remaining balanced overall

- Rebalancing is expected to lead to a running yield improvement of ~30-40 bps by Q1 2014 and an ROE improvement of approx. 1.5% points by 2015

New business
Expected to further improve performance

Emerging markets Life and Health Re Gross Earned Premiums 2006-2012



- New business will contribute to a higher ROE over time through several levers:
  - Poorly performing business running off and being replaced with business that has to pass the 11% ROE hurdle rate
  - Additional portfolio growth at or above hurdle rates (High Growth Markets, Health, Large Transactions, etc.)
  - Additional diversification benefit from growing lines such as Health and Longevity

- New business written since 2013 is expected to benefit L&H Re ROE by ~0.5% points by 2015 with potential for further, positive GAAP impact in the future

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Overview of management actions
Expected positive impact on earnings, except in 2014

Management action		Implementation 2012	2013E	2014E	2015E
Liability management (pre-2004 US book)	■ Actively manage pre-2004 US PLT policies	grey ●	green ●	green ●	✓
	■ Actively manage recaptured pre-2004 YRT		grey ●	red ●	✓
Capital management	■ Extraction of excess capital	green ●	green ●	✓	
	■ Deleveraging of our balance sheet	grey ●	green ●	green ●	green ●
Asset management	■ Accelerated shift of the asset allocation towards L&H Re's revised mid-term plan	grey ●	green ●	✓	
New business	■ Growing the well performing business, e.g. transactions and health	green ●	green ●	green ●	green ●
Overall impact		grey ●	green ●	red ●	green ●

grey ● Action fully scoped green ● Positive US GAAP impact from action red ● Negative US GAAP impact from action ✓ Benefit fully realised

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Summary
L&H Re ROE expected to increase to 10-12% by 2015

Management action	ROE impact by 2015E (% points)
Liability management	~1%
Capital management	~2.5%
Asset management	~1.5%
New business	~0.5%

- ROE impact estimates do not anticipate any benefits from rising interest rates
- Key drivers are past and present capital and asset management and management actions for improving business performance
- New business has to meet the Group's ROE hurdle rates (>11%)
- L&H Re ROE expected to increase to 10-12% by 2015

Key messages

1. L&H Reinsurance is strategically attractive for Swiss Re
2. Outcome of a recently conducted in depth review of the L&H business:
   - Vast majority of the business has been performing at or above our profitability requirements
   - Fixing the problematic pre-2004 US business is expected to have a negative US GAAP impact of approx. USD 500m in 2014
3. Management actions to significantly improve the performance of the L&H Reinsurance business are underway

■ We expect L&H Reinsurance to generate ROEs of 10-12% by 2015

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Q&A

Christian Mumenthaler, CEO Reinsurance
Alison Martin, Head of Life & Health Business Management

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Corporate calendar & contacts

Corporate calendar

08 August 2013	**Second Quarter 2013 results**	Conference call
09 September 2013	**Investors and Media meeting**	Monte Carlo
07 November 2013	**Third Quarter 2013 results**	Conference call
20 February 2014	**Annual Results**	Conference call

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Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements (including as to plans objectives, targets and trends) and illustrations provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact.

Forward-looking statements typically are identified by words or phrases such as “anticipate“, “assume“, “believe“, “continue“, “estimate“, “expect“, “foresee“, “intend“, “may increase“ and “may fluctuate“ and similar expressions or by future or conditional verbs such as “will“, “should“, “would“ and “could“. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause Swiss Re’s actual results of operations, financial condition, solvency ratios, liquidity position or prospects to be materially different from any future results of operations, financial condition, solvency ratios, liquidity position or prospects expressed or implied by such statements or cause Swiss Re to not achieve its published targets. Such factors include, among others:

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

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

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.