

# Letter to Shareholders 2014



*Dear Shareholder,*

---

In 2014, Zurich delivered a business operating profit<sup>1</sup> (BOP) of USD 4.6 billion, one percent lower than in 2013. Our net income attributable to shareholders (NIAS) fell three percent to USD 3.9 billion in the same period, and our BOP after-tax return on equity in 2014 was 11.1 percent, down from 11.6 percent in 2013.

Zurich is very well capitalized. Our Zurich Economic Capital Model<sup>2</sup> (Z-ECM) was 127 percent as of October 1, 2014. Net cash remittances to the holding company were USD 3.7 billion, which puts us on course to deliver more than USD 9 billion over the three years to 2016, even with the impact from currency headwinds. Reflecting the stability of our business and strong capital position, our Board will propose a dividend of CHF 17.00 per share. Subject to shareholder approval at the Annual General Meeting on April 1, 2015, the proposed 2014 dividend would be paid from the Zurich Insurance Group Ltd's capital contribution reserves.

While our financial results do not yet show the full benefit of the initiatives underway, we have made a positive start to the plans we set out at our December 2013 Investor Day.

In General Insurance, we continue to make good progress in improving our accident year combined ratio, although the results show that we still have much to do in our turnaround businesses, and in driving further improvement.

In Global Life, we see good momentum in our priority life markets, and expect to start seeing the benefits of in-force management initiatives coming through in our earnings over the next two years.

At Farmers,<sup>3</sup> the development is very positive, with two consecutive quarters of growth and a continuation of positive trends.



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.

<sup>2</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 (SST) model.

---

We are continuing to execute on our three strategic cornerstones: prioritizing investment in distinctive positions; managing other businesses for value; and growing our operating earnings. This approach is designed to increase growth and profitability, working toward our 2016 financial targets.

### **Progress across all business segments**

In 2014, General Insurance gross written premiums increased in local currency terms, led by the Group's priority markets. General Insurance made good progress in the strategy to turn around or exit underperforming businesses – such as our decision to sell our general insurance retail business in Russia – and deliver an improved combined ratio, offset by lower releases on reserves established in prior years.

Global Life delivered strong growth in the U.S. and UK priority markets for retail, bank distribution and Corporate Life & Pensions in 2014. BOP was broadly flat compared with the prior year.

At the Farmers Exchanges, although gross written premiums were flat for the year, momentum was very positive, with growth of 2.4 percent in the final three months of 2014. Customer experience, measured by the Net Promoter Score, a measure of customer satisfaction and loyalty, improved considerably and customer retention rose to 76.8 percent at the end of 2014 from 74.8 percent at the end of 2013.

### **Corporate responsibility**

We believe that by acting responsibly, we can create sustainable value for all our stakeholders. In 2014 we doubled our commitment to invest in green bonds to up to USD 2 billion. The bonds will fund projects that help to reduce or mitigate the impact of climate change.

We are working to increase flood resilience in at-risk communities through our innovative flood resilience alliance. In 2014 the United Nations Framework Convention on Climate Change recognized Zurich's flood resilience program as an exemplary 'Lighthouse Activity.' Zurich also significantly improved its performance in the Dow Jones Sustainability Index (DJSI). And at the end of 2014, Zurich was 'carbon neutral.'<sup>4</sup>

### **Board and senior executive appointments**

At the Annual General Meeting the Board of Directors will propose to elect Joan Amble and Kishore Mahbubani to the Board of Directors for a term of office of one year each. Joan Amble brings extensive business experience in finance, accounting, operational and risk management, and strategic leadership to the Board. Kishore Mahbubani is widely recognized as an expert in geopolitical and economic issues and has a strong network in Asia and internationally.

---

<sup>3</sup> 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.

<sup>4</sup> Carbon neutrality reached in 2014 by acquiring carbon credits ('voluntary emissions reduction certificates' supporting a forestry project in Indonesia), calculated on the basis of CO<sub>2</sub> emissions reported in 2013, which were taken as the estimate for 2014.

On the Group Executive Committee, Cecilia Reyes, Chief Investment Officer, will take on the additional responsibility of Regional Chairman of Asia Pacific, succeeding Geoff Riddell, who is retiring from the Group. He will step down effective end of March 2015 and will continue to be involved for a transition period as Cecilia Reyes assumes this additional role effective April 1, 2015. We would like to thank Geoff for his outstanding contribution to the Group.

### Looking ahead

Although the economic environment is challenging, and interest rates are expected to remain low, we are convinced that the strategy we set out in 2013 is the right one, and are committed to delivering on our three strategic cornerstones. We thank you for your continued support.

Yours sincerely,



**Tom de Swaan**  
Chairman of the  
Board of Directors



**Martin Senn**  
Chief Executive Officer



For more on Zurich's financial performance, please visit our website at [www.zurich.com](http://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](http://www.zurich.com/investors)

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

# Financial highlights (unaudited)

in USD millions, for the years ended December 31, unless otherwise stated	12m 2014	12m 2013	Change in USD <sup>1</sup>
Business operating profit	<b>4,638</b>	4,680	(1%)
Net income attributable to shareholders	<b>3,895</b>	4,028	(3%)
General Insurance gross written premiums and policy fees	<b>36,333</b>	36,438	–
Global Life gross written premiums, policy fees and insurance deposits	<b>31,883</b>	27,095	18%
Farmers Management Services management fees and other related revenues	<b>2,791</b>	2,810	(1%)
Farmers Re gross written premiums and policy fees	<b>3,428</b>	4,045	(15%)
General Insurance business operating profit	<b>2,894</b>	2,859	1%
General Insurance combined ratio	<b>97.3%</b>	98.0%	0.7 pts
Global Life business operating profit	<b>1,273</b>	1,272	–
Global Life new business annual premium equivalent (APE) <sup>2</sup>	<b>5,203</b>	4,418	18%
Global Life new business margin, after tax (as % of APE) <sup>2</sup>	<b>22.1%</b>	27.0%	(4.9 pts)
Global Life new business value, after tax <sup>2</sup>	<b>1,022</b>	1,060	(4%)
Farmers business operating profit	<b>1,573</b>	1,516	4%
Farmers Management Services gross management result	<b>1,335</b>	1,353	(1%)
Farmers Management Services managed gross earned premium margin	<b>7.2%</b>	7.2%	–
Average Group investments	<b>206,070</b>	208,431	(1%)
Net investment result on Group investments	<b>9,209</b>	7,398	24%
Net investment return on Group investments <sup>3</sup>	<b>4.5%</b>	3.5%	1.0 pts
Total return on Group investments <sup>3</sup>	<b>8.6%</b>	1.3%	7.3 pts
Shareholders' equity <sup>4</sup>	<b>34,735</b>	32,503	7%
Swiss Solvency Test capitalization ratio <sup>5</sup>	<b>215%</b>	217%	(2.0 pts)
Diluted earnings per share (in CHF)	<b>23.84</b>	25.23	(6%)
Book value per share (in CHF) <sup>4</sup>	<b>232.65</b>	196.14	19%
Return on common shareholders' equity (ROE) <sup>6</sup>	<b>12.8%</b>	13.3%	(0.6 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) <sup>6</sup>	<b>11.1%</b>	11.6%	(0.6 pts)

The table above presents the summarized consolidated results of the Group for the years ended December 31, 2014 and 2013, and the financial position as of December 31, 2014 and 2013, 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 2014 for Zurich Insurance Group available on [www.zurich.com](http://www.zurich.com) and with its consolidated financial statements to December 31, 2014.

<sup>1</sup> Parentheses around numbers represent an adverse variance.

<sup>2</sup> Details of the principles for calculating new business are included in the embedded value report in the Annual Report 2014. New business value and new business margin are calculated after the effect of non-controlling interests, whereas APE is presented before non-controlling interests.

<sup>3</sup> Calculated on average Group investments.

<sup>4</sup> As of December 31, 2014 and December 31, 2013, respectively.

<sup>5</sup> Ratios as of July 1, 2014 and January 1, 2014, respectively. The Swiss Solvency Test (SST) ratio is calculated based on the Group's internal model, and both the ratio and the internal model are subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The ratio is filed with FINMA bi-annually.

<sup>6</sup> 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. In 2013, no such adjustments were made and accordingly figures have been restated.

## Contact

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

## Registered Office

Zurich Insurance Group Ltd  
Mythenquai 2, 8002 Zurich,  
Switzerland

## Disclaimer and cautionary statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predicated on 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.

Zurich Insurance Group Ltd  
Mythenquai 2, 8002 Zurich,  
Switzerland  
Phone +41 (0) 44 625 25 25  
[www.zurich.com](http://www.zurich.com)

## Financial Calendar

Annual General Meeting 2015 – April 1, 2015  
Ex-dividend date – April 7, 2015  
Dividend payable as from  
April 9, 2015  
Results for the three months  
to March 31, 2015 – May 7, 2015  
Investor Day – May 21, 2015  
Half year results 2015 – August 6, 2015  
Results for the nine months  
to September 30, 2015 – November 5, 2015

Note: all dates are subject to change

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 and German. In the event of inconsistencies in the German translation, the English original version shall prevail.



**ZURICH**<sup>®</sup>