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# Letter to Shareholders 2013



# Dear Shareholder,

We are pleased to present our financial results for 2013. We delivered a solid operating profit in all core businesses, experiencing good growth in priority markets in both General Insurance and Global Life. Farmers is focusing on implementing its new consumer strategy, while at the same time delivering resilient margins.

Business operating profit (BOP)<sup>1</sup> increased 15 percent to USD 4.7 billion compared with 2012. Net income attributable to shareholders (NIAS) rose 4 percent to USD 4.0 billion in the same period. Our solid results and strong cash generation have given us the confidence to propose a dividend of CHF 17 per share. In the final three months of 2013, BOP was USD 1.1 billion, an increase of 94 percent compared with the same period of 2012, which included the impact of Storm Sandy in North America. NIAS rose by 9 percent to USD 1.1 billion.

Our results in 2013 benefited from a continued focus on profitability, underpinned by the sustained execution of our product, underwriting and pricing strategies.

There were fewer severe catastrophe events compared with 2012. This helped to offset the impacts of an increase in both large and weather-related losses in 2013, as well as a decrease in investment income resulting from persistent low investment yields.

## Setting our course for 2014–2016

In 2010, we set ambitious targets for the three years to 2013, some of which we did not achieve. However, we have made good progress in many areas. We reduced costs in mature markets and delivered strong growth in our priority developing markets. But the environment in which we operate has changed and we must change with it.

Our strategy for 2014–2016 has three cornerstones. First, we are prioritizing investment in markets and customer segments with strong potential for growth. Examples include the corporate market, in which we are building on the success of our combined General Insurance and Global Life offering to large corporate customers, and our North America Commercial business, where we are investing to better serve our



Tom de Swaan and Martin Senn



<sup>1</sup> Business operating profit indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables.

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commercial mid-market customers. And we have completed our field work on customer segmentation within three retail markets, where we believe our brand strength and market position give us a competitive edge.

Second, we are managing other businesses for value. This means optimizing Global Life in-force books and maximizing returns in our smaller General Insurance markets, while turning around or exiting underperforming businesses. Examples include Hong Kong, where we have withdrawn from an underperforming distribution channel, and the Middle East, where we combined the regional management structures of the Middle East, Africa and Europe, creating additional economies of scale.

Third, we aim to grow our operating profits. In 2013, we initiated a major project to reduce complexity and thereby overhead burden across the Group. We are focusing on improving the profitability of a number of our General Insurance portfolios. We are also seeking higher returns from our investment portfolio – without compromising investment discipline.

During the 2014–2016 period, our objective is to deliver an attractive total return to our shareholders. To help us achieve this, we have set new targets. We aim to generate a BOP after tax return on equity of 12 to 14 percent<sup>2</sup>; maintain a strong capital position, with a Zurich Economic Capital Model<sup>3</sup> ratio of 100 to 120 percent; and achieve high levels of free cash flow, with net cash remittances to the Group in excess of USD 9 billion<sup>4</sup>. We will be reporting on our progress against these targets at the half- and full-year.

### **Progress in corporate responsibility initiatives**

During 2013, we also made significant progress in our two leading corporate responsibility initiatives. We announced a flood resilience program, a five-year commitment that includes an initial investment of

USD 36 million. The program taps into our insurance expertise and employs a new approach to cross-sector collaboration. The International Federation of Red Cross and Red Crescent Societies (IFRC) and the international non-governmental organization Practical Action are part of an alliance that links research, community-based programs and risk expertise. Work has begun in Mexico and Indonesia, which will serve as models for future efforts. We also announced that we plan to invest up to USD 1 billion in ‘green bonds’ issued by borrowers such as the World Bank, International Finance Corporation and other development finance institutions. These bonds have the same rating as standard bonds from their issuers and earn returns fully compensating for the risk. The proceeds are used exclusively to help communities mitigate or adapt to the consequences of climate change.

### **Changes in leadership**

In early 2014, we announced senior management changes that will further strengthen Zurich’s General Executive Committee. George Quinn, previously with Swiss Re, will become Chief Financial Officer (CFO) from May 2014. Robert Dickie joins Zurich from AIG as Chief Operations and Technology Officer in March 2014. His remit includes Zurich’s shared services, information technology, procurement and sourcing as well as operational transformation. We would like to thank Vibhu Sharma, Group Controller, who stepped in as ad interim CFO, and Markus Nordlin, Chief Information Technology Officer, who took on responsibility for Group Operations ad interim.

### **Economic outlook**

Despite a more challenging environment for emerging markets, the global economy continues to strengthen, led by better activity in developed regions and supported by stabilization in China. U.S. growth is expected to rise above trend in 2014, leading an acceleration in global activity. The outlook for Europe is also more positive. Emerging markets will face capital

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<sup>2</sup> Excluding net unrealized gains and losses.

<sup>3</sup> The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy, which also forms the basis of Zurich’s Swiss Solvency Test model.

<sup>4</sup> Cumulative net cash remittances to Zurich Insurance Company Ltd, after deducting central costs, in 2014–2016.

outflows and tighter domestic policy, while political uncertainty is also high in many regions. Stronger activity in developed markets should support exports, however. Asian economies are expected to see steady, if unspectacular, growth. In Latin America, Chile and Mexico are set to do well, while growth in Brazil will probably slow.

### Delivering on our targets

This is a year in which we are taking firm actions in relation to each of the three cornerstones of our strategy. We expect some of the benefits of these actions will start to be visible this year, as we lay a strong foundation for the delivery of our strategic targets for 2014 to 2016.

We would like to thank all our stakeholders – our customers, our people, our shareholders and the communities in which we live and work – for their support. We look forward to updating you on the progress we are making toward our strategic goals in the months ahead.

Yours sincerely,



**Tom de Swaan**

Chairman of the Board of Directors



**Martin Senn**

Chief Executive Officer



For more information on Zurich's financial performance, please go to the 'Annual Results 2013' section of our website. It contains a detailed press release in German and English as well as financial reports and presentations (in English only). You can find it by going to the 'Investor' section of [www.zurich.com](http://www.zurich.com) and selecting 'Results and reports.'



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

Please note the following changes to our financial calendar. The Annual General Meeting 2014 will now take place on April 2, 2014. The half year results will be announced on August 7 and the results for the nine months to September 30 will be announced on November 6, 2014. The revised calendar is on the reverse of this Letter.

# Shareholder information

## Financial highlights (unaudited)

	12m 2013	12m 2012 <sup>1</sup>	Change in USD <sup>2</sup>	Q4 2013	Q4 2012 <sup>1</sup>	Change in USD <sup>2</sup>
in USD millions, for the years ended December 31, unless otherwise stated						
Business operating profit	<b>4,680</b>	4,084	15%	<b>1,113</b>	573	94%
Net income attributable to shareholders	<b>4,028</b>	3,887	4%	<b>1,074</b>	988	9%
General Insurance gross written premiums and policy fees	<b>36,438</b>	35,610	2%	<b>8,256</b>	8,301	(1%)
Global Life gross written premiums, policy fees and insurance deposits	<b>27,095</b>	30,259	(10%)	<b>7,517</b>	9,119	(18%)
Farmers Management Services management fees and other related revenues	<b>2,810</b>	2,846	(1%)	<b>697</b>	712	(2%)
Farmers Re gross written premiums and policy fees	<b>4,045</b>	4,361	(7%)	<b>951</b>	980	(3%)
General Insurance business operating profit	<b>2,859</b>	2,112	35%	<b>736</b>	27	nm
General Insurance combined ratio	<b>95.5%</b>	98.4%	2.9 pts	<b>96.0%</b>	104.2%	8.1 pts
Global Life business operating profit	<b>1,272</b>	1,351	(6%)	<b>294</b>	385	(24%)
Global Life new business annual premium equivalent (APE) <sup>3</sup>	<b>4,418</b>	4,030	10%	<b>1,189</b>	1,057	12%
Global Life new business margin, after tax (as % of APE) <sup>3</sup>	<b>28.3%</b>	22.1%	6.2 pts	<b>26.6%</b>	24.1%	2.5 pts
Global Life new business value, after tax <sup>3</sup>	<b>1,251</b>	890	41%	<b>316</b>	255	24%
Farmers business operating profit	<b>1,516</b>	1,402	8%	<b>408</b>	411	(1%)
Farmers Management Services gross management result	<b>1,353</b>	1,366	(1%)	<b>329</b>	342	(4%)
Farmers Management Services managed gross earned premium margin	<b>7.2%</b>	7.3%	(0.1 pts)	<b>7.1%</b>	7.3%	(0.2 pts)
Average Group investments	<b>208,431</b>	204,066	2%	<b>207,064</b>	207,449	(0%)
Net investment result on Group investments	<b>7,398</b>	8,983	(18%)	<b>2,134</b>	2,842	(25%)
Net investment return on Group investments <sup>4</sup>	<b>3.5%</b>	4.4%	(0.9 pts)	<b>1.0%</b>	1.4%	(0.3 pts)
Total return on Group investments <sup>4</sup>	<b>1.3%</b>	7.0%	(5.7 pts)	<b>0.8%</b>	1.8%	(1.0 pts)
Shareholders' equity	<b>32,503</b>	34,505	(6%)			
Swiss Solvency Test capitalization ratio <sup>5</sup>	<b>206%</b>	185%	21 pts			
Diluted earnings per share (in CHF)	<b>25.23</b>	24.72	2%	<b>6.55</b>	6.24	5%
Book value per share (in CHF)	<b>196.14</b>	214.86	(9%)			
Return on common shareholders' equity (ROE)	<b>12.0%</b>	11.8%	0.2 pts	<b>13.3%</b>	11.5%	1.8 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	<b>10.5%</b>	9.3%	1.2 pts	<b>10.3%</b>	4.7%	5.5 pts

The table above presents the summarized consolidated results of the Group for the three months and the years ended December 31, 2013 and 2012, and the financial position as of December 31, 2013 and 2012, respectively. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated, with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. This document should be read in conjunction with the Annual Report 2013 for Zurich Insurance Group available on [www.zurich.com](http://www.zurich.com) and with its Consolidated financial statements to December 31, 2013.

<sup>1</sup> December 31, 2012 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> New business amounts are calculated on embedded value principles before the effect of non-controlling interests. See Embedded value report for details of these principles. New business amounts for the year ended December 31, 2012 do not include Zurich Santander or new operations in Asia (including Zurich Insurance Malaysia Berhad – ZIMB).

<sup>4</sup> Calculated on average Group investments.

<sup>5</sup> Ratios as of July 1, 2013 and January 1, 2013, 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).

## Contact

For more information please visit:  
[www.zurich.com/investors/  
shareholderinformation](http://www.zurich.com/investors/shareholderinformation)

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## Financial Calendar

Annual General Meeting 2014 – April 2, 2014  
Ex-dividend date – April 4, 2014  
Dividend payable as from – April 9, 2014  
Results for the three months  
to March 31, 2014 – May 15, 2014  
Half year results 2014 – August 7, 2014  
Results for the nine months  
to September 30, 2014 – November 6, 2014  
Annual results 2014 – February 12, 2015

Note: all dates are subject to change

## Disclaimer and cautionary statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives of Zurich Insurance Group Ltd or the Zurich Insurance Group (the Group). Forward-looking statements include statements regarding the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding the Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Insurance Group Ltd or the Group to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of a global economic downturn; (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; and (viii) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of Zurich Insurance Group Ltd and its Group and on whether the targets will be achieved. Zurich Insurance Group Ltd undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

All references to 'Farmers Exchanges' mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors. Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the Farmers Exchanges and in that capacity provide certain non-claims administrative 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.

Persons requiring advice should consult an independent adviser. This communication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

THIS COMMUNICATION DOES NOT CONTAIN AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES;  
SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION OR EXEMPTION FROM REGISTRATION, AND ANY PUBLIC OFFERING OF SECURITIES TO BE MADE IN THE UNITED STATES WILL BE MADE BY MEANS OF A PROSPECTUS THAT MAY BE OBTAINED FROM THE ISSUER AND THAT WILL CONTAIN DETAILED INFORMATION ABOUT THE COMPANY AND MANAGEMENT, AS WELL AS FINANCIAL STATEMENTS.

The Letter to Shareholders is published in English, German and French. In the event of inconsistencies in the German and French translations, the English original version shall prevail.

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