

Letter to Shareholders

Annual results 2018



Michel M. Liès



Mario Greco

Dear Shareholder,

We are pleased to present our full year results for 2018. The strong performances from all our businesses, despite challenging market conditions and several devastating catastrophes, are a testament to our people and their ability to deliver on our customer, innovation and simplification strategy. We have continued to increase profitability and lower costs while growing our business, expanding our global footprint and broadening our range of innovative solutions to meet the changing needs of customers. In addition, we are delivering on the challenging goals we have set, and are well on track to fully achieve our 2017 to 2019 targets.

Key profitability highlights

Our Group business operating profit¹ (BOP) rose 20 percent to USD 4.6 billion from the reported number in 2017. This excellent result was driven largely by a 23 percent increase in Life BOP, which grew sales by 11 percent on a like-for-like basis, and a 35 percent increase in Property & Casualty BOP, which improved its underlying underwriting results. Farmers Management Services BOP was broadly stable. The Farmers Exchanges,² which are owned by their policyholders, improved their underwriting performance and achieved record customer satisfaction scores. Net income attributable to shareholders increased 24 percent to USD 3.7 billion over 2017.

On track on financial targets

We are on track to exceed our targets for our three-year strategic period from 2017 to 2019. We have achieved cumulative net cost savings of approximately USD 1.1 billion toward the target of USD 1.5 billion in savings by the end of 2019. Cash remittances for the year of USD 3.8 billion are consistent with our target of in excess of USD 9.5 billion over the period. The estimated Zurich Economic Capital Model ratio³ at a very strong 125 percent is above our 100 to 120 percent range. And our business operating profit after tax return on equity was 12.1 percent, in line with our target.⁴

Reflecting the underlying earnings growth and positive earnings outlook, Zurich's Board of Directors will propose an increase of approximately 6 percent to the dividend to CHF 19 per share. Shareholders will vote on the proposal at the Group's Annual General Meeting on April 3, 2019.

USD 4.6 bn

Business operating profit¹
(2017: USD 3.8 bn)

USD 3.7 bn

Net income attributable
to shareholders
(2017: USD 3.0 bn)

125%

Zurich Economic Capital
Model ratio³
(Dec 31, 2017: 132%)

12.1%

Business operating profit
after tax return on common
shareholders' equity⁴
(2017: 9.2%)

CHF 19

Proposed dividend per share
(2017: CHF 18)

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 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, management and ancillary services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services. Farmers Exchanges results are provided for informational purposes only.

³ Reflects midpoint estimates as of December 31, 2018 with an error margin of +/-5 ppts for Z-ECM.

⁴ Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

Expanding our global footprint

In addition to strengthening our profitability, we are growing our business in strategic markets. We consolidated our position among industry leaders in Latin America by acquiring QBE's business in the region, and the individual and group life business of EuroAmerica in Chile. This was further enhanced by acquisition of the leading regional travel and assistance businesses Travel Ace and Universal Assistance to further strengthen the global reach of Cover-More, our travel and assistance business.

In Asia, we announced the planned acquisition of 80 percent of Adira Insurance in Indonesia, which will make us the largest foreign insurer in the fast-growing and profitable Indonesian property and casualty market. As part of that agreement, we are entering into strategic distribution agreements with that country's fifth-largest bank, PT Bank Danamon Indonesia, and the country's second-largest provider of automotive financing, Adira Finance. Including the agreements in Indonesia, and separate distribution agreements in Australia and Latin America, we also gained access to an additional 29 million potential customers, augmenting the over 70 agreements we already have in place around the world that allow us to distribute our products through banks and other channels.

New approaches to serving customers

We are continuing to deliver improved customer propositions through innovative new approaches. In 2018 we introduced in Spain the first application for businesses based on CoverWallet's technology, under a European-wide agreement between Zurich and the U.S.-based startup. In Spain we also launched Klinc, an innovative on-demand coverage for personal possessions. In October, the Farmers Exchanges launched Toggle, a new brand which targets millennials, offering fully digital, customizable renters insurance combined with innovative services. In Italy we launched our first application for connected homes in collaboration with Vodafone. And we have entered into a strategic collaboration with a leading insurtech, Snapsheet, to deploy Snapsheet's virtual claims technology, beginning with the Irish market.

We are also creating global capabilities to support our local businesses. For example, we established Zurich Insurance Mobile Services, which is creating digital platforms that can be used in any market, and Zurich Customer Active Management to provide analytical support to better interpret customer needs, preferences and expectations.

And we are getting better at listening to our customers through the net promoter score (NPS) system, which allows us to measure customer satisfaction and gain feedback. In 2018 we expanded the use of NPS 'customer feedback loops' to 20 countries, and generated over 760,000 comments. These insights allow us to address pain points and improve customer satisfaction, a trend we're seeing in increasing NPS scores across most of the Group.

Proposed Board changes

We have also proposed three new members to stand for election to our Board of Directors at our Annual General Meeting. In February 2019 we announced that we have nominated to our Board Michael Halbherr, an investor, board member and advisor for young technology companies, and Barry Stowe, who brings extensive business experience and knowledge gained through executive roles in the insurance industry in North America and Asia. As we informed you already in December 2018, we have also nominated Jasmin Staiblin, formerly chief executive officer of Alpiq, a leading Swiss energy services provider, to our Board. Ms. Staiblin has extensive leadership and industry experience. David Nish, a member of the Board since 2016, will not stand for re-election.

Our focus on customers as the main driver of our success is a constant reminder of why we are in business – to better serve those who depend on us each day for protection and a more secure future. This year's performance also gives us great confidence as we enter the next phase of our journey. We thank you for your support.

Yours sincerely,



Michel M. Liès
Chairman of the
Board of Directors



Mario Greco
Group Chief
Executive Officer

Financial calendar

Annual General Meeting

April 3, 2019

Half year results 2019

August 8, 2019

Investor Day

November 14, 2019

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, management, and ancillary 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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