

Annual Review 2012

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# Living our strategy



# About Zurich

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Zurich is a leading multi-line insurance provider with a global network of subsidiaries and offices. With about 60,000 employees, we deliver a wide range of general insurance and life insurance products and services for individuals, small businesses, and mid-sized and large companies, including multinational corporations, in more than 170 countries.

## Our cover

Street scene in São Paulo, Brazil, where Zurich is helping to meet demand for insurance from a growing middle class and thriving business sector.



For more information about Zurich, please visit:

 [www.zurich.com](http://www.zurich.com)

## Living our strategy

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At Zurich, we have set out on a journey to become the best global insurer as measured by our customers, employees and shareholders, and by our contribution to the communities in which we live and work.

Zurich has a clear strategy that will guide us on this journey. This year's Annual Review provides an overview of the strategy and the progress we have made in implementing it.

### Contents

From the CEO	2
Zurich at a glance	6
Living our strategy	
Customer focus	8
Employee focus	12
Shareholder focus	16
Community focus	20
Performance overview	24
More information	28

## Q&A with Martin Senn

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Martin Senn, Chief Executive Officer of Zurich Insurance Group, discusses Zurich's performance, strategy and commitment to stakeholders.



CEO Martin Senn talks with employees at a 2012 'town hall' meeting in Schaumburg, Illinois, U.S.



## Martin, how would you assess Zurich's performance in 2012?

I am very pleased that we have delivered such strong results in a very challenging economic environment. Our results demonstrate strong underlying performance and we have made excellent progress in all our core segments. The Board of Directors has proposed a dividend of CHF 17.00, reflecting the confidence we have in our business strategy as well as our strong cash generation capabilities and capital base.

Business operating profit for the year was USD 4.1 billion, down 4 percent from 2011. Our results were affected by the reserving issue that arose in our German General Insurance business in 2012, the challenging economic environment and weather-related events such as Storm Sandy, which struck the east coast of the U.S. in October 2012.

We have improved underlying profitability, we are growing where we want to grow and our business remains well capitalized. We are particularly pleased with our robust performance in some of the mature markets we operate in, such as the U.S., where in 2012 we celebrated 100 years of doing business. We are also very pleased with the progress we have made in the high-potential growth markets we have targeted in Latin America and Asia Pacific.

We are taking decisive actions to address the issues that arose in Germany, which required us to further strengthen our claims

reserves – the resources we set aside to pay future claims. Zurich continues to deliver sustainable and attractive returns to shareholders. We remain focused on improving our underlying performance in this challenging environment.

I particularly want to thank our employees, without whose hard work and commitment we could not have produced such strong results in 2012.

## How much progress has Zurich made towards its 2013 strategic objectives?

We have diversified our business as we said we would, and our strategic acquisitions in Latin America and Asia Pacific are now making a strong contribution to our results. All our core segments have made good progress toward the targets we set in 2010.

Thanks to its disciplined approach to pricing and underwriting, General Insurance achieved average rate increases of 4 percent and its underlying loss ratio improved by 2.9 percent to 61.4 percent. General Insurance's focus on selective profitable growth resulted in a 7 percent increase in local currency terms in gross written premiums and policy fees to USD 35.6 billion.

Global Life's new business value after tax – including contributions from Zurich Santander and Zurich Insurance Malaysia Berhad – increased by 16 percent in local currency to USD 1.1 billion in 2012. These two recent acquisitions contributed USD 195 million to



*We have improved underlying profitability, we are growing where we want to grow and our business remains well capitalized."*



# CHF 17.00

Proposed dividend  
(December 31, 2012)

the total. The segment currently ranks fourth in its peer group by new business value, up from seventh in 2010.

At Farmers Management Services, management fees and other related revenues increased by 3 percent to USD 2.8 billion and business operating profit increased by 5 percent to USD 1.4 billion as a result of a 3 percent increase in gross earned premiums at the Farmers Exchanges.<sup>1</sup>

This all shows that we are making progress in line with our strategy to deliver our 2013 targets.

Zurich is presenting its Group strategy in a different way this year. Why have you made that change?<sup>2</sup>

Let me first stress that our strategy has not changed. We are just visualising it in a different way to make it easier to understand, for all our stakeholders. For the next phase of our development, from the end of this year onwards, we have created a common strategic framework that is easy to explain and act on, particularly for our people, whose responsibility it is to execute the strategy. It is based on three simple concepts: 'who we are, what we do and how we do it.'

<sup>1</sup> The Farmers Exchanges are managed but not owned by Farmers Group Inc., a wholly owned subsidiary of the Group.

<sup>2</sup> Please see page 7

## Q&A with Martin Senn

What is the Zurich Commitment<sup>1</sup> and why do you think it is important?

The Zurich Commitment speaks for itself. It is intended as a guide for all Zurich employees – a reminder of what we must do together every day to win and keep the trust of our stakeholders. It was introduced within Zurich earlier this year and we are now working hard to make it part of the way we do business. It is a journey – one that has no final destination, because there will always be something more we can do to be the best in the eyes of our stakeholders.

For us at Zurich, success is about sustainable value creation, one of our core values, as set out in Zurich Basics, our code of conduct. We aim to create sustainable value for our customers, our people, our shareholders and our communities. We make a contribution to society through our core business of insurance, but we want to go further and that is why corporate responsibility is a key ingredient of our business strategy.



*We are resilient and well positioned to succeed in this difficult environment.”*

What does corporate responsibility mean to Zurich?

To create sustainable value for our stakeholders, we address a range of relevant environmental, social and governance issues. Our focus is on areas that are related to our core business so that we can make use of our knowledge and skills as a global insurer.

This includes community flood resilience, responsible investment and working with our customers to help them understand and manage their corporate responsibility risks. We make community investments locally and through the Z Zurich Foundation<sup>2</sup>. Corporate responsibility at Zurich also embraces environmental, health and safety management in our office buildings, diversity and inclusion in our workforce and responsible supply chain management.

Flood resilience<sup>2</sup> is a major area of emphasis for us because floods affect more people than other types of natural disaster, and as insurers we know how much impact they have on people's lives and how much damage they can cause. We think there is too little emphasis on making communities more resilient to floods.

Our partnership with the International Federation of Red Cross and Red Crescent societies (IFRC) allows us to contribute our insurance and risk expertise as well as investment capital. In this way, we think we can have an even greater impact on communities around the world that are at risk from floods.

Does the insurance industry make a contribution to the economy and society more broadly?

Insurance provides protection against risks and puts capital to work. Insurance allows families, businesses, communities and countries to grow, safe in the knowledge that they are covered against risks, whatever life or the weather or the economy throws at them. Perhaps less obviously, insurers invest the premiums and other income that they receive in company shares, government and corporate bonds, property and other assets. These are stable, long-term investments. They help to finance growing businesses, infrastructure projects, healthcare and education, among other things. That is the invisible contribution insurers make to the economy and society.

<sup>1</sup> Please see page 5

<sup>2</sup> Please see pages 20–23

These are challenging times for all insurance companies. How well prepared is Zurich for the years ahead?

We are resilient and well positioned to succeed in this difficult environment. We focus on insurance and have a clear strategy that has proved its worth in these testing times. Zurich is a highly profitable company that has performed well throughout the economic crisis. We have a strong balance sheet and a disciplined investment philosophy. We understand that we must work continuously to maintain the trust of our stakeholders in order to achieve our business objectives.



Martin Senn discusses Zurich's performance in his quarterly CEO Focus videos. You will find them on the homepage of [www.zurich.com](http://www.zurich.com) on the day we announce our financial results.

 [www.zurich.com](http://www.zurich.com)

## The Zurich Commitment

**We care about our Customers.** Our customers are the individuals, families, businesses and institutions that face risk every day. We must earn their trust – and the commitment of the agents, brokers and others that help us serve them. We must deliver the insights, products and services that empower them to understand and protect themselves from those risks. As One Zurich, we can and must exceed their expectations. And when adversity strikes, we must be there for each of them with the solutions and financial strength to deliver on our promise.

**We care about our People.** Our people are the diverse women and men who together strive to make Zurich the best global insurer. We value their passion and personal integrity, and recognize those as a basis of our strength. We must invest in their capabilities and expertise so that each may fulfill his or her individual potential. We must celebrate success, and learn from mistakes. We must live up to our common set of values, and hold each other accountable.

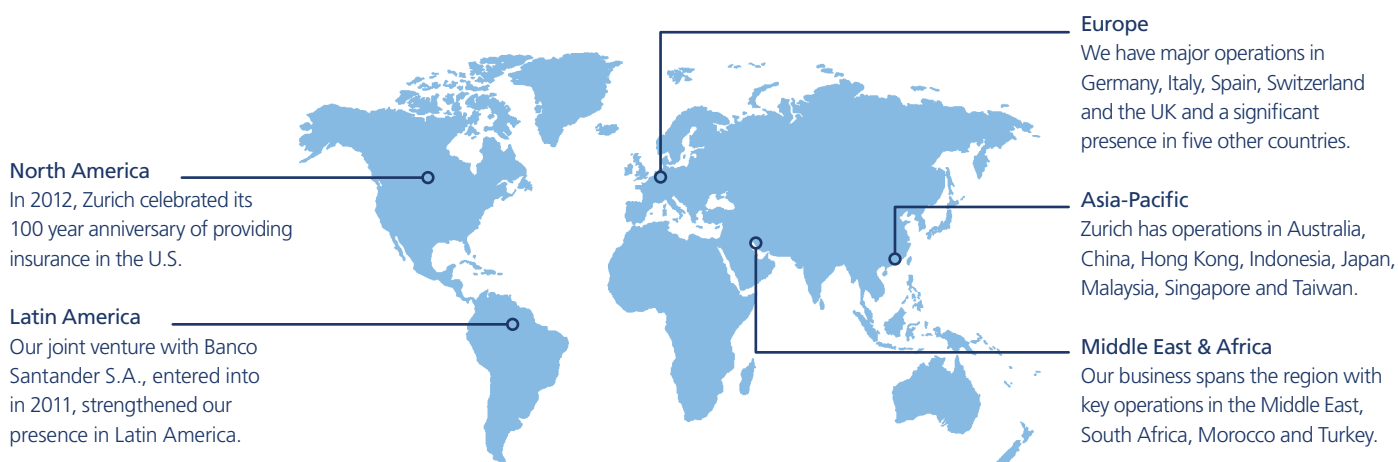
**We care about our Shareholders.** Our shareholders are the individuals and institutions that provide the financial strength that backs our promises. We must deliver a fair, reliable and sustainable return on their investment. We must do so with a clear focus on our core business of insurance, an uncompromising commitment to financial and portfolio discipline, and investing in our future.

**We care about our Communities.** Our communities are where our customers, our people and our shareholders live and work. While we can be proud of the contribution to society Zurich makes through our core business of insurance, we must also give back to our communities through our talent, time and resources.

### Zurich Insurance Group

# Zurich at a glance

We take a global approach to our resources and capabilities. We have the flexibility and speed to adapt our product and geographic mix to meet changing market conditions. Global processes and systems allow us to get the most from our strengths.



## Our business segments

General Insurance	Global Life	Farmers
<p><b>Business:</b> Property and casualty insurance and services</p> <p><b>Market segments:</b> Individual, commercial and corporate customers</p> <p><b>Distribution channels:</b> Agents, banks, brokers, direct</p> <p><b>Geography:</b> Global</p>	<p><b>Business:</b> Life insurance, savings, investment and pension solutions</p> <p><b>Market segments:</b> Individual, commercial and corporate customers</p> <p><b>Distribution channels:</b> Agents, banks, brokers, employee benefit consultants, direct</p> <p><b>Geography:</b> Global</p>	<p><b>Business:</b> Management services related to property and casualty insurance</p> <p><b>Market segments of the Farmers Exchanges<sup>1</sup>:</b> Individual and commercial customers</p> <p><b>Distribution channels of the Farmers Exchanges<sup>1</sup>:</b> Agents, direct</p> <p><b>Geography:</b> United States</p>
<p>USD 2,097 m Business operating profit</p> <p>USD 35,610 m Gross written premiums and policy fees</p>	<p>USD 1,338 m Business operating profit</p> <p>USD 30,259 m Gross written premiums, policy fees and insurance deposits</p>	<p>USD 1,414 m Business operating profit</p> <p>USD 2,846 m Management fees and other related revenues</p>

<sup>1</sup> 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.

## Highlights

**USD 4.1bn**  
Business operating profit  
(December 31, 2012)

**178%**  
Swiss Solvency Test  
capitalization ratio  
(July 1, 2012)

**USD 34.5bn**  
Shareholders' equity  
(December 31, 2012)



# Group strategy

Zurich is a profitable, well capitalized and resilient global insurance provider. Our success is built on the dedication of our people and a combination of financial and underwriting discipline, customer centricity and operational excellence. But to maintain our momentum in an increasingly volatile economic and social environment, we must do more.

Our Group strategy is designed to deliver profitable growth by leveraging the strength of our global business, making the best use of our resources and building our reputation as a trusted brand. This strategy is based on three simple concepts: 'who we are, what we do and how we do it'.

 More about Group strategy: [www.zurich.com/aboutus/](http://www.zurich.com/aboutus/) or pages 8–9 of our Annual Report 2012, also available on our website.

## Our strategy

### Who we are

#### The Zurich Story

We are Zurich, one global company, with one mission, one ambition, one set of shared values and a clearly articulated commitment to our stakeholders: our customers, our people, our shareholders, and the communities in which we live and work.

### What we do

#### Business Portfolio

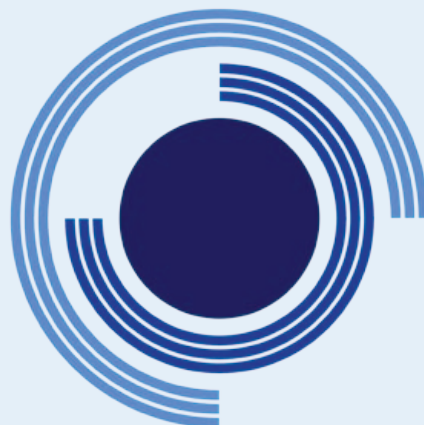
Build a profitable portfolio for the long term.

#### Customers and Intermediaries

Become more customer-driven.

#### Products and Services

Excel in products and services.



### How we do it

#### People Management

Attract, retain and develop the best people.

#### The Zurich Way

Create a competitive edge by sharing best practices.

#### Processes and Systems

Simplify and improve our processes and systems.

# 60,000

Employees (approximately)  
(December 31, 2012)

# 170+

Countries  
(December 31, 2012)

# AA-/stable

Standard & Poor's financial strength rating  
of Zurich Insurance Company Ltd  
(December 31, 2012)



Living our strategy: Customer focus

## 100 years of service to our U.S. customers

Zurich's strategy clearly states our ambition to become a leader in customer service and to excel in the propositions we provide.





Los Angeles: home of Farmers since 1928.



*America has become one of the world's most productive nations and Zurich has helped enable its growth."*



Zurich's North America Commercial business is based in Schaumburg, a suburb of Chicago.

**At Zurich, we aim to be a strong, stable insurer that our customers can rely on, even in challenging times.**

We work constantly to understand their needs more closely and develop distinct propositions to satisfy the requirements of specific customer groups. A proposition goes well beyond a product (such as an individual insurance policy) and extends to the full customer experience, including branding, distribution and service. Of the many parts of the world where we are working to get closer to our customers in this way, one of the most important is the U.S., where in 2012 we celebrated 100 years of doing business.

On December 17, 1912, the state of New York Insurance Department granted a license to the Zurich General Accident and Liability Insurance Company, Limited, to establish a new insurance company. This was our first step into the U.S. market. This period of rapid growth in the American economy was an opportune time to transfer to the U.S. the knowledge and expertise in workers' compensation insurance we had built up in Switzerland and to get involved in the booming market for automobile insurance. In the century that has passed, Zurich has insured countless individuals,

families and businesses in the U.S., including historic projects such as Macy's annual Thanksgiving Day Parade in 1924, the Chicago World's Fair in 1933 and the development of Madison Square Garden in 1968.

America has become one of the world's most productive nations and Zurich has helped enable its growth in a dual capacity: through the provision of protection to individuals and firms on one hand, and by investing capital in infrastructure projects and major industries such as auto, manufacturing and construction on the other. Today, Zurich is a leading commercial property-casualty and life insurance provider serving the global corporate, large corporate, middle market, specialties and programs sectors and is an insurance provider for the majority of Fortune 100 global companies.

Zurich enhanced its presence in the U.S. following the 1998 merger with the financial services businesses of BAT, which brought Farmers Group, Inc. ('FGI') into the Group. The Farmers Exchanges have served America with personal and small commercial insurance products since 1928. FGI, a wholly owned subsidiary of Zurich Insurance Group Ltd, and its subsidiaries,

## Improving service to our customers worldwide

provides non-claims related management services to the Farmers Exchanges, three reciprocal insurers that are owned by their policy holders. The Farmers Exchanges serve more than 10 million households with more than 20 million individual policies across all 50 states through the efforts of over 50,000 exclusive and independent agents.

At Zurich, we work hard to meet the specialist needs of our corporate customers and offer them solutions from across the Group. For example, our Global Corporate division within General Insurance employs account specialists to serve large multinational corporate customers, whose needs are often unique and complex. These dedicated specialists identify complete insurance solutions, so that customers have one point of contact. Recently, the Global Corporate teams worked with counterparts from Global Life to deliver a unique product combining captive insurance and life insurance components for a major U.S. energy company.

We were able to demonstrate our commitment to our customers and the communities in which our people live and work when Storm Sandy devastated the northeast.<sup>1</sup> We were proud to serve them during this difficult period – as we have been for the last one hundred years. In our second century, we aim to provide an even better service to our customers by working closely with them to understand their needs more deeply.

<sup>1</sup> For more on our employees' response to Storm Sandy, see page 15.



### Zurich takes a Lean approach to enrich the quality of service that our customers receive

Zurich's commitment to improve the customer experience extends across the organization. A vital part of our strategy is the ZurichLean program which aims to simplify the service to customers by mapping each step of internal processes and redesigning them using 'Lean' methodologies.

As Dr. Daniel Ösze, head of the ZurichLean Center of Excellence team explains: "The approach is relatively straightforward: understand what your customer wants, compare that with what is currently provided, then design and implement a better way to deliver what the customer wants. A critical component is to measure success and then to keep striving to improve upon it." The initiative is run by a core team which encourages employees to become

certified practitioners. In turn, qualified professionals apply Lean techniques to improve processes in their own areas. This approach enables powerful methods to cascade rapidly throughout the organization, driven by a growing internal community of practitioners and experts.

In one recent example, representatives from several teams across the Asia-Pacific region and members of the ZurichLean team sought ways to increase the speed of policy issuance in accident and casualty lines. The group mapped the processes end-to-end to identify and eliminate 'pain points'. The event encouraged closer collaboration between different teams and brought about a greater appreciation of each contribution to the overall process. The advantage of contrasting vantage points coupled with the

Chicago, Illinois: Zurich opened its first U.S. headquarters in the city in 1912.

Lean methodologies ensured a 20 percent reduction in the time needed to issue policies. In summary, ZurichLean uses a structured approach to improve products and services by leveraging existing resources in optimal ways.

### Brokers embrace Zurich's Multinational Insurance Application

Distributors, such as brokers, are vital channels that connect Zurich with our customers. We aim to provide exceptional support to our distributors so that they in turn can provide a higher level of service to our customers.

Within General Insurance, our multinational insurance application (MIA) is a tool that helps our underwriters, customers and brokers structure international insurance programs for multinational customers, providing insights into regulations, tax and licensing on insurance in countries around the world.

Zurich initially developed MIA as an internal tool, using advice from external tax and legal professionals to supplement the business intelligence we gained over the years, creating a vehicle that our underwriters could use to help our customers. A few years ago, it became apparent that we could create better programs for customers by sharing this tool directly with brokers. Today over 50 brokers have signed up to use the tool, including the three main global brokers.



### Working with our customers to protect employees, the environment and business

Zurich's Risk Engineering teams work with customers around the world to help them manage environmental, health and safety risks as well as business risks. In a recent example, one of our teams in Brazil worked with the senior staff of Schahin, a major Brazilian construction company, to create a Risk Improvement Action Plan using cutting-edge methodologies which will be implemented in 2013. The plan provides Schahin with a reliable risk assessment that will improve protection of employees, the environment, productivity and profitability. Using two complementary risk analysis methodologies, the Zurich team examined risks associated with the installation, construction, assembly and commissioning of a new natural gas condensate processing unit as well as the fitness of an existing gas treatment unit in São Paulo State, Brazil.

To build a comprehensive picture, the team also investigated areas of company processes and procedures as varied as safety management, corporate culture, general management, risk and hazard analysis, environment management, education and training, planning, quality assurance and quality control, project considerations and estimating. The team's approach drew on Zurich's construction experience and expertise and Construction Industry Institute (CII) accepted best practices for environmental and safety management in construction operations. Schahin expressed a high level of satisfaction with the report for its objective and critical analysis.





Living our strategy: Employee focus

## Bringing out the best in our people

Effective people management is a central component of Zurich's Group strategy.

To succeed as a global insurer, we need to attract, retain and develop the best people in our industry. That means developing industry-leading people management capabilities and taking a global approach to people management and talent acquisition.

We promise to invest in our people's capabilities and expertise so that each may fulfill his or her potential, as made clear in our Zurich Commitment (see Q&A with Martin Senn, pages 2–5). In return, we require all employees to uphold our core values, as set out in our code of conduct, Zurich Basics.

### Performing at our best

At Zurich, we know it's not enough to attract and retain great talent. We need to enrich the work-life experience for all of our employees. Like our customers, our global workforce is extremely diverse: from nationality, language and gender to lifestyles and perspectives. So we are building a culture that responds to and utilizes their different attributes to enable them to perform at their best.

For us, having a diverse and inclusive working environment is not about a policy or a program: it needs to become part of who we are and how we operate. We will focus on empowering people through an inclusive culture underpinned by forward-thinking people practices. It is critical that we build a robust and diverse talent pipeline, and ensure that Zurich's leaders are committed to – and equipped and accountable for – embedding diversity and inclusion in all that we do.



*Our commitment to diversity and inclusion helps ensure that the pool of talented people is broad.*



We are moving in the right direction: 64 percent of our employees already regard Zurich as a company in which diverse perspectives are valued and 87 percent support the effort to create a more diverse Zurich workforce.<sup>1</sup>

#### **The life cycle approach to people management**

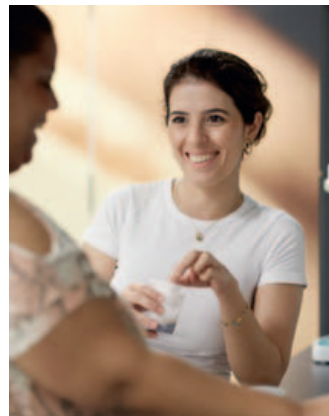
To become the best global insurer, we need to attract the best people and empower them to develop their careers at Zurich. Our people strategy takes the entire employee life cycle into consideration. This holistic approach has two main components: talent – in terms of both talent acquisition and talent management – and learning and development.

#### **Talent acquisition and talent management**

We aim to attract the most talented people to the business and we employ a robust process to identify existing employees who have the capabilities, experience, potential and desire to drive Zurich forward in line with our business strategy. Our talent management approach enables us to match the future needs of the business with employees who have the potential to help us meet them. Having identified the right people, we provide them with appropriate career development opportunities. Our commitment to diversity and inclusion helps ensure that the pool of talented people is broad and regular talent reviews are designed to ensure we have the right people in the right roles at the right time.

Zurich uses globally consistent tools and metrics to manage talent. These include strategic workforce planning, a three- to five-year analytical and forecasting tool; and Zurich Workforce Analytics, which combines individual country data into a single warehouse to generate one global view of our workforce, helping us to make better decisions for our people and the business.

Zurich employees in São Paulo, Brazil (top left and below), London, UK (center, top) and Chicago, U.S. (center, below).



<sup>1</sup> Source: Global Employee Engagement Survey, Kenexa, 2011; Global D&I Survey, Deloitte, 2012.



# Bringing out the best in our people



London Underwriting Centre, City of London, UK.

### Learning and development

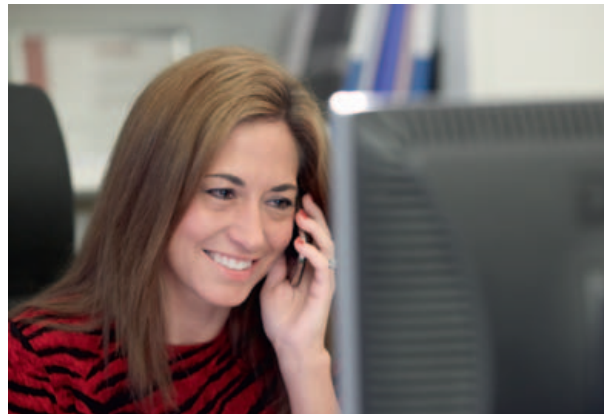
At Zurich, we want to retain talented people and engage all our employees fully in their working lives, so it is our aim to provide lifelong learning and development opportunities. A well-established, year-round process of performance reviews, competency assessments and Individual Development Plans, in partnership between line managers and employees, helps us to identify career development needs.

Line managers hold year-end assessment and objective setting discussions with their team members. The degree to which these mutually agreed objectives are achieved helps us identify skills and aptitudes for further development, and to see where further training is necessary if employees have fallen short of expectations. This process is repeated mid-way through the

year. Employees are expected to establish an Individual Development Plan and a review of this takes place during the year, providing a formal opportunity for employees to discuss the direction in which they would like their careers to go with their line managers.

Development needs are matched up wherever possible with training opportunities, drawing on best practices from our business worldwide. We have created Zurich Academies for our underwriting, claims, finance and communications functions, among others.

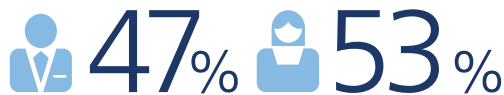
Looking to the future, we plan to further develop our human capital key performance indicators and Strategic Workforce Planning approach to ensure that we have the right people coming through the business to meet its future requirements.



### Group Chief of Staff receives 'Women to Watch' award

Zurich's Group Chief of Staff Ann Haugh was honored as one of Business Insurance magazine's 'Women to Watch' in December 2012 in New York. The award is given to 25 women who are doing outstanding work in insurance and related fields. At Zurich, we are committed to attracting, retaining and developing talented women and are proud that one of our employees has been recognized in this way.

Ann joined Zurich in 1996, where she served in the Specialties division in North America in underwriting and management roles. From 2002 to 2007, she worked for Arch Insurance in New York as Chief Underwriting Officer and Chief Operating Officer for the executive assurance division. She returned to Zurich in 2007 as Chief Operating Officer for Global Corporate in North America and was appointed Chief Operating Officer for Global Corporate in 2009. She was named CEO of Global Corporate UK in 2011 and took on her current role in August 2012.



Gender: male to female participation

(Source: Zurich Workforce Analytics, December 31, 2012)



Average length of service

(Source: Zurich Workforce Analytics, December 31, 2012)

## Storm Sandy: moving mountains in New York

When Storm Sandy struck the east coast of the U.S. in 2012, Zurich employees were well prepared to help. Sandy made landfall along the New Jersey coast on October 29, generating an unprecedented storm surge of almost 14 feet at Battery Park in New York City. At its peak, the storm spread 900 miles across with winds of over 90 miles per hour. Sandy created colossal damage and left six million people without power.

Zurich volunteers raised money and personally helped those affected by the catastrophe. And the response was not confined to North America: for example, Zurich employees in the Asia-Pacific region – itself prone to natural catastrophes – raised money for the American Red Cross.

Employees of the Farmers Exchanges<sup>1</sup> in the U.S. helped customers in a number of locations, including New Jersey and Pennsylvania, from their Mobile Claims Catastrophe Buses. These buses are high-tech, mobile customer support centers designed to meet disaster victims' needs in a time of crisis. In addition to providing immediate claims services, employees grilled hamburgers, distributed bottled water, and handed out blankets, toothbrushes and toys to customers and non-customers alike.

One of the biggest efforts happened in New York itself when 88 employees took a bus to Rockaways, Queens, to help clear piles of sand and debris from a local playground. Director of Community Investment, Jillian Walsh, worked with the New York office of Mayor Michael Bloomberg on the planning, together with local Community Investment employee volunteers Samit Shah, Sandra Mangroo, Deborah Bryant and Michael Crocker. With the support of North America Commercial CEO Mike Foley, Global Life CEO North America David Dietz and Global Corporate in North America CEO Dan Riordan, days of preparation and effort culminated in a gathering of the volunteers in front of One Liberty Plaza on Friday, November 16th. The group was greeted with an enthusiastic and encouraging talk from Dan Riordan. Then they put their backs into moving mountains – literally.

"This storm has shown us once again how powerful natural forces can be and what risks they pose. I am proud of how Zurich's employees have been helping our customers, both before and after Storm Sandy. Zurich's strong balance sheet, healthy cash flows and risk expertise enable us to be there for our customers when they need us and to deliver on our promise," said Chief Executive Officer Martin Senn.

<sup>1</sup> 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.

 **66%**

Employee engagement score\*

(Source: Global Employee Engagement Survey, 2011)

\* The extent to which employees are motivated to contribute to organizational success, and are willing to apply discretionary effort to accomplishing tasks important to the achievement of organizational goals.



### Enhancing capabilities: The Zurich Way

The Zurich Way (TZW) program focuses on three goals: building global capabilities, sharing knowledge, and recognizing outstanding achievement.

Arthur Calipo, who heads the team, explains: "We offer a simple mechanism to transfer successes from one area to another – be it a new product, a new service, or a smarter process. We achieve this through The Zurich Knowledge Exchange, an intranet-based platform that allows us to connect ideas and people."

One recent example illustrates how this can help employees to develop their own knowledge and benefit the business. During a meeting of Underwriting and Pricing practitioners, Jackie Flynn, Head of Underwriting Process & Development at Zurich North America, invited Paula Wolfenson, Latin America Technical Director, to work with her team to add depth to her knowledge of underwriting and pricing tools. The experience was very positive for both teams and resulted in the transfer of knowledge and best practices to improve the underwriting process across the Latin America region.





Living our strategy: Shareholder focus

## A strategy for profitable growth

We are building our business for the long term in both emerging and mature markets so that we can continue to pay a sustainable and attractive dividend.

Zurich is committed to paying a sustainable and attractive dividend. We understand how important this is to our shareholders, especially in today's challenging economic environment.

To make good on this commitment, we must ensure that our capital position remains strong and that we continue to be profitable. While we need to remain resilient to economic and other external influences, we must also look for opportunities for growth, including in the high-potential regions we have targeted. One of these regions is Latin America.

Latin America has a population of 590 million – nearly as many people as in Europe and the U.S. combined. The region is not just growing, it is undergoing profound structural change. Strong growth over the last decade has been supported by economic reforms and greater political





*Zurich is now the fourth largest life insurance provider in Brazil, one of the fastest growing and most exciting marketplaces in the world.”*



Street scenes in São Paulo, Brazil's largest city and home of Zurich's Brazilian business.

stability. This has brought stronger purchasing power, increasing social mobility and better access to credit.

The acquisition of 51 percent of Banco Santander's Latin American insurance operations increased capabilities in our key target markets of Brazil, Chile and Mexico. Banco Santander has proven bank distribution strength and is in the top three in each of these markets. Across the region, it has a network of 6,000 branches and 25,000 cash machines and gives us access to 40 million customers.<sup>1</sup>

Brazil is typical of the exciting opportunities that exist in the region and has long been called 'the country of the future', although its time has very clearly

<sup>1</sup> As at December 31, 2012

arrived. It has a population of 200 million, made up of 67 million households that own 32 million cars. In the last 10 years alone, 50 million people have moved out of poverty into the middle class. This demographic shift is equivalent in size to the population of Spain and a further 30 million people are expected to make the transition from poverty in the next two years. Brazil's business sector comprises 5.4 million small companies, almost 100,000 mid-sized companies and around 1,000 globally active enterprises. It is a country that shows increasing self-confidence.

With their growing wealth, middle-class Brazilians buy homes, cars and mobile phones and want to protect their future standard of living – but insurance penetration rates are low.

A growing middle class also needs life insurance, which has already grown at double-digit rates in Latin America since 2010 and is expected to maintain this trend until 2015. Through our varied distribution channels in Latin America, we have access to more than 100 million potential customers. Kevin Hogan, CEO of Global Life, notes: "In 2007 Zurich didn't even have a life insurance license in Brazil. Now we are the fourth largest life insurance provider in Brazil, one of the fastest-growing and most exciting marketplaces in the world."



One of our advantages as a global insurer is our ability to identify and promulgate best practices. Zurich now provides motor insurance prices based on postal codes in Brazil – an innovation in the region, but standard practice elsewhere. As Antonio Cássio dos Santos, Regional Chairman for Latin America notes, "Brazil is the third largest market in the world for selling cars and only one third are insured; bringing a global sophistication to an emerging market gives you a big competitive advantage. We are taking this approach across Latin America".



## A strategy for profitable growth

### Zurich builds in Asia for future opportunities

In addition to the opportunities in Latin America, Zurich has a stake in other growth areas. Our investments in Asia, particularly in Singapore, Indonesia and Malaysia, are expected to drive future cash generation and diversify our current portfolio away from mature markets.

The opportunities for fee-based and protection products remain strong in these markets. According to a recent study<sup>1</sup>, the amount of underinsurance in Asia is estimated to be USD 41 trillion. This 'mortality protection gap' is the difference between the resources needed and the resources currently available to maintain dependents' living standards following the death of the main breadwinner of a family. Kevin Hogan, CEO of Global Life, says: "There is a huge amount of underinsurance in these markets. Often protection insurance is available at an attractive cost that is not obvious to customers, and that misperception is what drives the opportunity."

### A good year for Global Corporate

Global Corporate, a unit of our General Insurance business, increased its gross written premiums for the third year running in 2012, while keeping its focus on profitability. Disciplined underwriting and pricing actions have been taken in the European motor insurance portfolio and in international property and energy insurance lines. This outcome builds on an approach Zurich uses to manage its portfolios across the General Insurance business,



Global Corporate increased gross written premiums for the third year running in 2012.



Malaysia offers future growth opportunities.

called the tiering process. This process ranks accounts according to an underwriting expert's best view of their relative profitability. We can then take a differentiated view on how to handle each account on renewal – with the most attractive targeted for retention and the least attractive targeted for corrective action. This approach has led to a marked improvement in the underlying performance of key portfolios. It is essentially a way to improve the portfolio by reviewing profitability in real time.

This approach has resulted in a higher retention of the most profitable accounts relative to less profitable ones and a marked improvement in overall performance. Mike Kerner, CEO of General Insurance says: "There is nothing earth-shattering about the thinking behind this. What is different is that the measurement of this initiative and the execution is available to the frontline underwriter. If you ask any underwriter what tier a specific account is in, they will be able to tell you immediately and as a result, they will also know what the appropriate action is for that account."

### How responsible investment will make a difference

With a portfolio valued at over USD 200 billion, Zurich's investment management function has a clear mission: to achieve superior risk-adjusted returns relative to liabilities. At the same time, success for Zurich depends on creating long-term sustainable value for all key stakeholders: our customers, our shareholders, our employees, and the communities in which we live and work – consistent with our code of

<sup>1</sup> Source: Swiss Re



conduct, Zurich Basics, and our Zurich Commitment.

During 2012, Zurich has developed a comprehensive approach to responsible investment, which is one aspect of our overall corporate responsibility strategy. The aim is to achieve a positive impact on society and the environment, and promote governance practices consistent with high standards of integrity. To this end, Zurich is working closely with its asset managers to proactively integrate relevant environmental, social and governance (ESG) factors into the investment process alongside traditional financial metrics.

Cecilia Reyes, Chief Investment Officer, says: "This is about driving positive behavioral change through continuous engagement with asset managers, the broader investment community, as well as the companies in which we invest. We believe this approach provides a valuable signaling effect that will produce tangible long-term benefits as executives develop a heightened sensitivity to ESG factors and act mindfully of them."

In addition, Zurich is building a portfolio of so-called impact investments. Increasingly, entrepreneurs, governments, non-government organizations and others are turning to capital markets to search for, and fund, solutions to many of the pressing social or environmental issues of our time. As a global insurance group with a growing presence in many emerging regions of the world, Zurich is directly exposed to many of these challenges, such as the potential effects of climate change or the intensive use of

scarce natural resources. Zurich has a direct interest in sustainable economic growth, and the development of resilient communities. Impact investments address these issues by having a targeted, positive impact on society or the environment, but also offer a financial return commensurate with risks.



## Global Life invests in the UK

Zurich is making important investments in mature markets by repositioning distribution channels and product mix to address areas where opportunities are most appealing.

For example, Global Life's Corporate Life & Pensions business launched a corporate savings platform in the UK in 2011 that has already generated USD 2 billion in assets under management. Moreover, this platform is positioned to take advantage of the automatic enrollment of employees into pensions which is planned for introduction in 2013 in the UK.

A further example is the significant investments Global Life has made in a UK retail savings platform in preparation for The Retail Distribution Review (RDR) which came into effect on December 31, 2012. The RDR is a framework of requirements and regulations created by The Financial Services Authority to enable consumers to better understand the service they are being offered and know in advance how much they will need to pay for investment related advice.

# Supporting communities worldwide

Through local community programs and the Z Zurich Foundation, we share our resources and expertise to help build more resilient communities.

**Zurich has invested in the well-being and sustainable development of its communities for many years. The foundation for our engagement with and for our communities lies in Zurich Basics, our code of conduct. Our Z Zurich Foundation at the Group level, combined with the many local community programs and activities undertaken across the Group, represent the active expression of the Zurich Commitment to our communities (see Q&A with Martin Senn, pages 2–5).**

The Z Zurich Foundation and the organizations it cooperates with play an important role in Zurich's global flood resilience program, an initiative that forms part of our broader corporate responsibility strategy. The flood resilience program aims to enhance community flood resilience by finding innovative ways to increase the impact of disaster risk reduction efforts at the community, national and global levels.

We focus on flood resilience because floods affect more people globally than any other

type of natural disaster and are responsible for some of the largest economic, social, humanitarian and insured losses. Floods are expected to have a growing impact due to natural factors, such as the increase in extreme rainfall events and rising sea levels, and man-made factors such as population growth and the number of homes and businesses in areas exposed to flooding.

We believe that there is too little emphasis on pre-event flood mitigation, as opposed to post-event flood relief. This is a gap that Zurich can help fill because we have relevant risk management and insurance expertise.

Zurich's flood resilience program will focus on developing and disseminating knowledge and expertise on flood resilience. It will have an impact on the ground through strategic long-term partnerships with charities and community organizations and will also look at the contribution insurance can make when it comes to flood risk. It will use innovative partnerships with the public sector, NGOs, private sector organizations and academia.



Above: Low-lying Bangladesh suffers from floods every year, especially during the monsoon season.

Below and right: The Z Zurich Foundation supports Practical Action's flood resilience program in the Sirajganj district, Bangladesh.









## Supporting communities worldwide

The program is being embedded within our General Insurance business, making use of Zurich's insurance and risk expertise around the world. Our partnership with the International Federation of Red Cross and Red Crescent Societies (IFRC) will help us to achieve a significant impact on communities at risk from floods. Both Zurich and the IFRC want this partnership to become a model that can be replicated globally. The Z Zurich Foundation will invest up to CHF 21 million in the partnership over the five years to 2017. Zurich employees with relevant skills will also invest an average of 500 working days per year in the partnership.

### Case Study: Practical Action in Bangladesh

One example of how we already address community flood resilience is the 'From Vulnerability to Resilience: Household Preparedness' project in Bangladesh. The Z Zurich Foundation is the exclusive backer of this project, which is run by the development charity Practical Action.

The five-year project, now in its penultimate year, works directly with 2,000 very poor households and indirectly with an additional 6,000 families. Its aim is to increase the resilience of these communities against disaster by equipping them with the skills, knowledge and technologies they need to better manage the risks they face, as well as ensuring they are able to grow enough food to eat all year round. Preparation for flood disasters is a major focus.

Community-based organizations play a key role in implementing the project, supported by skilled

volunteers. They discuss a variety of issues at their fortnightly meetings, such as disaster preparation plans, early warning systems and opportunities to improve people's livelihoods and protect their crops. These skilled volunteers increase awareness within their communities of the benefits of early warning messages for disaster preparation by organizing regular practice drills.

As a consequence, around 95 percent of the people in the surrounding communities received early warning messages and were prepared when floods hit during the summer of 2012. Volunteers also rescued people and their possessions using evacuation boats to take them to shelter on higher land.

Skilled volunteers monitor water levels by setting up water gauges at different points in flood zones and at least 300 houses and 250 acres of village crops were saved from flood water, while no livestock or other property were lost.

Other highlights in 2012 included closer cooperation between 200 skilled volunteers with government departments. This increases participants' ties with local disaster management authorities while enabling volunteers to represent the interests of their villages and encourage vital improvements.

Measures to help householders have included raised plinths for houses to keep them safely above water levels and the provision of safer drinking water and sanitary latrines. Wells have been installed to provide sustainable sources of fresh water for drinking, cooking,



Project team members from Zurich and Practical Action talk with local people in Thakurpara, Belkuchi, Bangladesh.

bathing and washing. Families have been trained in improved methods of vegetable cultivation and animal protection so that they are able to continue producing vegetables while rearing livestock and poultry during floods, increasing food consumption significantly.

Farming programs have increased family incomes and raised standards of living, particularly during periods of flooding. As a result, migration of men seeking work during the rainy season has been reduced by 80 percent.

Community-based organizations have been strengthened and provided with new resources, including offices that can be used as community centers. While there is much more work to be done, this project is beginning to gain traction: four of the community-based organizations have received official recognition and are now registered within the government system.



## Global Community Week: 7,000 Zurich employees take action

Zurich's first Global Community Week, conducted in April 2012, gave our employees around the world the opportunity for hands-on engagement with their local community. More than 7,000 employees responded to the call for action and participated in over 278 community projects.

In one example among many others worldwide, 56 employees from Legal and Compliance volunteered to clear forests with Pro Natura, the largest private non-profit organization for nature conservation in Switzerland. As Jason Schupp from Group Compliance explained: "What I saw motivate the group was the Pro Natura guide's clear explanation of why our work was important. A cleared area encourages native plant species to grow. The piles of brush and trees we created provide a safe habitat for small forest creatures."

## Employee skill-based volunteering: working with the Red Cross

At Zurich, we believe that volunteering our own expertise to assist communities and civil society organizations is an important part of the development of our employees. At the same time, we can achieve more in this way than simply by donating funds. One example is our skill-based volunteering initiative with the International Committee of the Red Cross (ICRC), which complements funding.

Zurich is a founding member of the ICRC Corporate Support Group, and supports the ICRC in its mission to protect the lives and dignity of victims of war and internal violence, as well as promoting humanitarian law and principles.

This relationship extends to working together in practical areas of common interest, such as sharing expertise and even more directly through active engagement in skill-based volunteering by Zurich employees. As an example of this, experts from the audit department have been working with the ICRC for several years to help it manage its operations, improve procedures and evolve more effectively. This helps build a productive relationship with the ICRC and benefits both organizations.



As part of our support for the ICRC (Red Cross), Zurich volunteers contribute their business skills to help the ICRC conduct internal audits.

## Our performance

The execution of the Group's strategy and focus on its core insurance business enabled strong growth and improved underlying profitability.

### Financial highlights (unaudited)

in USD millions, for the years ended December 31, unless otherwise stated	2012	2011 <sup>1</sup>	Change <sup>2</sup>
Business operating profit	<b>4,075</b>	4,243	(4%)
Net income attributable to shareholders	<b>3,878</b>	3,750	3%
General Insurance gross written premiums and policy fees	<b>35,610</b>	34,572	3%
Global Life gross written premiums, policy fees and insurance deposits	<b>30,259</b>	27,711	9%
Farmers Management Services management fees and other related revenues	<b>2,846</b>	2,767	3%
Farmers Re gross written premiums and policy fees	<b>4,361</b>	3,529	24%
General Insurance business operating profit	<b>2,097</b>	2,247	(7%)
General Insurance combined ratio	<b>98.4%</b>	98.9%	0.5 pts
Global Life business operating profit	<b>1,338</b>	1,353	(1%)
Global Life new business annual premium equivalent (APE)	<b>4,030<sup>3</sup></b>	3,992	1%
Global Life new business margin, after tax (as % of APE)	<b>22.1%<sup>3</sup></b>	24.5%	(2.5 pts)
Global Life new business value, after tax	<b>890<sup>3</sup></b>	980	(9%)
Farmers business operating profit	<b>1,414</b>	1,486	(5%)
Farmers Management Services gross management result	<b>1,378</b>	1,333	3%
Farmers Management Services managed gross earned premium margin	<b>7.3%<sup>4</sup></b>	7.3%	–
Average Group investments	<b>203,192</b>	196,788	3%
Net investment result on Group investments	<b>8,911</b>	9,367	(5%)
Net investment return on Group investments <sup>5</sup>	<b>4.4%</b>	4.8%	(0.4 pts)
Total return on Group investments <sup>5</sup>	<b>7.0%</b>	5.3%	1.7 pts
Shareholders' equity	<b>34,494</b>	31,484	10%
Swiss Solvency Test capitalization ratio <sup>6</sup>	<b>178%</b>	183%	(5 pts)
Diluted earnings per share (in CHF)	<b>24.66</b>	22.52	10%
Book value per share (in CHF)	<b>214.79</b>	202.17	6%
Return on common shareholders' equity (ROE)	<b>11.8%</b>	11.9%	(0.2 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	<b>9.3%</b>	10.2%	(0.9 pts)

<sup>1</sup> December 31, 2011 has been restated as set out in note 1 of the Consolidated financial statements.

<sup>2</sup> Parentheses around numbers represent an adverse variance.

<sup>3</sup> Does not include any contribution from the insurance businesses acquired from Banco Santander S.A. (Zurich Santander) or from the acquisition of Zurich Insurance Malaysia Berhad (ZIMB).

<sup>4</sup> Calculated based on gross earned premiums of the Farmers Exchanges of USD 18.8 billion, which excludes the return of USD 74 million in premiums as a result of the anticipated settlement of a lawsuit with the State of Texas.

<sup>5</sup> Calculated on average Group investments.

<sup>6</sup> Ratios as of July 1, 2012 and January 1, 2012, respectively, are calculated based on the Group's internal model which is subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The SST Ratio for January 1, 2012 has been restated following FINMA's review of the Annual SST Report.

## Operational highlights

- Zurich Santander and Zurich Insurance Malaysia Berhad contributed to Global Life and General Insurance premium growth
- The Group expanded bank distribution agreements through alliances in the Middle East, Italy, Spain and Indonesia
- The Farmers Exchanges<sup>1</sup> continue their eastward expansion in the U.S. and strengthen their network of exclusive agents

**Zurich delivered solid results and generated strong cash flows while maintaining its strong capital position. This enabled the Board of Directors to propose an attractive dividend of CHF 17.00 per share, demonstrating the Group's sustained commitment to shareholder value.**

The execution of the Group's strategy and focus on its core insurance business enabled strong growth and improved underlying profitability, which are critical to offset lower investment income due to the persisting low-yield environment.

The improved underlying profitability was sustained by contributions from Global Life and Farmers, as well as the strong underlying underwriting performance in General Insurance. The overall performance of General Insurance was affected by above-average levels of catastrophe, large and weather-related losses, including Storm Sandy, as well as the adverse impact of the review of our business in Germany.

Business operating profit decreased by USD 169 million

or by 4 percent to USD 4.1 billion. Net income attributable to shareholders increased by USD 128 million or 3 percent to USD 3.9 billion.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, increased by USD 4.5 billion or by 7 percent to USD 73.1 billion.

The strategic acquisitions made towards the end of 2011 have now been integrated into the Group, with Zurich Santander contributing USD 5.2 billion to the growth of gross written premiums and insurance deposits and a business operating profit of USD 165 million.

Return on equity (ROE) was 11.8 percent for 2012, compared with 11.9 percent for 2011. This decrease was driven by the increase in shareholders' equity. Business operating profit (after tax) return on equity (BOPAT ROE) of 9.3 percent decreased 0.9 percentage points.

Diluted earnings per share increased by 10 percent to CHF 24.66 for the year ended December 31, 2012, compared

USD 4.1 bn

Business operating profit  
(2011: USD 4.2bn)

USD 3.9 bn

Net income attributable to shareholders  
(2011: USD 3.8bn)

7.0%

Total return on Group investments  
(2011: 5.3%)

USD 34.5 bn

Shareholders' equity  
(2011: 31.4bn)

<sup>1</sup> 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.

## Our performance

with CHF 22.52 in 2011. The increase in diluted earnings per share of 10 percent compared with the increase in net income attributable to shareholders of 3 percent was due to the currency translation impact, as the U.S. dollar was on average stronger against the Swiss franc in 2012 than in 2011.

Group investments increased by USD 11.0 billion or by 6 percent to USD 208.7 billion since December 31, 2011. The Group's asset and liability management strategy remains disciplined and the Group continues to reduce risks which it believes are not rewarded. The quality of the Group's investment portfolio remains high. Investment grade securities continue to comprise 98 percent of the Group's debt securities.

The Group's capital and solvency positions remain strong, underpinned by continued focus on risk management in its disciplined investment and underwriting strategies.

Shareholders' equity increased by USD 3.0 billion to USD 34.5 billion since the year ended December 31, 2011, after recording the total cost of USD 2.8 billion for the dividends paid in April 2012.

The Swiss Solvency Test (SST) became fully effective and mandatory as of January 1, 2011. Under SST, the Group is required to use a company-specific internal model to calculate risk-bearing and target capital and to file SST reports half yearly. For July 1, 2012 the Group filed, on a consolidated

basis, an SST capitalization ratio of 178 percent, compared with 183 percent as of January 1, 2012 following a review by FINMA. The internal model continues to be subject to approval by FINMA.

### General Insurance

General Insurance business operating profit decreased by USD 150 million or by 7 percent to USD 2.1 billion, due to a decline in investment income, partly offset by the improved net underwriting result.

The net underwriting result benefited from an improved underlying loss ratio, which more than compensated for the decrease in favorable development of reserves established in prior years, mainly arising in Germany from an increase in loss reserves for certain long-tail lines of business written in prior years and higher commission expenses, as the mix of business shifts toward products with higher commissions.

General Insurance gross written premiums and policy fees increased by USD 1.0 billion or by 3 percent to USD 35.6 billion, mainly as the result of rate increases. Selective and profitable growth remains the key focus area and the business continued to capitalize on the favorable rate environment across all regions, achieving average rate increases of 4 percent.

Premiums continued to increase in the mature North American market. While part of this increase was attributable to adjustments



*The Group's capital and solvency position remains strong, underpinned by continued focus on risk management."*

# 11.8%

Return on common shareholders' equity (ROE)

(2011: 11.9%)

# 9.3%

Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)

(2011: 10.2%)



to premiums for prior year policies as initial estimated insured risks were increased to reflect actual exposures, there have also been improvements in both customer retention and new business.

In International Markets, Zurich Santander and Zurich Insurance Malaysia Berhad contributed to the growth in premiums along with organic growth from the existing businesses. In Europe, premium volumes remain under pressure as a result of the economic environment in all significant markets as well as profit improvement efforts in selected portfolios such as personal lines motor.

#### Global Life

Global Life business operating profit remained broadly flat at USD 1.3 billion, with a positive contribution from Zurich Santander of USD 105 million net of non-controlling interests and earn-out charges. This was largely offset by a lower contribution from Europe, mainly as a result of one-off expenses in Germany.

Other sources of profit remained largely flat overall, with improvements in the risk and expense margins benefitting from the continued shift to protection and unit-linked products, offset by reductions in the investment margin due to lower investment yields.

Global Life gross written premiums, policy fees and insurance deposits increased by USD 2.5 billion or by 9 percent to USD 30.3 billion, benefitting from the contribution of Zurich Santander as well as higher volumes of single premium products in Corporate Life & Pensions and Private Client Banking Solutions, partly offset by a reduction in Spain where the product mix continued to shift from savings toward higher-margin protection products.

#### Farmers

Farmers business operating profit decreased by USD 72 million or by 5 percent to USD 1.4 billion, mainly due to a net underwriting loss incurred by Farmers Re.

Farmers Management Services business operating profit increased by USD 71 million or by 5 percent to USD 1.4 billion, mainly as a result of the increase in gross earned premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group.

Farmers Re business operating profit deteriorated by USD 142 million to a loss of USD 26 million, mainly reflecting the absence of favorable development of loss reserves established in prior years compared with 2011, as well as weather-related losses that were once again well above historic levels. This was partly offset

by a year-on-year improvement in the underlying loss ratio.

Farmers Management Services management fees and other related revenues increased by USD 79 million or by 3 percent to USD 2.8 billion, driven by the 3 percent increase in gross earned premiums in the Farmers Exchanges.

The 24 percent increase to USD 4.4 billion in gross written premiums of Farmers Re reflected the changes in the All Lines quota share reinsurance agreement with the Farmers Exchanges as well as the increase in gross written premiums in the Farmers Exchanges.

Gross written premiums in the Farmers Exchanges increased by USD 637 million or by 3 percent to USD 18.9 billion. This increase was due to continued premium growth in all lines of business primarily as a result of ongoing rate actions undertaken to improve profitability, which resulted in a small decrease in policies in force.



*The Group's asset and liability management strategy remains disciplined and the Group continues to reduce risks which it believes are not rewarded."*



For comprehensive information please go online to see the Annual Report 2012. It contains detailed information about Zurich's financial performance, structure, executive bodies, risk management, corporate governance and remuneration.

## Contact us

For more information please contact the appropriate office, or visit our website at [www.zurich.com](http://www.zurich.com)

PDF and interactive versions of our Annual Report are available on [www.zurich.com/investors](http://www.zurich.com/investors)



### Annual Review 2012

The Annual Review provides an overview of Zurich's business and strategy, and of its financial and operating performance in 2012. It is available in English, German and French.



### Annual Report 2012

The Annual Report contains detailed information about Zurich's financial performance, structure, executive bodies, risk management, corporate governance and remuneration in 2012. It is available in English, German and French, with the financial statements in English only.

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### American Depositary Receipts

Zurich Insurance Group Ltd has an American Depositary Receipt program with The Bank of New York Mellon (BNYM). For information relating to an ADR account, please contact BNY Mellon's Shareowner Services in the USA on +1-888-BNY-ADRS or outside the USA on +1 201 680 6825 or by e-mail to [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com). General information on the company's ADR program can be obtained from The Bank of New York Mellon at [www.adrbnymellon.com](http://www.adrbnymellon.com)

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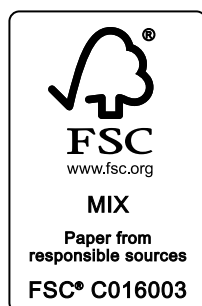
All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards 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.

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