

# Letter to Shareholders

Results for the six months to June 30, 2018



Michel M. Liès



Mario Greco

Dear Shareholder,

We are pleased to present you with another strong set of results for the first six months of 2018. Financial performance across all businesses was strong. We grew where we wanted to grow, both organically and through targeted acquisitions. And we launched new, innovative services that are redefining how our customers experience and perceive us. Together, these achievements demonstrate the progress we are making in actively reshaping our business, and give us confidence in our ability to deliver on the targets we have set for 2017 to 2019.

Business operating profit<sup>1</sup> for the six months ended June 30, 2018 was USD 2.4 billion, up 12 percent from the same period in 2017. This strong result was driven by improved underwriting and reduced expenses in the Property & Casualty business, continued growth in Life, improvements in customer satisfaction and retention in Farmers Exchanges,<sup>2</sup> and a solid investment result in a challenging market. These favorable factors more than offset costs related to reshaping our business.

Net income after tax attributable to shareholders (NIAS) increased by 19 percent to USD 1.8 billion, reflecting both the increase in business operating profit and a lower tax rate following reforms in the U.S. In line with the Group's anti-dilution policy, during the first half of 2018 we completed the repurchase of shares in the amount of USD 925 million. Including the increased annual dividend paid in April, the Group returned approximately USD 3.7 billion of capital to shareholders over the first half of the year.

## USD 2.4bn

Business operating profit<sup>1</sup>  
(June 30, 2017: USD 2.2bn)

## USD 1.8bn

Net income attributable  
to shareholders  
(June 30, 2017: USD 1.5bn)

## 12.3%

Business operating profit  
after tax return on common  
shareholders' equity  
(June 30, 2017: 11.0%)

## 134%

Zurich Economic Capital  
Model ratio<sup>3</sup>  
(Dec 31, 2017: 132%)

<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> 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. Farmers Exchanges results are provided for informational purposes only.

<sup>3</sup> Reflects midpoint estimates as of June 30, 2018 with an error margin of +/-5 pts for Z-ECM.

## Continued progress in achieving our targets

Based on the strength of these results, we are well-positioned to achieve our 2017 to 2019 targets. As of June 30, 2018, we reached cumulative cost savings of approximately USD 900 million toward our target of USD 1.5 billion by the end of 2019. Cash remittances are consistent with our goal to achieve in excess of USD 9.5 billion over the three years. The estimated Zurich Economic Capital Model ratio is above our 100- to 120-percent target range at a very strong 134 percent.<sup>3</sup> And our business operating profit after tax return on equity was 12.3 percent, in line with our target of in excess of 12 percent and growing over the three-year period.

## Strength across all businesses

Property & Casualty business operating profit increased in Europe, Middle East & Africa (EMEA), and in North America where we continue to reshape the portfolio for sustained profitability. The increase was driven by improved underlying performance, lower expenses due to the Group's cost reductions and the absence of charges related to the Ogden discount rate change in the UK in 2017. These improvements were partially offset by lower realized capital gains together with less favorable foreign exchange developments and higher charges related to the Group's restructuring recognized in business operating profit.

Life performed strongly across all measures, achieving higher business operating profit and continuing its steady growth trend. EMEA benefited from portfolio growth and reduced expenses, while Latin America also saw strong portfolio growth, as well as improved margins in corporate protection. Annual premium equivalent increased when adjusted for foreign exchange developments and the sale of the Group's workplace savings business in the UK. New business value and the new business margin increased.

Farmers' business operating profit rose, primarily driven by Farmers Re, where business operating profit increased due to improved underwriting results despite lower gross written premiums following the reduction in the All Lines quota share agreement with the Farmers Exchanges from eight percent to one percent effective December 31, 2017. Farmers Management Services' result was supported by growth at the Farmers Exchanges, which benefited from rate increases and improved customer satisfaction reflected in net promoter scores and retention rates.

## Acquisitions in key markets

We continue to seek opportunities to grow in core markets. The Group further strengthened its position as one of the leading insurance groups in Latin America by announcing the acquisition of Australian insurer QBE's Latin American business, which will make us the leading insurer in Argentina. We also announced the acquisition of the life insurance and long-term savings operations of EuroAmerica in Chile to position Zurich as a leading provider in one of Latin America's fastest-growing economies. We also expanded the global franchise capabilities of our Cover-More operations with the acquisition of Travel Ace and Universal Assistance in Latin America and, in July, by announcing the acquisition of Blue Insurance in Europe. These actions solidify Cover-More's ranking as a top-three travel insurance and assistance provider, and position it for global growth.

## Digital solutions that benefit customers

We also continue to invest in innovation capabilities that support our customer-focused strategy. In the first six months of 2018, we launched Zurich Insurance Mobile Solutions (ZIMS), which will develop and deploy mobile solutions for customers across the Group. We also took a minority stake in CoverWallet, with which we have a European-wide agreement to develop digital solutions for small and medium-sized companies, and have already launched a service in Spain.

We are adding new services to benefit our customers, including in the UK where we launched a 'chatbot' service that lets customers submitting claims digitally converse with us, around the clock, every day of the year, which so far has helped to resolve about 1,500 claims. We are using an Apple-designed portal to improve agent and customer interactions. We have introduced on-demand motorcycle insurance that can be activated via a mobile phone, and we're targeting millennial customers through 'Klinc,' a digital platform tailored to their lifestyles. For commercial customers we have provided a new interface allowing them to directly access our systems. And in the U.S. we introduced a digital processing capability for farmers that significantly speeds up claims filing.

## Creating value for society

As an insurer, we take an active role in addressing issues that have an impact on society. Floods are of particular concern, affecting more people globally than any other type of natural hazard. With that in mind, in July 2018 we announced that we are extending our award-winning flood resilience program by another five years, and we will work within our alliance to generate USD 1 billion in third-party funding for flood resilience.

## Appointments

In April 2018 we announced that Gary Shaughnessy will step down from his role as Chief Executive Officer EMEA and as a member of Zurich's Executive Committee. His decision followed a diagnosis several years ago of Parkinson's disease. We are pleased that Gary will continue to serve Zurich, including as a member of various European subsidiary boards and as Chairman of the Z Zurich Foundation.

To succeed him as CEO EMEA and as a member of the Zurich Executive Committee, Amanda Blanc will join Zurich later this year. Amanda, who has extensive knowledge of insurance and customers, most recently served as group chief executive of AXA UK & Ireland.

We look forward to keeping you informed about our progress in the future. 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 results 2018

February 7, 2019

### Annual General Meeting 2019

April 3, 2019

### Half year results 2019

August 8, 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.

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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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