Global Life

Source of earnings – Briefing document

Background and main changes to approach

ZURICH

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 change from the previous 'profit by source' (PxS) approach?

- The sources of profit remain unchanged, however, simplifying the disclosure while splitting out revenues and expenses will make it easier to follow the drivers of earnings in the life business while providing a clearer link with our product strategy and allowing for more meaningful and comparable KPI to measure against our peers.

What are the main changes from the profit by source?

- We have extended the scope so that all Life business units report in the new format, particularly, Zurich Santander, which has a material contribution to our results. Previously some businesses were reported in 'other profit margins'. Consequently there is no 'other profit margins' in the new approach.
- The most significant change has been to the way we present fee income and expenses. Previously the 'net expense margin' represented unit-linked and premium based fees net of operating and acquisition costs. We have now split out the revenues and expenses.
- Special operating items, previously representing material non-recurring items, has been removed. We will, however, make reference to any significant items that distort the KPIs.

Background and main changes to approach

ZURICH

SOURCE OF EARNINGS

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. We will continue to make improvements to how we report our Life results in 2015.

Where are ZZR and related impacts shown e.g. the discretionary participation?

- The ZZR is a German regulatory requirement only, funded out of the local statutory investment margin, and is reversed for IFRS reporting. However, the local statutory investment margin is used to fund policy dividends, and the strain created by the ZZR requirement reduces the amount available for current dividends. Our German operation partly compensates for this strain by making a discretionary allocation out of shareholder margin. For presentation purposes we include the discretionary shareholder funding in the investment margin and disclose the amount separately.

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. No explicit adjustment will be made for these but will be noted where relevant.

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)

KPIs	H1-13	H2-13	H1-14	DESCRIPTION
UL fund based fees **Av. UL AUM**	0.71%	0.70%	0.70%	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%	12%	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 – an example being the RDR in the UK.

Key performance indicators

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

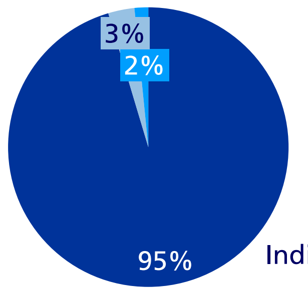
KPIs	H1-13	H2-13	H1-14	DESCRIPTION
Investment margin **Av. NL reserves**	0.86%	0.81%	0.84%	Interpretation • The investment margin mostly comprises spread return on assets backing non linked policyholder reserves. The discretionary policyholder allocation in Germany is excluded from the KPI to allow better comparability. Development • Spread compression between asset returns and policyholder guarantees has been negatively impacting the investment margin over the last few years, with a somewhat flattening out in recent periods. Sensitivities • Mainly to asset returns vs. guarantee levels
Acquisition costs **APE**	85%	80%	75%	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 like retail protection. Sensitivities • Mainly to business mix changes & related acquisition costs.
Operating costs **Total reserves**	0.86%	0.86%	0.81%	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 life cycle of the business.

Analysis by region

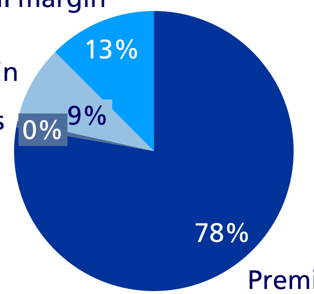
North America

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



KPIs & OVERVIEW

KPIs	HY-13	HY-14	As a % of
UL fund based fees	0.2%	0.2%	Average UL AuM
Other loadings	29%	23%	GWP & Deposits
Investment margin	1.0%	0.7%	Average NL reserves
Acquisition costs	190%	192%	APE
Operating costs	2.1%	2.4%	Average reserves

- 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 & 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 vs APE due to commission strain
- Operating costs – increase reflecting the start-up costs of the IFA business

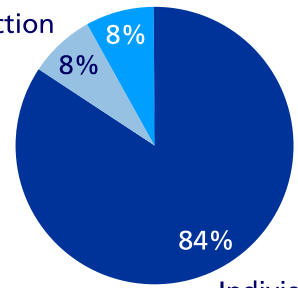
Note: HY 2014 figures used in the new business value and sources of earnings charts

Analysis by region

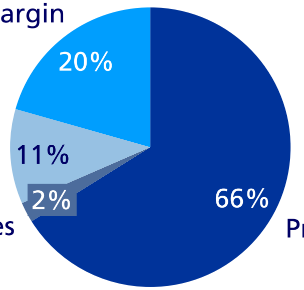
Latin America

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



KPIs & OVERVIEW

KPIs	HY-13	HY-14	As a % of
UL fund based fees	0.6%	0.6%	Average UL AuM
Other loadings	23%	25%	GWP & Deposits
Investment margin	2.5%	3.4%	Average NL reserves
Acquisition costs	102%	88%	APE
Operating costs	2.7%	2.6%	Average reserves

- 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 vs. other regions.
- Acquisition costs – higher commission rates from the strong focus on protection lead to a relatively high ratio. 2013 included a particularly large renewal contract with a higher than average commission. 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: HY 2014 figures used in the new business value and sources of earnings charts

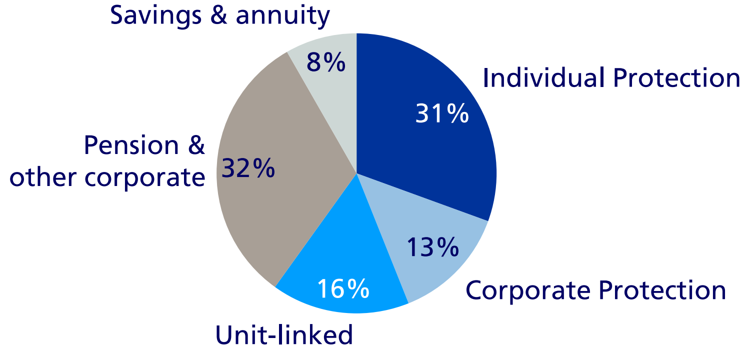
Analysis by region

Europe

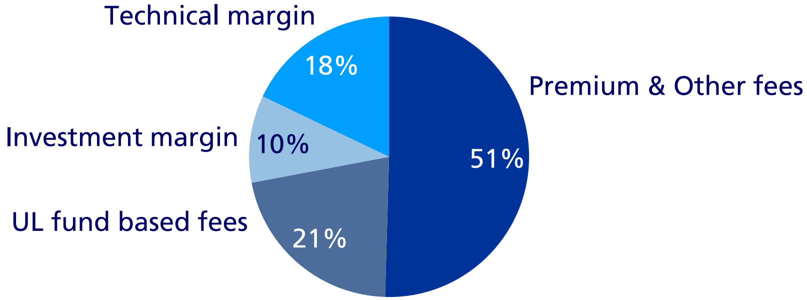
ZURICH

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



KPIs & OVERVIEW

KPIs	HY-13	HY-14	As a % of
UL fund based fees	0.7%	0.6%	Average UL AuM
Other loadings	10%	9%	GWP & Deposits
Investment margin	0.7%	0.7%	Average NL reserves
Acquisition costs	70%	53%	APE
Operating costs	0.6%	0.5%	Average reserves

- 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 new business through IFA/Brokers in retail protection and UL. 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
- 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

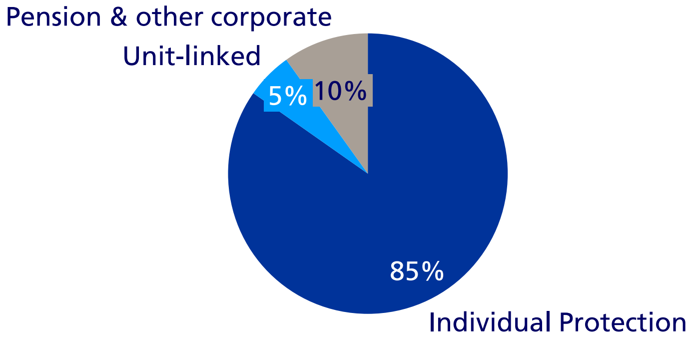
Note: HY 2014 figures used in the new business value and sources of earnings charts

Analysis by region

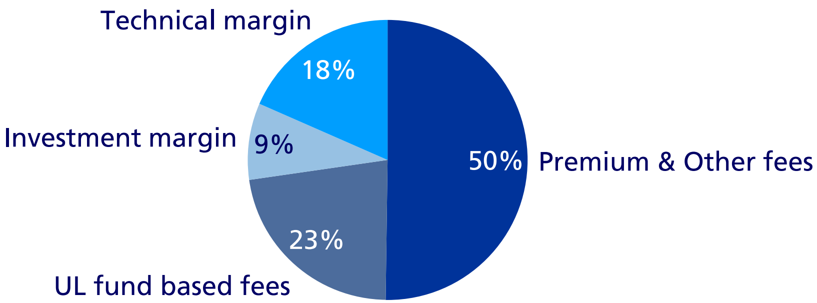
APME

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



KPIs & OVERVIEW

KPIs	HY-13	HY-14	As a % of
UL fund based fees	1.4%	1.3%	Average UL AuM
Other loadings	13%	14%	GWP & Deposits
Investment margin	2.1%	2.1%	Average NL reserves
Acquisition costs	90%	90%	APE
Operating costs	1.8%	1.8%	Average reserves

- 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 – higher front end fees to cover commissions 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 higher than average KPI s due to scale and investing in building the business

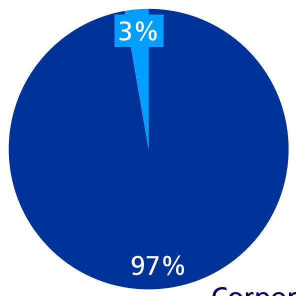
Note: HY 2014 figures used in the new business value and sources of earnings charts

Analysis by region

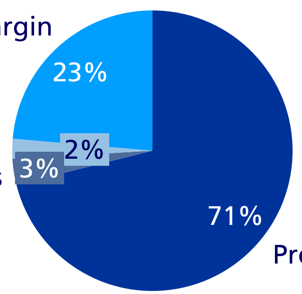
Other

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:

- Zurich International Group Risk Solutions which writes high margin international corporate protection and pooling business
- The Luxembourg operation which is focused on Private Banking Client Solutions which is high volume low margin business, although 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 expenses are relatively stable however there can be more variation in the level and timing of recharges. The recharges net out in total across all regions, however variation in recharges can create volatility in the Other region due to the relatively small BOP result for the region
- 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 the KPIs are not meaningful and are therefore not presented.

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

Appendix

Key performance indicators

Key financial data used in the calculations

USDm

Total Global Life	H1-13	H2-13	H1-14
Average total unit-linked AuM	111,213	116,838	125,965
Average total reserves	201,843	208,055	220,815
Average non-linked reserves	90,040	90,862	94,409
GWP & Deposits	11,956	12,802	13,142
APE	1,858	2,096	2,101
North America	**H1-13**	**H2-13**	**H1-14**
Average total unit-linked AuM	645	697	782
Average total reserves	6,392	6,527	6,492
Average non-linked reserves	5,353	5,436	5,435
GWP & Deposits	568	554	743
APE	81	80	104
Latin America	**H1-13**	**H2-13**	**H1-14**
Average total unit-linked AuM	5,439	5,340	5,651
Average total reserves	9,623	9,536	9,944
Average non-linked reserves	3,995	4,058	4,166
GWP & Deposits	1,633	1,768	1,552
APE	384	392	400

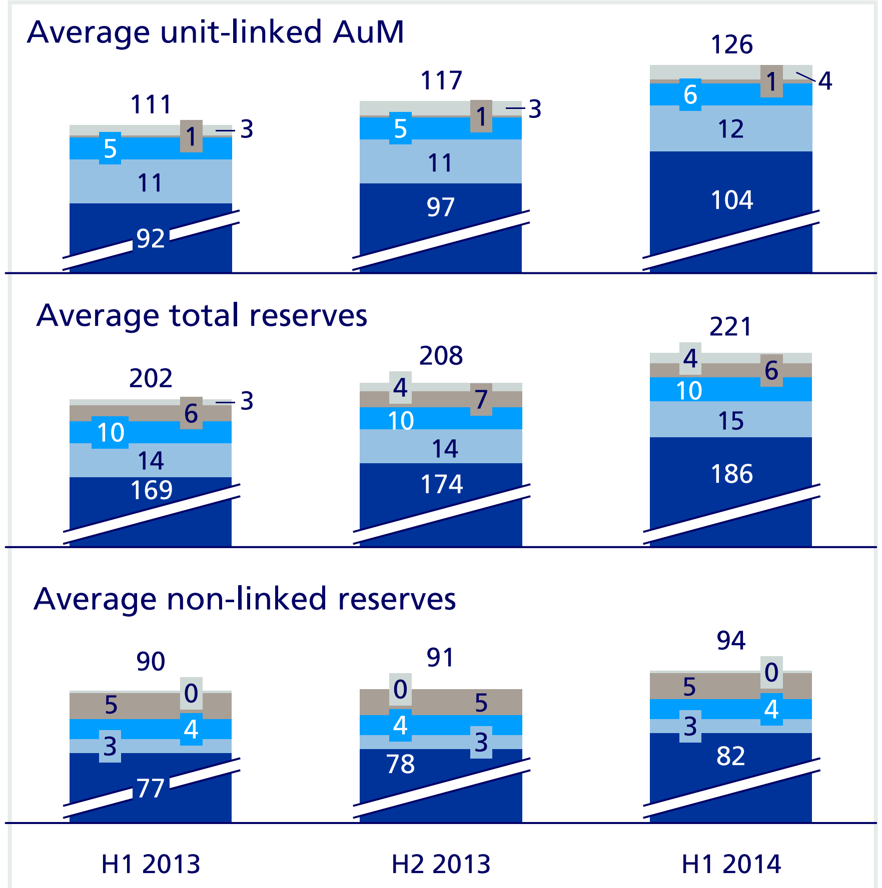
USDm

Europe	H1-13	H2-13	H1-14
Average total unit-linked AuM	91,669	96,579	104,328
Average total reserves	168,716	174,205	185,523
Average non-linked reserves	77,418	78,151	81,506
GWP & Deposits	7,919	8,704	9,362
APE	1,020	1,294	1,314
APME	**H1-13**	**H2-13**	**H1-14**
Average total unit-linked AuM	10,742	11,038	11,689
Average total reserves	14,115	14,285	14,943
Average non-linked reserves	2,977	2,890	2,903
GWP & Deposits	1,302	1,291	1,252
APE	271	259	241
Other	**H1-13**	**H2-13**	**H1-14**
Average total unit-linked AuM	2,718	3,185	3,515
Average total reserves	2,993	3,503	3,913
Average non-linked reserves	294	327	399
GWP & Deposits	572	558	303
APE	102	71	42

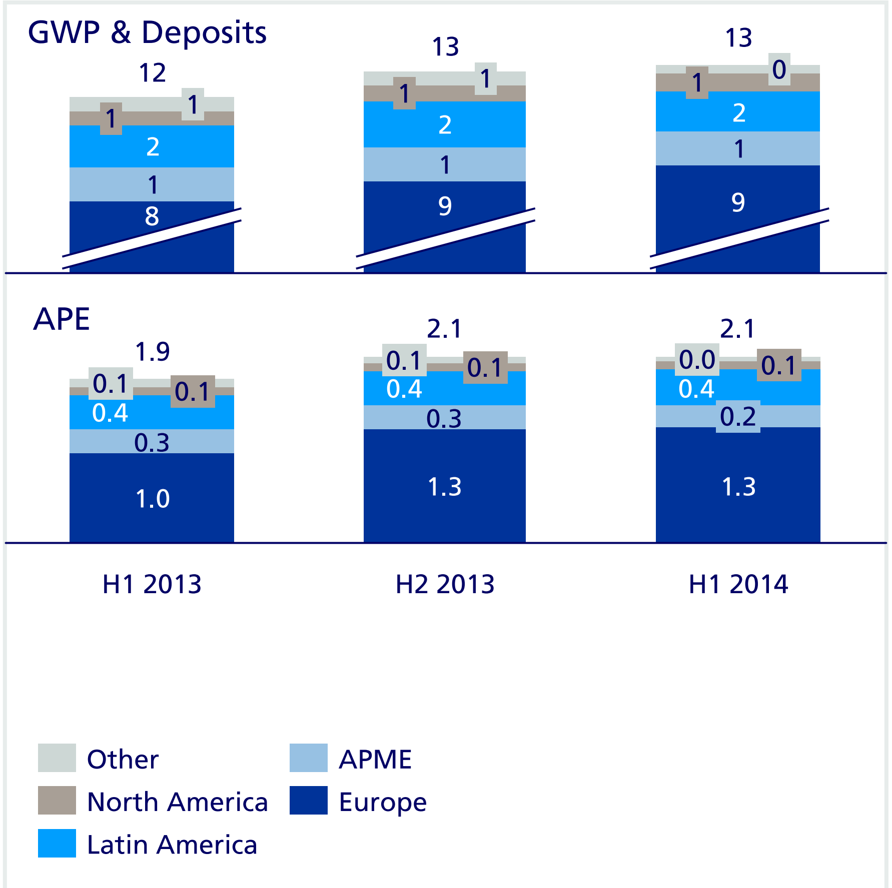
Key performance indicators

Key financial data used in the calculations

USD bn



USD bn



Historical margins & KPIs

Highlighting distorting impacts

ZURICH

MARGIN HISTORY

Business Operating Profit	H1-13	H2-13	H1-14
UL fund based fees	395	410	438
Premium & Other loadings	1,614	1,755	1,640
Investment margin	275	269	296
Technical margin	609	678	567
Operating costs	-873	-897	-899
Acquisition costs	-1,583	-1,682	-1,572
Impact of deferrals	221	81	163
Total BOP	659	612	634

IMPACTS

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

ADJUSTED MARGIN

H1-13	H2-13	H1-14
395	410	438
1,614	1,660	1,640
275	269	295
609	678	651
-873	-897	-935
-1,583	-1,682	-1,603
195	200	166
633	636	653

KPIs	H1-13	H2-13	H1-14
UL fund based fees	0.71%	0.70%	0.70%
Other loadings	13%	13%	12%
Investment margin [4]	0.86%	0.81%	0.84%
Acquisition costs	85%	80%	75%
Operating costs	0.86%	0.86%	0.81%

H1-13	H2-13	H1-14
0.71%	0.70%	0.70%
13%	13%	12%
0.86%	0.81%	0.84%
85%	80%	76%
0.86%	0.86%	0.85%

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.

Movements from H1-13 to H1-14

Commentary on key variances

ADJUSTED MARGIN MOVEMENTS

Business Operating Profit	H1-13	H1-14	Change
UL fund based fees	395	438	11%
Premium & Other loadings	1,614	1,640	2%
Investment margin	275	295	7%
Technical margin	609	651	7%
Operating costs	-873	-935	-7%
Acquisition costs	-1,583	-1,603	-1%
Impact of deferrals	195	166	-15%
Total BOP	633	653	3%

KPIs	H1-13	H1-14	Change[1]
UL fund based fees	0.71%	0.70%	-0.01
Other loadings	13%	12%	-1
Investment margin[2]	0.86%	0.84%	-0.02
Acquisition costs	85%	76%	-9
Operating costs	0.86%	0.85%	-0.01

1 Change in percentage points
2 Adjusted for the impact of Germany discretionary dividends

COMMENTARY

UL fund based fees

- 11% growth in fund based fees driven by growth in UL AuM in Europe, particularly in Ireland. Growth in CLP slightly reducing the KPI.

Premium & Other loadings

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

Investment margin

- 2% increase, after adjusting for discretionary dividends in Germany, driven by higher returns in LatAm, partially offset by spread compression in US and higher participation in Switzerland.

Technical margin

- 7% increase mainly driven by increased volumes in Zurich Santander, combined with higher volumes and positive claims experience in North America.

Operating costs

- Operating costs increased 7% reflecting investments in priority markets and some volatility from unallocated policyholder tax impacts in Germany.

Acquisition costs

- Acquisition costs mainly tracking APE except the UK, where a lower proportion of APE is subject to commission, and ZS Brazil which included a USD 70m renewal commission in H1-13, not repeated in H1-14.

Impact of deferrals

- Deferral impacts reduce 15% despite an increase in acquisition expenses due to DAC true-ups (UK & GER) and higher amortization in Zurich Santander (relatively short term business so amortization emerges relatively quickly)