

Zurich Insurance Group



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# Letter to Shareholders 2013

Results for the three months to March 31, 2013



*Dear Shareholder,*

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**Our results for the first three months ended March 31, 2013 demonstrate the continued success of our strategy. Zurich reported a business operating profit<sup>1</sup> of USD 1.4 billion, essentially unchanged from last year.**

At USD 1.1 billion, net income attributable to shareholders<sup>2</sup> declined by 7 percent.<sup>3</sup> This result was adversely affected by a decline in net investment income, which decreased by 9 percent or about USD 150 million compared with the first three months of 2012, reflecting the persisting low interest rate environment. Our underlying insurance performance, however, was strong as all of our core businesses delivered a high-quality operating performance while maintaining their focus on underwriting discipline and expense management.

Our efficiency program in mature markets is achieving results, while our strong capital position puts us well within our AA target range.<sup>4</sup> Shareholders' equity increased to USD 34.8 billion, which unlike last year was calculated before deducting the 2012 dividend. This year, our Annual General Meeting took place in April, so the dividend will be recognized in the second rather than the first quarter. If shareholders' equity were adjusted by the amount of the 2012 dividend, which was paid in the second quarter of 2013, return on equity ratios would have increased by approximately 50 basis points.

Our acquisitions and alliances have strengthened our position in several key markets, and we continue to progress on our strategy to deliver our 2013 targets. The first three months saw further signs of economic weakness in Europe, and slower than expected growth in the U.S. and China. Nevertheless, we remain cautiously optimistic about the long-term outlook for the global economy.



Dr. Josef Ackermann and Martin Senn

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<sup>1</sup> Business operating profit indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables.

<sup>2</sup> Net income attributable to shareholders is the profit remaining after the deduction of all income taxes and profits attributable to minority shareholders.

<sup>3</sup> All percentage changes refer to U.S. dollar values.

<sup>4</sup> Zurich monitors its capital using an internal model, aiming for a level of capital consistent with a 'AA' rating.

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General Insurance business operating profit decreased by USD 51 million, or by 6 percent, to USD 807 million. Lower releases of reserves established in prior years and lower investment income as a result of persistent low interest rates negatively affected the result. The underlying loss experience continued to improve in the first three months. The result reflects a sustained focus on disciplined underwriting and expense management, and as in the first three months of 2012 benefited from favorable weather conditions and the absence of significant catastrophes. Gross written premiums and policy fees increased by 2 percent.

Global Life business operating profit increased by USD 18 million, or by 6 percent, to USD 308 million. The strong result reflected progress in the strategy to increase geographic diversification outside Europe and organic growth in target markets, while emphasizing protection and fee-based products. New business value<sup>5</sup> increased by 69 percent after including the insurance businesses acquired from Banco Santander S.A., and with strong performance in all regions.

Farmers business operating profit increased by USD 51 million, or 14 percent, to USD 420 million, led by an improved underwriting result in Farmers Re, which benefited from lower underlying and weather-related losses in the Farmers Exchanges.<sup>6</sup>

### **Building our business in global markets**

We continue to experience good growth in our target markets, including Latin America. The economic development of the region – where Zurich has a strong presence – is creating significant opportunities for us. For example, in Brazil's second-largest city, Rio de Janeiro, Zurich was selected as the leading insurer for construction work on the Line 4 extension of the city's metro. The extension will link Ipanema with Gávea, which will be the location for most events in the 2016 Olympic Games.

In the U.S., the Farmers Exchanges celebrated their 85th year in business in March. Founded in 1928 in Los Angeles, the Farmers Exchanges serve more than 10 million households through 50,000 agents and nearly 24,000 employees and continue to expand eastward from their home on the west coast of the U.S. Investment in communities – a hallmark of the business since it was founded – helps to bring the Farmers Exchanges closer to their customers and build their brand locally and nationally. The celebrations included numerous local, regional and national activities, with agents, employees and customers supporting a national food drive for people in need.

Another way Zurich is getting closer to its customers is by further improving our service to brokers, who form a vital link between Zurich and its customers in many markets. Our online Multinational Insurance Application (MIA) for brokers continues to win awards and registered its 1,000th user in February, just 17 months after its launch. MIA incorporates data and research from more than 170 countries to help large corporations and brokers more easily structure international insurance programs over time and across borders.

### **Enhancing flood resilience with the International Federation of Red Cross and Red Crescent Societies**

Floods affect more people worldwide than other types of natural disaster and as a global insurer, Zurich is familiar with the causes and implications. We believe more can be done to make communities resilient to floods and that is why we have made flood resilience the centerpiece of our community investment program.

In March 2013, we announced a five-year strategic alliance with the International Federation of Red Cross and Red Crescent Societies to serve as the foundation of our global flood resilience program. Zurich is investing CHF 21 million in the alliance through the Z Zurich Foundation, and employees with relevant skills will participate in the project.

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<sup>5</sup> New business value is a measure that reflects the value added by new business written during the period before the effect of non-controlling interests. It is calculated as the present value of the projected after-tax profit from life insurance contracts sold.

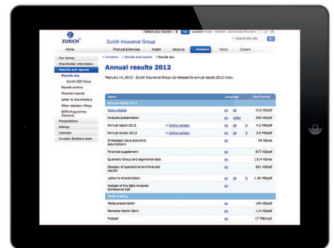
<sup>6</sup> The Farmers Exchanges are owned by their policyholders and managed by Farmers Group, Inc., a wholly owned subsidiary of the Group.

## Board appointments

At the Annual General Meeting on April 4, 2013, shareholders elected Monica Mächler to the Board of Directors. Her wide-ranging experience in regulatory matters and the insurance sector will bring relevant and valued expertise to her role. Armin Meyer retired from the Board after serving the maximum term, and we thank him for his outstanding service. Shareholders also re-elected Susan Bies, Victor L.L. Chu and Rolf Watter to the Board.

## Success that benefits our stakeholders and customers

Zurich has achieved a high level of profitability and has built a stable platform for future growth. Without the trust of our customers, employees and shareholders, we would not be able to achieve our business objectives and we thank them for their support.



For more information on Zurich's financial performance, please go to the 'Results for the three months to March 31, 2013' section of our website. It contains a detailed press release in German and English as well as financial reports and presentations (in English only). You can find it by going to the 'Investor' section of [www.zurich.com](http://www.zurich.com) and selecting 'Results and reports.'

 [www.zurich.com](http://www.zurich.com)

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 three months ended March 31, unless otherwise stated	2013	2012 <sup>1</sup>	Change <sup>2</sup>
Business operating profit	<b>1,351</b>	1,370	(1%)
Net income attributable to shareholders	<b>1,062</b>	1,140	(7%)
General Insurance gross written premiums and policy fees	<b>10,686</b>	10,470	2%
Global Life gross written premiums, policy fees and insurance deposits	<b>6,716</b>	7,395	(9%)
Farmers Management Services management fees and other related revenues	<b>702</b>	710	(1%)
Farmers Re gross written premiums and policy fees	<b>971</b>	1,053	(8%)
General Insurance business operating profit	<b>807</b>	858	(6%)
General Insurance combined ratio	<b>94.9%</b>	94.6%	(0.3 pts)
Global Life business operating profit	<b>308</b>	290	6%
Global Life new business annual premium equivalent (APE)	<b>1,042</b>	919 <sup>3</sup>	13%
Global Life new business margin, after tax (as % of APE)	<b>31.9%</b>	21.4% <sup>3</sup>	10.5 pts
Global Life new business value, after tax	<b>332</b>	196 <sup>3</sup>	69%
Farmers business operating profit	<b>420</b>	370	14%
Farmers Management Services gross management result	<b>330</b>	338	(2%)
Farmers Management Services managed gross earned premium margin	<b>7.1%</b>	7.3%	(0.3 pts)
Average Group investments	<b>208,228</b>	202,892	3%
Net investment result on Group investments	<b>1,693</b>	1,774	(5%)
Net investment return on Group investments <sup>4</sup>	<b>0.8%</b>	0.9%	(0.1 pts)
Total return on Group investments <sup>4</sup>	<b>0.4%</b>	2.0%	(1.6 pts)
Shareholders' equity <sup>5</sup>	<b>34,758<sup>6</sup></b>	34,505	1%
Swiss Solvency Test capitalization ratio <sup>7</sup>	<b>185%</b>	178%	7 pts
Diluted earnings per share (in CHF)	<b>6.69</b>	7.14	(6%)
Book value per share (in CHF) <sup>5</sup>	<b>223.79</b>	214.86	4%
Return on common shareholders' equity (ROE)	<b>12.3%</b>	14.4%	(2.2 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	<b>12.0%</b>	13.4%	(1.4 pts)

The table above presents the summarized consolidated results of the Group for the three months ended March 31, 2013 and 2012 and the financial position as of March 31, 2013 and December 31, 2012, 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 2012 for Zurich Insurance Group available on [www.zurich.com](http://www.zurich.com) and with its unaudited Consolidated financial statements for the three months ended March 31, 2013.

<sup>1</sup> March 31, 2012 and December 31, 2012 have been restated as set out in note 1 of the unaudited Consolidated financial statements.

<sup>2</sup> Parentheses around numbers represent an adverse variance.

<sup>3</sup> March 31, 2012 does not include any contribution from the insurance businesses acquired from Banco Santander S.A. (Zurich Santander) or from the acquisition of Zurich Insurance Malaysia Berhad (ZIMB).

<sup>4</sup> Not annualized and calculated on average Group investments.

<sup>5</sup> As of March 31, 2013 and December 31, 2012, respectively.

<sup>6</sup> The Annual General Meeting approved a gross dividend of CHF 17.00 per share on April 4, 2013. This gross dividend represented a 70 percent payout of 2012 earnings to shareholders, and will be recognized through shareholders' equity during the second quarter of 2013.

<sup>7</sup> Ratios as of January 1, 2013 and July 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).

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## Contact

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

## Registered Office

Zurich Insurance Group Ltd  
Mythenquai 2, 8002 Zurich,  
Switzerland

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## Disclaimer & Cautionary Statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predicated on 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.

## Financial Calendar

Half year results 2013 – August 15, 2013  
Results for the nine months  
to September 30, 2013 – November 14, 2013  
Investor Day – December 5, 2013

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 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.

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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.

Zurich Insurance Group

Mythenquai 2  
8002 Zurich, Switzerland  
Phone +41 (0) 44 625 25 25  
[www.zurich.com](http://www.zurich.com)



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