



ZURICH®

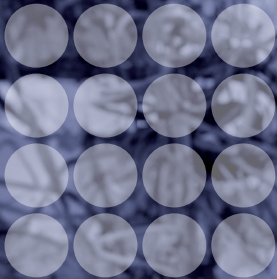
Zurich Insurance Group

## LETTER TO SHAREHOLDERS 2012

Results for the nine months to September 30, 2012

# Tomorrow is insured

Helping our customers  
understand and protect  
themselves from risk



*Dear Shareholder,*



Dr. Josef Ackermann

Martin Senn

**We are pleased to present our financial results for the first nine months of 2012, which demonstrate strong underlying profitability driven by our focus on pricing discipline and portfolio management. Business operating profit for the period was USD 3.2 billion, unchanged compared with the corresponding first nine months in 2011.**

Net income attributable to shareholders for the first nine months was USD 2.7 billion, down 16 percent compared to the previous year. Business operating profit after tax return on common shareholders' equity was 10.2 percent, down from 10.6 percent in the first nine months of 2011.

The discrete third quarter performance in 2012 was adversely affected by a previously reported adjustment in the German General Insurance business attributable to a strengthening of claims reserves and a reassessment of deferred acquisition costs. Business operating profit in the third quarter was USD 733 million, down 34 percent compared with the previous year. We are disappointed by these developments in Germany, particularly as they mask a strong performance in the rest of the business, and are taking decisive actions to address them.

Our underlying results were very strong over the first nine months: we are growing where we want to grow, we are profitable and our business remains well capitalized. We are particularly pleased with the robust performance in some mature markets, notably the U.S. where we are celebrating 100 years of doing business, and with our success in high potential growth markets in Latin America and Asia.

### **General Insurance: Sustained focus on disciplined underwriting and expense management**

General Insurance business operating profit increased by USD 80 million to USD 1.8 billion in the first nine months of 2012, a 5 percent increase in U.S. dollar terms despite the USD 550 million adjustments in Germany in the discrete third quarter. The segment remains focused on delivering its strategic targets through disciplined underwriting and expense management. Profitability benefited from a lower level of catastrophes and weather-related events compared with the same period of 2011.

Gross written premiums and policy fees in General Insurance increased by USD 262 million to USD 27.3 billion, a 1 percent increase in U.S. dollar terms or 6 percent on a local currency basis. In line with the strategic focus on selective and profitable growth, Zurich achieved average rate increases of 3.6 percent.

### **Global Life: Continued progress against strategic objectives**

Global Life business operating profit decreased by USD 47 million to USD 959 million in the first nine months of 2012. This is 5 percent lower in U.S. dollar terms but 1 percent higher on a local currency basis. Improvements in the expense, risk and other profit margins were largely offset by the effects of the prevailing low interest rate environment.

Gross written premiums, policy fees and insurance deposits in Global Life increased by USD 1.8 billion to USD 21.1 billion, a 9 percent increase in U.S. dollar terms or 17 percent on a local currency basis. In an environment of persisting low yields, the segment



Zurich is growing where it wants to grow, is profitable and remains well capitalized.

continues to benefit from its investment in growth in selected markets, particularly in Latin America. Global Life remains focused on shifting its product mix from traditional savings business towards protection and fee-based products and leveraging its global strength in Corporate Life & Pensions and Bank Distribution.

**Farmers: Result affected by weather-related losses**

Farmers business operating profit decreased by USD 97 million to USD 998 million, or by 9 percent, due to a loss recorded by Farmers Re in the first nine months of 2012.

Farmers Management Services business operating profit increased by USD 46 million to USD 1.1 billion, or by 5 percent, driven by the increase in gross earned premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group.

Farmers Re business operating profit decreased by USD 144 million to a loss of USD 68 million, mainly

reflecting the second consecutive year of significant weather-related events. Although weather-related losses decreased in 2012 compared to 2011 they remained well above historic levels. In addition, in 2011 we experienced positive developments in reserves established in prior years. By comparison, in the first nine months of 2012 reserve developments were less favorable.

**Strength and commitment in challenging times**

Zurich has a strong capital and solvency position well within our target AA range. Over the first nine months of 2012, shareholders' equity increased from USD 31.7 billion to USD 34.0 billion.

We could not have generated such a strong set of financial results without the dedication of our employees and the continuing support of our customers and shareholders. Our mission is to help our customers understand and protect themselves from risk: we offer them and all our stakeholders assurance and stability in a changing world.

Yours sincerely,

**Dr. Josef Ackermann**  
Chairman of the Board of Directors

**Martin Senn**  
Chief Executive Officer

# Shareholder information

## Financial highlights (unaudited)

in USD millions, for the nine months ended September 30, unless otherwise stated	2012	2011	Change <sup>1</sup>
Business operating profit	<b>3,242</b>	3,258	–
Net income attributable to shareholders	<b>2,701</b>	3,210	(16%)
General Insurance gross written premiums and policy fees	<b>27,309</b>	27,047	1%
Global Life gross written premiums, policy fees and insurance deposits	<b>21,140</b>	19,350	9%
Farmers Management Services management fees and other related revenues	<b>2,134</b>	2,071	3%
Farmers Re gross written premiums and policy fees	<b>3,382</b>	2,261	50%
General Insurance business operating profit	<b>1,812</b>	1,732	5%
General Insurance combined ratio	<b>97.6%</b>	98.8%	1.2 pts
Global Life business operating profit	<b>959</b>	1,005	(5%)
Global Life new business annual premium equivalent (APE)	<b>2,973<sup>2</sup></b>	2,770	7%
Global Life new business margin, after tax (as % of APE)	<b>21.4%<sup>2</sup></b>	26.3%	(5.0 pts)
Global Life new business value, after tax	<b>635<sup>2</sup></b>	729	(13%)
Farmers business operating profit	<b>998</b>	1,096	(9%)
Farmers Management Services gross management result	<b>1,031</b>	995	4%
Farmers Management Services managed gross earned premium margin	<b>7.4%</b>	7.3%	–
Average Group investments <sup>5</sup>	<b>201,054</b>	197,063	2%
Net investment result on Group investments	<b>6,087</b>	7,616	(20%)
Net investment return on Group investments <sup>3, 6</sup>	<b>3.0%</b>	3.9%	(0.8 pts)
Total return on Group investments <sup>3, 6</sup>	<b>5.3%</b>	4.4%	0.9 pts
Shareholders' equity <sup>4, 6</sup>	<b>34,050</b>	31,680	7%
Swiss Solvency Test capitalization ratio <sup>5</sup>	<b>178%</b>	183%	(5 pts)
Diluted earnings per share (in CHF)	<b>17.23</b>	19.07	(10%)
Book value per share (in CHF) <sup>4, 6</sup>	<b>217.54</b>	203.43	7%
Return on common shareholders' equity (ROE)	<b>11.0%</b>	13.5%	(2.5 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	<b>10.2%</b>	10.6%	(0.5 pts)

<sup>1</sup> Parentheses around numbers represent an adverse variance.

<sup>2</sup> Does not include any contribution from Zurich Santander or from the acquisition of Zurich Insurance Malaysia Berhad (ZIMB).

<sup>3</sup> Not annualized and calculated on average Group investments.

<sup>4</sup> As of September 30, 2012 and December 31, 2011, respectively.

<sup>5</sup> Ratios as of July 1, 2012 and January 1, 2012, respectively, are calculated based on the Group's internal model which is subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The SST Ratio for January 1, 2012 has been restated following FINMA's review of the Annual SST Report.

<sup>6</sup> December 31, 2011 has been restated to reflect the reclassifications and updates to the initial purchase accounting for Zurich Santander (see note 1 of the unaudited Consolidated financial statements).

The table above presents the summarized consolidated results of the Group for the nine months ended September 30, 2012 and 2011 and the financial position as of September 30, 2012 and December 31, 2011, respectively. Interim results are not necessarily indicative of full year results. All amounts are shown in USD millions and rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. This document should be read in conjunction with the Annual Report 2011 for the Zurich Financial Services Group (now Zurich Insurance Group) available on [www.zurich.com](http://www.zurich.com) and with its unaudited Consolidated financial statements for the nine months ended September 30, 2012.

### Contact

For more information please visit:  
[www.zurich.com/investors/shareholderinformation](http://www.zurich.com/investors/shareholderinformation)

### Registered Office

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Mythenquai 2, 8002 Zurich, Switzerland

### Financial Calendar

#### Investor Day

November 29, 2012

#### Annual results 2012

February 14, 2013

#### Annual General Meeting 2013

April 4, 2013

#### Results for the three months to

March 31, 2013

May 16, 2013

#### Half year results 2013

August 15, 2013

#### Results for the nine months to

September 30, 2013

November 14, 2013

#### Disclaimer & Cautionary Statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predictions or of indicate future events, trends, plans or objectives of Zurich Insurance Group Ltd or the Zurich Insurance Group (the Group). Forward-looking statements include statements regarding the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding the Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Insurance Group Ltd or the Group to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as: (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of a global economic downturn; (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; and (viii) changes in laws and regulations and the policies of regulators may have a direct bearing on the results of operations of Zurich Insurance Group Ltd and its Group and on whether the targets will be achieved. Zurich Insurance Group Ltd undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and its subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors. Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the Farmers Exchanges and in that capacity provide certain non-claims administrative and management services to the Farmers Exchanges. Neither Farmers Group, Inc., nor its parent companies, Zurich Insurance Company Ltd and Zurich Insurance Group Ltd, have any ownership interest in the Farmers Exchanges. Financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Reinsurance Company.

It should be noted that past performance is not a guide to future performance. Please also note that interim results are not necessarily indicative of full year results.

Persons requiring advice should consult an independent advisor.

This communication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

**THIS COMMUNICATION DOES NOT CONTAIN AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES; SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION OR EXEMPTION FROM REGISTRATION, AND ANY PUBLIC OFFERING OF SECURITIES TO BE MADE IN THE UNITED STATES WILL BE MADE BY MEANS OF A PROSPECTUS THAT MAY BE OBTAINED FROM THE ISSUER AND THAT WILL CONTAIN DETAILED INFORMATION ABOUT THE COMPANY AND MANAGEMENT, AS WELL AS FINANCIAL STATEMENTS.**

The Letter to Shareholders is published in English, German and French. In the event of inconsistencies in the German and French translations, the English original version shall prevail.