

Letter to Shareholders

Annual results 2017



Tom de Swaan



Mario Greco

Dear Shareholder,

We are pleased to provide you with our full year results for 2017. In a year of historic weather events, our focus and discipline delivered strong performance. We improved underwriting, reduced costs and expanded our service offerings, while growing premiums and improving our customer retention levels. These achievements made us resilient in the face of challenges and give us confidence as we look ahead to delivering our 2017 to 2019 targets.

Our results are particularly impressive considering 2017 was one of the most challenging years we have experienced in nearly a decade, including historic hurricane losses in North America and a one-time item resulting from changes to capital gains relief in the UK. Measures related to the Group's restructuring also negatively affected the bottom line. As a result, net income attributable to shareholders decreased 6 percent to USD 3.0 billion and our business operating profit¹ (BOP) fell 15 percent to USD 3.8 billion. Adjusting for these one-time items, BOP would have increased by 6 percent to USD 4.8 billion.²

We remain well on track to meet our 2017 to 2019 targets. As of December 31, 2017 we had achieved cumulative cost savings of USD 700 million toward our target of USD 1.5 billion until the end of 2019. Cash remittances for the year of USD 3.7 billion are consistent with our target of in excess of USD 9.5 billion over the 2017 to 2019 period. The estimated Zurich Economic Capital Model (Z-ECM) ratio³ stands at a very strong 132 percent, above the 100 to 120 percent target range. And the underlying business operating profit after tax return on equity for the year was 12.1 percent,² in line with our target of in excess of 12 percent and growing over the three-year period.

Building our capabilities

We have also made considerable progress in refocusing our core business, diversifying our portfolio and exiting underperforming lines of business while acquiring new capabilities and growing our distribution footprint. For example, in 2017 we expanded our travel services offerings by acquiring Cover-More Group Limited and Halo Insurance Services and entering into a series of distribution arrangements with major airlines, cementing our position as a top-three global travel insurer.

USD 3.8 bn

Business operating profit¹
(2016: USD 4.5 bn)

USD 4.8 bn

Underlying business
operating profit^{1,2}
(2016: USD 4.5 bn)

USD 3.0 bn

Net income attributable to
shareholders
(2016: USD 3.2 bn)

12.1%

Underlying business operating
profit after tax return on
common shareholders' equity²
(2016: 11.5%)

132%

Zurich Economic Capital
Model ratio³
(2016: 125%)

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 Adjusted for the impact of the hurricanes Harvey, Irma and Maria, measures related to the Group's restructuring recognized within BOP and the impact of the changes to UK capital gains tax indexation relief.

³ Reflects midpoint estimates as of December 31, 2017 with an error margin of +/- 5 pts for Z-ECM.

In line with our focus on expanding bank, retail and other distribution arrangements, we announced the acquisition of Australia and New Zealand Banking Group's life insurance business in Australia. Pending regulatory approval, this will position Zurich as the largest retail life insurer in one of the most stable and profitable markets in the world.

To strengthen our proposition in the fast-changing mobility sector, we acquired Bright Box HK Limited, a pioneer in mobility connectivity that links drivers, dealers and manufacturers. We also purchased a majority stake in FitSense, an analytics company that customizes service offerings based on data collection and other digital tools that will help us to know and serve our customers even better. And we are establishing a dedicated unit to develop and deploy mobile service offerings across the Group.

Strong performance in our businesses

Property & Casualty (P&C) results show that management actions to improve underwriting and expenses delivered results in 2017. As we announced in October 2017, hurricanes Harvey, Irma and Maria had a combined impact of USD 700 million after reinsurance but before tax. The combined ratio was stable when adjusting for these hurricanes. At the adjusted level, the accident year loss ratio, excluding catastrophes, and the 'other underwriting expense ratio,' both improved.

Life performed strongly, led by a combination of portfolio growth, particularly in Asia Pacific and Latin America, expense reductions, positive market developments and a more favorable claims experience. Annual premium equivalent sales rose, while increased volumes of retail protection and unit-linked business offset reduced sales of traditional savings products. Bank distribution partners and intermediary distribution channels continued to perform well.

The Farmers Exchanges,⁴ which are owned by their policyholders, continued to deliver robust top-line growth. Gross written premiums from continuing operations increased, largely due to higher rates, especially in the auto book. The net promoter score, a key measure of customer satisfaction, reached a record high for the month of December, reflected in an improvement in customer retention in the final three months of 2017. Farmers Management Services management fees and other related revenues increased. Farmers Re benefited from underwriting actions at the Farmers Exchanges, while Farmers Life profit and new business value increased.

Proposed dividend increase, anti-dilution measures

Our proven ability to deliver and balance sheet strength give us confidence that we will continue to grow profitably, expand our customer base and increase earnings. In reflection of that confidence, Zurich's Board of Directors is proposing to increase the dividend to CHF 18 per share to shareholders at the Group's Annual General Meeting on April 4, 2018, up from CHF 17 in 2017.

We have also announced that, in line with the Group's policy on anti-dilution, we plan to implement measures that consist of the repurchase of shares of approximately USD 1 billion. The anti-dilution measures will consist of two actions: a cancellation of repurchased shares⁵ in the amount of up to 1.74 million shares to reverse dilution from vestings of shares in recent years as part of the Group's long-term compensation awards; and the intention to purchase shares on the market instead of issuing new shares for long-term compensation awards in future years.

USD 33.1 bn

Shareholders' equity
(2016: USD 30.7bn)

CHF 18

Proposed dividend per share
(2016: CHF 17)

USD 64.0 bn

Total revenues
(2016: CHF 67.2bn)

⁴ Provided for informational purposes only. 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 its attorney-in-fact and receives fees for its services.

⁵ Public share repurchase program to be launched on a second trading line of the Swiss stock exchange (subject to regulatory approvals).

Appointments

As we informed you already in July 2017, our Board of Directors has proposed Michel M. Liès as Chairman. Pending shareholders' approval at our Annual General Meeting, he will succeed Tom de Swaan, who has served as Chairman since 2013 and been a Board member since 2006. Michel brings a wealth of experience and insight from a very successful career in our sector.

We have also made senior appointments to support our transformation to become a more customer-centric organization. Starting in 2018, Kathleen Savio, who has been responsible for a very significant part of Zurich North America's business, has taken over as Chief Executive Officer Zurich North America. Alison Martin, with a strong background in life and health insurance, has taken the post of Group Chief Risk Officer.

We look forward to keeping you updated on our future progress. Thank you for your support.

Yours sincerely,



Tom de Swaan
Chairman of the
Board of Directors

Mario Greco
Group Chief
Executive Officer

Financial calendar⁶

Annual General Meeting 2018

April 4, 2018

Half year results 2018

August 9, 2018

Annual results 2018

February 7, 2019

⁶ Note: all dates are subject to change

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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.

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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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