

Zurich Insurance Group



Letter to Shareholders 2016

Results for the six months to June 30, 2016



Letter to Shareholders



Tom de Swaan



Mario Greco

Dear Shareholder,

Our business operating profit (BOP)¹ of USD 2.2 billion for the first six months ended June 30, 2016 was down 2 percent from the same period in 2015. Net income attributable to shareholders (NIAS) of USD 1.6 billion decreased by 22 percent due to a lower level of realized capital gains, restructuring charges related to the Group's turnaround plans, and a higher effective tax rate.

After a disappointing second half in 2015, we have made significant progress over the last six months, with consistent improvement in our underlying performance in the second quarter in the context of an ongoing challenging market environment. General Insurance benefited from reinvigorated underwriting discipline. Both Global Life and Farmers continued the positive momentum of previous quarters. Our efficiency program is beginning to deliver results and we have taken steps to strengthen our position in the U.S., Malaysia and Australia, while exiting several businesses where we saw limited potential.

The Group maintained its resilient capital position. At the end of June, the estimated Zurich Economic Capital Model² ratio was within its target range at 107 percent, lower than at the end of 2015 due to financial market movements and the inclusion of Rural Community Insurance Services (RCIS). Cash remittances are still on track to exceed USD 10 billion for our three-year strategy period to the end of 2016.

¹ 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.

² The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy, which also forms the basis of Zurich's Swiss Solvency Test (SST) model.

General Insurance shows positive trend

General Insurance BOP rose by 3 percent in U.S. dollar terms to USD 1.2 billion, increasing by 10 percent in local currency, as an improvement in the underlying underwriting result offset a decrease in the net investment result and a higher level of catastrophe and weather-related events. The result benefited from currency gains.

Global Life BOP decreased by 1 percent in U.S. dollar terms to USD 667 million, and rose 7 percent on a local currency basis. Gains in local currency in Latin America and Europe, the Middle East and Africa (EMEA) were offset by a lower contribution from North America, where claims rose. The Latin American business benefited from higher volumes, notably in Brazil, currency gains and increased investment returns, while profitability in EMEA was helped by an improved investment margin, expense efficiencies and a one-off benefit in the UK.

Farmers BOP was down 6 percent at USD 678 million. Farmers Re reported a business operating loss of USD 19 million due mainly to weather-related claims in Texas and continuing challenges in the auto insurance sector. Farmers Management Services BOP at USD 697 million was 6 percent higher as the positive growth trend at the Farmers Exchanges³ continued.

Focus on priority markets

During the first six months of 2016, we completed our acquisition of RCIS, one of the leading providers of crop insurance in the U.S. In Malaysia we acquired MAA Takaful. The addition to our business in that country will enable us to offer Sharia-compliant financial protection, a market that has shown strong growth. We are in the process of acquiring Macquarie Group's retail life insurance protection business in Australia to enhance our life business's scale in that country.

We are exiting some businesses, which will free up capital and allow us to focus more management time and resources on growing our businesses in our core markets. In June we announced we will sell our general insurance businesses in Taiwan and Morocco, and in July the sale of our operations in South Africa and Botswana.

Reshaping our organization

In June we made public our plans to adopt a simpler organization and management structure that will make us more agile and accountable, bringing us closer to customers. The new structure puts work already underway in Switzerland, Germany and Italy on a global footing, combining life and non-life under one leadership team and applying a unified approach to markets.

Leadership appointments

To prepare for our next strategy cycle, we have already taken steps to simplify our management and operating structures. We have created the role of Group Chief Operating Officer and appointed Kristof Terry, former CEO General Insurance, to this position. This new role combines responsibility for operations and technology with underwriting, claims and reinsurance. This will enhance our ability to keep costs under control and increase efficiency, while supporting the transformation process across the business. Robert Dickie, who was appointed in 2014 as Chief Operations and Technology Officer, has decided to leave Zurich. The Board is grateful to Robert for his excellent contributions.

³ Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc. a wholly-owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

Outlook

The global economy remains challenging. In this environment it is imperative that we continue to focus on our key priorities to ensure we are best positioned for future success. Our decision to adopt a simpler, more customer-oriented structure will help us to achieve our goals. We are confident that by continuing our improvement actions, we will be able to deliver satisfactory returns to our shareholders in 2016 and in the following years.

We will update you on our progress and our strategy for 2017 and beyond at our Investor Day on November 17, 2016.

We thank you for your continued support.

Yours sincerely,



Tom de Swaan
Chairman of the
Board of Directors



Mario Greco
Group Chief Executive Officer



For more on Zurich's financial performance, please visit our website at www.zurich.com where you can find detailed press releases in German and English.

You can also find more financial reports and presentations in English in the investor relations section of our website at www.zurich.com/investors

If you are an iPad user, try our Investors and Media App, available on www.zurich.com/investor-and-media-app

Financial highlights (unaudited)

in USD millions, for the six months ended June 30, unless otherwise stated	H1 2016	H1 2015	Change in USD ¹
Business operating profit	2,194	2,238	(2%)
Net income attributable to shareholders	1,613	2,059	(22%)
General Insurance gross written premiums and policy fees	18,517	18,669	(1%)
Global Life gross written premiums, policy fees and insurance deposits	15,363	14,833	4%
Farmers Management Services management fees and other related revenues	1,422	1,380	3%
Farmers Re gross written premiums and policy fees	759	1,126	(33%)
General Insurance business operating profit	1,205	1,166	3%
General Insurance combined ratio	98.4%	98.3%	(0.0 pts)
Global Life business operating profit	667	673	(1%)
Global Life new business annual premium equivalent (APE) ²	2,249	2,443	(8%)
Global Life new business margin, after tax (as % of APE) ²	25.4%	18.9%	6.5 pts
Global Life new business value, after tax ²	495	411	20%
Farmers business operating profit	678	719	(6%)
Farmers Management Services gross management result	675	654	3%
Farmers Management Services managed gross earned premium margin	7.0%	7.0%	(0.0 pts)
Average Group investments	195,093	200,752	(3%)
Net investment result on Group investments	3,654	4,023	(9%)
Net investment return on Group investments ³	1.9%	2.0%	(0.1 pts)
Total return on Group investments ³	4.7%	0.1%	4.6 pts
Shareholders' equity ⁴	31,632	31,178	1%
Swiss Solvency Test capitalization ratio ⁵	189%	203%	(14.0 pts)
Diluted earnings per share (in USD)	10.75	13.73	(22%)
Diluted earnings per share (in CHF)	10.55	12.99	(19%)
Book value per share (in CHF) ⁴	206.62	209.27	(1%)
Return on common shareholders' equity (ROE) ⁶	11.9%	14.2%	(2.3 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) ⁶	11.3%	11.6%	(0.3 pts)

The table above presents the summarized consolidated results of the Group for the six months ended June 30, 2016 and 2015, and the financial position as of June 30, 2016 and December 31, 2015, 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 2015 for Zurich Insurance Group available on www.zurich.com and with its unaudited consolidated financial statements for the six months ended June 30, 2016.

¹ Parentheses around numbers represent an adverse variance.

² Details of the principles for calculating new business value are included in the embedded value report in the annual results 2015. New business value and new business margin are calculated after the effect of non-controlling interests, whereas APE is presented before non-controlling interests.

³ Calculated on average Group investments.

⁴ As of June 30, 2016 and December 31, 2015, respectively.

⁵ Ratios as of January 1, 2016 and July 1, 2015, respectively. The Swiss Solvency Test (SST) ratio is calculated based on the Group's internal model, which is subject to the approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The ratio is filed with FINMA annually. The July 1, 2015 ratio was calculated excluding a macro equity hedge. For more details please refer to the risk review in the Annual Report 2015.

⁶ Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

Contact

For more information please visit:
www.zurich.com/shareholder-area

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Financial Calendar¹

Results for the nine months
to September 30, 2016 – November 10, 2016
Investor Day – November 17, 2016
Annual Results 2016 – February 9, 2017
Annual General Meeting 2017 – March 29, 2017
Results for the three months
to March 31, 2017 – May 11, 2017
Half year results 2017 – August 10, 2017

¹ Note: all dates are subject to change

Disclaimer and 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 adviser.

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 and German. In the event of inconsistencies in the German translation, the English original version shall prevail.

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