Zurich Insurance Group

ZURICH

Letter to Shareholders 2015





Dear Shareholder,

In 2015, our business operating profit[1] (BOP) was USD 2.9 billion, 37 percent lower than in 2014. Net income attributable to shareholders (NIAS) was USD 1.8 billion, a decrease of 53 percent from the prior year. This is a disappointing result for Zurich, reflecting challenges in our General Insurance business and some charges as we position ourselves for the future. We have initiated rigorous actions to improve profitability.

General Insurance's BOP fell by 71 percent to USD 864 million, while its combined ratio deteriorated by 6.7 percentage points to 103.6 percent. The result reflects large losses and catastrophe claims, including explosions in the port of Tianjin in August, and flooding in the UK and Ireland in December. We are taking measures to reduce earnings volatility, such as re-underwriting or exiting underperforming portfolios.

The rest of the Group continues to perform well. Global Life's BOP increased by 2 percent to USD 1.3 billion. Gross written premiums, policy fees and insurance deposits fell 9 percent in U.S. dollar terms, but rose 6 percent on a local currency basis. Our bank joint ventures continued to show steady growth, while Global Life has already achieved its 2016 goal of a run-rate improvement in BOP of more than USD 80 million from in-force management initiatives.

Farmers[2] BOP declined by 10 percent to USD 1.4 billion following underwriting losses in Farmers Re and lower participation in reinsurance agreements with the Farmers Exchanges. Farmers Exchanges, which are owned by their policyholders, have continued to make good progress in the execution of their strategy, with improved customer satisfaction and retention rates, as well as continued growth in their agents network.

Our Zurich Economic Capital Model[3] ratio stood at 114 percent as of September 30, 2015, within our target range. We are on track to deliver cash remittances in excess of USD 10 billion in our three-year strategy period from 2014 to 2016, well ahead of our target. Our strong capital position and cash remittances have given the Board the confidence to propose a dividend of CHF 17 per share, subject to shareholder approval at the Annual General Meeting on March 30.

[1] 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.

[2] The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly-owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

[3] 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 (SST) model.

A new CEO and other senior executive appointments

In recent months, we have made several senior appointments. In January we announced that, subject to regulatory approval, Mario Greco will join Zurich as our new Chief Executive Officer (CEO). We are convinced that Mario is best placed to lead Zurich into the future. He was most recently CEO of Generali. Prior to that, he was at Zurich, where he held the position of CEO Global Life and then CEO General Insurance. He will take over the position I have held on an interim basis since Martin Senn stepped down in December 2015. We would like to thank Martin for guiding Zurich with foresight and great commitment.

On the Group Executive Committee (GEC), Kristof Terryn also took on a new role as CEO General Insurance in October after Mike Kerner decided to leave the company. We thank Mike for his many contributions. Gary Shaughnessy, who has been CEO of Zurich UK Life since 2012, took on the role of CEO Global Life in January 2016. In addition, Cecilia Reyes, who served as Chief Investment Officer (CIO), was named Chief Risk Officer in July after Axel Lehmann decided to leave Zurich. We thank Axel for his dedicated and outstanding service to Zurich. Urban Angehrn, who was formerly head of Alternative Investments, joined the GEC as the new CIO in July.

Board appointments

In December, our Board proposed two new members: Jeffrey L. Hayman, a U.S. citizen with extensive experience in the insurance industry and David Nish, a British citizen, who until 2015 was Group CEO of Standard Life plc. As already announced, Don Nicolaisen, Thomas K. Escher and Rafael del Pino will not stand for re-election at the Annual General Meeting. We are grateful to them for their service and commitment to Zurich.

Corporate responsibility

Through acting responsibly, we believe we can create sustainable value for all our stakeholders. Reflecting our efforts, in 2015, Zurich achieved its highest score since joining the Dow Jones Sustainability Index (DJSI), outperforming 99 percent of companies in the insurance industry group in the Index. We also reached over USD 1 billion in overall impact investments in 2015, and our flood resilience alliance extended its work with at-risk communities.

Outlook

The global economic outlook remains challenging. We have accelerated a program to increase efficiencies, and aim to exceed the previously communicated cost savings target for 2016 of USD 300 million. We are also on our way to achieving group-wide annual run-rate cost savings of more than USD 1 billion by the end of 2018.

Our key priorities in 2016 will be turning around our General Insurance business and continuing actions to position the group for 2017 and beyond, including enhancing efficiency and sharpening the group's retail footprint. I am convinced that with the strength of our global franchise, the breadth of talent within our organization and our strong brand, we have everything we need for future success. We thank you for your continued support.

Yours sincerely,



Tom de Swaan
Chairman of the Board of Directors
and Chief Executive Officer a.i.



For more on Zurich's financial performance, please visit our website at www.zurich.com where you can find detailed press releases in German and English.

You can also find more financial reports and presentations in English in the investor relations section of our website at www.zurich.com/investors

If you are an iPad user, try our Investors and Media App, available on www.zurich.com/investor-and-media-app

Financial highlights (unaudited)

in USD millions, for the years ended December 31, unless otherwise stated	12m 2015	12m 2014	Change in USD [1]
Business operating profit	**2,916**	4,638	(37%)
Net income attributable to shareholders	**1,842**	3,949	(53%)
General Insurance gross written premiums and policy fees	**34,020**	36,333	(6%)
Global Life gross written premiums, policy fees and insurance deposits	**29,037**	31,883	(9%)
Farmers Management Services management fees and other related revenues	**2,786**	2,791	–
Farmers Re gross written premiums and policy fees	**2,145**	3,428	(37%)
General Insurance business operating profit	**864**	2,979	(71%)
General Insurance combined ratio	**103.6%**	96.8%	(6.7 pts)
Global Life business operating profit	**1,300**	1,273	2%
Global Life new business annual premium equivalent (APE)[2]	**4,772**	5,203	(8%)
Global Life new business margin, after tax (as % of APE)[2]	**21.6%**	20.8%	0.8 pts
Global Life new business value, after tax[2]	**912**	965	(5%)
Farmers business operating profit	**1,421**	1,573	(10%)
Farmers Management Services gross management result	**1,338**	1,335	–
Farmers Management Services managed gross earned premium margin	**7.1%**	7.2%	(0.1 pts)
Average Group investments	**198,049**	206,070	(4%)
Net investment result on Group investments	**7,462**	9,211	(19%)
Net investment return on Group investments[3]	**3.8%**	4.5%	(0.7 pts)
Total return on Group investments[3]	**1.7%**	8.6%	(6.9 pts)
Shareholders' equity[4]	**31,178**	34,735	(10%)
Swiss Solvency Test capitalization ratio[5]	**203%**	196%	7.0 pts
Diluted earnings per share (in USD)	**12.33**	26.44	(53%)
Diluted earnings per share (in CHF)	**11.86**	24.17	(51%)
Book value per share (in CHF)[4]	**209.27**	232.65	(10%)
Return on common shareholders' equity (ROE)[6]	**6.4%**	13.0%	(6.6 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[6]	**6.4%**	11.2%	(4.7 pts)

The table above presents the summarized consolidated results of the Group for the years ended December 31, 2015 and 2014, and the financial position as of December 31, 2015 and 2014, respectively. All amounts are shown in USD millions 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 2015 for Zurich Insurance Group available on www.zurich.com and with its Consolidated financial statements to December 31, 2015.

[1] Parentheses around numbers represent an adverse variance.
[2] Details of the principles for calculating new business are included in the Embedded value report in the Annual results 2015. New business value and new business margin are calculated after the effect of non-controlling interests, whereas APE is presented before non-controlling interests.
[3] Calculated on average Group investments.
[4] As of December 31, 2015 and December 31, 2014, respectively.
[5] Ratios as of July 1, 2015 and January 1, 2015, respectively. The Swiss Solvency Test (SST) ratio is calculated based on the Group's internal model, which is subject to the approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The ratio is filed with FINMA annually. The July 1, 2015 ratio was calculated excluding a macro equity hedge, for more details please refer to the Risk review in the Annual results 2015.
[6] Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

Contact

For more information please visit:
www.zurich.com/shareholder-information

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Financial Calendar[1]

Annual General Meeting 2016 – March 30, 2016
Ex-dividend date – April 1, 2016
Dividend payable as from – April 5, 2016
Results for the three months to March 31, 2016 – May 12, 2016
Half year results 2016 – August 11, 2016
Results for the nine months to September 30, 2016 – November 10, 2016
Investor Day – December 1, 2016

[1] 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. Please also note that interim results are not necessarily indicative of full year results.

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.

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

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