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Results for the 9 months to 30 September 2013

Remarks by Martin Senn (slides 3 and 4), CEO, and Vibhu Sharma (slides 5 to 18), CFO ad interim of Zurich Insurance Group

November 14, 2013

Slide 3: Key Messages

Welcome to Zurich Insurance Group’s results presentation for the first nine months of 2013.

As you will be aware, the last two months have been a challenging time for us, with the death of our CFO, Pierre Wauthier. This has been the cause of great sadness for me and my colleagues.

Nonetheless, while we continue to mourn Pierre’s passing, we have a duty to our customers, employees and shareholders to ensure the ongoing success and stability of the Group and to prepare for the challenges and opportunities that lie ahead.

In this respect, business operating profit for the first nine months of 3.6 billion dollars and the further strengthening of key solvency ratios in the first half of 2013 speak for themselves and show that our profitability and financial position remain strong.

In terms of our business units, General Insurance delivered growth in all its target markets and further benefited from its focus on underwriting and cost discipline.

Global Life continued its successful shift towards the higher-margin fee-based and protection business, and our new business value increased significantly.

Business operating profit at Farmers rose as an improved underwriting result at Farmers Re offset a slight decline at Farmers Management Services.

These results demonstrate that our strategy of the past few years was the right one. Our focus on profitability, disciplined underwriting, investment management and expense control have helped us navigate the global economic uncertainty of the past five years and prepare a robust platform for growth.

In terms of our progress against the ambitious goals we set for 2013, as communicated during the half year results, the Group remains on track to achieve some of its three year targets set in 2010, such as those for Global Life and expense savings, while some for General Insurance and those for Farmers remain challenging and, as of now, will not be achieved.

An update on these targets and the new strategic goals will be provided at the Group’s Investor Day in December.

Slide 4: Financial Highlights

Closer examination of the numbers shows the continuing benefit of our disciplined and underwriting-driven approach.

In General Insurance, an improved underwriting result helped offset a reduction in investment income. Business operating profit increased by 39 million dollars to 2.1 billion dollars and the combined ratio improved by 1.0 percentage point to 95.3%.

Business operating profit at Global Life was up 1 percent, with increased risk and expense margins, and a higher contribution from Zurich Santander in Latin America, offset by a decline in the investment margin. The business delivered strong growth in the higher-margin protection products, in line with its strategy, while overall new business value rose 47 percent, in part due to the inclusion of Zurich Santander.

Farmers business operating profit increased by 117 million dollars to 1.1 billion dollars or by 12%, primarily due to an improved underwriting result at Farmers Re.

Shareholders' equity was down 7 percent from the start of the year at 32 billion dollars, largely due to the payment of our dividend and rising yields on debt securities in the first half of the year.

The annualized return on common shareholders' equity for the period based on net income attributable to shareholders was 11.8 percent and the return on the business operating profit after tax was 10.8 percent.

Our interim Chief Financial Officer, Vibhu Sharma, will explain these results in greater detail.

In closing, I would like to thank all of our customers and shareholders for their support and trust particularly in recent months. And I would like to thank my colleagues around the world, whose commitment and dedication have made these results possible.

Slide 5: BOP by segment

Good morning and good afternoon ladies and gentlemen.

Our third quarter results show solid operating profits in each of our business segments.

In General Insurance, our business operating profit is up 68 percent for the discrete third quarter, in large part due to the impact of the adjustments taken in our 3Q 2012 results relating to our German business. Excluding the impact of these charges, our third quarter profit would have been 3 percent ahead of last year.

The Global Life BOP for Q3 is up 4 percent, with an increased contribution from Zurich Santander and improved expense and risk margins, offset by a reduction in the investment margin.

Farmers BOP has also increased 4 percent for the discrete third quarter, due to an improved loss ratio at Farmers Re and some one-off expense benefits at Farmers Management Services.

Our Other Operating Businesses loss was 230 million dollars for the third quarter, in line with the quarterly run rate from the first half of 2013. The year on year increase is due to a decline in investment income, as well as a modest increase in interest costs. We continue to expect higher headquarters expenses in the fourth quarter.

Non-Core Businesses reported a profit of 24 million in the third quarter, virtually unchanged from the prior year.

Finally, net income for the quarter of 1.1 billion dollars is 64 percent higher than last year. This is due to the impact of Germany on last year's results and roughly 400 million dollars from higher realized gains and lower restructuring charges, partially offset by a higher tax rate in our discrete Q3 2013 results. There are a number of reasons driving the tax rate, with some of those being one-off in nature. But, we do think that our future tax rate is likely to be slightly higher than what we have communicated in the past, at around 23.5 percent.

Slide 6: General Insurance – key performance indicators

The key highlights for General Insurance can be summarized as follows.

We continue to see good growth in our target markets with overall gross written premium in local currency 4 percent higher than last year. This growth is driven also by another quarter of solid rate increases.

We delivered a combined ratio of 95.3 percent for the nine month period despite an increase in weather related and large losses in the second and third quarter.

As a reminder, last year's results were impacted by the adjustments in Germany of 286 million dollars. Excluding this impact, our combined ratio in the first nine months of 2012 would have been 95 percent.

Our investment income continues to reflect the low yield environment, declining by 75 million dollars in the third quarter of 2013 compared to the third quarter of 2012. There is still a gap of roughly 70 basis points between our running and new money yield. But, this decline is at a slower pace than we experienced in the first half of 2012, a trend which potentially could continue in the next few quarters.

In terms of other items, I would like to highlight two positive factors in our Q3 standalone results: first, our BOP includes 50 million dollars in realized gains on our hedge fund and real estate investments; and second, we benefitted from an FX gain which roughly evened out the FX loss in the second quarter. Excluding the latter, our non-technical expenses were broadly in line with the level of Q2.

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Slide 7: General Insurance – Rate change monitor and GWP performance

We continue to achieve solid rate increases, 3.6 percent in the first nine months of 2013 and 3.3 percent for the third quarter, compared to the corresponding previous periods.

Our gross premiums in local currency grew by 4 percent on both a year to date basis and for the third quarter. We continue to experience strong growth in International Markets and Global Corporate with a decline in gross premiums in our European retail and commercial business.

For our North America Commercial business Q3 gross written premiums were impacted by lower crop volumes and discontinuing a large fronting contract. This reduced our gross premiums by roughly 150 million dollars with a similar impact expected in Q4.

Slide 8: General Insurance – Comparison of loss ratio

In the first three quarters of 2013, we further improved the underlying loss ratio to 60.1 percent, 1.5 percentage points better than in 2012, with a quarter on quarter improvement of 0.8 percentage points.

This improvement was achieved mainly by our North American and European operations as re-underwriting, portfolio management and rate tiering actions in the current and prior periods continue to deliver.

In relation to prior year development in the third quarter we continued to see favorable development across several business units, particularly influenced by continued favorable releases arising from our Swiss business.

In relation to weather and large losses, the impact in the third quarter was 10.9 percentage points or 2.0 percentage points worse than last year. The increase is partially driven by weather losses, with mid-size weather events in Germany, Colorado and Ontario contributing roughly 140 million dollars. Also, for the second quarter in a row, we incurred a number of significant individual large losses.

In both the second and third quarters of 2013 the increase in large losses came from individual claims in excess of 10 million dollars. For large losses below this threshold, we see no unusual trends in either 2012 or 2013.

But to put these two quarters in a broader context, and as a specific disclosure for Q3 only we have put together an additional slide where we look at our individual large loss experience in more detail.

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Slide 9: General Insurance – large losses

On this chart you can see the development of our externally reported large losses since the start of 2010 and the split between individual large losses and smaller catastrophes and weather related claims.

There are three things I would like to discuss here:

First, over this period we see an increase in the individual large loss ratio of 1.1 percentage points of which roughly half a percentage point is due to changes in business mix mainly attributable to growth in our Global Corporate business.

Second, while there has been a 0.7 percentage point increase in very large individual claims above 10 million dollars excluding mix effects this increase is not out of line with what we would expect given some inherent expected volatility in this type of business. Indeed, our ability to write large coverage limits is part of our business proposition to our customers, provided of course, we are compensated for the risk.

Third, while one could suggest there is a trend in the direction of more mid-size weather losses, and this has been commented on by other insurers too, we do not see anything exceptional within our 2013 results.

More broadly, I want to emphasize that we are rigorous in how we track large losses and to the extent that we see trends within our results we adjust our underwriting and pricing as needed. An example of this is our energy book, where we did see an adverse trend in 2011, and where we took corresponding actions.

Slide 10: General Insurance – expense ratio walk

Compared to last year our expense ratio improved to 27.1% for the nine months and to 27.3% for Q3 on a standalone basis.

Our other technical expenses, which is the element of the expense ratio that we can influence most actively, improved by 0.7 percentage points compared to last year with a 0.8 percentage point improvement in mature markets.

This reflects our continued focus on expense management, in particular our expense saving program which is delivering results as planned.

Slide 11: General Insurance – BOP and CoR by business

Global Corporate delivered a combined ratio of 92.2 percent. The increase compared to last year is mainly driven by the European Floods and further weather related losses.

The combined ratio of North America Commercial includes an improvement in the underlying loss ratio of 3.1 percentage points off-set by the prior year reserve developments reported in the first quarter and the weather events in the second and third quarters.

Our European business reported a very strong combined ratio of 93.6 percent despite the impact of the European Floods as well as further weather-related events and some significant large losses.

The combined ratio of International Markets was 100.2 percent which in part reflects our investment in Latin America.

So let me summarize our performance in General Insurance:

- Our underlying loss ratio and expense ratio improved.
- We experienced a second quarter in a row of very large individual losses; this is part of our business, and some volatility is to be expected.
- We continue to see written rate increases overall to exceed our current estimate of loss cost inflation.
- While investment income continues to be impacted by low reinvestment rates, this is at a slower pace compared to our experience in the first half of 2013.

Slide 12: Global Life – Key performance indicators

Our third quarter results reflect the positioning of the business towards fee based and protection products while reducing our reliance on interest rate sensitive traditional business.

From a new business perspective, we continue to invest in our growth markets. Our new business APE for the 9 months is up 9 percent despite a major one-off contract in Chile in the prior year, which contributed 385 million dollars in2012. Excluding this contract, APE in the first nine months of 2013 would have been 25 percent higher than last year and 2 percent higher if we also exclude Zurich Santander.

In terms of new business value in the third quarter the change in business mix is evidenced in a 7.1 percentage point improvement in our new business margin. This is explained by the inclusion of Zurich Santander the shift in business mix on the existing portfolio towards protection as well as the low margin nature of the one-off Chilean contract in Q3 2012.

The growth in new business does not fully translate into higher gross premiums and, as expected, we continued to experience net outflows from our assets under management. This was mainly because we stopped selling a particular type of investment bond in the UK as a consequence of the Retail Distribution Review, a move which has minimal impact on new business value.

As we have mentioned before, the translation from our new business success into business operating profits will take time. But, the signs of this transition are starting to emerge and I will look at this in more detail on the next slide.

Slide 13: Global Life – Business Operating Profit: Profit by Source

The headline business operating profit was slightly ahead of the prior year for Q3 standalone and on a year to date basis. Within the results, there are two main positive components, and two offsetting factors.

First, reflecting the focus on fee based and protection products, the combined expense and risk margins increased by 137 million dollars, or 121 million dollars when including the change in acquisition deferrals. Part of this improvement is due to our expense program in Europe.

Second, we continue to see a growing contribution from Zurich Santander, the result of which is currently reported in other profit margins. This business contributed 288 million dollars before non-controlling interests, or 129 million dollars after non-controlling interests to our life BOP in the first nine months of 2013. Overall this results in an increase of 96 million dollars compared to the prior year.

Partially offsetting these favorable developments was a 90 million dollar reduction in the investment margin as low yields continued to affect spread business and returns on capital, particularly in the U.S. and Germany.

At this point I would like to highlight that we have revised our profit by source reporting for our German operations. Certain items previously included within the investment margin are now shown within other profit margins … with no impact on our overall business operating profit. The reason for this change is that the revised view of the investment margin better aligns with the new Sources of Earnings format that we will move to in 2014.

In addition to the reduction in investment margin there was a roughly 60 million dollar increase in costs flowing through other profit margins relating to statutory reserve movements in Germany and development costs in high growth markets.

Overall, our life BOP in Q3 and in the first nine months of 2013 is consistent with the quarterly run rate of 300 to 330 million dollars that we expect to see.

In summary we are pleased with our new business progress while BOP delivery has been essentially maintained despite the low interest rate environment.

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Slide 14: Farmers – key performance indicators

The key trends witnessed in the first half of 2013 continued in the third quarter. Specifically, rate and underwriting actions led to further improvement in the combined ratios of the Farmers Exchanges and Farmers Re but this also led to pressure on new business and retention.

From a Farmers Management Services perspective third quarter management fees and other related revenues declined by 1 percent in comparison to last year. With management fees largely flat this was due to a decrease in other related revenues arising from lower levels of new business policies. However, for the third quarter on a standalone basis this decline was more than offset by one-time lower expenses. As a result, our third quarter Gross Earned Premium Margin of 7.5% was well above the 7% we expect over the long term.

In terms of Farmers Re, the reported combined ratio in the third quarter improved by 0.8 percentage points even with very benign catastrophe losses in the prior year.

Slide 15: Farmers Exchanges - key performance indicators

As in the first half of 2013 the measures taken to restore the profitability of the non-standard auto and independent agent business insurance books have led to a decline in gross written premiums of the Farmers Exchanges. Rate increases and lower advertising spend also had some negative impact on standard auto volumes. However, the progress made in restoring the profitability of the non-standard auto book has allowed for lifting some underwriting restrictions in certain states.

The reported combined ratio significantly improved for both 3Q and the first nine months of 2013 despite higher cat losses. This has enabled the Farmers Exchanges to start growing surplus again, with the surplus ratio now towards the top end of the targeted range.

Slide 16: Investment performance of Group investments

After a marked rise in yields in the second quarter government bond yields closed Q3 broadly unchanged from 30 June levels with slight tightening in credit spreads during the quarter. As a result, new money yields in our General Insurance and Life businesses declined slightly from the levels reached at mid-year.

The decrease in net investment income continues to reflect the continuing low yield environment. However, the decline in the third quarter is accentuated by reclassifications of certain investment income largely related to Zurich Santander. Excluding these reclassifications, the decline in investment income would have been 8 percent both in the quarter and year to date.

Net realized capital gains in the third quarter were driven by capital gain realizations on equity securities, including a 154 million dollar gain from the sale of part of the group's participation in New China Life, offsetting losses on derivative positions used for hedging business and investment risks.

The net unrealized gains included in shareholders' equity remained almost unchanged from 30 June at 2.6 billion dollars.

Slide 17: Capital model developments

As in previous years, we report our solvency position at the end of June with our Q3 results. Our capital position improved significantly in the first half of 2013, as measured by both our internal model and under the Swiss Solvency Test, as you can see in this slide.

In both approaches we show an increase in our Available Financial Resources, reflecting solid economic profitability and positive market impacts, as well as a small decline in our capital requirements. This latter factor is due to updated assumptions relating to exposures and volumes and changes in reinsurance coverage.

In addition, and for the SST only, roughly half the increase is due to an update to our capital model relating to the inclusion of subordinated debt issued earlier in the year, coupled with model refinements in order to better align with regulatory requirements.

The improvement in our solvency position in the first half leaves us at the top end of our desired range and, combined with our disciplined and focused approach when taking underwriting and investment risk, is a key strength of the group.

Slide 18: Summary

In conclusion, our results show solid operating profit in each of our segments.

In General Insurance we improved our underlying loss ratio and expense ratio, and we continue to drive rate increases while improving retention and exposure growth.

In Global Life new business value growth continued both organically in our target markets and in Zurich Santander, with BOP results in line with our quarterly expectations.

And in Farmers, the rate and underwriting actions taken by the Farmers Exchanges are continuing to improve their combined ratio, as well as that of Farmers Re, albeit with a trade off in relation to new business volumes and retentions.

Lastly, our solvency position strengthened further in the first half of 2013.

With that we look forward to seeing you at our investor day in December, when we will give you an update on our targets and on our new strategic goals.

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