

Letter to Shareholders

Results for the six months to June 30, 2019



Michel M. Liès



Mario Greco

Dear Shareholder,

We are very pleased to report to you our best first-half results in a decade. In 2016 we gave ourselves ambitious targets and we launched a bold new strategy. Today, we are proud to report that we are set to exceed all our targets and that our strategy is proving successful.

Over the last three years, we have made substantial improvements in our business mix, reduced volatility and improved the profitability of our Property & Casualty portfolios, while further growing our Life franchise through targeted acquisitions. We entered new and innovative markets, for example, through our acquisition of travel assistance provider Cover-More, and launched products aimed at millennials such as Klinc, an on-demand insurance proposition introduced in Spain, and ToggleSM, a rental insurance launched by Farmers Exchanges¹ which is being rolled out in the U.S. We also succeeded in reducing our expenditures.

Our management structure has been strengthened and reinforced by a diverse and highly qualified leadership team. Meanwhile, customer and employee satisfaction has improved. In the first half of 2019, a number of new distribution agreements have given more than 10 million additional customers worldwide access to our wide range of innovative products and services. Based on what we have achieved, we can look to the future with confidence and optimism as we prepare to present our plans for the next three years at our Investor Day in London in November.

On track to exceed 2017–2019 targets

In the first half of 2019 we made significant progress against our strategic priorities. The annualized business operating profit return on equity (BOPAT ROE) was 15.0 percent, comfortably exceeding the target of in excess of 12 percent and growing over the three-year period. Cumulative cash remittances for the period 2017 through to end-June 2019 reached USD 9.2 billion, and are on track to exceed the target of USD 9.5 billion by the end of 2019. Net cost savings of USD 1.3 billion have been achieved, with the balance of the USD 1.5 billion target expected to be delivered over the remainder of the year. The estimated Zurich Economic Capital Model (Z-ECM) ratio² stands at a very strong 121 percent, and is slightly above the 100-percent to 120-percent target range.

USD 2.8bn

Business operating profit
(June 30, 2018: USD 2.4bn)

USD 2.0bn

Net income attributable
to shareholders
(June 30, 2018: USD 1.8bn)

121%

Zurich Economic Capital
Model ratio
(December 31, 2018: 124%)

15.0%

Business operating profit
after tax return on common
shareholders' equity
(June 30, 2018: 12.4%)

¹ 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, management, and ancillary services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services.

² Reflects midpoint estimates as of June 30, 2019, with an error margin of +/- 5pts for Z-ECM.

Continued strength in our businesses

Business operating profit (BOP)³ for the six months ended June 30, 2019 was USD 2.8 billion, up 16 percent from the same period in 2018. This was driven by underlying growth across the business and a strong underwriting performance in Property & Casualty. Net income after tax attributable to shareholders (NIAS) increased by 14 percent to USD 2.0 billion.

Property & Casualty (P&C) results showed strong progress across all regions, with BOP up 46 percent. This is a result of further improvement in the Group's combined ratio to 95.1 percent, the lowest level in the past decade, and a strong investment performance. The results clearly demonstrate the effectiveness of underwriting actions over recent years and efforts to reduce administration costs. These resulted, in particular, in an improvement in Commercial Insurance. Gross written premiums grew 4 percent on a like-for-like basis adjusting for currency movements, acquisitions and disposals.

Life continued to deliver a robust underlying performance against the high prior-year level. As reported in U.S. dollars, BOP declined 8 percent due to the strengthening of the U.S. dollar compared with the first half of 2018. On a like-for-like basis, before the impact of currency movements, acquisitions and disposals, BOP increased 2 percent. Underlying growth in Europe, Middle East & Africa (EMEA) together with a reduced loss in North America more than compensated for a decline in Latin America and Asia Pacific.

Farmers BOP was 7 percent higher. This was driven by favorable performance in Farmers Management Services and Farmers Life. The Farmers Exchanges,¹ which are owned by their policyholders, showed continued growth in the first half of 2019. Gross written premiums for continuing operations⁴ increased by 2 percent, with growth coming in all lines of business and driven by a combination of rate increases, improved retention and further expansion in the eastern U.S. Farmers Exchanges¹ also expanded their innovative ToggleSM rental insurance aimed at millennials, adding 21 more states, after a successful launch in 2018, to bring the total to 23 states, with the number of policies exceeding 10,000.

Innovations that benefit customers

Zurich has continued to work with a range of start-up ventures, both internally and externally, to develop innovative products and services for its customers. Following the successful launch in 2018 of the collaboration with CoverWallet – offering tailored online cover to small and medium-sized businesses in Spain – in the first half of 2019 this collaboration was expanded to the Swiss market. Based on Klinc, introduced in 2018 in Spain, Zurich in 2019 launched a similar product, Zurich Now, in Argentina aimed specifically at millennials. We also launched several new digital offerings including LiveWell in Australia, an app designed to help support Zurich customers' mental and physical wellbeing; and Homeflix in Italy, which offers insurance to renters and home owners and also provides easy access to maintenance services. In June, the Group received the Gold award in the Efma-Accenture Innovation in Insurance Awards 2019, recognizing Zurich as a global insurance innovator.

Growing through distribution agreements

During the first half of 2019, we added further distribution agreements providing access to more than 10 million potential customers. For instance, we agreed with a leading retailer of electronic goods, MediaMarkt Saturn, to make purchase protection available to its five million customers in Germany. In Switzerland we acquired 33.3 percent of autoSense – a collaboration between Zurich, Swisscom and a leading Swiss auto dealer AMAG – offering real-time information and services for drivers (including paying for fuel and servicing their cars). In Asia Pacific we entered into a 15-year distribution agreement to provide insurance products through Alliance Bank in Malaysia. The completion of the OnePath Life acquisition in Australia saw the launch of a distribution cooperation with ANZ bank. In Latin America, we announced an extension of the Via Varejo relationship to offer insurance products to customers of banQi, Via Varejo's digital bank.

³ 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.

⁴ Continuing operations exclude 21st Century outside of California and Hawaii, Business Insurance Independent Agents and other businesses.

Acting on our commitment to sustainability

We have also strengthened our commitment to supporting the communities in which we operate. During the first half of 2019, Zurich became the first insurance company to commit to the UN Global Compact Business Ambition Pledge that aims to limit the rise in global temperature to 1.5 degrees Celsius above pre-industrial levels. In line with our prior position on thermal coal, we are also engaging with customers to help them reduce the use of thermal coal and carbon-intense fossil fuels, and with companies in which we invest that derive a substantial portion of their revenues from fossil fuels, to assist them in their plans to reduce their exposure.

Keeping customers in focus

We continue to listen to our customers and gain feedback by using the net promoter system (NPS), a measure of customer satisfaction and loyalty. In the first six months of 2019, the NPS improved consistently. We also expanded the program (which now covers regions representing over 90 percent of our business revenues) to two more countries, bringing the total to 25. The number of customer responses also increased to 479,000 in the first six months of 2019, a 39 percent increase over the same period of 2018.

Senior appointments

In July we announced that Alison Martin was appointed Chief Executive Officer EMEA. Ms. Martin joined Zurich in 2017 and took on the role of Group Chief Risk Officer in January 2018. In her new role she will continue to drive Zurich's sustainability agenda. Ms. Martin will also continue to oversee Group Risk Management until a successor is named. As part of our efforts to further elevate customer excellence across the organization, we also appointed Conny Kalcher as Zurich's first Chief Customer Officer.

Looking ahead

We are very proud of what we have achieved following the significant efforts of our talented employees. Together, we will continue to build on this performance as we create the leading customer brand in insurance.

We look forward to updating you at our Investor Day on November 14, 2019, when we will be announcing our new strategic targets for the next three years.

Yours sincerely,



Michel M. Liès
Chairman of the
Board of Directors



Mario Greco
Group Chief
Executive Officer

Financial calendar

Investor Day

November 14, 2019

Annual Results 2019

February 13, 2020

Annual General Meeting

April 1, 2020

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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