

Zurich Insurance Group



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# Letter to Shareholders 2013

Results for the six months to June 30, 2013



*Dear Shareholder,*

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We reported a business operating profit<sup>1</sup> (BOP) of USD 2.3 billion, a decrease of 9 percent<sup>2</sup> from last year, and net income attributable to shareholders<sup>3</sup> (NIAS) of USD 1.9 billion, a decrease of 17 percent, for the six months ended June 30, 2013. In the three months ended June 30, 2013, BOP was USD 937 million, a decrease of 18 percent from the same period in 2012, and NIAS was USD 789 million, a decrease of 27 percent.

These headline figures mask the positive developments that we have seen in our business over the first six months of the year, including an improved underlying underwriting performance<sup>4</sup> in our General Insurance business and good growth in both our General Insurance and Global Life segments. These achievements were counterbalanced by the impact of natural catastrophes and weather-related events, including devastating floods in Europe and tornadoes in the U.S., as well as the continuing effect of low interest rates on our investment income.

We recorded good growth in our businesses in Latin America, Asia-Pacific and some mature markets, notably in North America. General Insurance's gross written premiums and policy fees in Latin America grew by 29 percent on a local currency basis, mainly due to a strong performance in Mexico and Brazil, while Asia-Pacific saw an increase of 9 percent, with growth in both Australia and Hong Kong. In Global Life, new business value<sup>5</sup> increased in local currency by 54 percent, driven by a strong performance in all regions.

Our investment performance continues to be negatively affected by low interest rates. These rates determine the yields on the bonds in which we invest. During the first six months, our total net investment income decreased by 8 percent compared with the same period in 2012. The extent of this decline also reflects our disciplined investment approach as we continue to focus on maintaining the strength of our balance sheet rather than taking on excessive risk in the pursuit of higher investment returns.



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> All percentage changes refer to U.S. dollar values unless otherwise stated.

<sup>3</sup> Net income attributable to shareholders is the profit remaining after the deduction of all income taxes and profits attributable to minority shareholders.

<sup>4</sup> Underlying underwriting performance excludes major catastrophes, large losses and prior year development of loss reserves.

<sup>5</sup> Before the effect of non-controlling interests.

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We continued to deliver strong cash flows and solvency levels. Solvency measured on an economic basis as determined under the Swiss Solvency Test was 185 percent as of January 1, 2013.<sup>6</sup> After deducting for the 2012 dividend, shareholders' equity at USD 30.9 billion was lower than the comparable figure at year-end 2012. But our equity base remains strong.

General Insurance BOP decreased by USD 267 million, or 16 percent, to USD 1.4 billion. Improvements in the underlying loss ratio<sup>7</sup> and the expense ratio were more than offset by increases in losses from catastrophes and severe weather-related events.

Global Life BOP was unchanged at USD 659 million. We have been able to maintain an unchanged BOP despite the lower investment income thanks to the growth of our protection products and improved expense margin. The business continues its focus on growth in target markets, emphasizing protection and fee-based products, and leveraging its global bank distribution network and its relationships with corporate customers.

Farmers BOP increased by USD 99 million, or by 17 percent, to USD 696 million, driven by an improved underwriting result in Farmers Re. This increase was partially offset by lower business operating profit in Farmers Management Services, mainly due to lower revenues.

We continue to make progress on the strategy we set in 2010, which we translated at the time into very ambitious targets for 2013 at the Group level and for each of our business segments. We remain focused on pursuing this strategy and are on track to achieve some of these targets, such as those set for Global Life and expense savings, while others, such as in General Insurance and in Farmers, remain more challenging.

## Serving customers and communities

We constantly strive to improve customer service and are always delighted to receive external recognition. Among the awards we received in 2013 were the General Insurer of the Year Award at the British Insurance Awards 2013 and Insurer of the Year in Australia's Brokers on Insurers Survey. Zurich Japan received the top 'IID' award for customer satisfaction in auto insurance, and in the Middle East, Zurich International Life retained its title of Life Insurer of the Year at the 2013 MENA Insurance Awards.

In a quarter that was marked by catastrophes and severe weather events, we are grateful to our employees who go beyond their daily jobs to make a real difference. This includes our people in Latin America, who provided direct assistance to victims of floods in Buenos Aires and La Plata, Argentina in April. In June, Zurich employees helped residents in Passau, Germany, to clear away mud left by severe floods in that city. In the U.S., we continued to build on the alliance we have formed with the St. Bernard Project since hurricane Katrina hit New Orleans in 2005. Our colleagues at Farmers are lending their support to a project to rebuild some of the 8,000 homes destroyed by tornadoes in Joplin, Missouri, in 2011, while employees of Zurich North America helped to restore homes damaged by storm Sandy in Staten Island, New York, at the end of last year.

Recent floods in many parts of the world show how vital it is to make communities more flood resilient. Mexico has been selected as the first country to be part of a five-year flood resilience program through an alliance with the International Federation of Red Cross and Red Crescent Societies (IFRC). The initial focus will be on the flood-prone region of Tabasco.

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<sup>6</sup> Ratio as of January 1, 2013 is calculated based on the Group's internal model. The filing of the ratio as of January 1, 2013 is subject to review by the Swiss Financial Market Supervisory Authority (FINMA) as is the final approval of the Group's internal model.

<sup>7</sup> Underlying loss ratio excludes major catastrophes, large losses and prior year development of loss reserves.

## Looking ahead

Global economic growth was uneven in the first six months of 2013. U.S. growth was subdued, while parts of Europe remained in recession and China's economy slowed. The outlook for the U.S. economy now appears more positive and Europe is showing signs of recovery. Economic growth in Latin America is expected to strengthen in 2013, supported by stronger external demand. In China, the government is responding to the slowdown with targeted measures to rebalance the economy away from exports towards consumption. This should support long-term growth. China's economy, along with the economies of other exporting nations, is expected to benefit from recovery in developed countries.

The progress we have made on our strategy towards our 2013 targets relies on the outstanding efforts of all our people around the world. We would like to thank them, along with our customers and shareholders, for their continuing support.

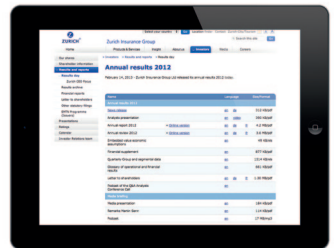
Yours sincerely,



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



**Martin Senn**  
Chief Executive Officer



For more information on Zurich's financial performance, please go to the 'Results for the six months to June 30, 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)

# Shareholder information

## Financial highlights (unaudited)

in USD millions, for the six and three months ended June 30, unless otherwise stated	H1 2013	H1 2012 <sup>1</sup>	Change in USD <sup>2</sup>	Q2 2013	Q2 2012 <sup>1</sup>	Change in USD <sup>2</sup>
Business operating profit	<b>2,288</b>	2,512	(9%)	<b>937</b>	1,142	(18%)
Net income attributable to shareholders	<b>1,851</b>	2,227	(17%)	<b>789</b>	1,087	(27%)
General Insurance gross written premiums and policy fees	<b>19,770</b>	19,153	3%	<b>9,084</b>	8,683	5%
Global Life gross written premiums, policy fees and insurance deposits	<b>13,029</b>	14,718	(11%)	<b>6,313</b>	7,323	(14%)
Farmers Management Services management fees and other related revenues	<b>1,408</b>	1,420	(1%)	<b>706</b>	710	(1%)
Farmers Re gross written premiums and policy fees	<b>2,034</b>	2,211	(8%)	<b>1,063</b>	1,157	(8%)
General Insurance business operating profit	<b>1,369</b>	1,636	(16%)	<b>562</b>	778	(28%)
General Insurance combined ratio	<b>95.6%</b>	94.8%	(0.7 pts)	<b>96.2%</b>	95.1%	(1.1 pts)
Global Life business operating profit	<b>659</b>	659	0%	<b>352</b>	368	(4%)
Global Life new business annual premium equivalent (APE) <sup>3</sup>	<b>2,081</b>	1,793	16%	<b>1,039</b>	874	19%
Global Life new business margin, after tax (as % of APE) <sup>3</sup>	<b>31.1%</b>	23.6%	7.5 pts	<b>30.3%</b>	26.0%	4.3 pts
Global Life new business value, after tax <sup>3</sup>	<b>647</b>	424	53%	<b>315</b>	227	39%
Farmers business operating profit	<b>696</b>	597	17%	<b>276</b>	227	21%
Farmers Management Services gross management result	<b>670</b>	684	(2%)	<b>339</b>	346	(2%)
Farmers Management Services managed gross earned premium margin	<b>7.1%</b>	7.4%	(0.2 pts)	<b>7.2%</b>	7.4%	(0.2 pts)
Average Group investments	<b>205,726</b>	199,267	3%	<b>204,372</b>	203,610	0.4%
Net investment result on Group investments	<b>3,323</b>	4,134	(20%)	<b>1,629</b>	2,359	(31%)
Net investment return on Group investments <sup>4</sup>	<b>1.6%</b>	2.1%	(0.5 pts)	<b>0.8%</b>	1.2%	(0.4 pts)
Total return on Group investments <sup>4</sup>	<b>(0.5%)</b>	3.1%	(3.6 pts)	<b>(0.9%)</b>	1.0%	(1.9 pts)
Shareholders' equity <sup>5</sup>	<b>30,923</b>	34,505	(10%)			
Swiss Solvency Test capitalization ratio <sup>6</sup>	<b>185%</b>	178%	7 pts			
Diluted earnings per share (in CHF)	<b>11.70</b>	14.05	(17%)	<b>4.99</b>	6.91	(28%)
Book value per share (in CHF) <sup>5</sup>	<b>198.24</b>	214.86	(8%)			
Return on common shareholders' equity (ROE)	<b>11.3%</b>	14.0%	(2.7 pts)	<b>9.6%</b>	13.6%	(4.0 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	<b>10.8%</b>	12.2%	(1.4 pts)	<b>8.8%</b>	11.2%	(2.4 pts)

The table above presents the summarized consolidated results of the Group for the three months ended June 30, 2013 and 2012, and for the six months ended June 30, 2013 and 2012, and the financial position as of June 30, 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 six months ended June 30, 2013.

<sup>1</sup> June 30, 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> New business amounts are calculated before the effect of non-controlling interests. June 30, 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 June 30, 2013 and December 31, 2012, respectively.

<sup>6</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)

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## Financial Calendar

Results for the nine months  
to September 30, 2013 – November 14, 2013  
Investor Day – December 5, 2013  
Annual results 2013 – February 13, 2014  
Annual General Meeting 2014 – April 3, 2014  
Results for the three months  
to March 31, 2014 – May 15, 2014  
Half year results 2014 – August 14, 2014  
Results for the nine months  
to September 30, 2014 – November 13, 2014

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## 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 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.

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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.

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