

Comments on Q3 results (slides 3 to 6)

Martin Senn, Chief Executive Officer

Slide 3: Key messages

Zurich's operating results for the third quarter of 2015 are a disappointing outcome for the group.

As we announced on 21 September, results for our General Insurance business have been impacted by adverse claims experience in certain portfolios, including a further increase in large losses in comparison to the first half of the year, negative prior year development in some portfolios in North America, and \$275m in claims relating to the Tianjin port explosions.

These factors have in aggregate led to our GI business reporting a loss of slightly less than \$200m, and a combined ratio of around 109%, for the third quarter. While we are not satisfied with the outcome, this result is in line with our preliminary announcement.

In response to the recent performance issues within General Insurance, we commenced an operational review of the business in early September. This review has led to an agreed set of comprehensive actions to improve performance and get us back on track.

The background to this review and the actions we are taking are discussed below, but I am very encouraged by the response of the business, under the leadership of Kristof Terryn, the new GI CEO. While we have a lot to do, we have a real clarity of purpose, and the focus is now on execution.

Equally, while we need to improve profitability in certain parts of our GI business, this should not detract from the good progress in other parts of the group, or from our continued capital strength and excellent cash generation track record.

For the nine months ended 30 September, our life business has reported 18% growth in both Business Operating Profit and in new business sales, at constant currency. And at Farmers Exchanges, which we do not own, modest but steady growth in gross premiums is starting to translate into higher revenues for Farmers Management Services.

In terms of our financial position, solvency as measured by the Zurich Economic Capital Model was slightly above the top of our target range at the end of June. While this is likely to have dipped slightly due to the weak Q3 results and recent market movements, we continue to be in a very strong position. In addition, while GI's challenges will likely have some impact on cash remittances in 2016, we still expect to generate in excess of \$10bn of cumulative cash remittances in the three years from 2014 to 2016. This is more than \$1bn ahead of our target.

These strengths enable us to reiterate the commitment we made to investors to deploy 3 billion dollars of excess capital by the end of 2016. We will set out our plans for how this excess capital will be deployed with our full year results.

Slide 4: Key financials

George Quinn, our Chief Financial Officer will provide a more comprehensive update of the drivers of our results in his comments, but our overall performance is clearly not satisfactory.

While both Life and Farmers are on track with prior quarters and our expectations, Business Operating Profit for Q3 of around \$250m has been impacted by the General Insurance operating loss of \$183m.

Net income Attributable to Shareholders of around \$200m is impacted by the GI losses, as well as a high tax rate for the quarter.

This in turn has led to a sharp decline in profitability metrics in comparison to the prior year, whether measured by Business Operating Profit, Net Income or Return on Equity. Our priority is to address GI's performance shortfall in 2016 and I will now explain how we intend to do this.

Slide 5: General Insurance – Review

Following the announcement of Kristof Terryn's appointment as GI CEO in early September, we launched an operational review of the business. The initial focus was to address profitability shortfalls in first half results.

As a result of the further deterioration in profitability in Q3, this review was broadened to cover five areas: re-evaluating current GI earnings power, assessing the drivers of results in underperforming portfolios and proposing corrective actions, addressing expense challenges, reshaping our strategic priorities, and improving organization and governance.

This review was not focused on our balance sheet, or on our reserve position. While the adverse prior year development in the quarter is disappointing, we remain prudently reserved and continue to expect to see favorable development in future. Instead, the focus of the analysis was on the outlook for the business and the remedial actions needed to get back on track.

Based on this analysis, we have a clear view on the drivers of underperformance, including some pockets of the business where technical disciplines need to be reinforced. We also have a comprehensive set of actions in place for all key business units.

To provide some more details in one area, the technical excellence review, our primary focus was on the portfolios which have generated significant underwriting losses in recent years. Portfolios in this context are set at a very granular level and the analysis undertaken has focused on the causes of underperformance and proposed detailed corrective actions.

These actions will include changes to how we price business and assess which risks we want to take on our books, what level of rate action is needed before we are prepared to underwrite the business, and where necessary, an exit of certain portfolios. A further component is an evaluation of potential reinsurance options to reduce volatility.

We have already taken a number of important first steps in execution of these actions. The leadership team for GI has been reshaped. We have taken the decision to exit two portfolios in Global Corporate, including part of the US transportation business. And we have also informed our employees about a planned headcount reduction in Global Corporate and GI Centre, as we look to address expense challenges and to streamline our organization.

We will rebuild the confidence of our investors in our GI business, and will provide tangible evidence that we are getting back on track. At the same time, it is important to emphasize that we are building from strong foundations.

Slide 6: General Insurance – Status update

As mentioned above, the challenges in our GI business are principally focused on certain underperforming portfolios.

To illustrate this in more detail, we show on this slide the combined impact of the 15 portfolios with the highest underwriting losses in our 9 month results. Together, these operations generated underwriting losses of around \$1.4bn relative to net earned premiums of around \$3.3bn, around 16% of the GI total. This includes US construction liability and auto liability in the US and Canada, as well as general liability in Global Corporate, plus certain other portfolios and a significant portion of the Tianjin loss.

However, it's important to recognize that most of the business – in other words, the other 84% of the portfolio – continues to deliver solid underwriting performance, with a combined ratio for the 9 months of around 94%.

As already explained, we of course need to address the weaker parts of the portfolio and to take further efficiency actions in all parts of the group. We also need to reshape our retail footprint, as we

set out at the last investor day. The actions under way will enable us to achieve these goals, and we expect to see a significant improvement in profitability in 2016.

Our goal beyond 2016 will be to further improve our technical profitability and efficiency to achieve the top-tier potential evident in the strength of our franchises.

In closing, we have the right actions underway to address the issues in our GI business, and I am confident we will achieve or exceed each of our three targets in 2016: namely, a Business Operating Profit after tax Return on Equity of 12-14 percent, a Z-ECM ratio of between 100 and 120 percent, and cumulative cash remittances of more than \$9bn over the three year cycle.

Martin Senn

Zurich, 5 November 2015

Comments on Q3 results (slides 8 to 19)
George Quinn, Chief Financial Officer

Slide 8: Group – Business Operating Profit

Zurich has reported Business Operating Profit of \$256m and Net Income Attributable to Shareholders of \$207m for Q3 2015.

As explained in the CEO comments section, the performance of the General Insurance business has been significantly impacted by a high level of large losses, mainly in Global Corporate, and adverse prior year development in some portfolios in North America. This has led to the group reporting sharply lower earnings in comparison to the prior year.

The drivers and analysis of the poor performance are covered below. However, before going into the details of the results of each of the three business segments, I briefly highlight some of the other key points from Q3 results.

Other Operating Businesses BOP loss is in line with Q3 2014 but higher than in Q1 and Q2 of this year. This is primarily due to currency gains in first half that did not repeat in Q3. Headquarters expenses typically are skewed to the second half. This time we expect the catch-up in expenses to materialize mostly in the fourth quarter.

Looking at the reconciliation of operating profit to net income, capital gains realizations for the quarter were \$323m. Active realizations on our equity portfolios accounts for around two-thirds of the total, with the balance due to our regular real estate valuation updates and other factors.

The accounting and restructuring charges related to our efficiency initiatives in Q3 amount to roughly \$100m. We expect a similar amount for the fourth quarter.

Finally, given an increase of the expected 2015 effective tax rate from 24.5% to around 29%, the effective tax rate for the discrete quarter is around 52%. This is largely due to losses and restructuring charges with low tax benefits, such as the Tianjin explosions, and some shift in profit mix.

Slide 9: General Insurance – Topline

For our General Insurance business, gross written premiums for the third quarter were up 6% and net earned premiums were up 2% compared to the prior year period, at constant currency. Looking at the year to date, gross written premiums were up 3%.

Overall rate increases on renewal for the quarter increased slightly to 2%, compared to 1% for the second quarter. This does not change the overall picture, and we continue to experience rate pressure in the US.

Global Corporate reported an increase in gross premiums of 2% in local currency for the quarter and 1% for the nine months. Given market trends and our review of the business, we would expect to see a modest decline in the topline in the upcoming quarters.

For NAC, gross premiums were up 11% for the quarter with continued execution of our strategic growth initiatives including strong growth in captives. Excluding the latter, growth for the quarter was around 4%.

Looking at our European business and excluding Russia Retail, topline is broadly flat for the third quarter and increased by 1% for the nine months in local currency. Expansion in Switzerland, Germany and Spain was off-set by slightly lower volumes in the UK and Italy.

In International markets premiums increased by roughly 20% in local currency. The majority of this growth is driven by the extended warranty distribution agreement in Brazil and inflation in Venezuela. In our Asia Pacific region, a decline in premiums in Australia was partly off-set by continuing solid growth in Japan and Hong Kong.

Slide 10: General Insurance – Combined ratio

In terms of analyzing the performance of the General Insurance business I will start by explaining the moving parts in results and what has led to us reporting a loss for the quarter of \$183m.

This loss, and GI's combined ratio of 109% for the quarter, are in line with what we indicated in our press release on 21 September, albeit with some changes in the make-up of the numbers between preliminary and final results. To be more specific, lower natural catastrophe losses and slightly lower attritional loss and expense ratios were off-set by further large losses in the order of \$70m, mainly in Global Corporate, and further adverse PYD of around \$150m.

There are three main drivers for the poor results in the third quarter.

First, we incurred \$275m of losses in relation to the Tianjin port explosions, including \$10m of reinstatement premiums, with around a 4% impact on the combined ratio. On the other hand, natural catastrophes for the quarter were benign across all the regions, roughly 1.2 percentage points below the expected yearly 'run rate'.

Second, prior year reserves developed adversely in the quarter, with a negative impact of 3.7% on the combined ratio. The main impacts here were \$140m in relation to auto liability business in the US and Canada, \$170m in a sub-segment of construction liability and \$57m in Group Reinsurance. These specific charges had around a 5% negative impact on Q3 PYD.

And third, large losses in the quarter, excluding Tianjin, were around 1.5% higher than for the first half year and 2.5% above the prior year Q3, due to ongoing adverse claims experience, mainly within Global Corporate.

The attritional loss ratio for the quarter is in line with Q2 and includes some improvements in EMEA and International Markets.

The expense ratio of 31.1% for the quarter is lower than for the first half-year, with some reduction in other technical expenses. There are positive and negative one-offs in the Q3 expense ratio, but these largely offset one another.

In terms of performance by region:

Global Corporate is the key contributor to the poor results, and I will provide more detail on this business below.

NAC's third quarter combined ratio is impacted by the auto liability and construction liability charges in the current and prior year, in part offset by benign cat losses and lower expenses.

In EMEA we have seen good results in Ireland, Italy, Switzerland and the UK, while our German business has been impacted by three large losses and we have a weaker result in Spain.

And in International Markets, turnaround actions in Brazil are offset by some improvement in the attritional loss ratio and a benign quarter for natural catastrophe losses, with good results in most markets in the Asia Pacific region in the quarter.

Slide 11: General Insurance – Combined ratio walk

This slide shows a walk from the normalized combined ratio for FY 2014 that we referred to at the last investor day to the reported nine months results. There are three points I want to make here.

First, while some of the losses in Q3 do impact run rate profitability, most of the increase in the combined ratio is due to non-recurring factors.

For example, we view the Tianjin loss and the decrease in PYD, as well as the low level of nat cat losses, as one-off in nature. These factors account for around 1.5 points of the combined ratio increase.

The balance of the increase in the combined ratio for the 9 months is mainly due to a 1.8 percentage point increase in the current year ex-cat loss ratio. This is principally due to higher large losses. Of this increase, we view roughly 1 point as reflective of run rate trends, with the balance due to a level of losses which we believe is clearly exceptional in nature.

Putting these factors together, and as shown on the slide, we view our current underlying combined ratio as around 99.5%, slightly higher than what we set out at the investor day.

Second, the actions underway are expected to drive a significant improvement in profitability in 2016, mainly focused on improving the attritional loss ratio and reducing the impact of large losses. We will reduce absolute levels of expenses but expect to see a flatter expense ratio than previously expected given a likely modest decline in the top line next year. Putting this together, we still aim to deliver an improvement of 2-3 percentage points in 2016 from the revised starting point of 99.5%.

Third, despite the charges taken in Q3 the Group overall remains well reserved and our prudent reserving approach has not changed. The issues in Q3 include some one-off factors and, going forward, we would still expect to see a favorable PYD run rate of 1-2%.

Slide 12: General Insurance – Global Corporate

This slide shows results for Global Corporate for 2013, 2014 and year to date 2015.

Looking at the last three years, Global Corporate's combined ratio deteriorated from around 94% in 2013 and 2014 to roughly 107% for the first nine months of 2015, excluding the Tianjin loss. This is mainly driven by an increased accident year ex-cat combined ratio and unfavorable PYD in 2015, both mainly coming from our business in North America.

Comparing results for the year to date with FY 2014 for Global Corporate in North America, large losses are up roughly 7 percentage points and the attritional loss ratio is up 2 percentage points, across property, liability and motor lines. In property, this is due to higher large losses, mainly in the first half of 2015. For liability, this is due to large losses, with 3 claims above \$10m this year compared to none in the first nine months of 2014, and recent case reserve strengthening. The higher current year loss ratio for motor liability is in part due to the higher loss picks implemented at the end of 2014, with a further increase in the quarter to reflect the latest view of frequency and severity trends.

The adverse PYD for Global Corporate in North America in 2014 is in large part due to charges on a discontinued book plus adverse movements on several large individual claims. For 2015, the reserve charges mainly relate to auto liability in the US and Canada and individual prior year large losses.

This of course requires immediate actions which we have already started to implement. Alongside some management changes, we are exiting some underperforming portfolios and applying rigorous rate tiering actions across the board. On the large loss side we are implementing recommendations from a recent study on property large losses, which includes adjustments to our risk engineering policy, and are exploring reinsurance options to limit volatility. Additionally, we are looking into further actions to reduce our expenses as the topline will be impacted by re-underwriting actions.

Addressing the profitability challenges in this part of the group is our top priority. Nonetheless, Global Corporate remains a key priority for us, and results of our EMEA business continue to be satisfactory. Further, while there is much to be done to improve performance, as we highlighted at the investor day in May, we have best in class customer propositions and a leading go-to-market approach.

Slide 13: General Insurance – BOP components

This slide shows the components of GI's operating result and a walk from BOP in the prior year Q3.

Investment income declined by \$50m in US dollars but is flat compared to the same period of last year in local currency. For the nine months, and at local currency, investment income is only down 1% and

we now expect full year investment income to be fairly flat compared to the prior year given a higher allocation to equities and implementation of the illiquid assets strategy.

Our hedge fund investments had a negative quarter and impacted the result by almost \$70m mainly due to volatile equity markets in Q3. On the other hand the non-technical result is favorable to BOP by \$25m. This is mainly driven by a currency gain of roughly \$50m and some other smaller positive items in the quarter. Excluding these items, non-technical expenses would be within the given run-rate of \$40m to \$50m per quarter.

In summary, the overall GI performance in 2015 has been very poor in certain parts of the business especially in Global Corporate. We have a clear set of actions to address the issues, with first steps already implemented, and are confident that we will bring the overall GI profitability back on track in 2016.

Slide 14: Global Life – New business

Global Life new business APE volumes for discrete Q3 increased 16% in local currency compared to the prior year period, driven by good performance in most regions.

Europe, Middle East and Africa increased local currency new business volumes 19%, with growth in all countries, primarily driven by Corporate Life and Pensions volumes in Germany and Ireland and individual savings growth in Banco Sabadell.

Asia Pacific saw another quarter of strong sales of protection business in Japan, with local currency volumes increasing 60% over the prior year period for the region. Latin America volumes in local currency increased by 11%. And North America experienced flat volumes in the Farmers New World Life business, and a decrease in the Zurich branded business, driven by lower IFA sales, for an overall 16% reduction in APE for the region.

Analyzed by pillar, we continue to see double digit growth in our Corporate Life and Pensions and Bank Distribution businesses, increasing 33% and 16% respectively, while Retail volumes were flat compared to the prior year quarter.

New business value increased 19% in local currency year on year, in-line with volume growth, supported by strong individual protection sales in Europe, Middle East and Africa, Japan and Zurich Santander. New business value was 14% higher than in the previous quarter, mainly due to the higher swap rates in Europe and improved business mix.

And finally, net inflows were positive for the quarter, primarily driven by increased sales in Europe, Middle East and Africa.

Slide 15: Global Life – BOP by region

Global Life business operating profit increased 14% in local currency, but decreased 1% compared to the prior year period in dollars to \$328m.

This strong result was primarily driven by Europe, Middle East and Africa which grew earnings by 3%, or 16% in local currency, with continued positive results across most countries complemented by profits stemming from the ongoing transfer of an annuity book in the UK and a reserve methodology update in Switzerland.

While Europe, Middle East and Africa showed earnings growth, North America BOP was down 14%, with positive assumption updates at Farmers New World Life more than offset by a large claim in the Zurich branded life business. In Latin America, Zurich Santander earnings increased by 15% in local currency, benefitting from favorable experience in Brazil, but with weaker results from the Zurich business in the region.

Adjusting for the one-off Swiss reserve methodology update, the underlying improvement in BOP is 9% in local currency.

The Global Life business continues to produce strong results in a challenging yield environment and we continue to be on track to achieve our BOP goals as confirmed at the investor day earlier this year.

Slide 16: Farmers Exchanges – KPIs

Comments on this slide relate to the Farmers Exchanges, which we do not own but are relevant to the performance of our Farmers business segment.

This quarter we have changed the way the business is reported to reflect a strategic decision to put 21st Century business in the 48 states outside of California and Hawaii into run-off.

The discontinued business accounts for around 60% of 21st Century's \$1.7bn gross written premiums, although the intention here is to convert a sizeable portion of the non-renewed business into either Farmers or Bristol West products. The 21st Century business in California is very seasoned with good profitability and benefits from a strong local presence, and will continue to be marketed under the 21st Century brand.

For the Farmers Exchanges overall, gross written premiums grew 2.3% in the third quarter driven by auto, home and specialty. For continuing operations, in other words excluding 21st Century business in the 48 states, gross written premiums increased by 3.6% in comparison to Q3 in the prior year, consistent with the experience in prior quarters in 2015.

The Q3 combined ratio of the Farmers Exchanges was 102%. While the Californian wildfires meant that this was not a quiet quarter for cat losses the main issue is the continued challenge of adverse auto claims trends. While there are unfavorable frequency and severity trends industry-wide, geographically California and Texas, states with a strong Farmers presence, are particularly affected. Farmers is pushing for adequate rates in these states but it will take time for this to come through.

Farmers Exchanges surplus is slightly up compared to the beginning of the year. As expected, given the reduction of Quota Share reinsurance support the surplus ratio moved into the near-term target range of 33-36%.

Slide 17: Farmers – KPIs

Farmers Management Services BOP for Q3 improved 3% to \$346m, primarily due to lower expenses. For the year to date, BOP is 3% lower than in the prior year, partly due to some positive one-offs in the previous period. The Managed Gross Earned Premium margin remains at around 7%, as expected.

Farmers Re BOP for Q3 2015 reduced significantly compared to the prior year quarter, from \$62m to \$4m. While partly due to the lower Quota Share participation the bigger factor was a 6 percentage point deterioration in the loss ratio. This is due to increased catastrophe losses, reserve strengthening due to the higher severity of bodily injuries claims and higher underlying losses in the auto business, in almost equal amounts.

Slide 18: Group – Balance sheet and capital

Shareholders' equity decreased by \$0.3bn in the third quarter. Negative movements in unrealized capital gains and cumulative translation adjustments were partially offset by \$0.2bn in net income and a lower pension deficit, the latter due to a significant improvement in the UK, driven by the regular update of financial assumptions.

The negative movement in unrealized gains is mainly due to falling equity markets, partially offset by the positive impact of lower bond yields on fixed income valuations. There was some negative impact from widening credit spreads but this was comparatively small.

Against the background of the crisis in Greece, a macro equity hedge was put in place in the second quarter. This had a 6 point positive impact on the reported Z-ECM ratio at 30 June of 129%, due to a reduction in risk based capital requirements.

The macro hedge was closed at a profit in Q3, but naturally this means that the Z-ECM ratio will not include the 6 point capital benefit when we update this metric with our full year results. To make this clear, we show both Z-ECM and SST metrics with and without the benefit of the hedge. Either way, Zurich's capital position as measured by the Z-ECM and the SST remained very strong.

The negative market movements in the third quarter will have had some impact on our capital position. We estimate our Z-ECM ratio as of Q3 will have declined from the adjusted 123% level at the end of June, but to remain at the upper end of our target range.

Slide 19: Key messages

To recap on the key points from our Q3 results.

First, the Q3 operating loss in GI of around \$200m is consistent with what was announced on 21 September.

Second, we have comprehensive actions in place to improve GI performance and get us back on track. We have already taken the first steps in execution of this plan, and expect to see a recovery in profitability in 2016.

Third, while our GI business is now focused on addressing profitability challenges, this should not detract from the good progress in our Life business and Farmers, or from our continued capital strength and excellent cash generation track record.

Fourth, we remain in a very strong position from a capital and cash generation perspective. We reiterate our commitment to deploying \$3bn excess capital by the end of 2016, and this remains a key step in how we will improve returns and achieve an ROE within our target range of 12-14% next year. We will set out how the \$3bn of excess will be allocated between organic or inorganic investment and cash returns to investors above our ordinary dividend with full year results.

George Quinn

Zurich, 5 November 2015

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