Swiss Re

FIRST QUARTER 2016 results

Transcript of investor and analyst video presentation

David Cole, Group CFO

Zurich, 29 April 2016

The following transcript must be read in conjunction with (i) the presentation slides and related materials made available by Swiss Re Ltd ("Swiss Re") on its website under http://www.swissre.com/investors/financial_information/ solely for your information in connection with the release of its unaudited first quarter 2016 financial results and (ii) with all other publicly available information published by Swiss Re.

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", "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, capital or liquidity positions, or prospects to be materially different from any future results of operations, financial condition, solvency ratios, capital or liquidity positions, or prospects expressed or implied by such statements or cause Swiss Re to not achieve its published targets. Such factors include, among others:

- 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 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;
- 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. In making this communication available, Swiss Re gives no advice and makes no recommendation to buy, sell or otherwise deal in its shares, or in any other securities or investments whatsoever. The communication does not constitute or form part of, and should not be construed as, an offer for sale or subscription of, or solicitation of any offer or invitation to subscribe for, underwrite or otherwise acquire or dispose of any securities of Swiss Re and it does not constitute an invitation or inducement to engage in investment activity under section 21 of the UK Financial Services and Markets Act 2000. None of the Swiss Re securities have been, or will be, registered under the US Securities Act of 1933, as amended (the "Act"), and such securities may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Act and in compliance with state securities laws. This communication is not intended to be a recommendation to buy, sell or hold securities and does not constitute an invitation to effect any transaction with, or to make use of any services provided by, Swiss Re nor is it 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.

[David Cole]

Good day everyone! Thank you for watching this presentation on Swiss Re´s first quarter 2016 results. I am David Cole, Swiss Re's Group CFO.

Slide 2: Business performance

I will start with the business performance for the quarter.

Slide 3: All Business Units contributed to Swiss Re's strong Q1 2016 results

Swiss Re has started the year with a strong first quarter in a challenging market environment. All Business Units contributed positively to a Group net income of 1.2 billion US dollars, which translates to a return on equity of 14.6%.

The first quarter reflects the benefits of our strategy and systematic capital allocation to diversify our access to risk in attractive segments.

P&C Reinsurance reported a strong ROE of 19.1% supported by large and tailored transactions and benign nat cat experience.

L&H Reinsurance reported an ROE of 16.1%, reflecting continued attractive growth in all regions.

Corporate Solutions delivered good results in the first quarter, with an ROE of 13.5%, driven by profitable business performance.

Life Capital delivered a very strong ROE of 21.2%, including the contribution of the Guardian acquisition.

Our Asset Management team produced a strong ROI of 3.7% despite the low interest rate environment.

And finally the latest Group SST ratio as submitted to FINMA – our Swiss regulator – remains very strong at 223%. We conducted a comparison analysis of our 2016 Group SST ratio with an equivalent Group Solvency II ratio and I will comment on it later in my presentation.

Slide 4: Key figures

On this slide you will find the usual overview of key figures.

We introduced new metrics and, as of this quarter, we will report on our EBIT and net operating margins across our Business Units. These metrics provide a more comprehensive measurement of our performance. They also allow greater comparability across our business segments and help investors to compare our activities with companies in other sectors.

Now let's move on to P&C Re's results.

Slide 5: Strong results in P&C Reinsurance despite market softening, with significant large and tailored transaction growth

P&C Re delivered a strong set of results with an annualised return on equity of 19.1% for the quarter. We fully utilised our unique client relationships, expert knowledge and superior financial strength to close large and tailored transactions at attractive rates. This strategy allows us to profitably grow our book of business in a challenging market environment.

The quarter benefited from the absence of large nat cats, partially offset by some unfavourable prior-year developments – mainly related to 2010 and 2011 New Zealand earthquakes and asbestos. As you know, we react quickly to claims development in order to remain well reserved on a best estimate basis.

Our clients continue to highly value Swiss Re as a reliable partner helping them with their risk and capital management needs.

Slide 6: Solid L&H Reinsurance results, also driven by large and tailored transactions

After the successful turnaround in 2015, our Life & Health Reinsurance business had a solid start to the year, delivering a strong net income with a ROE of 16.1%.

The increase in premiums is driven by a large in-force transaction in the US, as well as from large and tailored transactions in Australia and the UK.

The net operating margin remains solid at 12.1%. This underlines the quality of our in-force book and the profitable new business.

We continue to see attractive opportunities for profitable growth in Life and Health Reinsurance.

Slide 7: Corporate Solutions achieves attractive growth and good results

Corporate Solutions reported good results during the quarter as it continued its disciplined growth strategy in a challenging market. The acquisition of IHC Risk Solutions in the US is an example of broadening our footprint and product capabilities. The increase in gross premiums written was mainly driven by the IHC acquisition, which closed in March 2016. While pricing remains under pressure, Corporate Solutions demonstrated discipline in actively managing the cycle, with a combined ratio of 90.4% for the first quarter.

We experienced unfavourable prior-year developments on casualty losses, and benefited from the absence of major natural catastrophes.

Net income and ROE were strong for the quarter, driven by a profitable performance across most lines of business.

Slide 8: Life Capital delivers strong results supported by Guardian acquisition

Moving on to Life Capital, it is the first time that our financial results reflect the newly created Business Unit structure, which encompasses Guardian Financial Services and the open book life and health businesses, in addition to Admin Re®.

With the introduction of Solvency II, the methodology for determining Gross Cash Generation was adjusted from January 2016. Given that this regime is more sensitive to economic movements, Gross Cash Generation was negative during the quarter, driven by material movements in UK interest rates and credit spreads. We remain confident that the Business Unit will generate gross cash of between 1.4 and 1.7 billion US dollars over the next three years.

Life Capital delivered a strong EBIT and net operating margin mainly driven by net realised gains in the derivative portfolio which we acquired as part of Guardian. We are managing down the exposure of this portfolio to optimise it under the Solvency II regime.

Life Capital concluded the first three months of 2016 with a very strong ROE of 21.2%, against its mid-term ROE target of 6-8%.

Slide 9: Group investment portfolio continues to demonstrate strong results in a challenging yield environment

Our Asset Management team delivered another strong performance in what continues to be a very challenging interest rate environment. Our investment portfolio increased by more than 20 billion US dollars with the acquisition of Guardian, which was not yet fully reflected in our average invested assets.

Asset allocation changes in the first quarter include a net increase in credit investments due to the Guardian acquisition and large transactions, partially offset by sales of non-investment grade bonds.

Return on investments was strong at 3.7% for first quarter of 2016. Though slightly down versus last year, the ROI still reflects a very good performance in the current environment and was primarily driven by the net investment income and realised gains from sales of fixed income securities.

Realised losses from impairments remain low when compared to our overall investment result.

Finally, our running yield of 3.0% for the first quarter of 2016 remains stable versus the previous year as the beneficial impact of the portfolio acquisitions was offset by continued low re-investment yields.

Slide 10: Common shareholders' equity increased as net income and unrealised gains were only partly offset by the share buy-back

Details on our US GAAP common shareholders' equity are on slide 10. The increase due to our net income for the quarter and the net change in unrealised gains were partly offset by the share buy-back programme announced last year and completed on the 2nd of March.

Slide 11: Swiss Re's Group capitalisation remains very strong

On this slide you can see the development of our very strong Group SST ratio over the last 6 years.

At 223%, our Group SST 2016 ratio is higher than previously estimated as it now fully reflects our January renewals as well as recent discussions with FINMA on items impacting the required capital.

As promised we conducted a comparable analysis of our Group SST ratio under Solvency II, this on a best effort basis.

Our Group SST 2016 ratio translates into a Solvency II ratio of 312%. This re-emphasises our very strong capital position and also confirms our earlier assesment that SST is a conservative solvency measure. This assessment does not change our capital management priorities as the Group is subject to the Swiss regime.

There are a number of methodological differences between the two regimes. As you may have seen we provide you with more details on those differences in a separate video presented by our Group CRO Patrick Raaflaub.

Let's now move on to an update on business developments.

Slide 13: P&C Reinsurance maintains attractive portfolio despite continued challenging market environment

Approximately 10% of P&C Re's treaty portfolio is up for renewal in April. Year-to-date we saw a significant increase in the treaty gross premium volume, entirely driven by the successful closing of large and tailored transactions.

In the April renewals, we saw the price erosion for property business slowing and casualty markets remaining relatively stable. Our overall risk-adjusted price quality year-to-date remains at 102%, the same as at January this year, exceeding our economic return hurdles. Let me remind you that a ratio of 100% is not calibrated to break-even, but to our Group ROE target of 700bps above risk-free.

Slide 14: Significant potential for insurance industry to narrow the protection gap

I would like to take a step back from our quarterly results to reflect on the longer term and global view on our sector. As you know, Swiss Re conducts extensive research on the insurance sector and actively contributes to a better understanding of the opportunities but also challenges in the industry.

Through our sigma research and publications we analyse the protection gap and continue to see a trend of economic losses out-pacing insured losses. In contrast with previous figures which measured the protection gap in terms of sums assured, this slide shows the protection gap as premium equivalents.

At Swiss Re we focus our efforts on broadening our access to risk, whether through insurance clients, corporates, distribution partners or the public sector. Closing the protection gap represents an opportunity which will benefit both our society and our shareholders.

Slide 15: Commentary on Group financial targets

Finally, a few words on our new financial targets, which apply as of this year. We close the first quarter with reported Group and Business Unit ROEs above or within our targets. We will update you on our progress on a regular basis. I can assure you that delivering on these targets remains our top priority.

Thank you very much for watching this video on Swiss Re's first quarter 2016 results!

Corporate calendar & contacts

Corporate calendar

29 July 2016	Second Quarter 2016 Results
3 November 2016	Third Quarter 2016 Results
2 December 2016	Investors' Day
23 February 2017	Annual results 2016
16 March 2017	Publication of Annual Report 2016 and EVM Report 2016
21 April 2017	153rd Annual General Meeting
4 May 2017	First Quarter 2017 Results

Investor Relations contacts

E-Mail	Investor_Relations@swissre.com
Hotline	+41 43 285 4444
Philippe Brahin	+41 43 285 7212
Jutta Bopp	+41 43 285 5877
Manfred Gasser	+ 41 43 285 5516
Chris Menth	+41 43 285 3878
Iunia Rauch-Chisacof	+41 43 285 7844