

Letter to shareholders

Charting new ground to expand our access to risk

1.0

Group net income
(USD billions)
for the first six
months of 2018

Dear shareholders,

We live in turbulent times. Views on the current state of global affairs are certainly mixed right now. If you ask an economist, they would likely share an optimistic view – global economic growth was strong in the first half of the year. Of course, we are pleased about that. But at the same time, geopolitical risks are the most concerning we've seen in a long period. Consider Brexit, the looming trade war and what seems to be a general movement away from globalisation. As a global organisation, we are not immune to these developments. Cross-border access to risk is crucial for re/insurers to absorb risk for individuals, businesses and the economy more broadly. Needless to say that we engage with clients, business partners and governments around the world to share our views of the risks.

If you've been following Swiss Re, you will know that we have also been concerned about central banks' unconventional monetary policies for quite some time. Following a period of historically low interest rates, we are pleased to now see a slow normalisation of monetary policy. The US Federal Reserve has set the tone by gradually raising rates.

Even in these turbulent times, we reported Group net income of USD 1.0 billion for the first half of 2018, with a return on equity (ROE) of 6.3% for the Group. Due to a change in US GAAP accounting guidance that came into effect in January 2018, our results reflect a negative pre-tax impact of USD 265 million. Our solid performance shows the value of our diversified book of business and our underwriting discipline. We continue to be extremely well capitalised and are ready for any opportunity or challenge that lies ahead.

Following the July P&C reinsurance treaty renewals, which focus mainly on the Americas, we managed to maintain an attractive portfolio. Year-to-date, the treaty premium volume increased by 9% to USD 14.4 billion, as we continued to allocate capital only to those opportunities that meet our profitability criteria. The year-to-date risk-adjusted price quality of the renewed portfolio stood at 103%, while the risk-adjusted price quality of the renewed portfolio improved to 104% in July. These developments are encouraging after experiencing a soft market for years.

In a world that seems to go back to a state of higher uncertainty, our vision of making the world more resilient through both our investment and business activities remains crucial. Our experience over the past year indicates that integrating Environmental, Social and Governance (ESG) benchmarks into our investment processes will lead to improved risk-adjusted returns in the long term. On the business side, we started to implement a thermal coal policy in July this year, by which we will no longer provide insurance coverage to businesses with more than 30% coal exposure. Our policy supports our commitment to limiting global warming to 1.5°C – 2°C as part of the Paris Pledge for Action and will help us guide our business towards a low-carbon economy and support our clients in the energy transition.

Even in these challenging times, your Swiss Re remains extremely well positioned. We are a leading risk knowledge company expanding our access to risk pools worldwide. How are we doing that? By applying our accumulated risk knowledge, partnering with our clients and harnessing innovative technologies to develop solutions that help extend insurance coverage to more people. For instance, our digital life insurance platform – provided through our iptiQ business – makes it possible for people to buy insurance through new channels. With the platform, our clients and partners can take advantage of our technology and knowledge, but distribute attractive products under their



Walter B. Kielholz

Chairman of the Board of Directors

Christian Mumenthaler

Group CEO

own brand. We're already seeing dynamic growth in iptiQ, and there's great potential to work with many more partners and reach millions of people. Likewise, we combine our risk expertise with analytics and algorithms to develop innovative solutions for our reinsurance clients. For example, in motor insurance, we expect that telematics will become a major avenue of growth. Our end-to-end telematics solution gives our clients the ability to analyse big data from connected vehicles, digitalise their processes and ultimately stay ahead of the competition in a rapidly expanding market.

In order to grow in the commercial insurance space, we continue to expand our footprint and improve our international business capabilities in Corporate Solutions. Through our proprietary technology platform, we currently offer domestic insurance coverage to companies headquartered in 18 countries and, in 9 out of these 18 countries, we can also offer international insurance coverage. Overall, our Corporate Solutions global network structure extends to over 80 countries. Technology-enabled service excellence will help set Corporate Solutions apart in the future. PULSE, for example, is our digital portal providing clients and brokers with real-time access to policy, claim and risk-improvement information.

Solutions like these are crucial to expanding our access to risk. They are only possible with the latest technology – and, overall, we remain convinced that technology

will fundamentally change the re/insurance value chain. To fully utilise the potential of digitalisation and help our clients master technological change, we have also built relationships with universities, tech companies and joint ventures all around the world – from Palo Alto to Beijing and Tel Aviv. Together, we are exploring ideas and partnerships to support our industry's digital transformation.

No doubt, these are very exciting and transformative times for Swiss Re and the re/insurance industry in general. We see big opportunities ahead as risk pools around the world continue to grow. We are charting new ground to share in the opportunities with our clients and partners, and ultimately support a more resilient society. Applying the knowledge that we have accumulated over more than 154 years, the innovativeness as well as the future-orientated research by the Swiss Re Institute, provides a solid foundation for our continued success story; manifested also by our globally renowned *sigma* publication series, celebrating its 50th anniversary this year.

Zurich, 3 August 2018

Walter B. Kielholz

Chairman of the Board of Directors

Furthermore, as we have previously communicated, and demonstrated by the investment of MS&AD in ReAssure, securing third-party capital to pursue further closed book transactions is already part of Swiss Re's strategy. We are therefore exploring a potential initial public offering (IPO) of our UK closed book business ReAssure in 2019. Given the size of potential opportunities that are expected in the market over the mid-term, it is important for ReAssure to have access to substantial new capital to acquire additional closed books. Under Swiss Re's Swiss Solvency Test capital regime, ReAssure's asset-intensive business is subject to significant asset risk charges. Nonetheless, the closed book consolidation market remains an attractive growth area for Swiss Re and we expect to remain a significant investor in ReAssure. Of course, there is no certainty that the explorations will lead to any transaction and we will keep you updated as appropriate.

We feel fortunate to be able to navigate these turbulent times with the best talent in the industry – who we thank for their hard work in the first half of 2018. We also thank you, our shareholders, for continuing to place your trust in us.

Christian Mumenthaler

Group CEO