Swiss Re

2017 Annual Report
Letter to Shareholders

Resilience in action

SRE004E

2017
Key highlights

KEY HIGHLIGHTS

Financial strength ratings
Standard & Poor's

AA–

stable
(as of 24.11.2017)

Moody's

Aa3

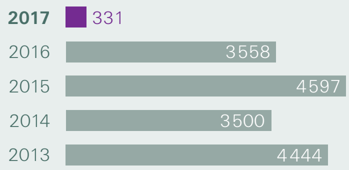
stable
(as of 19.12.2017)

A.M. Best

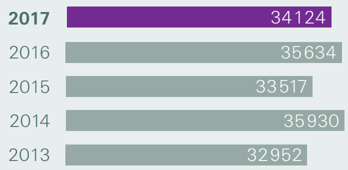
A+

stable
(as of 07.12.2017)

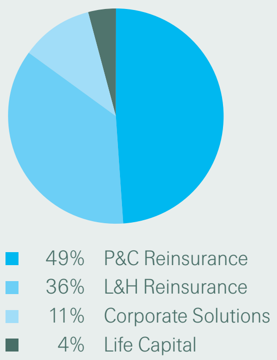
Net income
(USD millions)



Shareholders' equity
(USD millions)



Net premiums and fees earned by business segment, 2017
Total: USD 33.7 billion



Proposed regular dividend per share for 2017
(CHF)

5.00

(CHF 4.85 for 2016)

Financial highlights

FINANCIAL HIGHLIGHTS

For the years ended 31 December

USD millions, unless otherwise stated	2016	2017	Change in %
Group			
Net income attributable to common shareholders	3 558	331	–91
Gross premiums written	35 622	34 775	–2
Premiums earned and fee income	33 231	33 705	1
Earnings per share in CHF	10.55	1.02	–90
Common shareholders' equity	34 532	33 374	–3
Return on equity in %[1]	10.6	1.0	
Return on investments in %	3.4	3.9	
Net operating margin in %	13.0	2.8	
Number of employees[2]	14 053	14 485	3
Property & Casualty Reinsurance			
Net income/loss attributable to common shareholders	2 100	–413	–
Gross premiums written	18 149	16 544	–9
Premiums earned	17 008	16 667	–2
Combined ratio in %	93.5	111.5	
Net operating margin in %	15.4	–1.3	
Return on equity in %[1]	16.4	–3.5	
Life & Health Reinsurance			
Net income attributable to common shareholders	807	1 092	35
Gross premiums written	12 801	13 313	4
Premiums earned and fee income	11 527	11 980	4
Net operating margin in %	10.4	13.1	
Return on equity in %[1]	12.8	15.3	
Corporate Solutions			
Net income/loss attributable to common shareholders	135	–741	–
Gross premiums written	4 155	4 193	1
Premiums earned	3 503	3 651	4
Combined ratio in %	101.1	133.4	
Net operating margin in %	4.2	–23.5	
Return on equity in %[1]	6.0	–32.2	
Life Capital			
Net income attributable to common shareholders	638	161	–75
Gross premiums written	1 489	1 761	18
Premiums earned and fee income	1 193	1 407	18
Gross cash generation[3]	721	998	38
Net operating margin in %	27.0	10.9	
Return on equity in %[1]	10.4	2.2	

[1] Return on equity is calculated by dividing net income/loss attributable to common shareholders by average common shareholders' equity.
[2] Regular staff.
[3] Gross cash generation is the change in excess capital available over and above the target capital position, with the target capital being the minimum statutory capital plus the additional capital required by Life Capital's capital management policy.

Swiss Re's strategy helped navigate a turbulent 2017

Walter B. Kielholz
Chairman of the Board of Directors

Dear shareholders,
2017 was a turbulent year. It will go down in history as a year in which insurers – especially reinsurers – faced many claims from major natural catastrophes. Insurers saw their accounts hit by no fewer than three hurricanes in the North Atlantic, two earthquakes in Mexico, two large forest fires in California and storms in Australia. But after all, this is our business and the reason why we're here. That's why we provide a detailed overview of the 2017 natural catastrophes and their impact in our Annual Report. Incidentally, history shows that loss concentrations of this kind occur at a practically biblical rhythm of every five to seven years.

Proposed regular dividend per share for 2017
(CHF)

5.00

(CHF 4.85 for 2016)

The high storm activity clearly illustrated the potential consequences of climate change. While the frequency of storms in 2017 was not actually extraordinary when viewed in a multi-year comparison, it did show us what could happen if major storms were really to occur more frequently on a lasting basis, year after year. No one can predict how the insurance industry would actually deal with such a trend. In any case, Swiss Re will help contribute to managing the implications of climate change – both through our insurance solutions and our investment strategy. Mind you, this is also something that major institutional investors increasingly and vigorously call for.

It will be interesting to see how the insurance markets will respond to a year like 2017. Prices for insurance cover normally begin to drop after a series of "good" years, or in other words, years without large claims. This has been the case for quite some time now. But prices are set to rise again in the wake of a year such as 2017 – and this has been the case since the start of 2018, although the increases in the overall market are somewhat more muted than we would have expected. I am intrigued to see how the market dynamics will continue to develop. What we already know is that 2017 didn't particularly weaken insurance market capitalisation, which may indicate a more moderate correction in prices. This remains to be seen.

Geopolitical risks

A year ago, I commented on geopolitical risks, at that time in the wake of Brexit and the US elections. Do I feel reassured, one year later? No, I do not. However, the reasons for my concern about the geopolitical situation have shifted somewhat. I now take a slightly more optimistic view of the situation in Europe, with respect to both the political and economic conditions. While the situation in the UK remains very uncertain and the potential consequences of Brexit are still somewhat unclear, I am encouraged by developments in other European countries.

While the US is demonstrating economic strength that we haven't seen for years, the country is still bitterly divided on key issues – which will presumably worsen. I believe that the US is in the midst of a more substantial transformation than is suggested by the media's focus on President Trump and his Twitter activity. At the same time, the Middle East continues to be the scene of great political upheaval, and unfortunately, no rays of hope are discernible on the horizon at present.

Please be assured that the management and the Board of Directors of Swiss Re take these geopolitical developments very seriously and continue to monitor them closely – we remain vigilant.

Growth, inflation and interest rates

We are obviously pleased that the global economy has entered a growth phase, even more so as our business can only grow when other industries outside of the financial sector are growing too. The inflation so long-awaited by many could, however, be a headache for us if it gets out of control. Let's remember that we are vulnerable to inflation, especially in the liability business. In the past, it was very difficult to adjust for strong and sudden inflation hikes. Of course, we haven't reached that point yet. But the phase of highly expansionary monetary policy – whether traditional or non-traditional – is over, and there is little doubt that yield curves will change again – move upwards and get steeper.

In fact, we are happy to experience an almost normal economic situation of this kind; but the road leading there will be painful for the insurance industry, because it implies a long and sustained bond bear market. This is a nightmare for a re/insurance company like Swiss Re that holds nearly 77% of its financial assets in bonds – and the reason why we are striving all the more to keep a check on the negative medium-term effects. Ultimately, I am convinced that the near future will see the establishment of a new reality in the financial markets, in which we will also be able to operate very successfully again.

Knowledge and experience sets us apart

154
years

Digitalisation, big data, robotics, artificial intelligence

Forward-looking concepts in the fields of digitalisation and artificial intelligence are currently at the top of the agenda – and everyone is talking about these topics. People are either euphoric or concerned about them, depending on their standpoints and interests: some discussions suggest that business models run the risk of becoming obsolete sooner or later. Meanwhile, individuals are worried about their jobs and the world with which they are familiar. They wonder if their knowledge and skills, which they have worked hard to nurture, might cease to be needed from one day to the next.

I am convinced that today's concept of eco-system insurance will undergo drastic changes. A year ago, I already commented that I consider the distribution and production (intermediation) costs associated with insurance to be far too high given the modern technologies available. This also applies to other financial services, where the current situation has similarly attracted an almost frantic focus. We know, of course, that these far-reaching changes will probably take more time – but we also know that their effects will be felt all the more profoundly and rapidly when they do take hold. I believe that modern technologies will completely disrupt the insurance industry's value chains and pose great challenges to the entire industry's structure.

We have to be strategically prepared for this. We believe that digital disruption will have a less immediate impact on reinsurance and major risk business than on direct insurance business. And we believe that having an agile personnel and organisational infrastructure will be advantageous for purposes of flexibly adapting traditional business models. Nevertheless, we are not naïve: we certainly cannot allow ourselves to become complacent in such a radical phase of change – on the contrary, we want to play an active role in shaping it.

Waiting anxiously and doing nothing is never a useful strategy. Swiss Re is therefore examining various strategic options that will enable us to respond rapidly to the digital transformation and fully capitalise on its future potential.

Meanwhile, this all comes down to the main aspect of our strategy: the allocation of capital and resources to emerging business models as well as the leveraging of newly established intermediaries to gain access to risk pools and end customers to which our traditional primary insurance partners have little access. Of course, we also aim to find new ways of assessing and evaluating risks – thanks to new analytical methodologies in a highly interconnected world of infinite data volumes.

Who knows where this journey will lead… but we are definitely living in exciting times. I personally remain optimistic and confident that Swiss Re will continue its success story – thanks to our resources, financial latitude, global network and our employees' wealth of knowledge and expertise.

In conclusion, let me draw your attention to a few important personnel changes: In light of the ongoing renewal of the Board of Directors – a process that we launched some years ago – I am very pleased that we have attracted three outstanding individuals to stand for election to the Board. At the next Annual General Meeting on 20 April 2018, we will propose Karen Gavan, Eileen Rominger and Larry Zimpleman as new, non-executive and independent members.

"I personally remain optimistic and confident that Swiss Re will continue its success story – thanks to our resources, financial latitude, global network and our employees' wealth of knowledge and expertise."

Karen Gavan has over 35 years' experience in various senior-level finance and management positions in insurance companies, both in life insurance and property and casualty business. Eileen Rominger is a recognised investment professional with extensive investment management experience. Larry Zimpleman boasts a successful 44-year career with the Principal Financial Group, an investment management firm that provides insurance solutions and asset management and pension products to private individuals and institutional clients. In the course of their diverse careers, all three have accumulated extensive international experience and sound insurance expertise, as well as wide-ranging skills in the field of new digital insurance solutions and offerings.

After 17 years as a member of the Board of Directors, Rajna Gibson Brandon has decided to step down. Mary Francis and C. Robert Henrikson, current members of the Board of Directors, also plan to retire at the next Annual General Meeting. I would like to thank Rajna Gibson Brandon, Mary Francis and C. Robert Henrikson for their great dedication and valuable contribution – not to mention the strategic advice and knowledge they have placed at our disposal over the years.

As already communicated, there is also a change to our Group Executive Committee: John R. Dacey will become the new Group Chief Financial Officer, succeeding David Cole, with effect from 1 April 2018. John R. Dacey joined Swiss Re's Group Executive Committee as Group Chief Strategy Officer more than five years ago, and has successfully led several strategic initiatives. His career in the re/insurance industry spans over 20 years, during which time he has held a range of management positions. After more than seven years at Swiss Re, David will step down as Group CFO on 31 March 2018 to pursue a non-executive career. He will, however, remain a member of the board of directors of several Swiss Re subsidiaries. We would like to thank David Cole for his management expertise and outstanding contribution to Swiss Re.

In addition, I would like to thank our approximately 14 500 employees around the world – also on behalf of the Board of Directors and the Group Executive Committee – for their impressive commitment in 2017. It was largely thanks to their efforts that we were able to successfully navigate a very demanding year. And, finally, I would also like to thank you, our shareholders, for your trust and ongoing support and I wish you a successful 2018.

Zurich, 23 February 2018

Walter B. Kielholz
Chairman of the Board of Directors

Swiss Re maintains its commitment to creating long-term value

Christian Mumenthaler
Group Chief Executive Officer

Dear shareholders,
2017 was a demanding year for our industry – and for Swiss Re. I'm sure you remember the news headlines about Cyclone Debbie in Australia, the hurricanes in the US and Caribbean, the earthquakes in Mexico or the wildfires in California. Above all else, disasters like these are human tragedies. I was troubled and deeply moved by the devastation to families and whole communities.

In such difficult times, we are here to help people and businesses get back on their feet. That has always been our purpose. And it's what makes working here so rewarding for me personally. I'll remember 2017 as another year of truth for Swiss Re: it was and remains our priority to support our clients and the people affected by severe natural catastrophes.

Despite the estimated large insurance claims of 2017, we reported a full year net income of USD 331 million. Our decisions in recent years to keep excess capital on our balance sheet and to be disciplined in our underwriting mean that – even after the losses – our capital position is very strong and our financial flexibility remains high. Our commitment to creating long-term value for you, our shareholders, as well as for our clients remains unchanged.

Unfortunately, last year's natural disasters also highlighted the fact that a lot of people do not have insurance. That can be due to a variety of reasons, such as lack of access or awareness. In fact, the number of people around the world who are not protected has been increasing. This is due to population growth and more people living in areas that are prone to natural disasters – Florida is one example.

We've been determined to tackle this gap in insurance coverage – we call it the protection gap – for many years. In 2015, the global protection gap amounted to around USD 153 billion for natural catastrophe risk. In my opinion, this number is far too big. It represents too many people that will not have the financial support necessary to rebuild their lives when natural catastrophes strike in the future. It also represents a threat to entire economies.

Our industry plays a major role in ensuring financial stability and, therefore, we need to keep working hard to close this protection gap. This will require more than traditional reinsurance solutions. It's my ambition over the coming years to strongly position Swiss Re as a risk knowledge company. What do I mean by this? I mean that Swiss Re applies its 154 years of risk knowledge and partners with our clients so that, together, we can develop innovative insurance solutions that reach more people. In doing so, we are making the world more resilient.

Innovative solutions to make the world more resilient

We made progress towards that goal in 2017. We co-led the World Bank's Pandemic Emergency Financing Facility (PEF). In case of a disease outbreak, cash will be automatically paid to response agencies and national governments to finance emergency interventions. Payouts will be made when a set of pre-determined thresholds are met, such as number of deaths or infections within a given timeframe. PEF was developed in response to the Ebola crisis of 2014 where, as you may remember, response funds only became available months into the outbreak. PEF will allow funds to reach affected countries in as little as ten days. In that sense, we expect it to save lives and prevent an outbreak from becoming a larger international crisis.

Solutions like this are only possible with the latest technology. And, in general, technology is having a big, mostly positive impact right across the insurance value chain. For example, Magnum – our underwriting software for life and health insurance products – enables our primary insurance clients to automate the risk assessment process, providing instant underwriting decisions. In 2017, Magnum processed more than 10 million applications globally. Furthermore, it provides our clients with meaningful data insights, so that they can better understand their customers and develop products that are even more tailored to their needs. At the same time, we gain insights into the drivers of profitability in the biometric risk business. In this way, we work together with our clients to extend insurance coverage.

Technology is also changing insurance distribution channels. Just as we can buy books or groceries online, you can easily buy life insurance online, too. Our digital life insurance platform, provided through our iptiQ business, makes it possible to reach the people who don't buy insurance through traditional insurance distribution channels, such as agents – and for the price of a coffee per day. With the platform, our clients can take advantage of our technology and knowledge, but distribute products under their own brand. There's great potential to provide security and peace of mind to millions of people.

Full year net income
in USD millions, 2017

331

(2016: USD 3.6 billion)

At the same time, with digital solutions we're improving our international business capabilities to better support our commercial insurance clients around the world. We work with our clients – from retail operators to real estate companies and from schools to hotels – to provide a better understanding of the current and future risks they face and develop innovative solutions that meet their specific needs and risk exposure. Insured businesses are more resilient businesses because in the event of a disaster, we help them get back to work and serving their own customers quicker.

Let me share a tangible example: when hurricanes Harvey, Irma and Maria hit last year, we received more than 200 loss notices from our commercial insurance clients in the days immediately after the hurricanes made landfall. To handle the claims quickly, we reallocated staff across regions and lines of business and we were able to get back to clients within one business day. In one case, we provided a fast, substantial payment to a school that was significantly damaged in one of the most affected areas. With this money, we helped the school start reconstruction quickly, and it's on track to re-open in time to host the graduation ceremonies for its senior class.

Our financial performance in 2017

After several years with below average natural catastrophe activity and corresponding very strong returns for shareholders in our property and casualty (P&C) businesses, the events of 2017 – totalling USD 4.7 billion in expected claims – took a toll on our results: P&C Reinsurance reported a loss of USD 413 million and Corporate Solutions reported a loss of USD 741 million. As the US is the largest market for our commercial business, Corporate Solutions' result was particularly impacted by the natural catastrophes there. We remain fully committed to the Business Unit and, as we previously communicated, we have strengthened its capital position with a USD 1.0 billion capital injection.

Following such large re/insurance losses that affect the whole industry, the prices for re/insurance products tend to rise. In the January 2018 renewals, we saw a 2% increase in prices which was most pronounced in the property lines affected by natural catastrophe losses. This is positive for us, our industry and, in my view, is necessary. With the majority of loss affected property business in the US still to be renewed in July, we will keep steering pricing towards levels that are more appropriate for the risks we take on – also to ensure the long-term sustainability of the insurance value chain.

"Our strategy and near-term priorities set us up well to continue partnering with our clients and applying our knowledge to develop solutions that directly tackle the protection gap."

In contrast to our P&C businesses, our life and health businesses thrived in 2017. For the third year in a row, our Life & Health Reinsurance performance was strong and we increased our net income to USD 1.1 billion – a result we achieved through a strong investment performance and solid underwriting results. In Life Capital, our Business Unit which manages closed and open life and health insurance books, we generated gross cash of USD 998 million in 2017. We also achieved two important milestones in ReAssure, a UK subsidiary of Life Capital, through which we buy books of policies that are no longer sold by a life insurer but need to be actively managed until they close. I'm delighted that MS&AD, a Japanese insurance group that we've had a relationship with for 103 years, made a minority investment in ReAssure. This significantly boosts our capacity to finance closed books of business. And, you may have read that in late 2017 we purchased 1.1 million life insurance policies from Legal & General Group PLC, a UK financial service provider. We now protect 3.4 million people through ReAssure. At the same time, we generated significant growth in Life Capital's individual and group life insurance businesses in 2017.

I'm also pleased that our investment performance for 2017 was very strong with an ROI of 3.9% and that we continued to pave the way in responsible investing. We are especially proud to be among the first in the industry to switch to benchmarks that systematically integrate environmental, social and governance (ESG) criteria. This helps generate sustainable long-term investment returns and reduces downside risks.

I am convinced that the outlook for our industry is now more positive than it has been in the last four years. I expect that changes in the market environment, such as adjusting price levels and increased interest rates, will be good for our business.

Our strategy and near-term priorities set us up well to continue partnering with our clients and applying our knowledge to develop solutions that directly tackle the protection gap. Even after 19 years with Swiss Re, I'm still impressed by my colleagues' dedication to doing this every day – for that, I sincerely thank them. I also thank you, our shareholders, for your trust in us, the employees of your company, Swiss Re.

Zurich, 23 February 2018

Christian Mumenthaler
Group Chief Executive Officer

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 the Group'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:

- the frequency, severity and development of insured claim events, particularly natural catastrophes, man-made disasters, pandemics, acts of terrorism and acts of war;
- mortality, morbidity and longevity experience;
- the cyclicality of the insurance and reinsurance sectors;
- instability affecting the global financial system;
- deterioration in global economic conditions;
- 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 the Group's investment assets;
- changes in the Group's investment result as a result of changes in the Group's investment policy or the changed composition of the Group's investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- the Group'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 the Group's financial strength or otherwise;

- any inability to realise amounts on sales of securities on the Group's balance sheet equivalent to their values recorded for accounting purposes;
- changes in legislation and regulation, and the interpretations thereof by regulators and courts, affecting us or the Group's ceding companies, including as a result of shifts away from multilateral approaches to regulation of global operations;
- the outcome of tax audits, the ability to realise tax loss carryforwards, 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, and the overall impact of changes in tax regimes on business models;
- failure of the Group's hedging arrangements to be effective;
- the lowering or loss of one of the financial strength or other ratings of one or more Group companies, and developments adversely affecting the Group's ability to achieve improved ratings;
- uncertainties in estimating reserves;
- policy renewal and lapse rates;
- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes and certain large man-made losses, 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;
- extraordinary events affecting the Group's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- 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, lower-than expected benefits, or other issues experienced in connection with any such transactions;
- changing levels of competition, including from new entrants into the market; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks and the ability to manage cybersecurity risks.

These factors are not exhaustive. The Group 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.

Corporate calendar

2018

4 April 2018
Investors' Day in Zurich

20 April 2018
154th Annual General Meeting

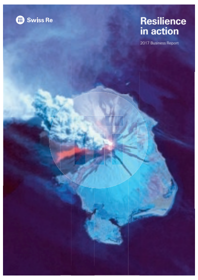
4 May 2018
First quarter 2018 key financial data

3 August 2018
Half-year 2018 results

1 November 2018
Nine months 2018 key financial data

2017 ANNUAL REPORT

We present our business performance, strategy and economic position. We also show concrete examples of how our knowledge-led approach leads to resilience in action.



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Swiss Re Ltd
Mythenquai 50/60
P.O. Box
8022 Zurich
Switzerland

Telephone +41 43 285 2121
Fax +41 43 285 2999
www.swissre.com