ZURICH

Global Life

Source of earnings – Briefing document
Annual results 2014

Background

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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. Half Year 2014 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. The two largest items, which impacted the H2 2013 technical margin, were a change in allocation of premiums on insurance contracts between technical margin and Premium & Other loadings; and an adjustment between technical margin and acquisition costs related to presentation of commission in reinsurance units.

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	• For UL contracts, fund based fees is one of the main sources of income and we show these separately within Fees and Loadings. 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	• ~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	• 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	• 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: • 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 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)	• 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 2013	H2 2013	H1 2014	H2 2014	DESCRIPTION
UL fund based fees / **Av. UL AUM**	0.70%	0.69%	0.68%	0.69%	**Interpretation** • 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. **Development** • 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. **Sensitivities** • To business mix changes (e.g. corporate pension vs. retail).
Other loadings / **GWP & Deposits**	13%	13%	13%	11%	**Interpretation** • 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. **Development** • Should be relatively stable over time depending on the developments of the sensitivities below. **Sensitivities** • 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)

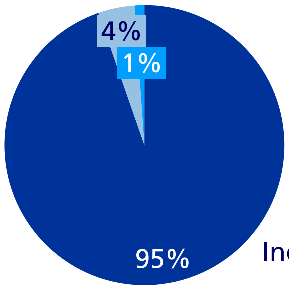
Adjusted KPIs	H1 2013	H2 2013	H1 2014	H2 2014	DESCRIPTION
Investment Margin / **Av. NL reserves**	0.80%	0.77%	0.77%	0.69%	**Interpretation** • The investment margin mostly comprises spread return on assets backing non linked-policyholder reserves. The discretionary policyholder allocation in Germany is excluded from the KPI to allow better comparability. **Development** • 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. **Sensitivities** • Mainly to asset returns vs. guarantee levels.
Operating costs / **Total reserves**	0.85%	0.84%	0.83%	0.94%	**Interpretation** • Useful for assessing historic trends within a region rather than comparability between regions due to varying product mix driving different levels of reserves. **Development** • 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. **Sensitivities** • Product mix, absolute operating costs and the maturity of the business.
Acquisition costs / **APE**	85%	79%	76%	68%	**Interpretation** • Acquisition costs as a % of APE is a measure of the cost to acquire business. **Development** • The overall ratio has been reducing gradually, primarily driven by Europe and Latin America. This is mainly following the strong growth in CLP, which typically has lower acquisition costs and higher APE than products such as retail protection. **Sensitivities** • Mainly to business mix changes & related acquisition costs.

Analysis by region

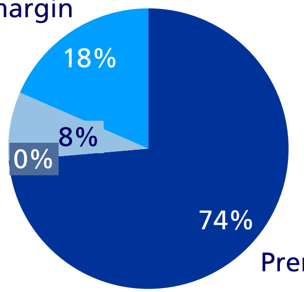
North America

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	2013	2014	As a % of
UL fund based fees	0.17%	0.15%	Average UL AuM
Other loadings	32%	27%	GWP & Deposits
Investment margin	0.82%	0.76%	Average NL reserves
Operating costs	2.0%	2.1%	Average reserves
Acquisition costs	202%	178%	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 have a fast growing 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 more premium based.
- Investment margin – mainly reflecting returns on shareholder surplus, with yield compression evident in the year on year comparison.
- Acquisition costs – high ratio versus APE due to commission strain.
- Operating costs – increase reflecting the start-up costs of the IFA business.

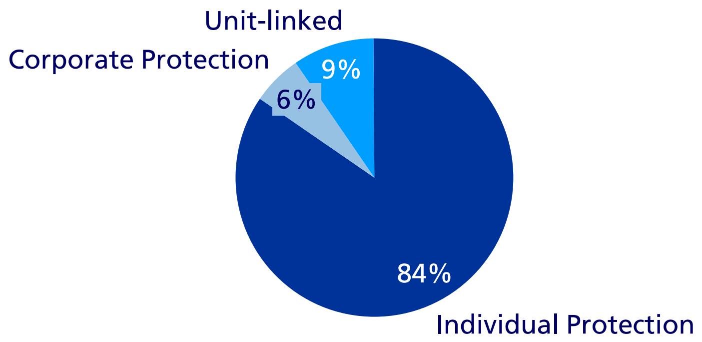
Note: 2014 figures used in the new business value and sources of earnings charts.

Analysis by region

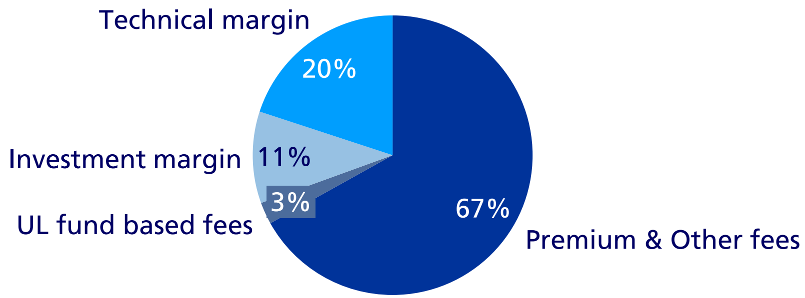
Latin America

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	2013	2014	As a % of
UL fund based fees	0.60%	0.58%	Average UL AuM
Other loadings	23%	27%	GWP & Deposits
Investment margin	2.50%	3.20%	Average NL reserves
Operating costs	2.7%	2.7%	Average reserves
Acquisition costs	100%	101%	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 – significantly lower fees on UL business in Zurich Santander vs. Zurich existing operations reduces the ratio below average.
- Other loadings – high ratio due to expense loading covering mainly acquisition costs.
- Investment margin – higher yields in LatAm and some FX hedging gains lead to highest KPI versus other regions.
- 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.
- Operating costs – relatively high costs for the developing Latin American operations.

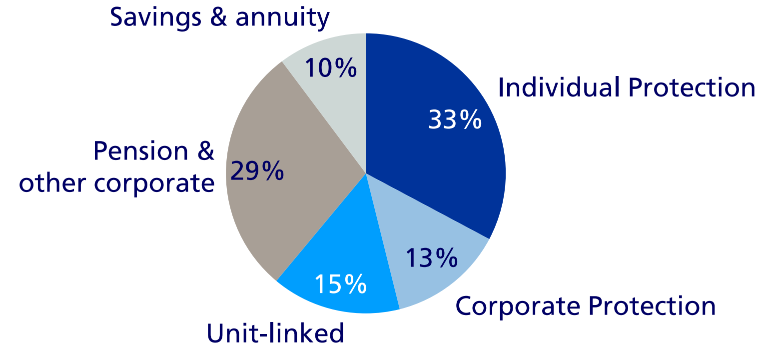
Note: 2014 figures used in the new business value and sources of earnings charts.

Analysis by region

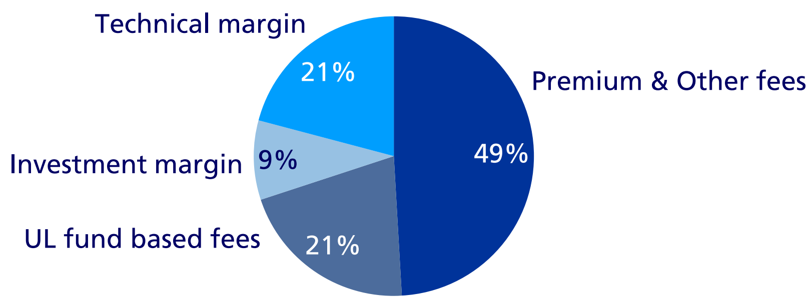
Europe

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	2013	2014	As a % of
UL fund based fees	0.62%	0.65%	Average UL AuM
Other loadings	10%	7%	GWP & Deposits
Investment margin	0.64%	0.59%	Average NL reserves
Operating costs	0.5%	0.6%	Average reserves
Acquisition costs	63%	49%	APE

- BOP generation is dominated by the three largest in-force balance sheets in UK, Switzerland and Germany which generate approximately 75% of the total. The UK has significant UL AuM and is growing fast in CLP (corporate protection & pension business). It also sells a reasonable amount of 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. Ireland focuses on UL and protection contracts whilst Spain largely writes protection business.

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 expense loading on cont. European business.
- Investment margin – large traditional books with high policyholder participation lead to lower than average KPI s compared with other regions. Yields reducing.
- Acquisition costs – influenced by UK market where commissions are not paid on retail and corporate savings, reducing the average for this KPI.
- Operating costs – high level of both traditional and unit-linked savings reserves lead to the lowest level of this KPI compared with other regions.

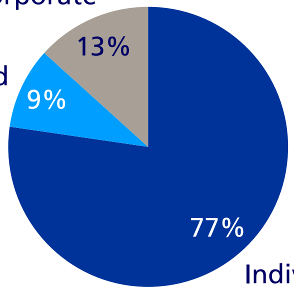
Note: 2014 figures used in the new business value and sources of earnings charts.

Analysis by region

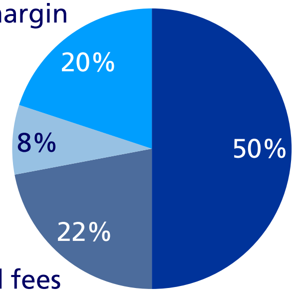
APME

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	2013	2014	As a % of
UL fund based fees	1.33%	1.41%	Average UL AuM
Other loadings	13%	14%	GWP & Deposits
Investment margin	1.73%	1.95%	Average NL reserves
Operating costs	1.8%	1.9%	Average reserves
Acquisition costs	91%	87%	APE

- The largest Life business units in this region are Zurich International Life (ZIL – based in the Isle of Man) with a focus on the Middle East, Hong Kong and Singapore, and the domestic Australian business unit. There are also smaller developing operations in Asia. ZIL has a focus on individual unit-linked, protection contracts, and corporate pensions. Australia new business is primarily protection.

In the context of KPIs :

- UL fund based fees – slightly higher margins generated in APME markets.
- Other loadings – lower premium based fees reduce the KPI when compared with other regions.
- Investment margin – comparatively high compared with the average, reflecting higher yield environment in certain APME countries.
- Acquisition costs – relatively high commissions payable on average, although product mix also has a strong influence with unit linked products paying less than protection.
- Operating costs – start-up operations lead to a higher than average KPI due to scale and investing in building the business.

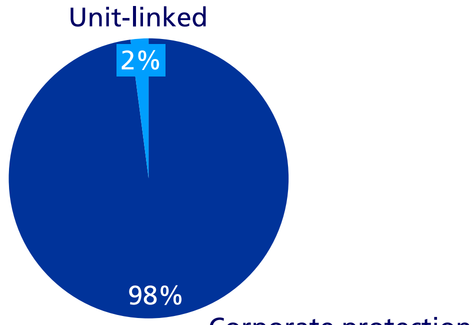
Note: 2014 figures used in the new business value and sources of earnings charts.

Analysis by region

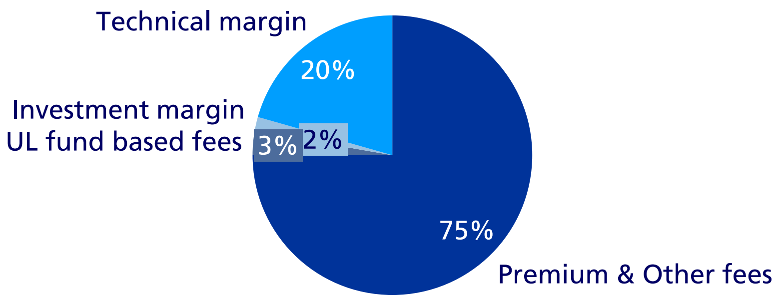
Other

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



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 four main units contributing to the Other result are:

- International Group Risk Solutions which writes high margin group risk protection and pooling business.
- The Luxembourg operation which includes Private Banking Client Solutions, a high volume low margin business. Withdrawal from certain markets has led to significant volume reductions in 2014.
- 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 the Other region. 2014 included additional costs related to development of the in-force strategy, corporate business expansion and a write-off of software intangibles.
- A distribution company in the UK where commission received from other product manufacturers is included in Premium & Other fees.

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

Note: 2014 figures used in the new business value and sources of earnings charts.

Appendix

Key performance indicators

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

USDm

Total Global Life	H1-13	H2-13	H1-14	H2-14
Average total unit-linked AuM	112,824	118,619	128,596	129,261
Average total reserves	201,843	208,055	220,773	218,995
Average non-linked reserves	96,948	98,039	102,056	99,939
GWP & Deposits	11,956	12,958	13,130	16,007
APE	1,858	2,096	2,101	2,541

North America	H1-13	H2-13	H1-14	H2-14
Average total unit-linked AuM	645	697	782	928
Average total reserves	6,392	6,527	6,492	6,520
Average non-linked reserves	5,748	5,830	5,710	5,592
GWP & Deposits	568	554	743	727
APE	81	80	104	104

Latin America	H1-13	H2-13	H1-14	H2-14
Average total unit-linked AuM	5,439	5,340	5,651	5,789
Average total reserves	9,623	9,536	9,941	9,891
Average non-linked reserves	4,186	4,197	4,287	4,099
GWP & Deposits	1,633	1,768	1,543	1,508
APE	384	392	400	345

USDm

Europe	H1-13	H2-13	H1-14	H2-14
Average total unit-linked AuM	93,280	98,359	106,960	107,572
Average total reserves	168,716	174,205	185,484	184,007
Average non-linked reserves	83,486	84,571	88,551	86,791
GWP & Deposits	7,919	8,859	9,362	12,317
APE	1,020	1,294	1,314	1,736

APME	H1-13	H2-13	H1-14	H2-14
Average total unit-linked AuM	10,742	11,038	11,689	11,606
Average total reserves	14,115	14,285	14,943	14,806
Average non-linked reserves	3,232	3,115	3,109	3,046
GWP & Deposits	1,302	1,291	1,249	1,337
APE	271	259	241	325

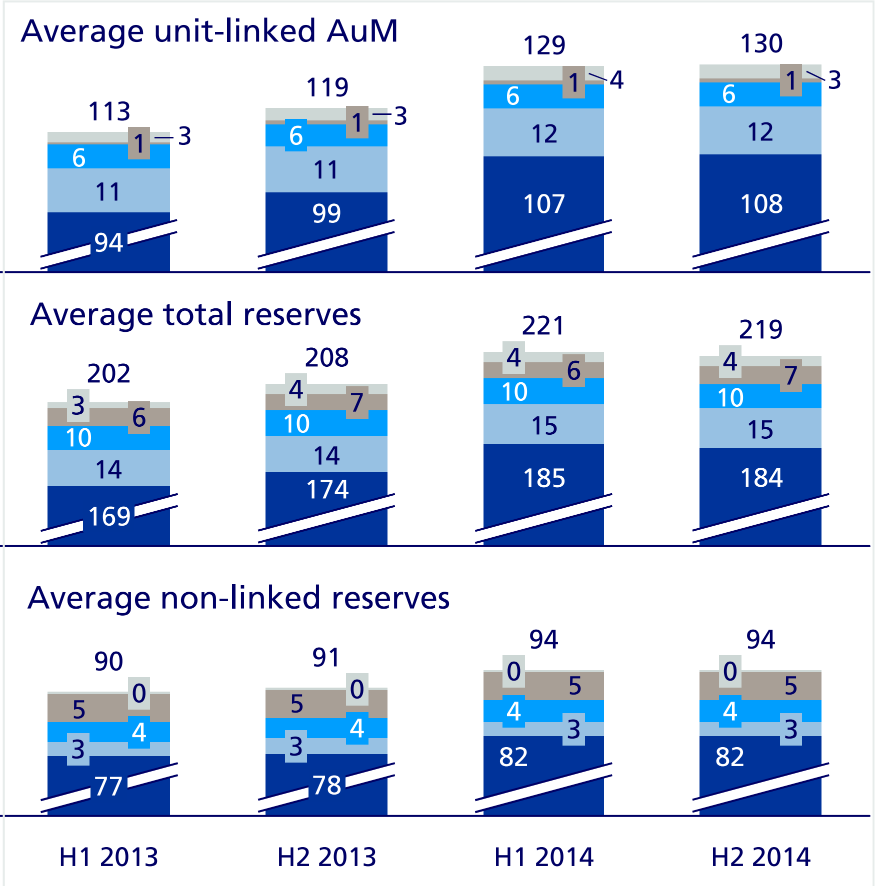
Other	H1-13	H2-13	H1-14	H2-14
Average total unit-linked AuM	2,718	3,185	3,515	3,366
Average total reserves	2,993	3,503	3,913	3,773
Average non-linked reserves	294	327	399	412
GWP & Deposits	572	558	303	126
APE	102	71	42	30

Note: All figures above have been adjusted to remove the effective minority interests in the total for Zurich Santander and Banco Sabadell

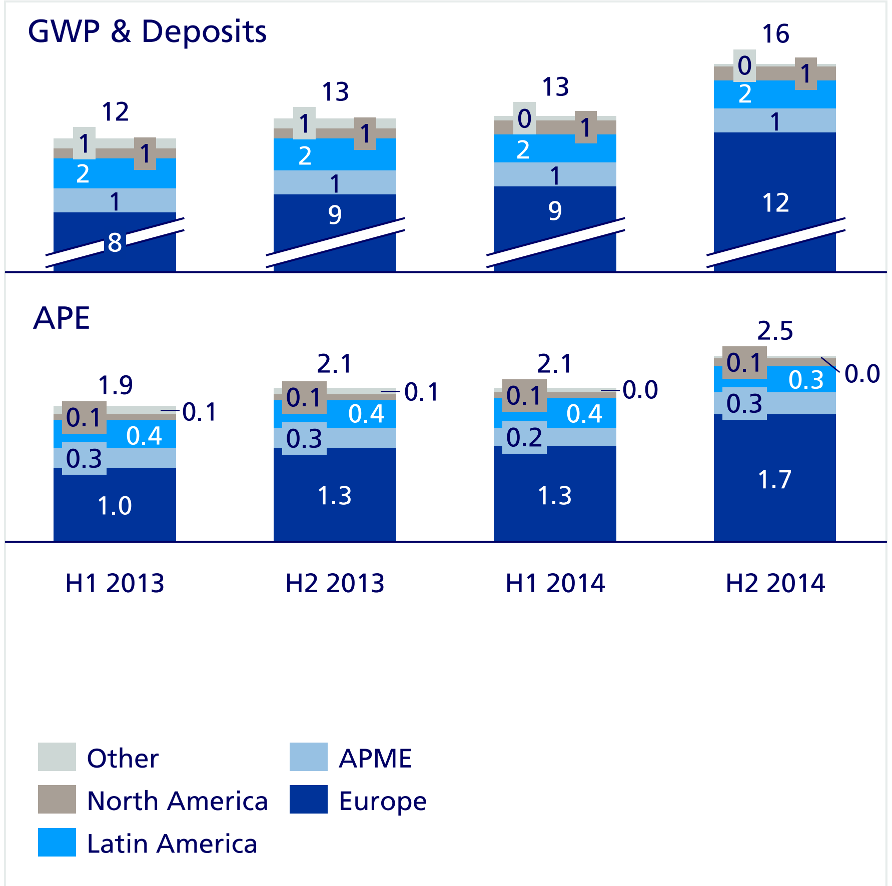
Key performance indicators

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

USDbn



USDbn



Historical margins & KPIs

Highlighting distorting impacts

MARGIN HISTORY (USDm)

Business Operating Profit	H1-13	H2-13	H1-14	H2-14
UL fund based fees	395	410	438	449
Premium & Other loadings	1,608	1,768	1,660	1,789
Investment margin	275	282	296	245
Technical margin	597	602	526	633
Operating costs	-854	-878	-877	-1,024
Acquisition costs	-1,583	-1,651	-1,572	-1,737
Impact of deferrals	221	81	163	284
Total BOP	659	613	634	639

KPIs	H1-13	H2-13	H1-14	H2-14
UL fund based fees	0.70%	0.69%	0.68%	0.69%
Other loadings	13%	14%	13%	11%
Investment margin [4]	0.80%	0.77%	0.78%	0.69%
Acquisition costs	85%	79%	75%	68%
Operating costs	0.85%	0.84%	0.79%	0.94%

IMPACTS (USDm)

H1-13[1]	H2-13[2]	H1-14[3]	H2-14
0	0	0	0
0	95	0	0
0	0	1	0
0	0	-84	0
0	0	36	0
0	0	32	0
26	-119	-4	0
26	-24	-19	0

ADJ. MARGIN (USDm)

H1-13	H2-13	H1-14	H2-14
395	410	438	449
1,608	1,673	1,660	1,789
275	282	295	245
597	602	610	633
-854	-878	-913	-1,024
-1,583	-1,651	-1,603	-1,737
195	200	166	284
633	637	653	639

H1-13	H2-13	H1-14	H2-14
0.70%	0.69%	0.68%	0.69%
13%	13%	13%	11%
0.80%	0.77%	0.77%	0.69%
85%	79%	76%	68%
0.85%	0.84%	0.83%	0.94%

1 H1 2013 – impact of actuarial model change on DAC deferrals in APME region.

2 H2 2013 – USD 95m impact to loadings & fees relates to a revision to reserve estimates in the UK. The USD 119m impact to deferrals includes impacts from the closure of Agency distribution in Hong Kong and a change in regulation in the UK ("PS 13/1") which led to revised lapse assumptions.

3 H1 2014 – technical margin includes impacts from a transfer of annuity portfolio to Non-Core Business segment & a German law change ("LVRG"). Operating costs includes a positive policyholder tax item in the UK and an IAS 19 pension charge benefit in Switzerland, partly offset by software impairments in North America & Other Region. Actuarial model changes in Germany positively impacted acquisition costs and technical margin.

4 Adjusted for the impact of German discretionary dividends.

Total margins by region

As reported and adjusted for distorting impacts

USDm	As reported			Adjusted		
Total Global Life	2013	2014	Delta	2013	2014	Delta
UL fund based fees	805	886	10%	805	886	10%
Premium & Other loadings	3,376	3,449	2%	3,281	3,449	5%
Investment margin	557	541	-3%	557	540	-3%
Technical margin	1,199	1,159	-3%	1,199	1,243	4%
Operating costs	-1,733	-1,901	-10%	-1,733	-1,937	-12%
Acquisition costs	-3,234	-3,309	-2%	-3,234	-3,340	-3%
Impact of deferrals	301	447	48%	394	451	14%
Total BOP	1,272	1,273	0%	1,270	1,291	2%
North America	2013	2014	Delta	2013	2014	Delta
UL fund based fees	1	1	12%	1	1	12%
Premium & Other loadings	356	401	13%	356	401	13%
Investment margin	47	44	-7%	47	44	-7%
Technical margin	79	43	-45%	79	100	26%
Operating costs	-128	-150	-17%	-128	-139	-9%
Acquisition costs	-326	-372	-14%	-326	-372	-14%
Impact of deferrals	143	173	21%	143	173	21%
Total BOP	173	141	-18%	173	208	21%
Latin America	2013	2014	Delta	2013	2014	Delta
UL fund based fees	32	32	-2%	32	32	-2%
Premium & Other loadings	769	812	6%	769	812	6%
Investment margin	106	130	23%	106	130	23%
Technical margin	257	242	-6%	257	242	-6%
Operating costs	-259	-256	1%	-259	-256	1%
Acquisition costs	-779	-755	3%	-779	-755	3%
Impact of deferrals	119	17	-85%	119	17	-85%
Total BOP	245	222	-9%	245	222	-9%

USDm	As reported			Adjusted		
Europe	2013	2014	Delta	2013	2014	Delta
UL fund based fees	615	684	11%	615	684	11%
Premium & Other loadings	1,712	1,609	-6%	1,617	1,609	0%
Investment margin	340	302	-11%	340	301	-11%
Technical margin	645	656	2%	645	684	6%
Operating costs	-962	-1,033	-7%	-962	-1,094	-14%
Acquisition costs	-1,461	-1,460	0%	-1,461	-1,491	-2%
Impact of deferrals	-110	83	-175%	-21	87	-507%
Total BOP	778	841	8%	772	779	1%
APME	2013	2014	Delta	2013	2014	Delta
UL fund based fees	148	160	8%	148	160	8%
Premium & Other loadings	328	363	11%	328	363	11%
Investment margin	55	59	6%	55	59	6%
Technical margin	139	146	6%	139	146	6%
Operating costs	-256	-278	-9%	-256	-278	-9%
Acquisition costs	-481	-493	-3%	-481	-493	-3%
Impact of deferrals	149	174	17%	153	174	14%
Total BOP	83	131	59%	87	131	51%
Other	2013	2014	Delta	2013	2014	Delta
UL fund based fees	8	9	12%	8	9	12%
Premium & Other loadings	211	263	24%	211	263	24%
Investment margin	9	7	-25%	9	7	-25%
Technical margin	80	72	-11%	80	72	-11%
Operating costs	-128	-184	-44%	-128	-170	-33%
Acquisition costs	-187	-229	-22%	-187	-229	-22%
Impact of deferrals	0	0	NM	0	0	NM
Total BOP	-7	-63	NM	-7	-49	NM

Movements from 2013 to 2014

Commentary on key variances

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ADJUSTED MARGIN MOVEMENTS

Business Operating Profit [1]	2013	2014	Change
UL fund based fees	805	886	10%
Premium & Other loadings	3,281	3,449	5%
Investment margin	557	540	-3%
Technical margin	1,199	1,243	4%
Operating costs	-1,733	-1,937	-12%
Acquisition costs	-3,234	-3,340	-3%
Impact of deferrals	394	451	14%
Total BOP excluding impacts	1,270	1,291	2%

KPIs	2013	2014	Change [2]
UL fund based fees	0.67%	0.70%	0.03
Other loadings	13%	12%	-1
Investment margin [3]	0.77%	0.75%	-0.02
Acquisition costs	82%	72%	-10
Operating costs	0.82%	0.90%	0.08

1 BOP and margins exclude distorting impacts (see previous slide)
2 Change in percentage points
3 Adjusted for the impact of Germany discretionary dividends

COMMENTARY

UL fund based fees

- 10% growth in fund based fees driven by growth in UL AuM in Europe, particularly in Ireland. KPI improvement driven by currency impacts in Europe (different FX rates for revenue account and balance sheets).

Premium & Other loadings

- Moderate growth in most regions. Increase in single premiums reduces overall KPIs, particularly North America and Europe.

Investment margin

- 3% drop driven by spread compression in the US and Germany partly offset by improving margin in APME and Latin America. The net reduction also impacts the KPI.

Technical margin

- 4% increase mainly driven by increased volumes in Zurich Santander and most regions plus positive claims experience in North America. This was partly offset by negative impacts in Latin America from expiration of a material contract, claims experience and FX devaluation.

Operating costs

- Operating costs increased 12% including investments in priority markets, & in-force management (4%), reclassifications from acquisition costs (2%), non recurring impacts vs 2013 (3%) and underlying increases (3%).

Acquisition costs

- Acquisition costs increasing more slowly than APE reducing the KPI. This was due to a reclassification to operating costs, influence of the UK (where a lower proportion of APE is subject to commission) and a USD 70m renewal commission in 2013 in Latin America, not repeated in 2014.

Impact of deferrals

- Deferral impacts improved by 14% due mainly to DAC true-ups.

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