ANNUAL RESULTS 2014

Transcript of analyst and investor video presentation

Michel M. Liès, Group CEO

David Cole, Group CFO

Zurich, 19 February 2015

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 solely for your information in connection with the release of its unaudited full year 2014 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, 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:

- 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 does not constitute an invitation to effect any transaction with, or to make use of any services provided by, Swiss Re.

SLIDE 1 [title]: Annual results 2014

[Michel M. Liès]

Good day every one! Thank you for watching this presentation of Swiss Re's 2014 annual results. My name is Michel Liès. I am Swiss Re's Group CEO and I am here with our Group CFO, David Cole.

Slide 2: Today's agenda

Together, we are going to present our Group's key achievements in 2014, our financial performance and our outlook for 2015 and beyond.

Slide 3: Key achievements – Section slide

So first, the achievements!

As you will see, 2014 was another successful year for Swiss Re, leading to a stronger foundation for sustainable earnings going forward.

Slide 4: 2014 priorities and achievements

Our achievements are highlighted through the four priorities I set out last year.

In terms of our Group Strategy, we again demonstrated underwriting discipline in 2014. We capitalised on our differentiating factors. These give us access to unique opportunities and allow us to provide clients with tailored solutions. Our productivity measures are also delivering results. We expanded in High Growth Markets in a disciplined manner.

In P&C Re, we maintained strong underwriting results despite rate pressure, and continued our expansion into Casualty. Corporate Solutions continued to deliver profitable growth and extended its presence in China and Latin America.

In Life & Health Re, we took decisive actions to restore the profitability of our in-force portfolio, particularly our pre-2004 US YRT book, which had been problematic for some time. These actions will help us achieve our ROE target of 10-12% for Life and Health Re by 2015.

Swiss Re

Gross cash generation for Admin Re® was almost twice as high as last year. Admin Re® also strengthened its franchise in the UK and continued its exit from the US.

Our Asset Management team delivered a strong return on investments by actively re-balancing assets to deal with the low interest rate environment. Our target capital structure is on track. This gradually reduces our cost of capital and optimises our financial flexibility.

Our Group capitalisation remains very strong. At the end of 2014, our capital was more than ten billion dollars higher than that required for a double-A rating from S&P. Our last reported Group SST ratio was 249%, as shared with you in November.

Based on our strong capital position and business performance, the Board will propose important capital actions, which I will comment on shortly. These reflect our confidence in future earnings and long-term growth prospects for Swiss Re.

Let's now look more closely at 4 of our main achievements in 2014: first in P&C, then in Life & Health reinsurance, in asset management and then finally in capital management.

Slide 5: Continued strong and stable underwriting track record in P&C underwriting

In P&C, our strong and stable underwriting track record continues. We have consistently demonstrated the resilience of our underwriting skills through the cycle. This is a key differentiator for Swiss Re. Remember this slide covers the whole of our P&C operations, so it includes both P&C Re and Corporate Solutions.

You see the drastic reduction in interest rates over the last decade and a half, and also a significant reduction in our combined ratio. Swiss Re's approach of underwriting based on risk free rates, and not including additional investment return, has been a key factor in our success.

Underwriting discipline underpins everything that we do at Swiss Re. It is part of our DNA and has allowed us to become a leader in the industry.

Slide 6: Decisive actions taken in L&H Re to improve future profitability

As I mentioned, the Group took decisive actions in 2014 to improve the profitability of Life and Health Reinsurance.

First and foremost, there was our underperforming pre-2004 US YRT book. We flagged this issue at our Investors' Day in June 2013 and explained our plan to fix it.

In short, this book was a significant drag on earnings. With an average duration of 13 years, it would have impacted earnings for a long time to come.

We successfully concluded transactions with key clients during the fourth quarter, and as expected this had a negative impact on Life and Health Re's 2014 results.

Addressing this issue, and taking decisive actions to enhance future profitability in Life & Health Re, is ultimately positive for Swiss Re and our shareholders.

The other action we took was to unwind the funding structure supporting a longevity transaction. There was no change to the longevity part of the transaction. We continue to like longevity risk. We took advantage of an opportunity to unwind asset funding arrangement, as assets held in the structure were earning a lower return than the interest payable on the related debt. We were able to unwind the arrangement at overall attractive economics and whilst this created an accounting loss, it is expected to improve future earnings.

These actions underline our commitment to achieving an ROE in Life and Health Re of 10 to 12% by 2015.

Slide 7: Steady investment performance through active asset re-balancing

We also delivered a strong return on investments in 2014 and a steady investment performance over time. Active asset re-balancing has helped mitigate the effect of lower interest rates. If interest rates remain at record low levels, this will of course put additional pressure on our ROI going forward.

Swiss Re

Slide 8: Significant capital returned to shareholders

Our 2014 business performance and strong capital position allows us to provide another significant capital distribution.

The Board of Directors will propose a regular dividend of 4 francs 25 (that's 10% more than last year), plus a special dividend of 3 francs, for a total distribution of 7 francs 25 per share, which will use up our tax privileged legal reserves from capital contributions. With that reserve fully utilised, we expect any future excess capital measures to be in the form of share buy-backs. Accordingly, the Board will also propose a share buy-back programme of up to CHF 1bn at the upcoming AGM.

You can see from the chart that the implementation of our Business Units structure in 2012 has supported a strong flow of dividends up from the Business Units and on to shareholders.

Our dividend policy has not changed: we aim to maintain the regular dividend, and grow it with long-term earnings.

Slide 9: On track to meet our 2011-2015 Group financial targets

So where do we stand with regard to our financial targets?

In 2014, we generated earnings per share slightly above USD 10 and a return on equity above 10%. Both the ROE and EPS are above the "watermark" levels implied by our financial targets.

We will provide an update on our Economic Net Worth per share target on the 18th of March when we publish our 2014 EVM results, together with the full 2014 Annual Report.

I'll now hand over to David for the financial highlights and will return later to update you on our strategy and business outlook.

Slide 10: Financial Performance –Section slide

[David Cole]

Thank you Michel, and good day to all of you from me as well! I will begin my presentation with the key highlights of 2014.

Slide 11: 2014 highlights

I am pleased to report Swiss Re achieved a strong net income of 3.5bn USD for 2014. Resilient P&C underwriting was a key contributor. There was also a solid contribution from our investments, where the ROI was a strong 3.7%. As Michel already mentioned, our Group results were impacted by a series of management actions taken in Life & Health Re. These actions are expected to improve the future profitability of this business.

Corporate Solutions continues to implement its growth strategy, increasing its net premiums earned by almost 18% while delivering on its profitability targets.

Admin Re® reports excellent gross cash generation driven by the release of surplus reserves and the sale of a US portfolio.

As Michel mentioned, on the basis of both our business performance and our capital strength, the Board will propose capital measures that distribute 2.5bn CHF to shareholders in the form of a regular dividend and a special dividend, along with up to CHF 1bn in the form of share buy-back programme for a duration of 12 months.

Slide 12: Key figures

On slide 12 you will find the usual overview of key figures. I will not walk you through this slide; however, I would like to highlight that, as in recent years, unrealized gains again significantly increased shareholders' equity during 2014, mainly as the result of lower interest rates.

One additional matter I would like to mention is that the US Dollar and Swiss Franc were almost at par at the end of the year. Staying with foreign exchange, I'd like to briefly comment on the Swiss National Bank's decision to remove the minimum exchange rate to the Euro. As a globally diversified Group, this does not have a significant impact on Swiss Re. We are broadly currency matched, with premiums generally invested in the same currency in which claims will be paid. Dividends are paid in Swiss Francs, but this is a well-established process and we actively manage this FX risk.

Let's move to P&C Re's results.

Slide 13: P&C Reinsurance continuous to deliver strong underwriting results via diversified earnings stream

P&C Reinsurance delivered another set of strong results in 2014. A diversified earnings stream, along with a lower than expected level of natural catastrophes, helped the bottom line and the ROE of our business.

We have noted the current market environment is challenging and pricing is under pressure. Michel will spend more time on this when he talks about our January Renewals. However our team is working tirelessly to help our clients with their risk protection needs while earning good returns for our shareholders.

Our longer term view and our deep knowledge are what set Swiss Re apart from many other players. Yes P&C Re has an exceptionally low combined ratio this year. And an exceptionally high ROE. Neither are at levels sustainable over the longer term. We do expect Nat Cat losses to revert to the mean. It might not happen in 2015, nor in 2016. But we believe it will happen.

Our P&C Re franchise is ideally placed to continue to deliver value. We have a differentiated business model and we will continue to work hard to outperform the competition.

Slide 14: L&H Reinsurance net income reflects decisive actions taken to enhance future profitability

As Michel mentioned earlier, today we announced the outcome of the decisive actions we have taken to resolve the issues surrounding our poorly performing pre-2004 YRT business in the US. This involved a small number of clients, valued clients, where this business was causing a significant drag on our earnings and was not expected to improve. The actions we took led to a pre-tax charge of 623m USD in 2014. More importantly, they secure an important foundation for the future profitability of this business.

The charge is higher than the estimate we provided in November. At that time we made assumptions about the structure and accounting of the expected settlement arrangements, such as the split between recaptured and newly priced business. The ultimate form and structure we agreed with our clients led to a higher US GAAP charge. However the underlying economics did not change and are broadly in line with our earlier assumptions.

We also unwound the asset funding portion of a UK longevity structure. To be clear, we did not unwind the longevity risk within the deal. We continue to like longevity risk. This re-structuring will help improve future profitability. And by removing operating leverage from our balance sheet, it improves the overall quality and transparency of our capital position.

Taxes payable is calculated on the overall balance sheet. The tax benefit resulting from this re-structuring is therefore shared between Life & Health Re, and P&C Re. So while the pre-tax charge in Life & Health Re was 344m USD, the post-tax charge to the Group as a whole was 195m USD.

I would be remiss if I didn't update you on the current business we are writing. The Life & Health team has been busy developing solutions to meet clients' needs and had achieved numerous successes in 2014. During the year we saw significant growth in both Life & Health at attractive returns. We like life and health risks. They play to our strengths.

Slide 15: Corporate Solutions delivers profitable growth across all regions

Our Corporate Solutions business has delivered another year of profitable growth across all regions. The business unit is on track to deliver on its ambitions for premium and ROE in 2015. You have heard me say this before, but I would like to repeat it: we are not driven by top line growth. The quality of the portfolio remains our key driver.

As I mentioned during our Q3 2014 results call, the combined ratio after adjusting for benign natural catastrophes and favourable reserve developments is higher than we expected a year ago. Expenses were higher than initially planned and we experienced higher than expected man-made losses during the year. Current expense levels reflect ongoing investments for growth. In 2014 that included expenses associated with acquisitions in Colombia and China, and the opening of an office in Frankfurt.

I am also pleased that Corporate Solutions up-streamed 700m USD of dividends to the Group during 2014, of which 400m USD was as an extraordinary dividend in the fourth quarter.

Slide 16: Admin Re® generates excellent gross cash

Admin Re® had a good year. Gross cash generation was excellent, thanks to successful management actions. This allows us to increase the forecast for gross cash generation through to 2016 and Michel will talk about this in a moment. Such management actions include extracting value from the current portfolio, adding new policies to the UK platform through a recent acquisition and announcing the sale of the US subsidiary Aurora. The sale is another key milestone in Admin Re®'s ongoing exit from the US.

Net income was impacted by the loss from the Aurora sale, however under our economic framework this transaction generated an EVM profit of a similar magnitude. We also expect a small positive impact on the Group's overall SST ratio.

Admin Re®'s ROE is depressed particularly due to the sale of Aurora and the business unit's large equity base; please note unrealized gains on the business unit's balance sheet increased by 1.2bn USD during 2014. The management team remains focused on improving return on equity. We continue to look at opportunities to release capital and remit surpluses to the Group, which will contribute to a lower equity base, while we continue to seek to invest in attractive new opportunities. Combined, these actions will improve ROE.

Slide 17: Group investment portfolio delivers a strong result

Our Asset Management team delivered another strong performance in 2014. We also have maintained a high quality investment portfolio.

Average invested assets were broadly unchanged over the year. Lower interest rates towards the end of the year helped offset the impact from net asset outflows. The main portfolio changes during 2014 included the reduction of equities and alternative investments, which realized appreciation earned over recent years.

These realised gains supported the strong return on investments, which was slightly better than last year. It reflects solid performance in the current environment and was primarily driven by higher net investment income and realised gains from equity sales.

We continue to see low levels of impairments reflecting the portfolio's high quality.

Finally, our running yield was slightly higher than last year and in line with our expectation.

Slide 18: Investment portfolio in line with our business mix and economic outlook

You can see our current investment allocation remains in line with our mid-term plan. It is also consistent with our business mix and the economic outlook.

2014 saw an increase in government bonds and a decrease in equities and alternative investments.

Slide 19: On track to implement target capital structure, reducing cost of capital and optimising financial flexibility

We remain on track to achieve our target capital structure having made significant progress during 2014. The capital figures and leverage ratios you see here will be updated with the publication of our EVM results on the 18th of March.

Slide 20: Increase in common shareholders' equity due to net income and change in unrealised gains, partially offset by dividends and fx loss

Details on our US GAAP common shareholders' equity are on slide 20. Net income and unrealised gains were the main drivers for the rise over the previous year, largely offset by dividends paid and foreign exchange movements.

I will now hand back to Michel for the business and strategy outlook.

Slide 21: Business and strategy outlook – Section slide

[Michel M. Liès]

Thank you David! I will provide you with a business outlook for 2015, together with our priorities. I will also introduce our new Group financial targets, which will start in 2016.

Slide 22: Priorities for the Group in 2015

First our priorities for the Group in 2015!

Our ambition is to successfully execute our current strategy and meet our 2011-2015 Group financial targets.

We will take full advantage of our differentiation to generate value for both our clients and shareholders. We will aim to maintain our focus on underwriting discipline, particularly considering the challenging market environment. We will allocate capital to risk pools that meet our strategic and financial objectives. We will continue to shift capital and talent to High Growth Markets, as we have done in the past, and maintain our focus on productivity measures. Our dividend policy remains unchanged.

In P&C Re, we will continue to differentiate our offering through knowledge, expertise and tailored services. In Life & Health Re we will aim to grow profitable new business and deliver our 2015 ROE objective of 10-12%.

In Corporate Solutions we will be executing on our commitment to profitable growth, with particular focus on High Growth Markets.

The Admin Re® team will continue to work hard to enhance our closed life book franchise, maintain operational excellence and focus on selective new portfolio acquisitions.

Slide 23: High quality portfolio of January P&C Reinsurance renewals maintained despite rate pressure

I will turn now more specifically to our January renewals. This is an important renewal for our P&C Re business, as approximately 60% of our treaty book renews on that date. While this was certainly a challenging renewal, it was also a disciplined renewal. For our portfolio, risk adjusted price quality decreased by 3% points, and volume decreased by 4%. While rates in total are down, our book remains a quality book. Importantly, Swiss Re remained firm on critical terms and conditions.

With the January renewals behind us, this allows me to provide an estimate for P&C Re's 2015 combined ratio. We estimate this will be 97%, assuming a normal level of large losses. This is 2% points higher than last year, with the increase due to both the lower rate environment and a change in business mix at Swiss Re. We are writing more Casualty business now than last year. Casualty business typically has a higher nominal combined ratio than Property. Of course that does not necessarily mean the economics are less attractive.

We prefer looking at business on an economic basis, as we believe that is what will drive long term shareholder value.

Slide 24: Swiss Re is well positioned to meet industry demand in L&H Reinsurance

David and I have spent a lot of time talking about our actions in Life & Health Reinsurance. So I will not dwell on this slide. But I would like to remind you that this business remains strategically attractive for Swiss Re. Long term demographics and economic changes will play to our strengths. We will continue to optimise our global franchise and we believe our expert knowledge of biometric risk will deliver returns for shareholders. We are fully committed to an ROE of 10 to 12% in this segment by 2015.

Slide 25: Corporate Solutions strategy implementation on track

Corporate Solutions strategy implementation is on track. The team is doing a great job in executing their strategy. Despite the softening market environment, we are on track to reach the goal of USD 4-5 billion gross premium written at a 10-15% ROE by 2015. The challenging market environment is also the main reason why we expect the combined ratio for 2015 to be higher, at 98 percent.

We see opportunities to move more significantly into High Growth Markets and to expand into Primary Lead.

Slide 26: Admin Re® increases gross cash generation forecast

In Admin Re® we are keen to pursue further growth opportunities and to build our existing franchise in the UK.

Since the formation of this business unit, Admin Re® has generated a steady flow of cash and up-streamed significant amounts of dividends to the Group. Admin Re® increased the gross cash generation forecast for the period 2014 to 2016, mainly due to excellent cash generation in 2014. During the next two years, we expect about USD 500 million more. In the same period we expect about USD 600 million in dividends to be up-streamed to the Group.

We continue to work on improving the optionality of this business unit, which includes the use of external funding for new business transactions.

Slide 27: Principal Investments maintains focus on High Growth Markets and insurance

Finally a few words on Principal Investments!

About three quarters of its USD 2.7bn carrying value at the end of 2014 is now in insurance-related investments, with much of it in High Growth Markets. This is totally in line with Principal Investments mandate and we expect that pattern to continue.

Principal Investments is a complementary access point into our core business, alongside our traditional strategies in Reinsurance and Corporate Solutions. There are clear limits and Principal Investments is fully embedded in our overall asset allocation.

Principal Investments delivered a strong performance in 2014 as expressed by its Return on Investments and Total Return figures.

Slide 28: Building blocks of our new 2016 financial targets

Swiss Re is well positioned to tackle the future challenges of the insurance sector and harvest attractive returns: we benefit from our deep underwriting knowledge and more than 150 years of experience. Our global reach and product diversification allows us to sustain profitable levels; our strong capital allows us to remain agile in deploying capacity.

We will systematically allocate capital to risk portfolios that meet our targets, and align resources accordingly. In doing so, our focus will remain on profitability and economic growth, which will be the cornerstones of our new financial targets.

Slide 29: Looking at 2016 and beyond, our new Group targets are focusing on profitability and economic growth

Our first target for 2016 and beyond will be to deliver a Return on Equity of 700 basis points above the risk-free rate. This will keep our focus on maintaining our strong underwriting track record and ensure that we provide attractive returns compared to our peers. The ROE target will be benchmarked against 10 year US government bonds, with a careful monitoring of a basket of rates given our diversified business offering.

Our second target will be to grow Economic Net Worth per share by 10% per year. This will ensure that we remain committed to sustainable business growth and shareholder value creation. The Economic Net Worth growth per share will be calculated on a Year-on-Year growth rate.

Both targets are set "over the cycle", in order to provide a long-term view and ensure measurement is not disrupted by any particular individual year.

With these targets, we maintain our focus on both profitability and economic growth over the long term.

Thank you for watching this video on Swiss Re's 2014 annual results!

Swiss Re

Corporate calendar & contacts

Corporate calendar

18 March 2015	Publication of Annual Report 2014 and EVM results 2014
21 April 2015	151st Annual General Meeting
30 April 2015	First Quarter 2015 results, Conference call
30 July 2015	Second Quarter 2015 results, Conference call
29 October 2015	Third Quarter 2015 results, Conference call
8 December 2015	Investors' Day

Investor Relations contacts

E-Mail	Investor_Relations@swissre.com
Hotline	+41 43 285 4444
Philippe Brahin	+41 43 285 7212
Ross Walker	+41 43 285 2243
Chris Menth	+41 43 285 3878
Simone Lieberherr	+41 43 285 4190
Simone Fessler	+41 43 285 7299