

Zurich Insurance Group



Letter to Shareholders 2012



Dear Shareholder,



Dr. Josef Ackermann and Martin Senn

We are pleased to present our financial results for the full year 2012, which demonstrate strong underlying profitability driven by our focus on pricing discipline and portfolio management. Our proposed dividend of CHF 17.00 reflects the confidence we have in our business strategy as well as our strong cash generation capabilities and capital base.

Business operating profit for the period was USD 4.1 billion, down 4 percent compared with 2011. Net income attributable to shareholders for the full year was USD 3.9 billion, up 3 percent compared with the previous year. Business operating profit after tax return on common shareholders' equity was 9.3 percent, down from 10.2 percent in 2011.

We are able to report solid profitability in 2012 despite a challenging market environment, the occurrence of Storm Sandy and a disappointing result in our German General Insurance business. We continue to execute our proven strategy, with a disciplined approach to growing our business in emerging markets while delivering a resilient performance in mature markets.

During 2012, we continued to expand our bank distribution agreements, through alliances in the Middle East, Italy, Spain and Indonesia. We are particularly pleased with the performance in the U.S. where we celebrated 100 years of doing business in 2012, and with the successful integration of our acquired insurance businesses in high-potential growth markets in Latin America and Malaysia.

The Group has also restated its accounts for 2010 and 2011 in accordance with International Financial Reporting Standards (IFRS) for a portion of the previously announced financial adjustments in the German General Insurance business, as it was determined in the review initiated in 2012 that improper case reserving practices had resulted in errors. Additionally, the Group determined that deferred policy acquisition costs were overstated due to a system error in Germany. In aggregate those errors were deemed material and have resulted in a restatement that has increased the previously reported third quarter 2012 business operating profit by USD 264 million and net income attributable to shareholders by USD 194 million, reallocating these errors to the respective prior periods. Shareholders' equity at the end of 2012 is unaffected, while shareholders' equity at the end of 2011 was reduced by USD 196 million. With these changes, the results are presented on a more comparable basis.

General Insurance: Strong revenue growth and underlying profits

General Insurance business operating profit decreased by USD 150 million to USD 2.1 billion in 2012. However, underlying profits and revenue growth were strong. This reflects General Insurance's sustained focus on underwriting discipline and expense management, and is evident in the improvement in the underlying loss ratio of 2.9 percentage points to 61.4 percent.

The overall performance was adversely affected by a second consecutive year of above average catastrophe and weather-related losses, including Storm Sandy, as well as the previously announced financial adjustments in Germany. As a result of the review of the German General Insurance business, the Group further strengthened its claims provisions in the fourth quarter by approximately USD 60 million for the lines impacted in the previous quarter and by approximately USD 70 million for other business lines. The German General Insurance segment has now reverted to business as usual where the risk of adverse development should be balanced by the possibility of favorable development.

General Insurance gross written premiums and policy fees increased by USD 1 billion to USD 35.6 billion in 2012. The segment achieved average rate increases of 4 percent, mirroring our strategic focus on selective, profitable growth, while continuing a disciplined approach to underwriting. Overall premium growth was strong, especially in

International Markets through both organic growth and acquisitions, as well as in North America, while European results continue to be affected by lower levels of economic activity, particularly in some of the larger markets such as the UK, Spain and Italy.

Global Life: Continued progress against strategic objectives

Global Life maintained profitability levels while continuing to show growth in gross written premiums, policy fees and insurance deposits.

Global Life business operating profit remained broadly flat at USD 1.3 billion, with a positive contribution from the insurance businesses acquired from Banco Santander S.A. (Zurich Santander) of USD 105 million, largely offset by a lower contribution from special operating items. Global Life gross written premiums, policy fees and insurance deposits increased by USD 2.5 billion to USD 30.3 billion as a result of the inclusion of Zurich Santander.

New business value after tax, including Zurich Santander and Zurich Insurance Malaysia Berhad, increased by 11 percent to USD 1.1 billion. Zurich Santander and Zurich Insurance Malaysia Berhad contributed USD 195 million, while new business value after tax, excluding these recent acquisitions, declined by USD 90 million to USD 890 million. The strategy of diversifying geographically into target markets and diversifying product mix into protection and fee-based offerings is offsetting the volume and margin pressures being experienced in Europe.

Farmers: Consistent profit generation

Farmers business operating profit decreased by USD 72 million to USD 1.4 billion or by 5 percent, primarily due to a net underwriting loss incurred by Farmers Re.

Farmers Management Services business operating profit increased by USD 71 million to USD 1.4 billion or by 5 percent, primarily 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 deteriorated by USD 142 million to a loss of USD 26 million, primarily due to the absence of favorable development of reserves established in prior years, which benefited Farmers Re during 2011.

Farmers Management Services management fees and other related revenues increased by USD 79 million to USD 2.8 billion or by 3 percent, which was driven by the 3 percent increase in gross earned premiums in the Farmers Exchanges. The 24 percent increase to USD 4.4 billion in gross written premiums at Farmers Re was mainly as a result of changes in the All Lines agreement from 2011 levels as well as the 3 percent gross written premiums growth in the Farmers Exchanges.

Strength and commitment to pay sustainable and attractive dividends

Zurich continues to generate strong underlying profitability. We have increased our revenues by defending our position in mature markets and diversifying into target emerging markets. Our investment performance was strong, delivering a total return of 7 percent in 2012.

We were able to deliver these solid financial results in 2012 despite economic uncertainty around the world. We are proud to have talented employees who work hard each and every day to help our customers understand and protect themselves from risk; we are thankful to our customers and recognize that we have to earn their trust by delivering excellent products and services that meet their needs; and we are grateful for the support of our shareholders, who recognize that Zurich strives to provide stable and sustainable returns in a challenging environment.

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 years ended December 31, unless otherwise stated	2012	2011 ¹	Change ²
Business operating profit	4,075	4,243	(4%)
Net income attributable to shareholders	3,878	3,750	3%
General Insurance gross written premiums and policy fees	35,610	34,572	3%
Global Life gross written premiums, policy fees and insurance deposits	30,259	27,711	9%
Farmers Management Services management fees and other related revenues	2,846	2,767	3%
Farmers Re gross written premiums and policy fees	4,361	3,529	24%
General Insurance business operating profit	2,097	2,247	(7%)
General Insurance combined ratio	98.4%	98.9%	0.5 pts
Global Life business operating profit	1,338	1,353	(1%)
Global Life new business annual premium equivalent (APE)	4,030³	3,992	1%
Global Life new business margin, after tax (as % of APE)	22.1%³	24.5%	(2.5 pts)
Global Life new business value, after tax	890³	980	(9%)
Farmers business operating profit	1,414	1,486	(5%)
Farmers Management Services gross management result	1,378	1,333	3%
Farmers Management Services managed gross earned premium margin	7.3%⁴	7.3%	–
Average Group investments	203,192	196,788	3%
Net investment result on Group investments	8,911	9,367	(5%)
Net investment return on Group investments ⁵	4.4%	4.8%	(0.4 pts)
Total return on Group investments ⁵	7.0%	5.3%	1.7 pts
Shareholders' equity	34,494	31,484	10%
Swiss Solvency Test capitalization ratio ⁶	178%	183%	(5 pts)
Diluted earnings per share (in CHF)	24.66	22.52	10%
Book value per share (in CHF)	214.79	202.17	6%
Return on common shareholders' equity (ROE)	11.8%	11.9%	(0.2 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	9.3%	10.2%	(0.9 pts)

¹ December 31, 2011 has been restated as set out in note 1 of the Consolidated financial statements.

² Parentheses around numbers represent an adverse variance.

³ Does not include any contribution from Zurich Santander or from the acquisition of Zurich Insurance Malaysia Berhad (ZIMB).

⁴ Calculated based on gross earned premiums of the Farmers Exchanges of USD 18.8 billion, which excludes the return of USD 74 million in premiums as a result of the anticipated settlement of a lawsuit with the State of Texas.

⁵ Calculated on average Group investments.

⁶ 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.

The table above presents the summarized consolidated results of the Group for the years ended December 31, 2012 and 2011 and the financial position as of December 31, 2012 and December 31, 2011, respectively. 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 2012 for the Zurich Insurance Group available on www.zurich.com and with its Consolidated financial statements as of December 31, 2012.

Contact

For more information please visit:
www.zurich.com/investors/shareholderinformation

Registered Office

Zurich Insurance Group Ltd
Mythenquai 2, 8002 Zurich, Switzerland

Financial Calendar

Annual General Meeting 2013

April 4, 2013

Ex-dividend date

April 8, 2013

Dividend – record date

April 10, 2013

Dividend payable as from

April 11, 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 of or 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 in 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 their 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 approved as the attorney-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.

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.