

Comments on Q4 results

Slide 4: Key financials

Zurich's results for 2015 are very disappointing. While it is important to understand the starting point for 2016, the focus is on making sure that all necessary steps are taken to return the group to the required level of profitability as soon as possible.

The issues are concentrated in the General Insurance business, mainly in Global Corporate. General insurance has a full year combined ratio of 104% and this is principally due to a very high level of large individual losses, which were around 4 percentage points higher than expected.

As a result of the issues within General Insurance, earnings were well short of prior year levels and the Business Operating Profit after tax return on equity of 6% was a long way below the target range of 12-14%.

Actions are underway under a new team to address the challenges within the GI business, with positive early indications from 1 January renewals, and the group is very confident that results will be much improved in 2016.

Global Life has achieved good growth in new business value and Business Operating Profit while also taking further actions in freeing up capital from manage for value operations. At the Farmers Exchanges, which are owned by their policyholders, 6 consecutive quarters of top-line growth and positive trends in other key metrics show that strategic execution is on track.

In terms of capital, the Z-ECM ratio is comfortably in the upper half of the target range as of 30 September, and Zurich is in a very strong position under key regulatory and rating capital models. In addition, cash remittances in 2015 were ahead of run rate expectations despite the lower earnings, and are expected to exceed \$10bn for the 2014 to 2016 period, ahead of target.

Slide 5: Report card – Group

Progress has been made in executing the group's strategy in a number of key areas.

In terms of investing in priority markets, the life business has continued to show good momentum in Bancassurance and Corporate Life and Pensions. General Insurance continues to make investments in data and analytics capabilities, and to transform its retail customer propositions in adapting to an 'omni channel' world. Technology will play a key role in shaping the future of the insurance industry in the next five years, and Zurich is making the investments to be at the forefront of this change.

During the year actions were taken to improve the group's footprint. This included exits of some markets, for example, putting Singapore life into run-off, as well as additions of new capabilities through bolt-on acquisitions, such as Rural Community Insurance Services, a leading US crop insurer. This acquisition is still subject to regulatory approval but is expected to be completed in the first half of 2016.

Results for some turnaround businesses improved considerably and Farmers continues to show momentum across all areas of its transformation program.

Steps have started to be taken to overhaul efficiency, and Zurich has set a target of reducing expenses by at least \$1bn by the end of 2018. This will be achieved through applying new technology and lean processes as well as offshoring and near-shoring certain activities. We estimate that as a result of these measures, around 8,000 roles across Zurich will be affected over the next three years.

The key priorities for 2016 will be turning around the performance of the General Insurance business, and continuing actions to position the group for 2017 and beyond, including enhancing efficiency and the group's footprint.

Slide 6: Report card – General Insurance

2015 was a disappointing year for General Insurance. In particular, results for Q3 and Q4 were impacted by a very high level of large individual losses, with Q3 also impacted by reserve charges in North America relating to commercial auto liability and a sub-portfolio of construction liability business.

These charges led to a sharp decline in the earnings of a number of priority businesses, in particular Global Corporate and some European operations.

The new General Insurance leadership team have identified the root causes of recent problems and have a comprehensive action plan under way across all aspects of the business. These actions will help GI to get back on track in 2016 and to reduce the volatility that has impacted the results in recent quarters.

At the same time there has been positive momentum in the business across each of the three strategic cornerstones, including investments in data and analytics, the return to profitability of the GI South Africa business and exits from a number of peripheral markets as the process of improving our footprint starts. More action is needed, but GI has made progress in some important areas.

While the 2015 financial performance of Global Corporate is not acceptable, its franchise and capabilities are second to none. This business of course remains a key priority for Zurich, but it needs to deliver profitability in line with its market leading proposition to customers.

Across the General Insurance business, Zurich has the brand, the people, the platforms and the resources to achieve top-tier performance, and the actions under way will help to achieve this.

Slide 7: Report card – Global Life

Global Life has delivered on expectations in 2015, despite market headwinds and the challenges of a low yield environment.

An increase in new business value of 7% in local currency is due to success in bank joint ventures as well as investments in a number of developed markets, such as Corporate Life and Pensions in the UK.

Business Operating Profit increased by 16% in local currency despite lower investment returns and other market headwinds. While this is partly due to one-off factors, bank joint ventures continue to show steady growth, and GL has already achieved its 2016 goal of a run rate increase in BOP of more than \$80m from in-force management initiatives.

Further, structural actions such as the sale of a block of UK annuities to Rothesay Life and the disposal of Seven Investment Management helped the life business generate cash remittances of \$900m, well above expectations for the second year in a row.

While the external environment remains a challenge the life business has a clear set of priorities and further progress is expected in 2016.

Slide 8: Report card – Farmers Exchanges

There has also been very good progress in the execution of Farmers Exchanges' strategy, evident in a continued improvement in customer satisfaction as measured by the Net Promoter Score, and an increase in customer retention. The Farmers Exchanges also saw continued growth in the size of the exclusive agency network, with the number of agents increasing by around 300 to over 13,500.

There were challenges in 2015 as well, with an increase in auto claims costs putting pressure on the combined ratios of Farmers Exchanges and Farmers Re. While many competitors see similar claims trends and are taking corrective pricing actions, a focus on restoring profitability of the auto business has contributed to a slowdown in new business growth. In addition, in accelerating the strategic direction set at the end of 2013, the Farmers Exchanges took the decision to put the 21st Century

business outside of California and Hawaii into run-off, by stopping all new business under the 21st Century brand and offering existing policyholders other Farmers policies.

The continued progress at Farmers Exchanges is encouraging, and the team has done an excellent job of restoring momentum to the business in the last two years.

Slide 10: Group – Business Operating Profit

Zurich has reported Business Operating Profit of \$2.9bn and Net Income Attributable to Shareholders of \$1.8bn for 2015.

The weak performance from the General Insurance business has led to the group reporting sharply lower earnings in comparison to the prior year.

Other Operating Businesses BOP expense of \$720m has benefitted from lower interest costs and from several one-off positive factors, including currency gains in the first half of 2015. While marketing and other costs increased in Q4 as expected, this was more than offset by some one-off factors.

Non-Core Businesses had a BOP result of \$51m for the year, with gains related to the commutation of a General Insurance run-off portfolio and successful in-force management activities in a closed Life book partially offset by the strengthening of APH reserves.

Looking at the reconciliation of operating profit to net income, capital gains realizations for the year were \$887m and \$75m for Q4. For the full year this breaks down as roughly \$380m on fixed income and \$500m on equities. In Q4 we saw a lower level of gains, driven by some derivative losses and lower realizations.

Accounting and restructuring charges for 2015 amounted to \$865m. Results for Q4 included \$474m of restructuring costs, of which roughly \$220m related to the initiatives announced at the Investor Day in May 2015. The remainder related to actions taken following conclusion of the GI review as well as further local initiatives. Q4 charges also included \$232m for the write-off of the remaining German Life goodwill related to the acquisition of Deutsche Herold, reflecting the ongoing challenge of low interest rates.

The 2015 shareholders' effective tax rate increased to 36.6%. The increase in the fourth quarter is primarily driven by the fact that the write-down of goodwill in Germany and certain accounting and restructuring charges are not tax deductible, as well as a write-off of deferred tax assets and other factors, such as mix of earnings. Given the likely transitional nature of this year for GI, as well as

possible further accounting and restructuring charges, we expect the tax rate in 2016 will be some 2-3 percentage points higher than the previous run rate level of 25%.

Slide 11: General Insurance – Topline

For the full year 2015 gross written premiums grew by 3% in local currency and were down 6% in US dollars. In Q4 the top-line was flat in local currency and down 7% in US dollars, driven by some one-off items in EMEA and a small decline in the Global Corporate business.

Rate increases on renewal business remained stable at 2% for Q4, with an overall consistent picture compared to prior quarters.

Global Corporate's gross premiums were flat in local currency for the year, with a 2% decline in Q4 as a result of reshaping actions in a number of portfolios.

For North America Commercial, gross premiums were up 7% for the year with continued execution of strategic initiatives, including strong growth in captives. Excluding the latter, growth for the year was around 3%.

Gross premiums for EMEA were flat in local currency for the full year on a like for like basis. The same is true for Q4 2015 once adjusted for some one-off items such as the exit of personal lines in the Netherlands and a change in gross written premium accounting for multi-year contracts in Germany.

In International Markets premiums for the full year increased by roughly 9% in local currency, mainly due to the extended warranty distribution agreement in Brazil and inflation in Venezuela. In the Asia Pacific region, a decline in premiums in Australia was partly offset by continuing solid growth in Japan and Hong Kong.

Slide 12: General Insurance – Combined ratio

GI's combined ratio of 108.6% for Q4 discrete is 9.3 percentage points higher than in Q4 2014 and 6.7 percentage points higher than in the first nine months of 2015. The increase in Q4 compared to the rest of the year is mainly due to higher natural catastrophe claims and a further increase in large losses, each contributing roughly 3 percentage points. The Q4 expense ratio is up by roughly 1 percentage point, driven by a catch-up in general expenses and some non-recurring items.

The combined ratio for full year 2015 is 103.6%, 6.7 percentage points higher than in 2014. The main item here is the significant increase in large losses which added around 3.5 percentage points to the combined ratio, including claims from the Tianjin port explosions. The balance of the increase is due to

a more normal level of catastrophe claims compared to a light year in 2014, lower prior year reserve development and a higher expense ratio, in roughly equal measure.

Looking into these changes in more detail, the increase in large losses is principally an issue within the Global Corporate business, which experienced a higher level of large individual property and liability claims. In addition, the personal and commercial lines operations in EMEA were impacted by more and higher large losses, mainly in the UK and Germany.

In terms of other key components of the accident year ex-cat combined ratio, the attritional loss ratio remained essentially flat overall, with improvement in Global Corporate and International Markets offset by a higher attritional loss ratio in NAC. The increase in NAC is due to higher severity in liability and frequency in the motor book, partially offset by a better crop result.

The expense ratio of 31.7% increased by 1.2 percentage points compared to 2014. Commissions were up 0.3 percentage points driven by the extended warranty business in Brazil and some further mix shifts in NAC. The rest of the uptick was driven in equal parts by an increase in premium taxes mainly in North America and other increases such as investments and higher management expenses, but also due to some favorable non-recurring items in 2014.

The impact from natural catastrophes and other weather events was 3.5 percentage points for 2015, higher than in 2014 but in line with expectations.

The roughly zero contribution from prior year reserves was 1 percentage point lower than in 2014 and is below the expected positive PYD result of 1-2%. The main reason for this is the charges in Q3 in North America on commercial auto liability and a sub-portfolio of the construction liability business. The fourth quarter saw a return to a positive contribution, and was in line with the 1-2% expectation, adjusting for a one-off item relating to the discount rate applied to certain annuity reserves and expected claims associated with the positive impact of prior year premiums.

More information on prior year reserve movements is provided in the appendix. GI continues to have a robust and conservative reserving process which is well established throughout the organization and supported by different regular internal and external reviews, and there is no need to the change previous guidance on prior year development.

In terms of performance by region, Global Corporate is the key contributor to the poor results in 2015, mainly driven by a substantial increase in large claims and a much higher level of losses related to prior year.

NAC's combined ratio is almost 2% higher than in the previous year due to a higher attritional loss ratio, mainly a result of commercial motor and liability.

UK floods and large losses in Germany and UK added roughly 4.5 points to the EMEA combined ratio.

And in International Markets, improvement in the attritional loss ratio, a more benign year for natural catastrophe losses and a positive result from prior year reserves development were offset by further turnaround actions in Brazil.

Slide 13: General Insurance – BOP components

The decline in the GI underwriting result is reflected in the increase of the combined ratio of almost 7 percentage points.

Investment income declined by \$147m on a reported basis but is slightly up compared to last year in local currency. In Q4 investment income was up 8% in local currency mainly due to continued implementation of the illiquid assets strategy.

Hedge fund investments had a flat quarter after losses of \$60m in Q3. For the year the result was down by almost \$90m compared to the previous year due to volatile equity markets.

For the full year the non-technical result is unfavorable to BOP by roughly \$30m and \$83m better than the previous year. The result in 2015 includes a currency gain of \$73m and some other smaller positive items throughout the year. Excluding these items, non-technical expenses would be within the given run-rate expense of \$40m to \$50m per quarter.

Slide 14: General Insurance – Status Update

Clearly, GI results in the second half of 2015 have fallen far short of what was expected. Some of this is due to likely one-off items, but there are a number of other factors relevant to the results, with some of the key ones explained below.

First, while GI saw good growth in some of its priority markets, such as NAC, the push for growth in other areas was not supported by the market. For example Global Corporate in North America grew in the first nine months during a period of market softening and declining rates across all lines of business, with the exception of Motor.

Second, there was insufficient underwriting discipline in some areas of the business. For example in Global Corporate, issues with accumulation management were identified and going forward GI will need to better account for the interconnectivity of risks.

And third, the reaction to emerging trends such as the increase in large losses was too slow. A thorough review of large losses is ongoing and as a first countermeasure, the group has purchased additional reinsurance to better manage large loss volatility. Realistic targets for the business units have been set to drive the right behaviors, with reduced growth plans where necessary to ensure realization of planned loss ratio improvements through tightened underwriting discipline.

Slide 15: General Insurance – Focus in 2016

In the second half of 2015, following the appointment of new members in the GI management team, a detailed review was performed leading to the identification of a comprehensive set of actions, centering around four themes – restoring technical excellence, footprint and portfolio review, reinsurance use and acceleration of the expense program. While the actions under way will take time to materialize in quarterly numbers, actions have been taken in several areas.

With respect to technical excellence, GI has intensified efforts to closely measure progress by implementing an enhanced performance management framework and setting more realistic plan assumptions and focus on the right metrics for the right function and role. All of this should drive a greater level of accountability and joint responsibility for delivering the plan.

The review of the key priority portfolios is ongoing as reshaping these should provide relatively quick improvements. In the Global Corporate business initial signs from execution on tiering and renewal plans are encouraging. In Global Corporate's EMEA business rate increases as of 1 January are positive, with pricing for the worst performing tiers 5-10 percentage points up over last year and retention reduced in the bottom tiers. In Global Corporate's North America business, rate increases were achieved in motor and property despite an increasingly competitive market environment.

GI has also purchased additional reinsurance cover. To reduce the risk in more volatile books, quota share arrangements were implemented, for example, in Global Corporate's North American property book. In addition, a per risk aggregate cover was purchased to provide higher protection for high frequency of large losses. Further areas for increased use of reinsurance are being reviewed.

In terms of the acceleration of the expense program, GI has kicked off a number of actions in the second half of 2015 across Global Corporate, the UK, Germany, Australia and in the GI management layer aimed at transforming how the business operates in order to achieve further savings. Most of the actions have already been executed in December 2015. While GI expects to see some of these impacts come through in Q1, impact on overall profitability will ramp up over the course of 2016.

And lastly, during the course of the fourth quarter the exit of different businesses was announced which amounted to roughly \$400m in gross written premium. These include the transportation book in

the North America Global Corporate business as well as boiler and machinery business. In the Middle East personal and commercial lines were exited. In December Zurich Australia announced its plan to put compulsory third party insurance in motor commercial in New South Wales into run-off from 1 March 2016.

These are a few examples of actions taken and GI expects to continue to review its portfolio and footprint as part of Zurich's key objective for 2016 of putting this business back on track.

Slide 16: Global Life – New business

Global Life new business APE volumes for the full year 2015 increased 7% in local currency compared to 2014, driven by good performance in most regions.

EMEA increased local currency new business volumes by 6%, with growth in most countries, primarily driven by individual savings volumes in Italy and Banco Sabadell, and Corporate Life and Pensions growth in Switzerland.

Asia Pacific saw a year of strong sales of protection business in Japan, with local currency volumes increasing 44% over the prior year for the region. Latin America volumes in local currency increased by 9%, due to good performance at Zurich Santander. And while North America experienced positive volumes in the Farmers New World Life business, a decrease in the Zurich branded business, driven by lower IFA sales, led to an overall 14% reduction in APE for the region.

Analyzed by pillar, Bank Distribution businesses delivered double digit growth, increasing 16% year on year, while Retail volumes were up 6% in local currency. Corporate Life and Pensions sales were flat compared to the prior year as double digit growth leading into Q4 was muted by volumes that were below the exceptional level of the prior year quarter.

New business value increased 7% in local currency year on year, in-line with volume growth, supported by strong individual protection sales in Japan and Zurich Santander, and higher margins on Corporate Life and Pensions sales in EMEA. Compared to Q3 new business value was 7% higher in local currencies, mainly due to improved retail sales and higher Corporate Life and Pensions margins outpacing lower volumes.

And finally, net inflows were positive for the year, primarily driven by increased sales in EMEA.

Slide 17: Global Life – BOP by region

Global Life Business Operating Profit increased 16% in local currency, or 2% compared to the prior year period in dollars, to \$1.3bn. This is a strong result in a challenging environment.

In EMEA, earnings decreased by 3%, while local currency BOP grew by 10% with continued positive results across most countries complemented by profits stemming from the ongoing transfer of an annuity book in the UK and other in-force management initiatives in Switzerland and Germany.

In Latin America Zurich Santander earnings increased by 21% in local currency, benefitting from favorable experience in Brazil, however this was impacted by weaker results from the Zurich business in the region. Taken together, the Latin America businesses grew earnings by 13% in local currency but decreased by 12% in US dollars.

And while North America reported double digit BOP growth, earnings were slightly down on a like for like basis, in part due to an individual large claim in Q3.

Slide 18: Global Life – Source of Earnings

Adjusting for various one-off factors, and as explained in the updated Sources of Earnings briefing document, revenues grew 6% in local currency in 2015. The main driver was 5% local currency growth in loadings and fees, where volumes in Zurich Santander, EMEA, and Japan supported loadings growth of 5%, while cross border unit-linked sales in Ireland contributed to fund based fees growth of 7%, despite market turbulence in the second half of the year. This growth was achieved despite offsetting factors in the UK where, in retail, higher margin in-force business is being replaced by lower margin new business, resulting in a decrease in loadings and fees.

Adjusting for one-off factors and in local currency, the investment margin increased by 6% driven by higher yields in Latin America, while EMEA was flat as growth in Italy and Spain was offset by continuing yield pressure in Germany and Switzerland. The technical margin when adjusted for one-off items grew by 7% in local currency, mainly benefitting from positive claims experience and in-force management initiatives.

Expenses increased by 5% in local currency on an adjusted basis. While operating costs increased by 7%, when viewed as a percentage of reserves the KPI is flat. Acquisition costs, excluding the impact of deferrals, increased by 3% following volume growth in most regions. This was partially offset by decreased volumes and related commissions in Zurich Latin America, as well as in North America, where there was a drop in volumes in the high commission IFA business compared to the prior year.

Taken together, and adjusting for various one-offs factors, the improvement in BOP was 8% in local currency. Further adjusting for the proceeds related to the ongoing transfer of an annuity book in the UK would result in an underlying BOP improvement of around 3% year on year.

This is a good result from the life business, where actions around in-force management initiatives and manage for value operations have shown tangible progress in 2015.

Slide 19: Farmers Exchanges – KPIs

Zurich does not own the Farmers Exchanges, but the following points are relevant to the performance of the Farmers business segment.

Premium growth in 2015 was 2.4% overall and 3.6% for continuing operations. There was some acceleration in the fourth quarter with continuing operations growing by nearly 5%.

This premium growth was largely driven by rate increases taken in Farmers Exchanges' major business lines. Auto experienced a considerable slowdown in the growth of overall vehicles-in-force in the fourth quarter reflecting these rate increases and as well as some underwriting actions.

The Farmers Exchanges' combined ratio was around 102% for the year and 107% for the quarter. This is due to deterioration in profitability of auto business, where the combined ratio was 107% for the year and around 115% for the quarter.

In auto, industry-wide unfavorable frequency and severity trends, particularly in bodily injury, continue to negatively impact results. This is particularly the case in Farmers Exchanges given that adverse claims trends are most notable in California and Texas, which account for around 50% of Farmers Exchanges' auto premiums. Q4 was impacted by prior quarter and prior year adverse development as severity increased adding some 4 points to the overall quarter ex catastrophe loss ratio.

Given that these claims trends are expected to continue, Farmers Exchanges will continue to push for more rate increases, although the benefits of this and other underwriting actions are likely to take time to be fully evident in improved auto profitability.

Despite profitability pressures, the Farmers Exchanges surplus slightly increased over the year, with the decrease in surplus ratio expected given a reduction in Quota Share reinsurance support as of the beginning of the year.

There are significant changes in the Farmers Exchanges Quota Share reinsurance support for 2016, in part due to the anticipated call of \$300m of surplus notes in 2016. Effective January 1, 2016, the Auto Physical Damage Quota Share reinsurance treaty, with premium cessions of around \$700 million in 2015, has been terminated. Meanwhile, effective December 31, 2015, the overall All Lines Quota Share reinsurance treaty participation has been increased from 14% to 20%, subject to the approval of the California Department of Insurance, although with Farmers Re's share reducing from 10% to 8% and

with a commensurately higher involvement of third party reinsurers. The changes had a small positive immediate impact on the year-end surplus ratio and in sum will result in slightly more capital support for the Farmers Exchanges in 2016.

The surplus of Farmers Reinsurance Company, which is shown on this slide but is not included in the calculation of the Farmers Exchanges surplus ratio, was significantly reduced, in line with the previously communicated intentions to redeploy this capital elsewhere in the Zurich Group.

Slide 20: Farmers – KPIs

Farmers BOP decreased by 10% largely driven by Farmers Re while Farmers Management Services continued to be a stable and reliable source of profit.

At Farmers Management Services the gross management result remained virtually unchanged with flat management fees and expenses. However, other income decreased due to the unfavorable fluctuation in the mark-to-market valuation of certain employee benefits and the gain on the sale of the former headquarter buildings in the prior year. This resulted in a decrease of Farmers Management Services BOP of 2% for 2015. In the fourth quarter BOP increased by 3% reflecting higher management fees and lower management expenses.

Farmers Re BOP declined 68%. This reflects lower premiums given the reduction of Quota Share reinsurance participation but more importantly a deterioration of the underwriting result by \$92 million. The combined ratio was around 101% for the year and 104% for the quarter, an increase of 3 percentage points and 9 percentage points, respectively. The main reasons were higher underlying losses and negative prior-year development, mainly within the auto businesses.

Termination of the Auto Physical Damage reinsurance treaty and reduced participation in the All Lines Quota Share will lead to a further significant reduction of Farmers Re's earned premiums in 2016, and thus further reduce volatility in Zurich's results.

Slide 21: Group – Balance sheet and capital

Shareholders' equity decreased by over \$3.6 billion in 2015, mainly due to a reduction in unrealized investment gains and the impact of continued strengthening of the US dollar against most major currencies.

The Z-ECM ratio dropped by 9 points to 114% in the third quarter. This is mainly due to market changes, such as lower yields and higher spreads, as well as the group's reduced earnings in the quarter.

In evaluating the overall excess capital position of the group, Zurich takes into account a number of key capital and liquidity metrics, reflecting the internal view, as well as external regulatory and rating agency capital models. At the investor day and again at the time of Q3 results Zurich quantified the level of excess capital at around \$3bn.

There have been two major influences on excess capital in Q4. First, the group's earnings are a long way short of expectations, and while some of the causes of the Q4 loss do not influence the capital position, the majority of the shortfall does have an impact. Second, Zurich committed to deploying roughly \$0.8bn in two bolt on acquisitions, of which the biggest is the acquisition of RCIS in the US.

In terms of 2016, lower GI earnings compared to previous expectations will be for the most part balanced by a small decline in exposure and capital benefits from expanded use of reinsurance.

In addition, as highlighted at the investor day, there are a number of capital levers open to the group, such as issuing hybrid debt, in line with a stated intention to slightly increase leverage, and adapting the planned capital allocation. Some of these options are factored into the evaluation of the group's current position, but there are a number of other actions that can be deployed as well.

In summary, while the group's resilience has been tested in the second half and the level of excess capital position has reduced from previously stated levels, Zurich still has a healthy buffer over what is required by AA standards, and also has considerable financial flexibility.

Slide 22: Group – Cash remittances & dividend proposal

Cash remittances of \$3.9bn for 2015 are in line with the indication given at half year, and are again well ahead of the run rate needed to achieve the cumulative \$9bn target for 2014 to 2016.

There were a number of one-off items in 2015, including \$485m in cash remittances from the Farmers Reinsurance US legal entity, accelerated cash from former banking activities in non-core and a lower OOB expense due to one-off factors.

Weaker profitability will have an impact on GI's cash remittances in 2016, but this does not change the group's overall expectation of achieving cash remittances in excess of \$10bn for the 2014 to 2016 period.

In the longer-term, underlying cash generation will fund growth and cash returns to investors. In this respect, it is important to recognize the qualities that make Zurich a highly cash generative group – in particular, the Farmers business model, and a very efficient structure, with most of the group's capital pooled in a small number of legal entities that have close proximity to the ultimate holding company.

When combined with the expected rebound in profitability in GI, and with potential benefits from Solvency II in the medium term, high and sustainable cash generation will remain as one of the group's key strengths and differentiators in comparison to some peers.

These factors, as well as an overall evaluation of the group's balance sheet and earnings outlook, underpin Zurich's current dividend policy and payout, and the Board of Directors proposes an unchanged dividend of CHF 17 per share for approval at the AGM.

Payment of this dividend would take the cumulative cash returned to investors since the start of the credit crisis to roughly \$20bn, or almost 70% of Zurich's current market cap. There are very few financial services companies that can make this claim, and while recent performance has fallen well short of expectations, the management and the Board of Directors continue to place a great deal of importance on generating an attractive and sustainable cash return to shareholders.

Slide 23: Factors influencing 2016

General Insurance has a comprehensive plan to improve profitability, focused on reducing the loss ratio in absolute terms, and also reducing volatility.

Actions under way to reinforce technical disciplines, reprice lower tier business and exit some lines of business are expected to have a significant positive impact on profitability. General Insurance has also put in place additional quota share reinsurance on some more volatile lines such as excess energy, in addition to purchasing an aggregate cover relating to large loss experience.

While the reinsurance attaches to all risks in 2016, naturally the benefits of the aggregate protection will be weighted towards the second half of the year. In addition, actions underway to improve core underwriting profitability are only likely to be fully evident in the group's earnings in Q3 and Q4. The same is also true of actions being taken around expenses.

Global Life is expected to progress further in Bank Distribution and Corporate Life and Pensions. The costs of these investments will be funded from expense savings. While continued improvement in run rate earnings is expected, the further strength of the US dollar will be likely to have a negative impact on reported earnings.

Farmers is expected to see an increase in management fees, and an overall margin of 7%. Farmers Re earnings are likely to be lower, but this is a good trade off in terms of capital deployment.

In terms of improving efficiency, Zurich remains committed to achieving cost savings of more than \$300m in 2016 and at least \$1bn by the end of 2018. This will likely lead to higher restructuring costs in

2016 and 2017 than previously indicated. Zurich also expects to incur further charges at a local level as steps are taken to improve the geographic footprint, and a further update will be provided with Q1 results.

Slide 24: Key messages

The last 12 months has brought many challenges to the group, and there is a lot to do to restore confidence and to get the General Insurance business back on track.

The group expects to see the benefits of the comprehensive action plan now being implemented emerge progressively over the course of the year, and remains optimistic that a very significant improvement in the combined ratio can be achieved in 2016, subject to natural catastrophe losses. Nonetheless, based on current expectations, it is unlikely that Zurich will be able to achieve a Business Operating Profit after-tax return on equity within the target range of 12-14%.

Global Life and Farmers – which account for roughly half the group – are performing in line with expectations and are showing good strategic progress as well.

And while the ROE target is unlikely to be achieved, the group is well positioned on its other two targets. Specifically, Zurich's projected capital position is very strong based on internal and external metrics, and the group expects to over-achieve against the cash remittance target despite markedly lower General Insurance earnings compared to expectations set back in 2013. This underpins the proposed payment of an unchanged dividend of CHF 17 per share.

At the time of Q3 results Zurich announced that the group would take a decision in February 2016 on how it would deploy excess capital, and that this would be communicated with the full year results. In line with this timetable, the Board of Directors has carefully evaluated capital deployment options.

While the Board is confident in the reserves, capital, cash generation and future earnings prospects for the group, it has concluded that it is important to maintain the Group's capital strength and flexibility in the current circumstances and has, therefore, decided not to return additional capital to investors at this time. This is not the outcome that was expected at the investor day, nor indeed later in the year, but it is the right course of action.

In summary, the right actions are being taken to address General Insurance challenges. Zurich has an excellent team in place that will be further strengthened with the addition of Mario Greco, who will lead preparations for a new strategic cycle in 2017. Further, the group remains in a very strong position, in terms of balance sheet, cash generation, and financial flexibility, and looks forward to a rapid recovery in profitability in 2016.

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