

# Capital management and financial performance

David Cole, Group Chief Financial Officer  
Alison Martin, Head of L&H Business Management  
Investors' Day, London, 3 July 2014



## Key messages

- Capital management priorities are unchanged, emphasis on growing regular dividends and profitable business growth
- We are well on track towards the Group's target capital structure and achieving the 2011-15 financial targets
- Management actions to significantly improve the performance of the L&H Reinsurance business are making good progress; 10-12% ROE target by 2015 confirmed

# Agenda

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Group financial performance and targets

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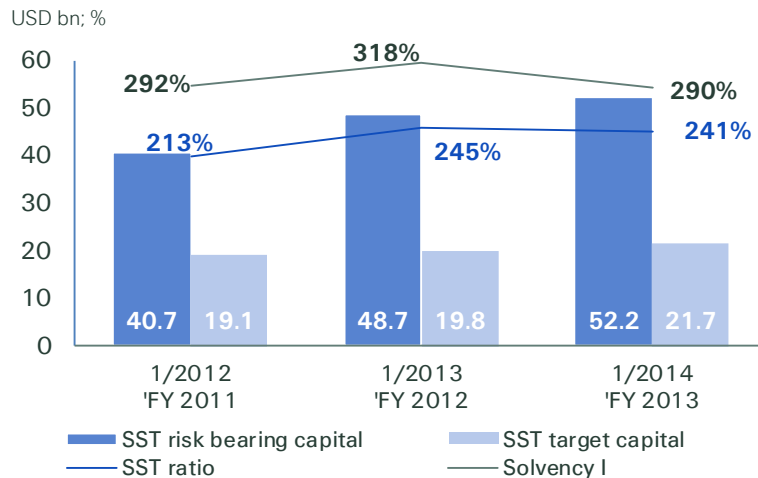
Summary and Q&A

# Two frameworks guide Swiss Re's capital management

## Group risk tolerance and target capital structure principles

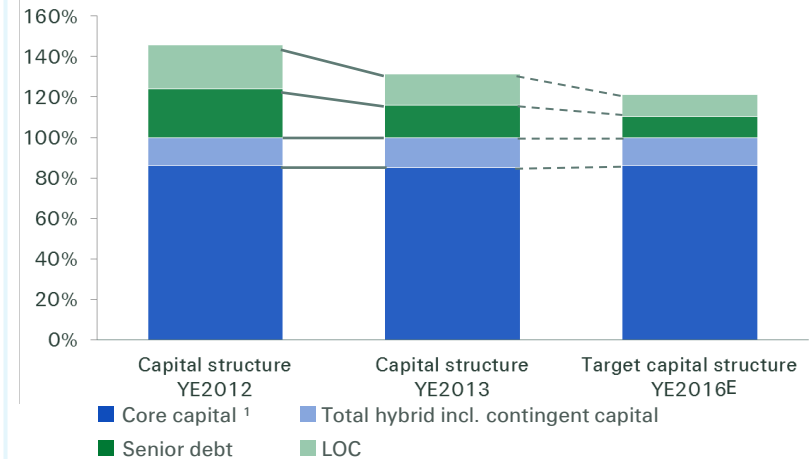
### Group risk tolerance

- Risk tolerance represents the amount of risk Swiss Re is willing to accept within the constraints imposed by
  - capital and liquidity resources,
  - strategy and risk appetite, and
  - legal, regulatory and rating agency environment



### Target capital structure

- Swiss Re's target capital structure
  - maximises return on equity within risk tolerance targets
  - optimises financial flexibility, and
  - complies with external constraints



- Group solvency remains very strong in both SST and Solvency I views
- Target capital structure is well on track towards implementation by 2016

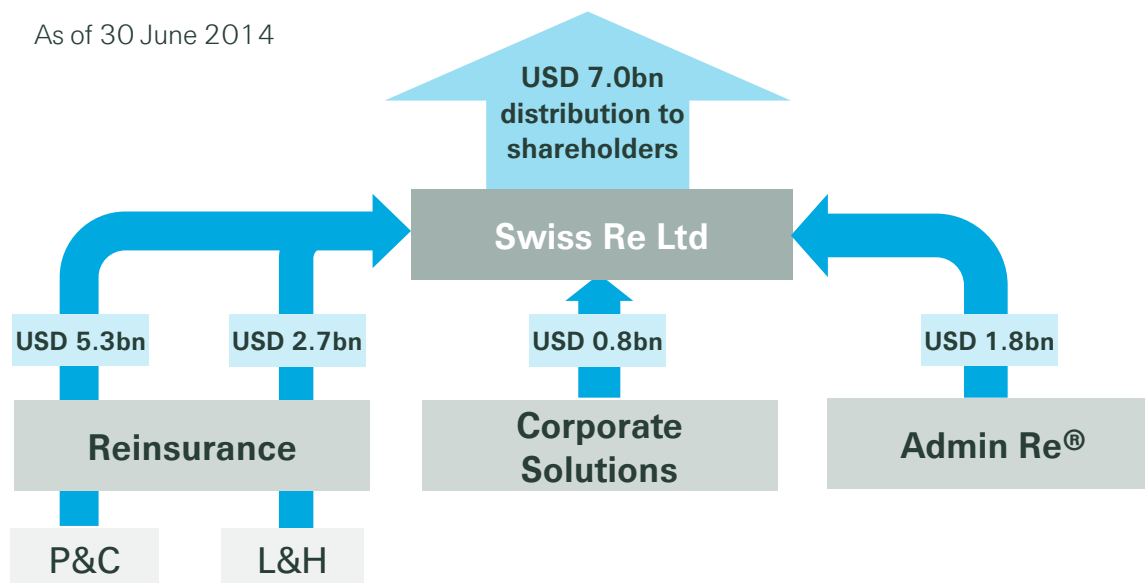
<sup>1</sup> Core capital of Swiss Re Group is defined as Economic Net Worth (ENW)

# Internal & external dividends since 2012

## USD 7.0bn dividends paid to shareholders since implementation of new Group structure

- Group risk tolerance is basis for external and internal dividend definition
- Significant excess and net income generated over the period has been paid to Swiss Re Ltd, increasing Swiss Re's financial flexibility

As of 30 June 2014



USD millions	P&C Reinsurance	L&H Reinsurance	Reinsurance	Corporate Solutions	Admin Re®	Group items	Total Swiss Re Group
US GAAP shareholders' equity 31 December 2011	10 389	8 972	19 361	2 277	7 378	625	29 590
US GAAP shareholders' equity 31 March 2014 <sup>1</sup>	14 416	6 701	21 117	2 567	6 148	5 233	35 021

<sup>1</sup> Pre-Q2 2014 dividend payments, i.e. USD 3.1bn external ordinary and special dividend, USD 3.1bn from Reinsurance and USD 0.4bn from Admin Re®

# Target Capital Structure

## Well on track towards implementation by 2016

	Group	Reinsur- ance	Corporate Solutions	Admin Re®	Achievements since year-end 2012
Letters of credit	↓ ✓	↓ ✓			<ul style="list-style-type: none"> <li>Letter of Credit (LoC) capacity reduction of USD 2.2bn</li> </ul>
Senior	↓ ✓	↓ ✓		↑ ✓	<ul style="list-style-type: none"> <li>USD 4.1bn deleveraging of senior debt in Reinsurance</li> <li>Entry into GBP 550m revolving credit facility for Admin Re®</li> </ul>
Subordinated	↓ ●	↓ ●	↑ ●		<ul style="list-style-type: none"> <li>First Corporate Solutions subordinated debt issuance anticipated</li> <li>Reinsurance subordinated debt reduction to come</li> </ul>
Contingent capital	↑ ✓	↑ ✓			<ul style="list-style-type: none"> <li>In 2013, issuance of CHF 175m and USD 750m dated subordinated contingent write-off instruments with an SST and insurance trigger and SST trigger respectively</li> </ul>
<b>Overall impact until 2016</b>	<b>Reduction of &gt; USD 4bn</b>				

● To be realised      ✓ Significant progress or fully realised

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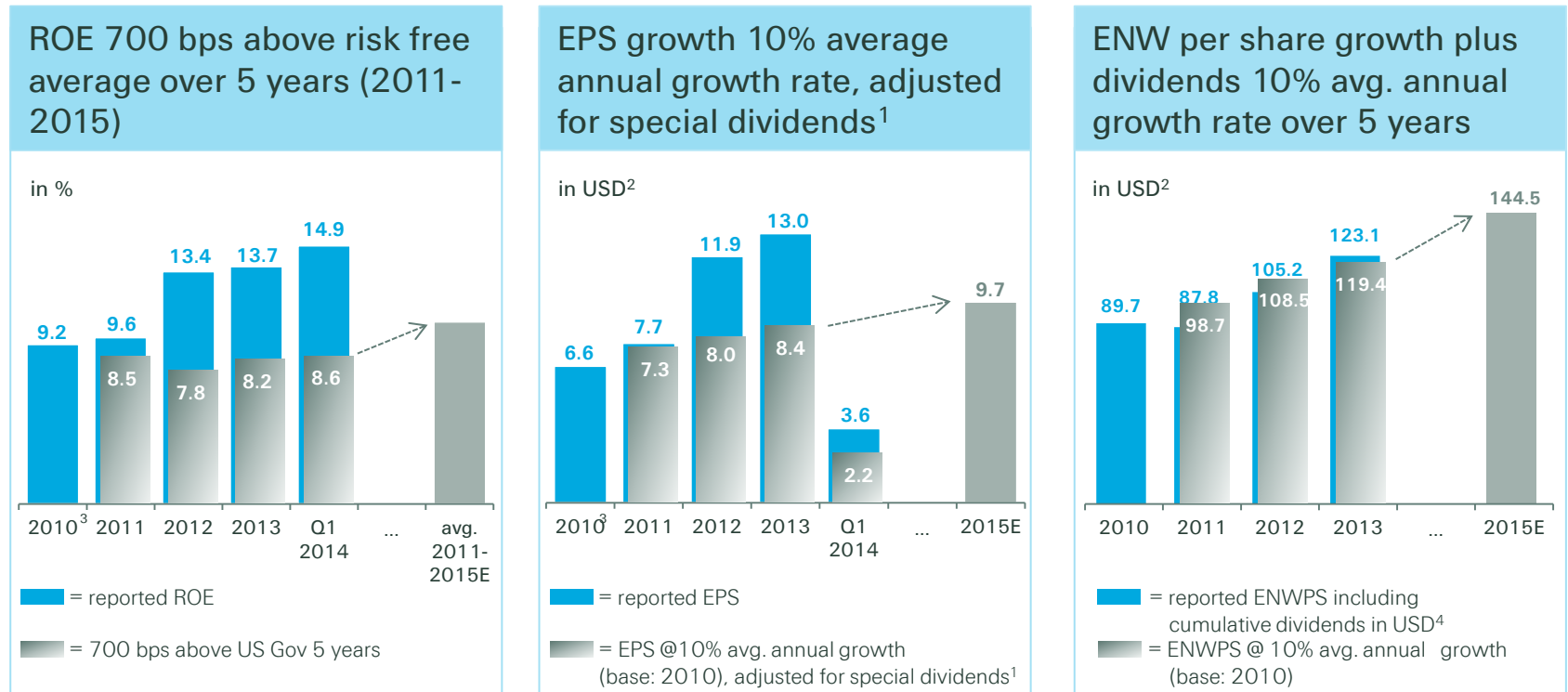
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Summary and Q&A

# Group financial targets

## On track



Delivering the 2011-2015 financial targets remains Swiss Re's top priority

<sup>1</sup> EPS CAGR of 10% has been adjusted to 5% for 2014 to account for the distribution of excess capital through the special dividend of USD 1.6bn in April 2014. Methodology is in line with the approach taken for the special dividend of USD 1.5bn paid in April 2013 <sup>2</sup> Assumes constant foreign exchange rate <sup>3</sup> Excl. CPCI  
<sup>4</sup> Cumulative dividends included in ENW per share were translated from CHF to USD using the fx rate of the dividend payment date; dividends included for 2011: USD 3.1 (CHF 2.75), 2012: USD 6.4 (CHF 3.00, or USD 3.3, in addition to the 2011 dividend), 2013: USD 14.5 (CHF 7.50, or USD 8.05, in addition to the 2011 and 2012 dividends)



# Performance Management at Swiss Re

## Enhancing governance through strategic controller mandate



# 2016+ Target and KPI Framework

## Four major considerations for Target and KPI Framework

### I. Target cascade:

- Reflects overall **Group** goals and **strategic vision**
- **Internal KPIs** broken down meaningfully for individual BUs

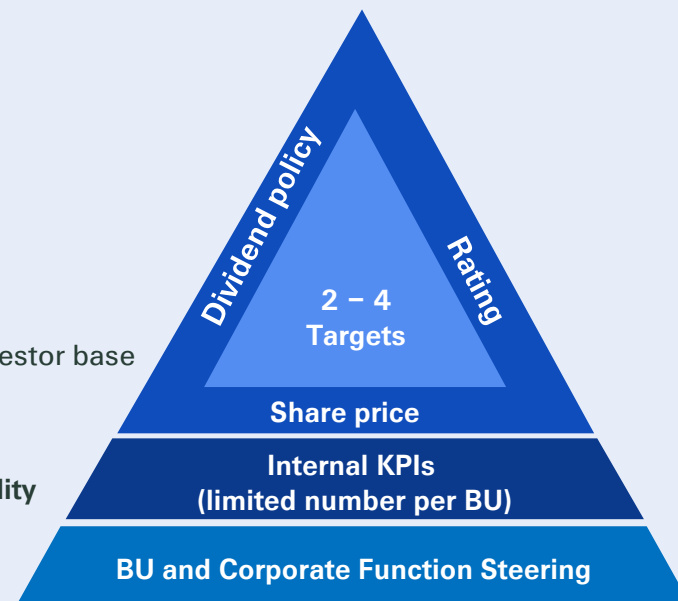
### II. Target timeframe:

- Long enough to provide a **stable benchmark**
- Minimise variances with **compensation** (vesting periods) and investor base

### III. Types of targets:

- The target metrics must fit underlying strategic goals – **profitability and economic growth**

### IV. Link to dividend policy creating sustainable shareholder return

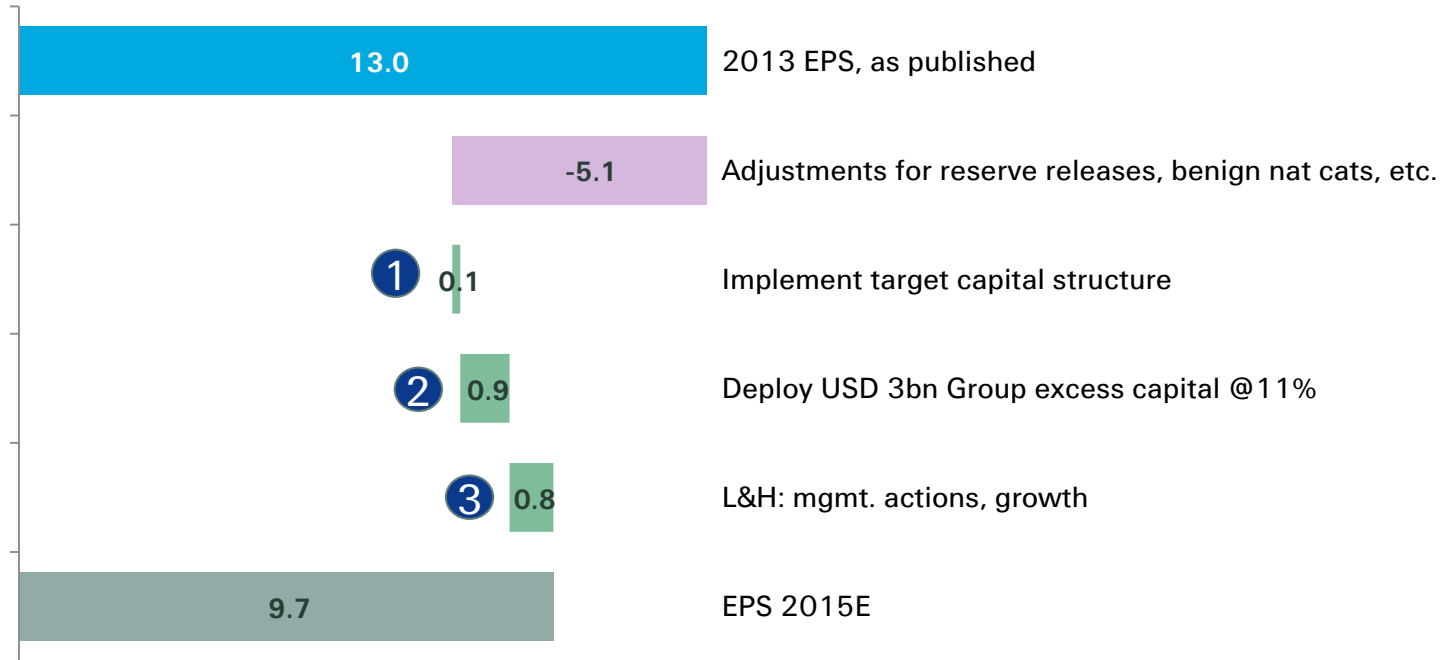


New 2016+ targets to be communicated in February 2015

# Earnings per share

## 10% average annual growth in EPS can be achieved

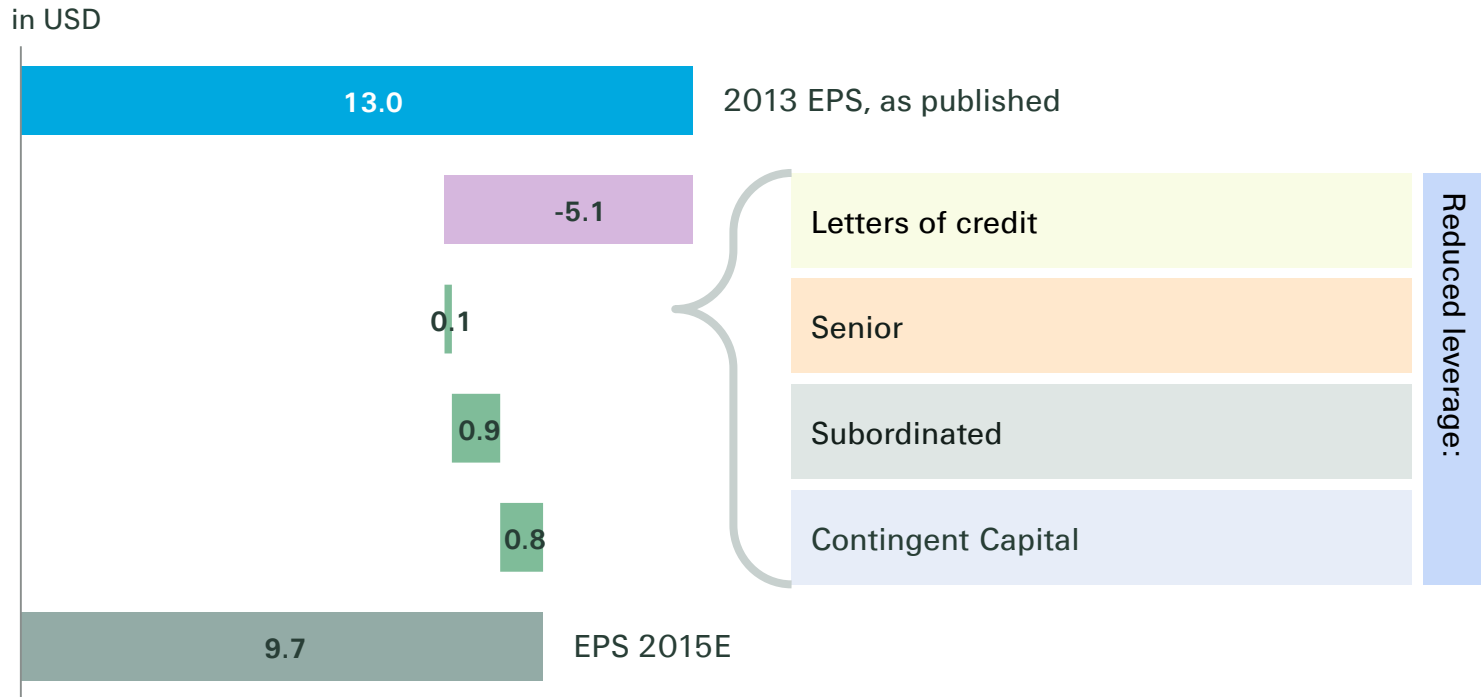
in USD



Swiss Re remains committed to growth targets despite challenging market environment

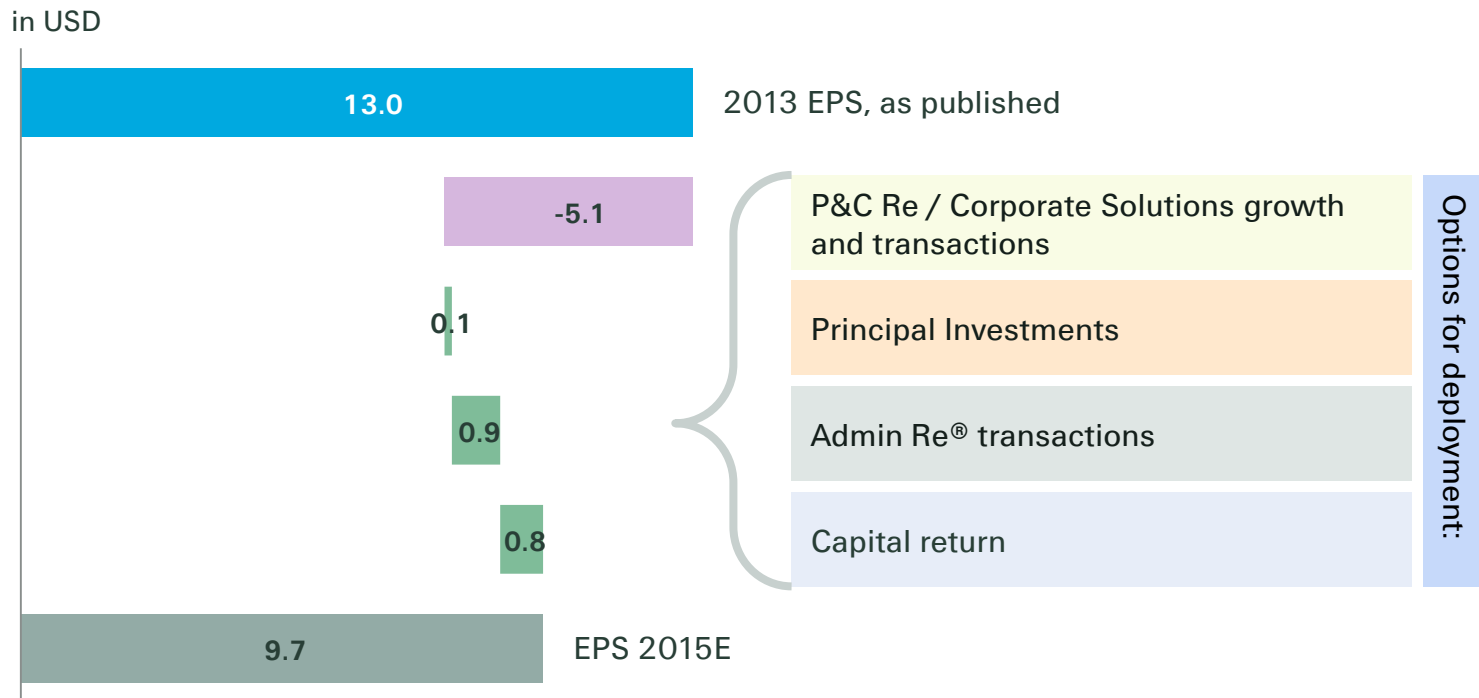
# 1 Implement target capital structure

## Continued optimisation

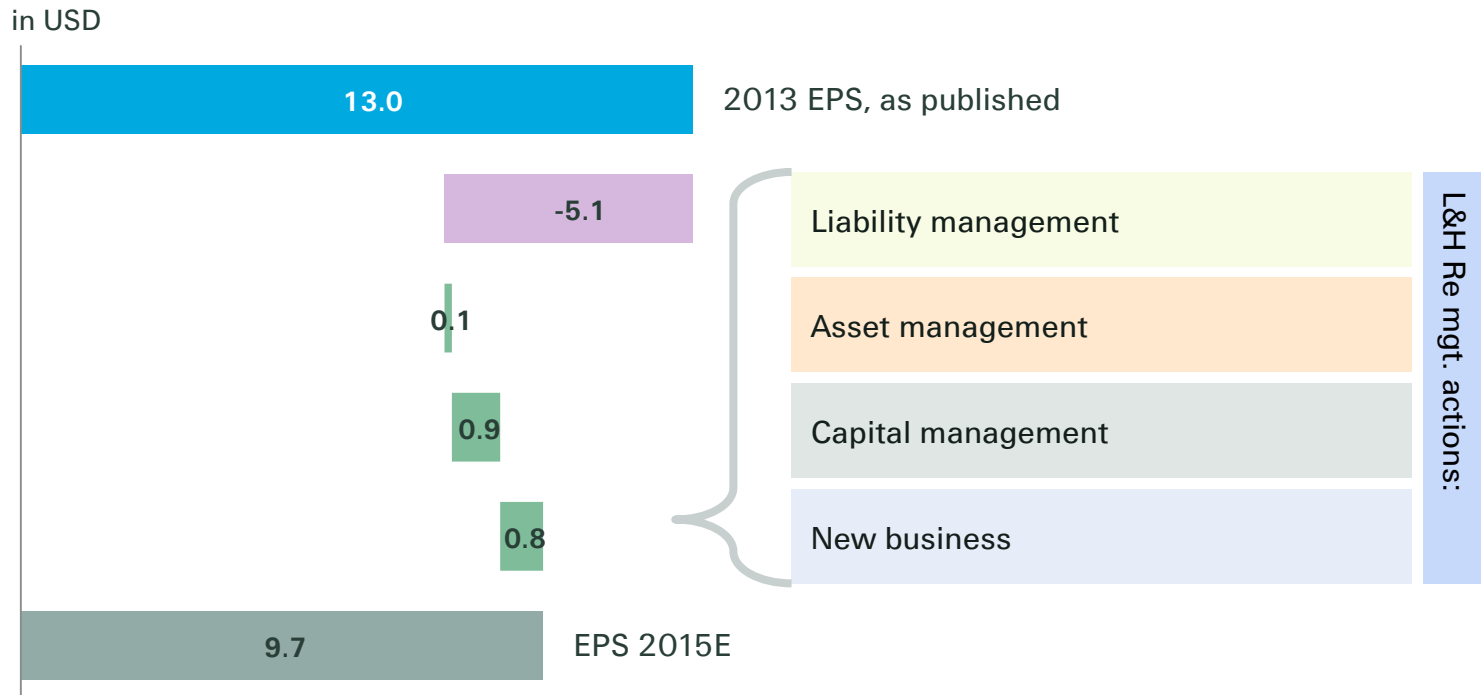


## ② Deploy USD 3bn Group excess capital @ 11% ROE

Aim to maximise shareholder value within mid-term asset allocation



### ③ L&H Re management actions and profitable growth Contributes positively to Group EPS target



# Where we stand with Life and Health

## We remain committed to the 10-12% ROE target in 2015

- Good progress is being made on the management actions we outlined last year
  - Majority of our planned asset reallocation completed
  - New business meets the Group's ROE hurdle rates (>11%)
  - Significant attention over the past year to YRT negotiations with clients
- Increased transparency of underlying performance drivers
  - As part of delivering on the ROE targets we have implemented new internal performance monitoring at a granular level

We continue to be committed to our 10-12% ROE target in 2015

# Update on management actions

Management actions to improve the L&H Re ROE are progressing well

Management action		Implementation			
		2012	2013	2014E	2015E
Liability management <small>(pre-2004 US book)</small>	• Actively manage pre-2004 US PLT policies	●	●	●	✓
	• Actively manage recaptured pre-2004 YRT		●	●	✓
Capital management	• Extraction of excess capital	●	●	✓	
	• Restructuring of L&H Re debt	●	●	●	●
Asset management	• Accelerated shift of the asset allocation towards L&H Re's revised mid-term plan	●	●	✓	
New business	• Growing the well-performing business, eg transactions and health	●	●	●	●
<b>Overall impact</b>		●	●	●	●

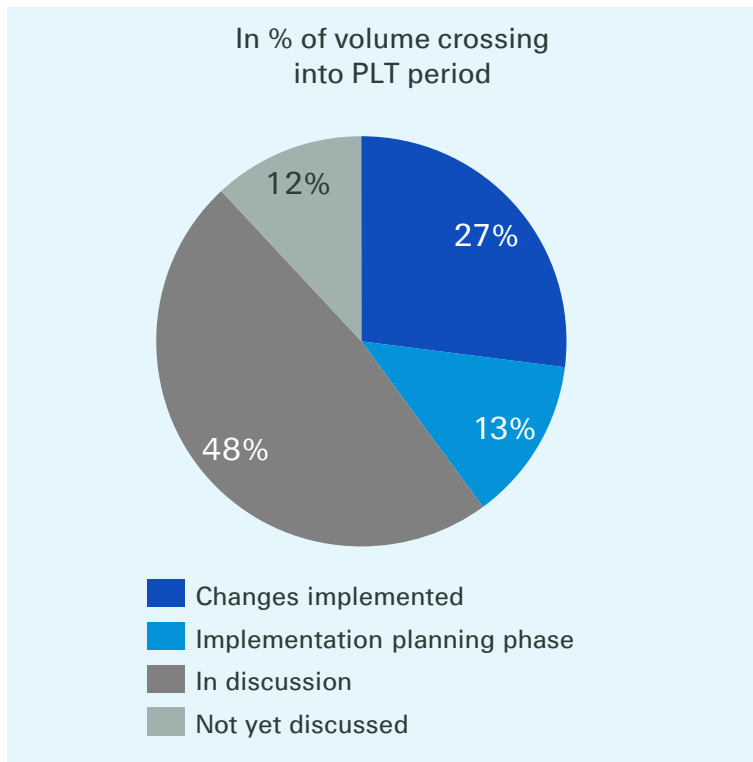
● Action fully scoped ● Positive US GAAP impact from action ● Negative US GAAP impact from action ✓ Benefit fully realised



# Liability management – PLT

## Improvement actions on track

### Implementation status with T10 & T15 treaties crossing over in 2014-2015



- The progress in our PLT management action continues as planned
- We have now successfully extended our approach to T15 contracts in addition to T10
- We currently cover 40% of PLT clients risk transitioning into PLT in 2014-2015
- PLT management actions led to:
  - Persistency improvement from 18% to 57%
  - Mortality improvements by 63% all other things being equal (age/gender/risk class)

## Liability management – YRT

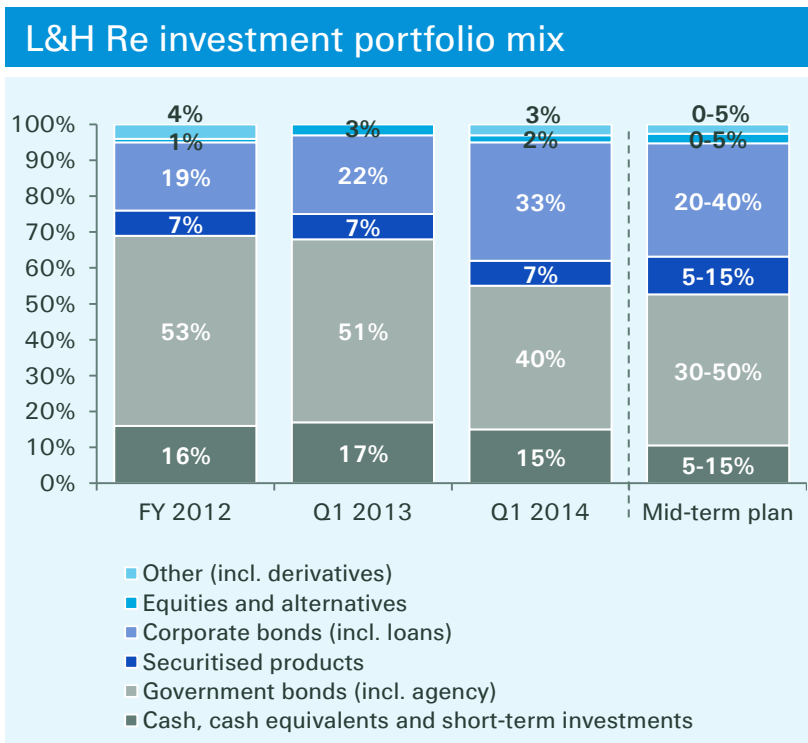
### Improvement actions on track

- We have approached clients where we have identified strongly underperforming treaties and are seeking to pursue mutually agreeable solutions
- Negotiations are in various stages with the relevant clients
  - Last year we reached agreement with one of our clients
  - We have reached agreement with a second client effective 1 July 2014
  - We anticipate further developments over the coming months

YRT management actions still have significant timing and execution uncertainty, however we continue to be optimistic to find acceptable solutions for all parties

# Asset management

## Increased investment income from re-balancing in line with L&H Re mid-term plan



- During 2013, we moved the asset allocation for L&H Re towards the upper range of the Mid-term plan
  - Additional investments were made in corporate bonds (including loans), equities and alternatives
- Net corporate bond purchases made in high quality and well diversified sectors (Q1 2014: 94% investment grade)
- The L&H Re investment portfolio mix will be regularly assessed based on market conditions

Metric	Q1 2013	Q1 2014	YoY Change
Net investment income <sup>1</sup> , USD m	248	331	83
Fixed income running yield <sup>2</sup>	3.2%	3.6%	+0.4%pts

- Re-balancing led to a running yield improvement of approximately 40bps for Q1 2014, in line with the forecast of 30-40bps made in June 2013
- The portfolio is on track to deliver the expected ROE improvement of approximately 1.5% points in 2015

<sup>1</sup> Includes investment expenses; excludes insurance related items

<sup>2</sup> Q1 2014 running yield reference excludes income from extraordinary paydowns on securitised products. Actual Q1 2014 result: 3.8%

# New business

## Contributes positively to ROE targets

### Replacing run-off with higher ROE business

- All new business has to pass the 11% ROE hurdle rate in aggregate

### Incremental portfolio growth

- Completed significant inforce health transaction in Asia in Q3 2013
- Provided structured transactions for major clients across multiple product types including VIF monetisation, redundant reserve financing

### Additional diversification benefit

- Participated in largest longevity transaction with a pension scheme completed to date for major client in Q1 2014

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

# Summary management actions

Liability management	• PLT management on track	●
	• YRT negotiations ongoing. Timing and execution risks remain	●
Capital management	• Extraction of excess capital completed in 2013	✓
	• Deleveraging ongoing	●
Asset management	• Re-balancing substantially complete as of Q1 2014	✓
New business	• New business meets the Group's ROE hurdle rates (>11%)	✓

✓ Completed

● Ongoing

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# Corporate calendar & contacts

## Corporate calendar

### 2014

6 August

**Second Quarter 2014 results**

Conference call

7 November

**Third Quarter 2014 results**

Conference call

### 2015

19 February

**Annual Results 2014**

Conference call

18 March

**Publication of Annual Report 2014 and EVM 2014**

21 April

**151<sup>st</sup> Annual General Meeting**

Zurich

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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;
- 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 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 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.

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