

Swiss Re AG Publication Of Annual Report 2015 And 2015 EVM Results

Company Participants

- David Cole, CFO

Presentation

David Cole {BIO 7251632 <GO>}

Good day, everyone. Thank you for watching this presentation of Swiss Re's 2015 EVM results. My name is David Cole and I am Swiss Re's Group CFO.

Let me begin by mentioning the key role EVM plays in the execution of our strategic framework, as introduced at our Investors' Day in December 2015. The first pillar of our strategic framework focuses on systematically allocating capital to risk pools and revenue streams. We use EVM to measure our underwriting and asset portfolios, allocate capital, plan and evaluate performance. This supports our strategic objective to create long-term economic value for our shareholders.

Here I would like to underline the direct link between EVM and the targets we as a Group set ourselves for over the cycle. By taking an economic view of our activities and results, we ensure we use sound insights to steer the allocation of financial resources. As our assets and liabilities are assessed on a market-consistent basis, our EVM results may be subject to significant volatility. This is a reality which supports our risk and capital management discipline. EVM makes the analysis of the drivers behind the results transparent.

Finally, I would like to point out that again, as was the case last year, our 2015 EVM report has been audited by our external auditor. So let's now continue and review Swiss Re's 2015 performance from an EVM point of view. 2015 was another solid year for Swiss Re, further strengthening the foundation of our long-term earnings. However, on an EVM basis, 2015 was a more challenging year than 2014 and we faced significant headwinds during the year. Despite continued pressure on pricing, we maintained strong new business underwriting discipline in P&C Reinsurance and Corporate Solutions. We also experienced, again, favorable prior-year developments in both of our non-life segments.

Life & Health Reinsurance produced a solid EVM new business underwriting profit in 2015, driven by large transactions. And after the corrective actions we took during 2013 and 2014, the in-force portfolio of Life & Health Reinsurance also delivered a much stronger result. As you know, Admin Re significantly strengthened its closed life book franchise in the UK through the Guardian acquisition. Under our economic framework, we recognized an EVM loss of \$673 million on the transaction during 2015. I will elaborate on this a little bit later.

FINAL

As you know, our EVM investment performance reflects the mark-to-market return on invested assets relative to a minimum risk portfolio benchmark. Our investment activities resulted in a risk-adjusted loss in 2015, mainly driven by the negative impact of credit spread widening during the year. This impact was partially offset by gains in alternative investments. Notwithstanding a solid EVM income, Swiss Re's economic net worth decreased by approximately 3% to \$37.4 billion in 2015, driven by the substantial dividend payment along with the share buyback program we launched in 2015. We ended 2015 with an economic value per share of \$110.6 or CHF110.7.

As announced last month when we published our 2015 US GAAP results, based on our continuing strong financial position and our financial performance, Swiss Re's Board of Directors is proposing important capital actions at the upcoming AGM. These include both an increased regular dividend of CHF4.6 per share and the authorization of a new share buyback program. The launch of the new share buyback program will be subject to the availability of excess capital in 2016. These proposed capital actions reflect our confidence in the economic position and earnings of Swiss Re.

Let's now look more closely at the economic results of our business segments and our investment activities for 2015. On slide five you will find the usual overview of key economic figures for 2015. I will not walk you through this slide in detail. However, I would like to point out that the present value of premiums has gone up by 13% compared to last year, underlining the continuing success of our differentiation strategy, particularly when executing large and tailored transactions.

Let's move to P&C Re's results. In P&C Reinsurance, we continued to demonstrate our superior underwriting skills in a challenging market environment. An increase in our casualty business led to higher premium volumes, which were partially offset by lower premium rates. On a risk-adjusted basis, 2015 new business profit amounted to a strong \$1.2 billion. This was lower than in 2014, due to a challenging market environment and a higher overall burden of man-made losses as well as FX movements. The overall 2015 EVM profit improved to \$1.7 billion.

Life & Health Reinsurance reported an overall EVM profit of \$283 million in 2015, notwithstanding the fact that investment activities generated a loss of \$398 million during the year, driven by widening credit spreads. The investment loss was more than offset by very strong new business origination in 2015, with a new business profit of \$732 million. The new business result was mainly driven by large transactions in Australia and Europe. We continue to see attractive opportunities in Life and Health Reinsurance.

Corporate Solutions delivered an EVM profit of \$26 million in 2015. The results reflect the challenging market environment, higher large man-made losses and nonrecognition of goodwill related to the acquisition completed in China during the year. Positive developments in our previous years' business profit of \$121 million compensated new business losses from underwriting and investment activities of \$41 million and \$54 million respectively.

FINAL

In 2015, Admin Re announced the acquisition of Guardian Financial Services, which closed in 2016. The EVM impact of this important transaction at inception was a loss of \$673 million, which we recorded in 2015. Allow me to explain why this loss at inception occurred. In contrast with other valuation frameworks, our EVM framework does not recognize, at inception, expected investment returns above risk-free rates. Any form of matching adjustments, liquidity premium or investment income in excess of the risk-free rate is not credited to a transaction at inception. But is only earned and recognized over time when realized. This leads to an EVM loss at inception related to the Guardian acquisition, while we expect related EVM income to fully recover over the first five years.

While EVM is an important metric for decision-making across Swiss Re, it is not the only metric we consider. We expect the acquired business to materially contribute to the gross cash generation and US GAAP ROE of the business unit. The Guardian acquisition has also considerably enhanced the market position of our closed life book franchise in the UK.

Our risk-adjusted overall investment performance, relative to the return of our liability-based benchmark, fell short of expectations during 2015. This was mainly driven by global credit spread widening and was partially offset by gains on alternative investments. In 2014, we experienced losses on a short interest rate position, which did not reoccur on a generally well-matched duration position in 2015. As mentioned earlier, the investment performance in EVM is measured against a market-consistent liability benchmark and as such, the volatility of financial markets directly impacts our economic investment result on a yearly basis.

Our economic net worth decreased to \$37.4 billion, as EVM income was offset by the dividend paid out and the share buyback launched in 2015 as well as foreign exchange movements. We maintain a level of economic net worth that exceeds our current market capitalization.

Over the last several years, we have successfully implemented our target capital structure and we made further progress in 2015. Our actions have reduced our cost of capital while creating a high level of financial flexibility. We can utilize this flexibility to fund our operations according to their ongoing needs and ambitions.

Before I conclude, I'd like to comment on the last remaining 2011-2015 group financial target, the economic net worth per share growth. As you know, we exceeded both our ROE and our EPS group targets. We almost achieved the EVM target, with a compounded annual growth rate since 2010 of 9.6%, falling slightly below 10%, driven by FX impacts as well as the upfront impact of the Guardian transaction. This remains a solid achievement over a period which has seen historically low interest rates persisting for much longer than was expected in 2010.

Looking at 2016 and beyond, our new group targets focus on profitability and economic growth. I would like to take this opportunity to reiterate that a 10% economic growth per year over the cycle is indeed an ambitious target. We have set this for ourselves notwithstanding the environment of continuing very low interest rates.

FINAL

Let me conclude by highlighting some of the changes we have introduced in our EVM framework, which will be effective in conjunction with our new performance cycle starting in 2016. Following a comprehensive review of our framework. And considering the changed economic environment, we have reassessed important parameters around capital costs. As a consequence, the hurdle rates we apply internally have increased as of January 1, 2016. This also reflects our ambition to continue achieving attractive economic returns over the cycle going forward. Let me remind you that we use these parameters consistently in pricing the business, measuring our performance and reporting our economic financials. You will see impacts from the framework and parameter changes in an opening balance sheet adjustment in 2016. These changes are intended to ensure that we continue to achieve our ambitions while maintaining discipline when managing both insurance and asset risk. These changes will also create a stronger link with external market expectations.

Thank you for watching this video on Swiss Re's 2015 EVM results.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript