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Annual Results 2012 - Media Briefing

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We delivered a strong underlying business operating profit in 2012. This is very important to note, as the reported results have a lot of moving parts, but the main message is that we are continuing to see the underlying business perform well, there is accelerating top-line growth and we generated strong cash flows during the year.

Before I go into the numbers, you will notice that we have restated a portion of the Germany General Insurance adjustment from the third quarter to prior periods. During the fourth quarter, we determined that a portion of the Germany GI adjustments required restatement to prior periods. The total amounted to USD 264 million in BOP and USD 194 million in net income and has been restated in accordance with IFRS accounting standards.

In allocating the restatement to prior periods, we are giving a closer view of the underlying performance.

My remarks and slides are focused on the reported figures, which is after restatement.

If we focus on the fourth quarter BOP overall, the result of USD 569 million has been negatively impacted by the CAT losses and lower favorable prior year development in General Insurance compared to 2011, with Global Life and Farmers both contributing above last year's fourth quarter result.

In General Insurance, the underlying performance further improved with an underlying loss ratio at 60.8% for the fourth quarter, a very strong result. But the impact of storm Sandy and the Q4

Germany reserve strengthening contributed to a total reduction of BOP of almost USD 850 million. The full-year performance for GI was down 7% year-on-year, and 5% in local currency.

The life BOP contributed USD 380 million, continuing to benefit from the good expense and risk margins, and a better investment margin compared to earlier quarters. The full year performance was down 1% compared to last year, however up 5% in local currency.

In Farmers, the management services company showed healthy profit growth, while Farmers Re delivered a profitable quarter, despite the losses from storm Sandy, proving that the underwriting and pricing actions taken by the Farmers Exchanges are starting to take effect. For the full year, Farmers in total was down 5% compared to last year.

The slightly higher loss of our Other Operating Businesses is mostly due to less favorable foreign currency movements in 2012 compared to 2011, with the full year charge increasing by 8%. Non-Core Businesses performed strongly. The full year result of USD 128 million was driven mainly by the life business included in the other run-off book.

The Zurich Santander business continues to perform well and in line with our expectations. As planned, the discrete fourth quarter includes the catch-up quarter for Zurich Santander resulting in a contribution for the year of USD 164 million to Group BOP and USD 66 million reported in the 4th quarter which represents two quarters. The full year statutory result for Zurich Santander showed continued growth in both top-line and net income.

Turning to net income for the quarter, the strong performance of USD 983 million reflects the impact of realized gains that benefited from the strong market valuations, offset by a higher quarterly tax effect relating to the losses from Sandy. The full year net income of USD 3.9 billion contributed to the USD 3.0 billion increase of shareholders equity to USD 34.5 billion during the year.

The increased equity, combined with a reduction in business operating profit, has resulted in the BOPAT return on common shareholders' equity reducing from 10.2% a year earlier to 9.3% at year-end 2012.

General Insurance

Our General Insurance strategy delivered a strong underlying performance in 2012.

- We continued our stance on pricing, underwriting discipline and portfolio management.

- We accelerated top-line growth.
- However, as already mentioned the year was impacted by storm Sandy and the reserve strengthening in Germany.
- Gross written premiums increased by 7% in local currency. Our acquisitions in Latin America and Malaysia added about 3 percentage points. The remaining 4 points are driven by organic growth from rate increases as well as exposure growth, particularly in certain lines in North America and also in our International Markets.
- But, overall our BOP reduced by 5% in local currency mainly driven by the Germany result and the continuing pressure on the investment income off-setting the benefits from the improved underlying loss ratio.
- The standalone Q4 performance of USD 21million was impacted by storm Sandy reducing BOP by USD 718 million and Q4 reserve strengthening in Germany of approximately USD 130 million, partly off-set by the continuing improvement in the underlying loss ratio at 60.8% for Q4.

Global Life

Before going through the numbers there are 3 key points that I would like to make;

- First, the trends in the Global Life Segment are consistent with the macroeconomic environment and continue to substantiate our strategy of diversifying geographically and through product mix.
- Second, we have now caught up with the quarter in arrears for the Zurich Santander business in terms of contribution to business operating profit, as well as including for the first time the Market Consistent Embedded Value and New business value.
- Third, the Q4 business operating profit is higher than in previous quarters due in part to the Zurich Santander catch up, but also due to a significant improvement in the German investment margin following some realization of gains and revised actuarial assumptions.

Now turning to the numbers:
Gross written premiums, policy fees and insurance deposits increased by 16% in local currency benefiting from the Zurich Santander business and higher volumes of single premium business in Corporate Life and Pensions and Private Banking Client Solutions, reduced by single premium retail business in Europe.
Net inflows to assets under management remained positive both in the 4th quarter and throughout the full year at USD 1.4 billion as net outflows in Europe were more than offset by net inflows in all other regions.

Annual Premium Equivalent increased 24% in local currency. Excluding the USD 737 million contribution from Zurich Santander and Zurich Insurance Malaysia, APE increased by 5% in local currency. This was mainly driven by North America, Latin America and Switzerland, supported by some large corporate contracts during the year.

New business margin decreased by 1.7 percentage points to 22.8% driven by some offsetting factors. The refinement to corporate protection renewals referred to in previous quarters, combined with the impact from the high volume lower margin social security transaction in Chile reduced the margin by over 3 percentage points. On the other hand we had positive contributions from the acquisitions and underlying improvement in the existing business.

New business value including Zurich Santander and Zurich Malaysia increased by 16% in local currency to USD 1.1 billion, further underscoring the growing importance of the Life businesses contribution to the Group.

Zurich Santander and Zurich Insurance Malaysia contributed USD 195 million, with new business value from on-going operations amounting to USD 890 million, a decrease of 5% on a local currency basis.

Farmers

Let me first make a few points about Farmers to put the numbers in perspective: The fourth quarter was the strongest in the year – helped by a pension settlement at Farmers Management Services and an improved loss ratio at Farmers Re despite the impact of storm Sandy. At the Farmers Exchanges rate and underwriting actions continue. While they start to show the desired impact on combined ratio, new business generation was subdued overall.

Let's now look at the figures in detail. Farmers business operating profit declined 5% to USD 1.4 billion for the full year, but increased 7% to USD 416 million in the fourth quarter. This reflects a strong result achieved by Farmers Management Services and the losses incurred by Farmers Re in the first half of the year – largely recovered in the second half.

Premium growth at Farmers Exchanges continues to drive Farmers Management Services results with its profit increasing by 5% to USD 1.4 billion. The fourth quarter business operating profit of USD 375 million was particularly strong, which also reflects a favorable pension settlement of USD 19 million. The managed gross earned premium margin remained at a level of 7.3%, which is above the 7% we expect over the long term.

Farmers Re incurred a business operating loss of USD 26 million over the year driven by its combined ratio of 103.7%, but had a good fourth quarter – posting a business operating profit of USD 42 million as its combined ratio improved to 99.3%. This combined ratio is virtually at the same level as the previous year's fourth quarter which was almost cat free. This shows a marked improvement in the underlying combined ratio. The loss estimate booked for storm Sandy improved slightly to USD 36 million from the previously communicated estimate of USD 40 million.

Farmers Re participation in the All Lines Quota Share Reinsurance Treaty was reduced to 18.5% from 20.0% as of December 31, 2012, subject to regulatory approval. Even though Farmers Re's capacity commitment to the Farmers Exchanges did not materially change, adding a new counterparty provides flexibility and counterparty diversification to the Exchanges.

Investment performance

Financial markets throughout the year and also in the fourth quarter were relatively friendly. In the last quarter, equity markets rose further and credit spreads narrowed, particularly on peripheral Eurozone sovereign debt.

The historically low interest rates levels led to a decline in net investment income by 7% in dollar terms and 2% on a local currency basis – driven by lower reinvestment yields for debt securities. Net capital gains remained virtually unchanged at USD 2.2 billion. In 2011 there were gains on sale of part of our stake in New China Life and on our derivative positions used for hedging economic risks. In 2012, sales of securities again contributed to our total net capital gains, especially in the fourth quarter as our asset managers rebalanced our portfolios after a prolonged period of improving markets.

Looking at our results – the market developments in 2012 resulted in increased net unrealized gains of USD 5.3 billion – despite the capital gains realizations I just mentioned. Unrealized gains reached a 10-year high of USD 10.7 billion. As a result, total net investment return reached 7.0% in 2012 – markedly higher than the strong 5.3% already achieved in 2011 – representing a strong outperformance of our assets relative to our liabilities.

Overall we are very satisfied with how our Group investments performed and believe that this result is a consequence of both favorable market conditions and a continued commitment to a disciplined investment approach.