

Global Life

**Source of earnings – Briefing document
Half year results 2016**



SOURCE OF EARNINGS

What is the purpose of source of earnings?

- Sources of Earnings (SoE) reporting presents the key drivers of life IFRS results in more detail than the traditional insurance profit and loss account. This information is a shareholder view of earnings, generally excluding the components that are attributable to policyholders.

Why have you taken a regional rather than product split approach, as with some peers?

- The regional view aligns with how we manage our business and SoE illustrates the regional variations in terms of underlying margin generation, growth investment and level of maturity. Our reporting systems do not provide margins by product type, however, along with the KPIs and new business analysis, we can see the variations in product focus across regions.

How are the KPIs calculated?

- The KPIs help to understand the progression of the results by comparing margins against key drivers. To aid comparability we show all margins (and denominators) net of non-controlling interests for our major bank distribution agreements. Alongside longer term KPI trends that will become visible over time there are also variations from one reporting period to the next from non-recurring items. "Adjusted KPIs" show the KPI after adjustment for the most material items.

Why have some of the figures changed vs. 2015 source of earnings?

- There have been no significant changes to approach, however we continue to refine the reporting structure and adjust historical figures to help understand progression of margins. In the current report, to avoid distorting impacts across margins, we have adjusted the presentation of 2015 results to reflect the deconsolidation of a distribution company in the UK occurred at the beginning of 2016. In particular on a full year basis we have reduced Loadings and Fees by USD 290m, Operating Costs by USD 75m and Acquisition Costs by USD 215m.

Margin overview

Key components



REVENUES	COMPONENTS	DESCRIPTION
Loadings & Fees	Unit linked (UL) fund based fees net of investment expense Premium based and other fees Continental European business expense fees Risk expense loadings	<ul style="list-style-type: none"> For UL contracts, fund based fees are one of the main sources of income and we show these separately within Loadings and Fees. Investment management charges are set off against the gross fees to show the net return. Fees derived from UL off-balance sheet business are also included here. Premium based and other UL charges which cover expenses are included in this category together with lapse charges on unit linked contracts. Traditional continental European contracts have an explicit expense premium which can be subject to policyholder participation when aggregate expense premiums exceed expenses. These expense premiums are included here, net of any direct policyholder participation in the margin. The expense loading in protection contract premiums is reflected in Fees and Loadings. Any charges related to risk cover on unit linked contracts are included within the Technical Margin.
Investment margin	Policyholder spread return Return on shareholder free surplus Continental European business discretionary allocation	<ul style="list-style-type: none"> ~80% of the total is driven by investment income on group investments net of policyholder participation ("spread return"). Policyholder participation includes guaranteed dividends, declared dividends and other crediting of interest to reserves, minimum participation required by law, changes to terminal bonus reserve and discretionary dividends funded from shareholder margin. Return on shareholder free surplus represents investment income, and excludes capital gains or losses, in line with the Group BOP policy. Investment management expenses are also included within the investment margin.
Technical margin	Risk result (UL& non UL) Lapse result	<ul style="list-style-type: none"> The technical margin reflects the net margin on life insurance contracts, for example protection and annuity products, and includes the lapse result on insurance contracts. Charges on UL contracts where related to risk cover are included as well as premiums charged to cover risk on protection contracts. The margin is shown net of claims experience.

Margin overview

Key components



EXPENSES	COMPONENTS	DESCRIPTION
Operating costs	Overheads & Admin Depreciation of property & equipment Amortization of software Unallocated policyholder Tax	<ul style="list-style-type: none"> • These are the regular expenses of the business including depreciation and amortization of software and intangibles. It excludes acquisition costs and expenses directly related to income (e.g. investment expenses). • Policyholder tax is generally allocated against the income item it relates to within the relevant revenue margin. Any unallocated policyholder tax is reflected in operating costs, but is typically small.
Acquisition costs	Initial & renewal commission Fund based commission Other acquisition costs Business combination costs	Acquisition costs include three main elements: <ul style="list-style-type: none"> • Commissions (~75% of the total) – initial, renewal and fund based. • Other acquisition costs (~15% of the total) – the part of administration expenses related to acquiring business. • Business combination costs (~10% of the total) – Amortization of Value of Business Acquired (VOBA) and Distribution Agreements plus BOP impacts from earn-outs (liability interest unwind & fair value adjustments) and purchase price adjustments.
Deferral impacts	Deferred Acquisition & Origination Cost impacts (DAC/DOC) Deferred Front End & Origination Fee impacts (DFEF/DOF)	<ul style="list-style-type: none"> • Deferral impacts from both fees and commissions are dealt with in this section. This includes initial deferral, regular amortization, impairment if relevant and changes to intangible balances resulting from changes to estimates and assumptions (for example lapse rate changes or market movements impacting future fee income levels).

Key performance indicators

How to interpret and use the KPIs (1/2)



Adjusted KPIs	H1 2015	H2 2015	H1 2016	DESCRIPTION
<p><u>UL fund based fees</u> Av. UL AUM</p>	0.6%	0.6%	0.6%	<p>Interpretation</p> <ul style="list-style-type: none"> This KPI is based on fund based fees generated from both on and off-balance sheet unit linked funds, and compared against a simple average of the start of period/end of period unit linked fund values. The KPI illustrates the average fee on unit linked funds allowing comparability between regions and also trending over time. <p>Development</p> <ul style="list-style-type: none"> Two factors we note are a long term trend towards lower fund based fees as a proportion of unit linked funds under management, and that fees earned on high volume pension business, particularly in the UK, are considerably lower than those earned on retail business. <p>Sensitivities</p> <ul style="list-style-type: none"> To business mix changes (e.g. corporate pension vs. retail).
<p><u>Other loadings</u> GWP & Deposits</p>	10%	11%	10%	<p>Interpretation</p> <ul style="list-style-type: none"> This KPI highlights the proportion of the premium or deposit charged to cover expenses (note that a proportion of unit linked fund based fees is also intended to cover expenses). In regions like North America or Latin America, where protection sales dominate new business sales, they tend to have higher expense loadings in the product structure to cover the higher acquisition costs. In contrast, a region like Europe, where there is a larger in-force business and a proportionally higher weighting of business that attracts less commission, there would typically be a lower ratio. <p>Development</p> <ul style="list-style-type: none"> Should be relatively stable over time depending on the developments of the sensitivities below. <p>Sensitivities</p> <ul style="list-style-type: none"> Mainly to acquisition costs, particularly commission fee structures, either due to distribution channel or to regulatory change. Significant variations in deposits, particularly large corporate pensions contracts, can cause variability.

Key performance indicators

How to interpret and use the KPIs (2/2)



Adjusted KPIs	H1 2015	H2 2015	H1 2016	DESCRIPTION
<u>Investment Margin</u> Av. NL reserves	0.6%	0.8%	0.6%	<p>Interpretation</p> <ul style="list-style-type: none"> The investment margin mostly comprises spread return on assets backing non unit-linked-policyholder reserves. The discretionary policyholder allocation in Germany is excluded from the KPI to allow better comparability. <p>Development</p> <ul style="list-style-type: none"> Spread compression between asset returns and allocations to policyholders in Europe and North America has been negatively impacting the investment margin over the last few years. <p>Sensitivities</p> <ul style="list-style-type: none"> Mainly to asset returns vs. guarantee levels.
<u>Operating costs</u> Total reserves	0.8%	0.9%	0.8%	<p>Interpretation</p> <ul style="list-style-type: none"> Useful for assessing historic trends within a region rather than comparability between regions due to varying product mix driving different levels of reserves. <p>Development</p> <ul style="list-style-type: none"> Regions with a high savings element in reserves will have a lower KPI, whilst regions which are biased towards protection contracts (with relatively lower reserves) will have a higher KPI. Start-up operations will have higher costs compared with mature operations. <p>Sensitivities</p> <ul style="list-style-type: none"> Product mix, absolute operating costs and the maturity of the business.
<u>Acquisition costs</u> APE	64%	67%	65%	<p>Interpretation</p> <ul style="list-style-type: none"> Acquisition costs as a % of APE is a measure of the cost to acquire business. <p>Development</p> <ul style="list-style-type: none"> The overall ratio has been increasing in H2 2015 and decreasing in H1 2016, predominantly driven by EMEA. The former variance is due to a seasonal decrease in CLP business and the latter due to business mix in retail. <p>Sensitivities</p> <ul style="list-style-type: none"> Mainly to business mix changes & related acquisition costs.

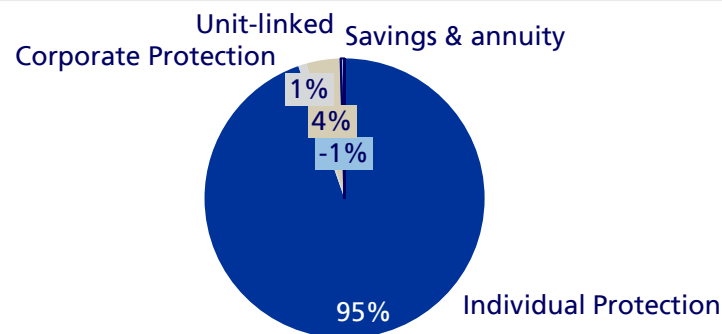
Analysis by region

North America

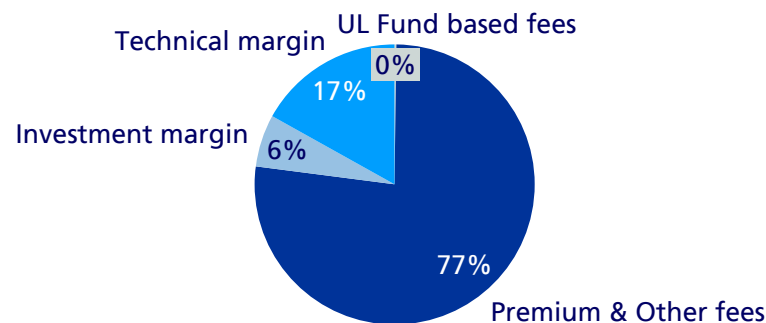


NEW BUSINESS SALES & EARNINGS¹

New business value product split



Source of earnings by revenue margin



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¹ HY-16 figures used in the new business value and sources of earnings charts.

ADJUSTED KPIs & OVERVIEW

KPIs	H1-15	H1-16	As a % of
UL fund based fees	0.1%	0.1%	Average UL AuM
Other loadings	28.3%	26.1%	GWP & Deposits
Investment margin	0.4%	0.6%	Average NL reserves
Operating costs	1.9%	2.2%	Average reserves
Acquisition costs	180.6%	165.2%	APE

- The Farmers New World Life (FNWL) business serving Farmers Agents is very mature and writes primarily protection products – simple protection and universal life where there is a savings component that funds risk and expense charges. This is split between premium & other fees and the technical margin.
- Along side FNWL we are growing our IFA business and are also developing our proposition in the Corporate market. As with FNWL, protection products are the main source of new business, although there are also small volumes of unit-linked business.

In the context of KPIs :

- UL fund based fees – small ratio as main source of earnings from protection components.
- Other loadings – as is typical of US protection products, universal life fees are based on deposit account balances rather than premium and therefore the ratio is not directly comparable with other regions such as Europe where fees are rather premium based.
- Investment margin – mainly reflecting returns on shareholder surplus, mainly flat.
- Operating costs – KPI reflects investment for growth.
- Acquisition costs – Lower acquisition costs due to lower APE with a marginal KPI improvement due to business mix effects.

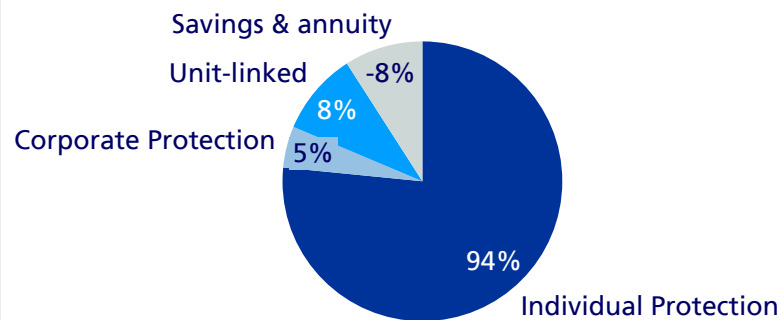
Analysis by region

Latin America

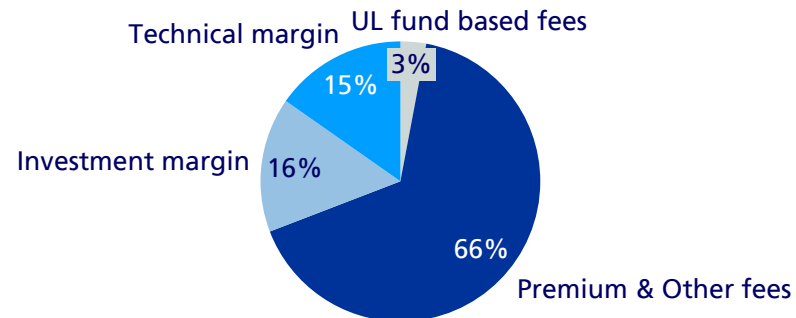


NEW BUSINESS SALES & EARNINGS¹

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	H1-15	H1-16	As a % of
UL fund based fees	0.5%	0.5%	Average UL AuM
Other loadings	30.1%	26.4%	GWP & Deposits
Investment margin	3.4%	4.3%	Average NL reserves
Operating costs	2.4%	2.2%	Average reserves
Acquisition costs	103.8%	96.2%	APE

- Zurich Santander is a fast growing but established business writing primarily protection products with some unit linked business in Brazil. Our other operations in Latin America are at different stages of development and also focus mainly on protection business (including Corporate/Affinity schemes) and to a lesser extent unit linked business.

In the context of KPIs :

- UL fund based fees – KPI in line with average and remained stable.
- Other loadings – relative high ratio due to expense loading covering acquisition costs higher than in the other regions.
- Investment margin – higher investment returns and asset base in Latin America, especially in Brazil and Argentina, lead to highest KPI versus other regions.
- Operating costs – relatively high costs for the developing Latin American operations.
- Acquisition costs – higher commission rates from the strong focus on protection lead to a relatively high ratio. The inclusion of business combination costs for Zurich Santander also creates some volatility. The lower KPI is driven by business mix in Zurich Santander with higher sales in lower commission business.

¹ HY-16 figures used in the new business value and sources of earnings charts.

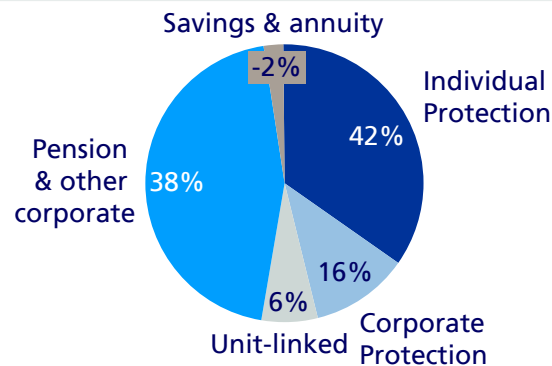
Analysis by region

EMEA

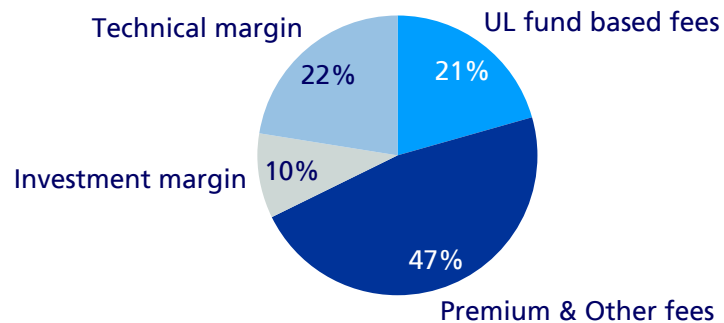


NEW BUSINESS SALES & EARNINGS¹

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	H1-15	H1-16	As a % of
UL fund based fees	0.6%	0.6%	Average UL AuM
Other loadings	7.1%	6.9%	GWP & Deposits
Investment margin	0.5%	0.4%	Average NL reserves
Operating costs	0.6%	0.5%	Average reserves
Acquisition costs	46.9%	47.4%	APE

- Approximately two thirds of the total BOP generation is from the three largest in-force balance sheets in UK, Switzerland and Germany. The UK has significant UL AuM and is growing fast in CLP (protection & pension). It also sells retail protection and UL new business through IFA/Brokers. Germany and Switzerland have a large in-force traditional product base, whereas new business is focused on UL components for savings. Zurich International Life and Ireland focus on UL and protection contracts while Spain writes protection business with some volume increases from individual savings contracts.

In the context of KPIs :

- UL fund based fees – stable over the short term, but expected to reduce over the long term due to increased Corporate weighting and pressure on retail margins.
- Other loadings – dominated by premium based fees in continental European countries. Fees increase driven by higher volumes, leaving the KPI flat.
- Investment margin – large traditional books with high policyholder participation lead to lower than average KPIs compared with other regions. The low yield environment continues to put spreads under pressure in continental Europe.
- Operating costs – high level of both traditional and unit-linked savings reserves lead to the lowest level of this KPI compared with other regions.
- Acquisition costs – relatively flat with lower volumes of business, particularly in Germany, and business mix in Isle of Man.

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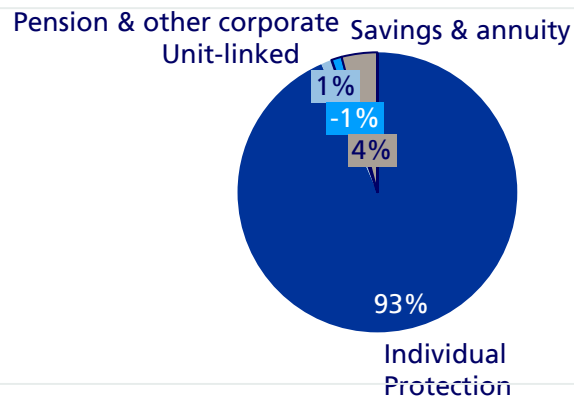
Analysis by region

APAC

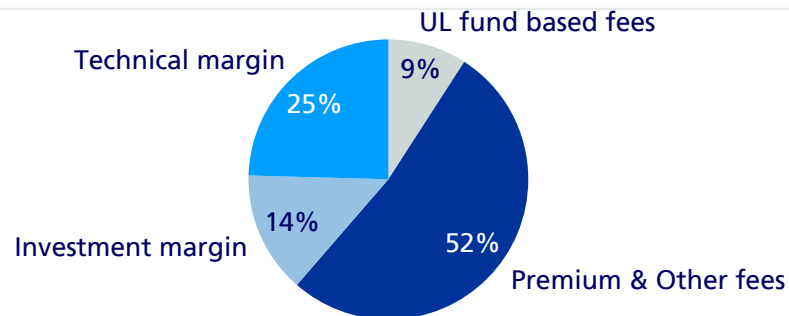


NEW BUSINESS SALES & EARNINGS¹

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	H1-15	H1-16	As a % of
UL fund based fees	0.7%	0.8%	Average UL AuM
Other loadings	17.7%	20.3%	GWP & Deposits
Investment margin	1.8%	1.7%	Average NL reserves
Operating costs	3.4%	3.8%	Average reserves
Acquisition costs	151.6%	170.3%	APE

- The largest Life business unit in this region is the domestic Australian business unit with new business being primarily protection. Growth in the region is fueled by Japan, writing protection products, and there are also smaller developing operations. HK is closed to new business but is generating a healthy BOP result from the in-force book.

In the context of KPIs :

- UL fund based fees – slightly lower fees in Australia reducing the KPI.
- Other loadings – lower premium based fees lead to a lower KPI when compared with other regions. The year-on-year increase is due to volume growth in Japan.
- Investment margin – comparatively high compared with the average, reflecting higher yield environment in certain APAC countries.
- Operating costs – start-up operations lead to a higher than average KPI due to scale and investing in building the business. The KPI increased following high growth in Japan which led to an increase in Operating costs.
- Acquisition costs – relatively high commissions payable on average and protection growth in Japan.

¹ HY-16 figures used in the new business value and sources of earnings charts.

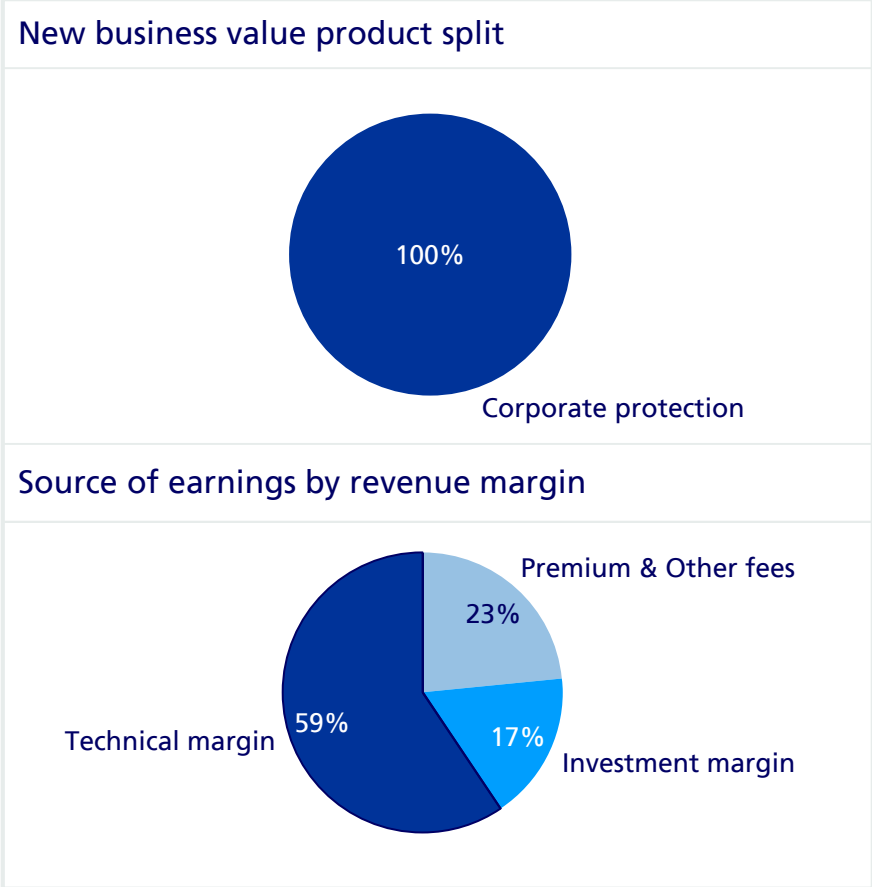
Analysis by region

Other



NEW BUSINESS SALES & EARNINGS¹

OVERVIEW



Other region mirrors the segmental reporting in the Group Annual Report. Global Life manages its business through four main regions and the residual “Other” region includes business units that do not fall within the management responsibility of those regions. The two main units contributing to the Other result are:

- International Group Risk Solutions which writes high margin group risk protection and pooling business.
- The expense result from the Global Life Central team which is net of recharges out to the Global Life business units. The core expenses are relatively stable, however there can be more variation in the level and timing of recharges, which net out in total across all regions, but can create volatility in Other region.

Due to the very different natures of the businesses included in Other region the KPIs are not meaningful and are therefore not presented.

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¹ HY-16 figures used in the new business value and sources of earnings charts.

Appendix



Historical margins & KPIs

Highlighting distorting impacts



MARGIN HISTORY (USDm)

Business Operating Profit	H1-15	H2-15	H1-16
UL fund based fees	406	410	360
Premium & Other loadings	1'410	1'427	1'363
Investment margin	197	283	273
Technical margin	693	642	534
Operating costs	-822	-950	-704
Acquisition costs	-1'393	-1'380	-1'260
Impact of deferrals	182	194	101
Total BOP	673	627	667

IMPACTS (USDm)

	H1-15	H2-15	H1-16
	0	0	0
	0	0	0
	24	-35	54
	31	71	0
	0	0	52
	0	0	0
	0	0	-54
	55	35	52

ADJ. MARGIN (USDm)

	H1-15	H2-15	H1-16
	406	410	360
	1'410	1'427	1'363
	174	318	219
	661	571	534
	-822	-950	-756
	-1'393	-1'380	-1'260
	182	194	154
	618	592	615

KPIs	H1-15	H2-15	H1-16
UL fund based fees	0.6%	0.6%	0.6%
Other loadings	10%	11%	10%
Investment margin ⁴	0.7%	0.8%	0.7%
Operating costs	0.8%	0.9%	0.7%
Acquisition costs	64%	67%	65%

	H1-15	H2-15	H1-16
	0.6%	0.6%	0.6%
	10%	11%	10%
	0.6%	0.8%	0.6%
	0.8%	0.9%	0.8%
	64%	67%	65%

¹ H1 2015 – Investment margin includes negative impacts stemming from the SNB actions related to the Swiss Franc and the positive effect from a review of terminal bonus reserves in Germany. Technical margin includes distorting impacts related to the settlement of prior years items arising in current year.

² H2 2015 – Technical and investment margin include the net positive impact from in-force management initiatives in Switzerland.

³ Adjusted for the impact of Germany discretionary dividends.

⁴ H1 16 - Operating costs includes the release of a policyholder tax reserve in the UK. The investment margin and impact of deferrals are hold a reclassification to neutralize the impact of the assumptions review in Germany from 2015 (presentational item only).

Total margins by region

As reported and adjusted for distorting impacts



USDm	As reported			Adjusted		
	H1-15	H1-16	Delta	H1-15	H1-16	Delta
Total Global Life						
UL fund based fees	406	360	-11%	406	360	-11%
Premium & Other loadings	1'410	1'363	-3%	1'410	1'363	-3%
Investment margin	197	273	38%	174	219	26%
Technical margin	693	534	-23%	661	534	-19%
Operating costs	-822	-704	14%	-822	-756	8%
Acquisition costs	-1'393	-1'260	10%	-1'393	-1'260	10%
Impact of deferrals	182	101	-45%	182	154	-15%
Total BOP	673	667	-1%	618	615	0%
North America						
UL fund based fees	1	1	-6%	1	1	-6%
Premium & Other loadings	195	200	3%	195	200	3%
Investment margin	11	16	51%	11	16	51%
Technical margin	80	44	-45%	80	44	-45%
Operating costs	-66	-79	-21%	-66	-79	-21%
Acquisition costs	-159	-136	14%	-159	-136	14%
Impact of deferrals	38	23	-40%	38	23	-40%
Total BOP	100	69	-31%	100	69	-31%
Latin America						
UL fund based fees	15	14	-7%	15	14	-7%
Premium & Other loadings	358	317	-11%	358	317	-11%
Investment margin	61	74	21%	61	74	21%
Technical margin	102	73	-29%	102	73	-29%
Operating costs	-108	-95	12%	-108	-95	12%
Acquisition costs	-317	-277	13%	-317	-277	13%
Impact of deferrals	0	16	nm	0	16	nm
Total BOP	111	121	9%	111	121	9%

USDm	As reported			Adjusted		
	H1-15	H1-16	Delta	H1-15	H1-16	Delta
EMEA						
UL fund based fees	375	331	-12%	375	331	-12%
Premium & Other loadings	782	755	-4%	782	755	-4%
Investment margin	94	155	64%	71	101	43%
Technical margin	419	359	-14%	388	359	-7%
Operating costs	-529	-428	19%	-529	-480	9%
Acquisition costs	-785	-704	10%	-785	-704	10%
Impact of deferrals	87	-7	nm	87	46	-47%
Total BOP	443	460	4%	388	409	5%
APAC						
UL fund based fees	16	15	-7%	16	15	-7%
Premium & Other loadings	70	84	20%	70	84	20%
Investment margin	25	23	-11%	25	23	-11%
Technical margin	50	39	-22%	50	39	-22%
Operating costs	-80	-79	2%	-80	-79	2%
Acquisition costs	-109	-123	-13%	-109	-123	-13%
Impact of deferrals	57	69	21%	57	69	21%
Total BOP	29	28	-6%	29	28	-6%
Other						
UL fund based fees	0	0	0%	0	0	0%
Premium & Other loadings	5	7	47%	5	7	47%
Investment margin	6	5	-4%	6	5	-4%
Technical margin	42	18	-57%	42	18	-57%
Operating costs	-39	-22	42%	-39	-22	42%
Acquisition costs	-24	-20	16%	-24	-20	16%
Impact of deferrals	0	0	0%	0	0	0%
Total BOP	-10	-12	-18%	-10	-12	-18%

Key performance indicators¹



Key financial data used in the calculations (net of minorities)

USDm

Total Global Life	H1-15	H2-15	H1-16
Average UL AuM	130'291	130'472	125'069
GWP & Deposits	13'485	12'474	13'521
Average NL reserves	93'264	89'437	91'319
Average reserves	210'797	204'337	200'570
APE	2'173	2'048	1'946

North America	H1-15	H2-15	H1-16
Average UL AuM	1'077	1'197	1'355
GWP & Deposits	689	729	769
Average NL reserves	5'673	5'733	5'788
Average reserves	6'749	6'930	7'142
APE	88	91	82

Latin America	H1-15	H2-15	H1-16
Average UL AuM	5'453	4'946	5'382
GWP & Deposits	1'189	1'129	1'202
Average NL reserves	3'625	3'311	3'439
Average reserves	9'083	8'266	8'827
APE	305	290	288

USDm

EMEA	H1-15	H2-15	H1-16
Average UL AuM	119'477	118'369	112'829
GWP & Deposits	11'048	10'180	10'972
Average NL reserves	80'724	77'342	79'097
Average reserves	189'875	184'464	180'157
APE	1'675	1'560	1'484

APAC	H1-15	H2-15	H1-16
Average UL AuM	4'284	3'921	3'464
GWP & Deposits	397	401	414
Average NL reserves	2'882	2'716	2'677
Average reserves	4'728	4'344	4'125
APE	72	83	72

Other	H1-15	H2-15	H1-16
Average UL AuM	0	2'039	2'039
GWP & Deposits	220	68	245
Average NL reserves	361	333	318
Average reserves	361	333	318
APE	34	24	20

¹ Figures above have been adjusted to remove the effective minority interests in the total for Zurich Santander and Banco Sabadell.

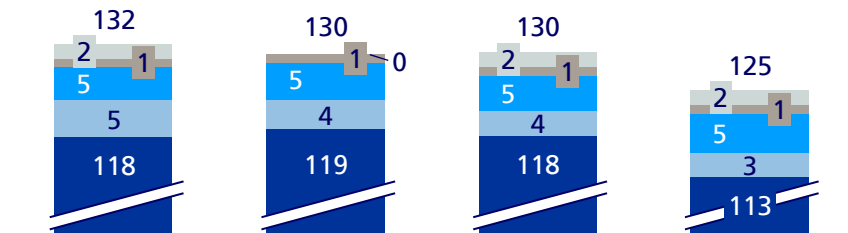
Key performance indicators

Key financial data used in the calculations (net of minorities)

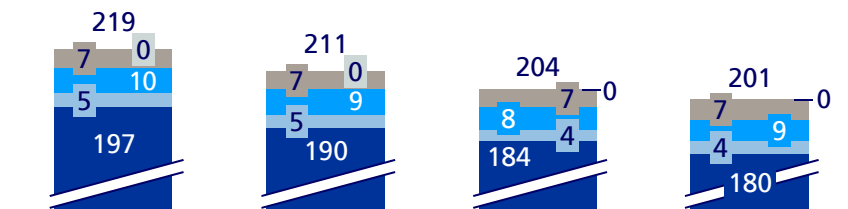


USDbn

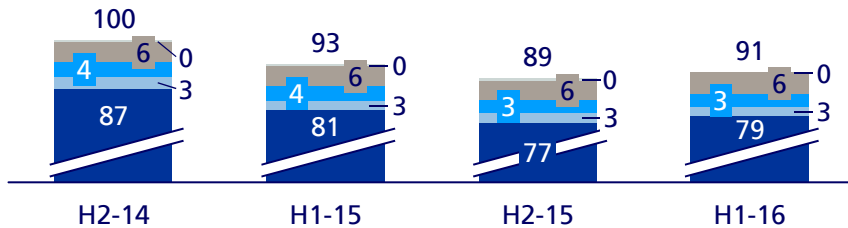
Average unit-linked AuM



Average total reserves

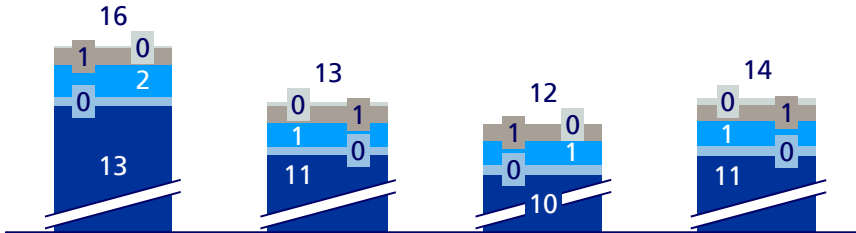


Average non-linked reserves

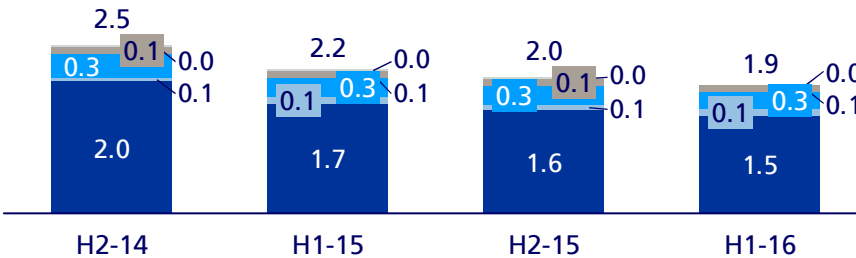


USDbn

GWP & Deposits



APE



Movements from 2015 to 2016

Commentary on key variances



ADJUSTED MARGIN MOVEMENTS

Total Global Life	H1-15	H1-16	Delta
UL fund based fees	406	360	-11%
Premium & Other loadings	1'410	1'363	-3%
Investment margin	174	219	26%
Technical margin	661	534	-19%
Operating costs	-822	-756	8%
Acquisition costs	-1'393	-1'260	10%
Impact of deferrals	182	154	-15%
Total BOP	618	615	0%

KPIs	H1-15	H1-16	Delta
UL fund based fees	0.6%	0.6%	0.0
Other loadings	10%	10%	-0.4
Investment margin ³	0.6%	0.6%	0.0
Operating costs	0.8%	0.8%	0.0
Acquisition costs	64%	65%	0.6

COMMENTARY

GL BOP is USD 667m, 1% below prior year with a strong performance in EMEA and Latin America offset by North America. The weakening of Latin American and European currencies against the U.S. dollar compared with 2015 had a significant impact on the reported results, hence the following commentary focus on variances at constant FX

UL fund based fees

- 7% decrease in fund based fees in local currency driven by EMEA partially offset by Latin America.

Premium & Other loadings

- 5% growth in local currency across all regions, mostly driven by growing sales.

Investment margin

- 41% local currency increase driven by EMEA and Latin America. In EMEA because of management action on the structure of the investment portfolio and lower policyholder dividends in Switzerland and Germany. Improvements in Latin America are driven by higher investment returns and asset base mostly in Brazil and Argentina.

Technical margin

- 20% decrease in local currency reflects adverse claims experience in EMEA, North America and International Group Risk Solutions, the latter two include large losses volatility.

Operating costs

- Operating costs decreased 3% in local currency mainly driven by cost savings initiatives partially offset by investment for growth and stability.

Acquisition costs

- Acquisition costs decreased 3% in local currency mainly driven by business mix in Latin America.

Impact of deferrals

- Deferral impacts deterioration in local currency mainly reflecting volumes and business mix.

¹ BOP and margin values are as reported and exclude distorting impacts (see Slide 15, footnotes 1-3).

² Change in percentage points.

³ Adjusted for the impact of Germany discretionary dividends.

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