Letter to shareholders

953

Group net income (USD millions) for the first six months of 2019

Dear shareholders,

The macroeconomic environment in the first half of 2019 continued to be challenging. Political and trade tensions, slowing economic growth as well as the prospects of further interest rate cuts and unconventional monetary policy measures continue to dominate the headlines. As a global organisation working with many other global companies, we are concerned about the protectionist tendencies and the weaker economic outlook. As a leading provider of re/insurance coverage, we are actively contributing to building resilience and making societies stronger to withstand these tough times. We are in a strong position to deploy capital and grow in diverse risk pools. And this is good news for our clients, for the communities they serve, as well as for you, our shareholders.

As you know, the pricing environment, especially in property and casualty reinsurance, has not been easy over the past few years. Low interest rates, ample liquidity in the markets and the hunt for yield have made the reinsurance pricing cycle less pronounced than we have seen in the past. However, we benefit from efficiencies achieved through our large scale, global portfolio, diversification with Life & Health Reinsurance (L&H Re) business and client access. The 7.9% increase in our Group net premiums earned and fee income to USD 18.2 billion in the first half of 2019 and the positive renewals momentum year to date are a testament to our strong strategic position.

We are deploying more capital in Reinsurance because we see good opportunities there, and both segments reported strong performance in the first half of the year. Property & Casualty Reinsurance (P&C Re), which delivered a 15.9% return on equity in this period, achieved year-to-date premium growth of 23% from treaty renewals in an improved pricing environment. L&H Re continues to perform strongly, with a 13.1% return on equity in the first half of 2019, and offers valuable diversification for the Group. We are very pleased to see the strength of our reinsurance franchise come back to the fore. Supported by the strong Reinsurance performance and investment results in the first half of 2019, our group net income amounted to USD 953 million.

We are also confident about the outlook for our Corporate Solutions Business Unit, where we today announced a number of decisive measures to address past underperformance. Swiss Re has more than 30 years' experience in the commercial insurance market, which we entered to respond to the complex risk management needs of large corporations. Over time, this business grew and delivered attractive returns on equity before hitting a downturn in 2017. Over the past months, we have conducted a thorough review of the Business Unit under the leadership of its new Chief Executive Officer Andreas Berger.

Our analysis revealed several factors that drove the recent underperformance in Corporate Solutions. Firstly, the business was hit by a combination of a prolonged market softening and a deterioration of claims trends. Structurally, our exposures were too high in some markets, such as US liability, while we were too small to be competitive in others. As part of the Swiss Re Group, the Business Unit also had low reinsurance coverage, contributing to the volatility of its earnings.

We have implemented several measures to address these issues. We reviewed Corporate Solutions' claims reserves and strengthened them in the second quarter of 2019 by USD 328 million, or less than 3% of the Business Unit's total USD 13 billion claims reserves. And we established an Adverse Development Cover with P&C Re. A similar economic protection has been in force since 2012 for all pre-2012 reserves and has shown positive performance across these years for P&C Re. These two measures will ensure prudent reserve levels going forward and significantly lower the

Walter B. Kielholz
Chairman of the Board of Directors

Christian Mumenthaler
Group CEO

impact of potential future adverse developments. We are also actively reducing risk exposures in specific lines of business. This will allow Corporate Solutions to focus on selected profitable portfolios and specific customer segments, where we are seeing an improving price environment.

Portfolio repositioning, together with the resulting efficiency improvements and the accelerating momentum in insurance rates will help Corporate Solutions return to underwriting profitability with a target normalised combined ratio of 98% in 2021. We also increased the Business Unit's capital position by USD 600 million, underlining our long-term commitment to the commercial insurance market.

In Life Capital we continue to grow our open book businesses, which give us access to the life and health insurance market through iptiQ and elipsLife. Gross premiums written in core elipsLife business increased 11% in in the first half of this year. In iptiQ, gross premiums written rose 18%, and we launched a property and casualty business in EMEA and a life and health business in Australia and New Zealand. These businesses offer us tremendous opportunities for the future, although it will still take time to build scale and weight within the Group.

We unfortunately had to suspend the planned initial public offering of ReAssure, our closed life book business in the UK, due to unfavourable conditions in the UK primary equity market, where we and other issuers saw heightened caution and weaker underlying demand from large institutional investors for initial public offerings. We continue to believe that the long-term interests of ReAssure are best served by a more diversified shareholder base, which would be in a better position to manage the large exposure to UK financial market risks than a Swiss-domiciled owner. Our objective remains to reduce Swiss Re's ownership in order to de-consolidate ReAssure. However, our top priority is to protect the value this asset represents to our shareholders, and we have no pressing need to divest ReAssure shares at a price that we consider to be unrepresentative of its value and future prospects. We remain fully committed to and supportive of the business and its management team.

As you can see, all our Business Units are going through a transformation to a greater or lesser degree, and we are optimistic for the future. We see many opportunities ahead as risk pools around the world continue to grow. And we are deploying our capital to participate in these opportunities and generate attractive returns for you, our shareholders. Our capital position remains very strong, and the current public share buy-back programme, which started on 6 May 2019, is well on track.

In these challenging, but also transformative times, we are fortunate to be able to rely on the dedication and hard work of our employees, whom we thank for their engagement.

We are pleased to announce that Urs Baertschi, currently President Reinsurance Latin America, will be joining our Group Executive Committee as the new Chief Executive Officer Reinsurance EMEA and Regional President as of 1 September 2019, succeeding Russell Higginbotham. Russell assumed a new role as the Chief Executive Officer Reinsurance Asia and Regional President earlier this month, following Jayne Plunkett's decision to pursue career opportunities outside Swiss Re. We would like to thank Jayne for her contribution over the past years and look forward to working with Urs and Russell in their new roles.

We would also like to thank you, our shareholders, for continuing to place your trust in us.

Zurich, 31 July 2019

Walter B. Kielholz
Chairman of the Board of Directors

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