Zurich Insurance Group

ZURICH®

Operating and financial review (unaudited) 2015

Annual results 2015

Operating and financial review

The Operating and financial review is the management analysis of the business performance of Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) for the year ended December 31, 2015, compared with 2014.

Contents

The information contained within the Operating and financial review is unaudited and is based on the consolidated results of the Group for the years ended December 31, 2015 and 2014. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated, with the consequence that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts. This document should be read in conjunction with the Annual results 2015 of the Group and, in particular, with its Consolidated financial statements for the year ended December 31, 2015.

In addition to the figures stated in accordance with International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business measures and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the separately published Glossary. These should be viewed as complementary to, and not as substitutes for the IFRS figures. For a reconciliation of BOP to net income attributable to shareholders, see table 28.2 in note 28 of the Consolidated financial statements.

From January 1, 2015, the Global Life business changed its regional structure by establishing the regions Europe, Middle East & Africa (EMEA) and Asia Pacific. EMEA includes the European business units, Zurich International Life and Luxembourg. This change had no impact on total Global Life or the Group. Comparative figures have been restated to reflect this change.

From January 1, 2015, the management of the UK asbestos business, which is in run-off, was transferred from General Insurance to Non-Core Businesses. This change had no impact on the Group. Comparative figures have been restated to reflect this change.

Financial highlights

in USD millions, for the years ended December 31, unless otherwise stated	2015	2014	Change[1]
Business operating profit	**2,916**	4,638	(37%)
Net income attributable to shareholders	**1,842**	3,949	(53%)
General Insurance gross written premiums and policy fees	**34,020**	36,333	(6%)
Global Life gross written premiums, policy fees and insurance deposits	**29,037**	31,883	(9%)
Farmers Management Services management fees and other related revenues	**2,786**	2,791	–
Farmers Re gross written premiums and policy fees	**2,145**	3,428	(37%)
General Insurance business operating profit	**864**	2,979	(71%)
General Insurance combined ratio	**103.6%**	96.8%	(6.7 pts)
Global Life business operating profit	**1,300**	1,273	2%
Global Life new business annual premium equivalent (APE)[2]	**4,772**	5,203	(8%)
Global Life new business margin, after tax (as % of APE)[2]	**21.6%**	20.8%	0.8 pts
Global Life new business value, after tax[2]	**912**	965	(5%)
Farmers business operating profit	**1,421**	1,573	(10%)
Farmers Management Services gross management result	**1,338**	1,335	–
Farmers Management Services managed gross earned premium margin	**7.1%**	7.2%	(0.1 pts)
Average Group investments	**198,049**	206,070	(4%)
Net investment result on Group investments	**7,462**	9,211	(19%)
Net investment return on Group investments[3]	**3.8%**	4.5%	(0.7 pts)
Total return on Group investments[3]	**1.7%**	8.6%	(6.9 pts)
Shareholders' equity[4]	**31,178**	34,735	(10%)
Swiss Solvency Test capitalization ratio[5]	**203%**	196%	7.0 pts
Diluted earnings per share (in USD)	**12.33**	26.44	(53%)
Diluted earnings per share (in CHF)	**11.86**	24.17	(51%)
Book value per share (in CHF)[4]	**209.27**	232.65	(10%)
Return on common shareholders' equity (ROE)[6]	**6.4%**	13.0%	(6.6 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[6]	**6.4%**	11.2%	(4.7 pts)

1 Parentheses around numbers represent an adverse variance.
2 Details of the principles for calculating new business are included in the Embedded value report in the Annual results 2015. New business value and new business margin are calculated after the effect of non-controlling interests, whereas APE is presented before non-controlling interests.
3 Calculated on average Group investments.
4 As of December 31, 2015 and December 31, 2014, respectively.
5 Ratios as of July 1, 2015 and January 1, 2015, respectively. The Swiss Solvency Test (SST) ratio is calculated based on the Group's internal model, which is subject to the approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The ratio is filed with FINMA annually. The July 1, 2015 ratio was calculated excluding a macro equity hedge, for more details please refer to the Risk review in the Annual results 2015.
6 Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

Operating and financial review *continued*

Performance overview

The Group delivered overall business operating profit of USD 2.9 billion, a decrease of USD 1.7 billion or 37 percent in U.S. dollar terms and 34 percent on a local currency basis. The General Insurance result decreased by USD 2.1 billion to USD 864 million due to a substantial increase in the costs of large and catastrophe losses, particularly in the second half of the year. Global Life achieved a strong result whilst maintaining its focus on priority markets and on extracting value from in-force business. Farmers continued its positive momentum from premium growth, though Farmers Re incurred higher losses. The overall lower profit from the core businesses was partly offset by lower Group borrowing costs, currency exchange gains and a positive contribution from Non-Core Businesses.

Net income attributable to shareholders of USD 1.8 billion decreased by USD 2.1 billion, or 53 percent in U.S dollar terms and 54 percent on a local currency basis, primarily due to the decrease of USD 1.7 billion in business operating profit and lower net gains on investments of USD 508 million. Higher restructuring provisions and impairments of goodwill were more than offset by the absence of a loss on the divestment of a business in 2014 and the lower consequential tax expense attributable to shareholders.

The Group's capital and solvency positions remain strong. Solvency measured on an economic basis as determined under the Swiss Solvency Test was 203 percent as of July 1, 2015, an increase of 7 percentage points since January 1, 2015, mainly as a result of changes in investment markets and business growth assumptions. Shareholders' equity decreased by USD 3.6 billion during the year to December 31, 2015 to USD 31.2 billion. This decrease resulted from the cost of the dividend paid in April 2015, unrealized losses on investments and negative currency translation adjustments, partly offset by net income attributable to shareholders and positive actuarial effects on pension plans.

On the basis of the Group's capital position and the expectation of strong sustainable earnings, the Board of Directors proposes a dividend of CHF 17 per share.

Business operating profit decreased by USD 1.7 billion to USD 2.9 billion, or by 37 percent in U.S. dollar terms and 34 percent on a local currency basis.

- **General Insurance** business operating profit decreased by USD 2.1 billion to USD 864 million, or 71 percent in U.S. dollar terms and 70 percent on a local currency basis. This was primarily due to a deterioration in the net underwriting result of USD 1.9 billion. The deterioration in the net underwriting result arose mainly in Global Corporate and EMEA and resulted from an increase in large and catastrophe losses, as well as an absence of favorable loss development of reserves established in prior years. The expense ratio was negatively impacted by the costs of ongoing growth initiatives and changes in product and geographic mix.
- **Global Life** business operating profit increased by USD 27 million to USD 1.3 billion, or 2 percent in U.S. dollar terms and 16 percent on a local currency basis. The weakening of Latin American and European currencies against the U.S. dollar compared with 2014 had a significant impact on the reported results translated into U.S. dollars. On a local currency basis, business operating profit improved in all regions with the largest increases occurring in loadings and fees and the technical margin, as a result of the ongoing focus on fee-based and protection business.
- **Farmers** business operating profit decreased by USD 152 million to USD 1.4 billion, or by 10 percent. **Farmers Re** business operating profit decreased by USD 129 million to USD 61 million due to underwriting losses, as well as lower net investment income. **Farmers Management Services** business operating profit decreased by USD 23 million to USD 1.4 billion with the gross management result at the same level as in 2014, but with a reduction in other income.
- **Other Operating Businesses** reported a business operating loss of USD 720 million, compared with a loss of USD 960 million in 2014. This improvement was primarily driven by lower interest expense on debt, favorable foreign exchange impacts and several one-off items in both 2015 and 2014.
- **Non-Core Businesses** reported a business operating profit of USD 51 million compared with a loss of USD 227 million in 2014. The improvement arose from the impact of both lower adverse development of reserves established in prior years and lower loan losses compared with 2014 and from the release of long-term reserves as a consequence of a buy-back program for a variable annuity product.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, decreased by USD 6.4 billion to USD 68.0 billion, or by 9 percent in U.S. dollar terms, but increased 2 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees decreased by USD 2.3 billion to USD 34.0 billion, or 6 percent in U.S. dollar terms, but increased by 3 percent on a local currency basis with growth in the U.S. and Latin America.
- **Global Life** gross written premiums, policy fees and insurance deposits decreased by USD 2.8 billion to USD 29.0 billion, or 9 percent in U.S. dollar terms, but increased 6 percent on a local currency basis. The increase on a local currency basis occurred predominantly in EMEA, driven by growth in individual savings business in some continental European countries, partly offset by a reduction in corporate business in the UK, where a small number of large cases boosted volumes in 2014.
- **Farmers Management Services** management fees and other related revenues remained broadly flat at USD 2.8 billion. **Farmers Re** gross written premiums and policy fees decreased by USD 1.3 billion to USD 2.1 billion, or by 37 percent, due to reductions in reinsurance assumed from the Farmers Exchanges.

The **net investment result on Group investments**, before allocations to policyholders, of USD 7.5 billion decreased by USD 1.8 billion, or 19 percent in U.S. dollar terms and by 10 percent on a local currency basis, resulting in a **net investment return on average Group investments** of 3.8 percent compared with 4.5 percent in 2014. **Net investment income**, predominantly included in the core business results, of USD 5.6 billion decreased by USD 635 million, or by 10 percent in U.S. dollar terms, but remained flat on a local currency basis. **Net capital gains on investments and impairments** included in the net investment result decreased by USD 1.1 billion to USD 1.9 billion, mainly due to the decrease in value of the equities and debt securities booked at fair value through profit and loss reflecting the downturn in global equity markets and rising yields, respectively. **Total return on average Group investments** was 1.7 percent, compared with 8.6 percent in 2014. Total return includes the net investment return, as well as lower return from net unrealized investment gains before allocations to policyholders, of USD 4.1 billion compared with USD 8.5 billion in 2014, which do not flow through net income. The changes arose mainly as a result of rising bond yields, widening credit spreads, as well as the overall decline in equity markets during 2015, compared with falling yields and rising equity markets in 2014.

The U.S. dollar, on average, strengthened significantly against all of the Group's major trading currencies during the year compared with 2014. The translation effect of the strengthening of the U.S. dollar during the year affected many line items in both the consolidated income and cash flow statements, as well as reducing business operating profit by USD 147 million. The U.S. dollar also strengthened as of December 31, 2015 compared with December 31, 2014 with many line items in the balance sheet affected. The net effect of these currency translation adjustments was a reduction of USD 3.0 billion in shareholders' equity since December 31, 2014, which includes the difference of USD 1.0 billion between the dividend at transaction day exchange rates and the dividend at historical exchange rates.

The **shareholders' effective tax rate** increased to 36.6 percent for the year ended December 31, 2015 compared with 27.0 percent for 2014. The increase of 9.6 percentage points reflects changes in the profit mix, restructuring costs, write-down of deferred tax assets and the effects of several non-recurring charges in 2015, as well as the impairment of goodwill for the German Life business, which did not attract tax benefits.

ROE decreased by 6.6 percentage points to 6.4 percent, largely due to the reduction in net income attributable to shareholders partly offset by the reduction in average shareholders' equity. **BOPAT ROE** decreased by 4.7 percentage points to 6.4 percent, as a result of the decrease in business operating profit partly offset by the reduction in average shareholders' equity. **Diluted earnings per share** in Swiss francs decreased by 51 percent to CHF 11.86 compared with CHF 24.17 in 2014. Diluted earnings per share in U.S. dollars decreased by 53 percent to USD 12.33 compared with USD 26.44 in 2014.

Operating and financial review *continued*

General Insurance

in USD millions, for the years ended December 31	2015	2014	Change
Gross written premiums and policy fees	34,020	36,333	(6%)
Net earned premiums and policy fees	28,051	30,023	(7%)
Insurance benefits and losses, net of reinsurance	20,152	19,920	(1%)
Net underwriting result	(1,002)	947	nm
Net investment result	2,002	2,239	(11%)
Net non-technical result (excl. items not included in BOP)	(29)	(112)	74%
Non-controlling interests	108	95	(14%)
Business operating profit	**864**	**2,979**	**(71%)**
Loss ratio	71.8%	66.4%	(5.5 pts)
Expense ratio	31.7%	30.5%	(1.2 pts)
Combined ratio	**103.6%**	**96.8%**	**(6.7 pts)**

in USD millions, for the years ended December 31	Business operating profit (BOP)		Combined ratio	
	2015	2014	2015	2014
Global Corporate	(345)	783	113.9%	95.7%
North America Commercial	768	923	98.2%	96.5%
Europe, Middle East & Africa (EMEA)	403	1,223	101.3%	95.1%
International Markets	82	40	103.3%	104.6%
GI Global Functions including Group Reinsurance	(45)	8	nm	nm
Total	**864**	**2,979**	**103.6%**	**96.8%**

Business operating profit deteriorated by USD 2.1 billion to USD 864 million, or 71 percent in U.S. dollar terms and 70 percent on a local currency basis. This resulted from a deterioration in the net underwriting result of USD 1.9 billion to a loss of USD 1.0 billion, principally in Global Corporate and EMEA, as well as a lower net investment result mainly due to lower yields in EMEA and lower hedge fund gains in North America.

Gross written premiums and policy fees decreased by USD 2.3 billion to USD 34.0 billion. On a local currency basis, gross written premiums increased by 3 percent, driven by growth in North America Commercial and International Markets. In North America Commercial, this resulted from organic growth including an increase in new business through captives. In International Markets, gross written premiums increased on a local currency basis mainly in Latin America, partly due to inflation, but also from a new distribution agreement in Brazil. Global Corporate is in line with 2014 on a local currency basis. EMEA is slightly lower in local currency terms, but adjusting for the sale of the retail market business in Russia in 2014 and the exit from the personal lines business in the Netherlands owned by the Swiss business, premium volumes increased. Rate increases were lower by around 1.0 percent across all regions with the exception of International Markets, when compared with 2014. Overall rates increased by around 2 percent.

The **net underwriting result** deteriorated by USD 1.9 billion to a loss of USD 1.0 billion, reflected in the 6.7 percentage points deterioration in the combined ratio to 103.6 percent. The loss ratio increased 5.5 percentage points reflecting higher large losses in Global Corporate and certain European countries, the Tianjin port explosion and higher natural catastrophe losses resulting from severe flooding in the UK and Ireland in December. The result also reflects the absence of favorable development of loss reserves established in prior years. The expense ratio increased by 1.2 percentage points. This arose from higher expenses from investments in growth initiatives in all regions and the effect of positive non-recurring items in 2014, as well as higher commissions due to changes in both product and geographic mix for which higher levels of commission apply.

Global Corporate

in USD millions, for the years ended December 31	2015	2014	Change
Gross written premiums and policy fees	8,670	9,434	(8%)
Net underwriting result	(835)	273	nm
Business operating profit	**(345)**	**783**	**nm**
Loss ratio	91.2%	73.9%	(17.2 pts)
Expense ratio	22.7%	21.8%	(0.9 pts)
Combined ratio	**113.9%**	**95.7%**	**(18.2 pts)**

Business operating profit deteriorated by USD 1.1 billion to a loss of USD 345 million. The decrease resulted mainly from the deterioration in the net underwriting result, but also from a relatively small decrease in the net investment result due to the absence of hedge fund gains, slightly offset by minor improvements in the non-technical result from foreign exchange gains.

Gross written premiums and policy fees of USD 8.7 billion decreased by USD 764 million, or 8 percent in U.S. dollar terms, but remained flat on a local currency basis. The rate environment continues to be under pressure, particularly in the U.S. Overall, rates increased slightly in 2015.

The **net underwriting result** deteriorated by USD 1.1 billion to an underwriting loss of USD 835 million, reflected in the deterioration of 18.2 percentage points in the combined ratio to 113.9 percent. The deterioration in the loss ratio of 17.2 percentage points was mainly attributable to higher catastrophe losses, a higher number and increased severity of large losses, particularly in the property line of business in North America and Europe, and the Tianjin port explosion. The development of loss reserves established in prior years also deteriorated compared with 2014. The expense ratio deteriorated by 0.9 percentage points as a result of investments in growth initiatives.

Operating and financial review *continued*

North America Commercial

in USD millions, for the years ended December 31	**2015**	2014	Change
Gross written premiums and policy fees	10,742	10,056	7%
Net underwriting result	146	270	(46%)
Business operating profit	**768**	**923**	**(17%)**
Loss ratio	67.0%	66.4%	(0.6 pts)
Expense ratio	31.2%	30.1%	(1.0 pts)
Combined ratio	**98.2%**	**96.5%**	**(1.7 pts)**

Business operating profit decreased by USD 155 million to USD 768 million, with a deterioration in the net underwriting result, with a reduction in the net investment result driven by lower hedge fund gains, partly offset by an improvement in the non-technical result driven by foreign exchange gains.

Gross written premiums and policy fees increased by USD 686 million to USD 10.7 billion, or by 7 percent. This increase was driven by organic growth including increased levels of business from captives, particularly in the workers compensation and liability lines of business. The rate environment remained positive in liability, motor and specialty lines of business with overall rates increasing by 1 percent despite market pressures.

The **net underwriting result** decreased by USD 124 million to USD 146 million, reflected in the 1.7 percentage points deterioration in the combined ratio to 98.2 percent. The loss ratio deteriorated by 0.6 percentage points resulting from an increase in the current accident year loss ratio and less favorable development of loss reserves established in prior years. This was partly offset by lower catastrophe and weather-related losses. The expense ratio increased by 1.0 percentage points, mainly as a result of an increase in commissions due to growth in products for which higher levels of commission apply. Premium taxes normalized in 2015 after a non-recurring benefit in 2014.

Europe, Middle East & Africa

in USD millions, for the years ended December 31	2015	2014	Change
Gross written premiums and policy fees	10,955	12,626	(13%)
Net underwriting result	(138)	592	nm
Business operating profit	**403**	**1,223**	**(67%)**
Loss ratio	69.1%	64.1%	(5.1 pts)
Expense ratio	32.1%	31.1%	(1.1 pts)
Combined ratio	**101.3%**	**95.1%**	**(6.1 pts)**

Business operating profit decreased by USD 820 million to USD 403 million, or 67 percent in U.S. dollar terms and 64 percent on a local currency basis, primarily as a result of a deterioration in the net underwriting result. The net investment result also reduced by USD 129 million in U.S. dollar terms, mainly as a result of foreign currency translation and lower yields, which was partly offset by a small improvement in the non-technical result.

Gross written premiums and policy fees decreased by USD 1.7 billion to USD 11.0 billion, or by 13 percent in U.S. dollar terms and 1 percent on a local currency basis. Adjusting for the sale of the retail market business in Russia in October 2014 and the exit from the personal lines business in the Netherlands owned by the Swiss business, premium volumes grew by 1 percent on a local currency basis. On a local currency basis, there was growth in Spain and in the commercial lines business in Switzerland. These positive impacts were partly offset by decreased premiums written in markets enduring competitive pressures especially in the UK in property and personal lines of business, and in Italy in the motor line of business. There were positive developments in retention levels, and overall rates have increased by 2 percent.

The **net underwriting result** deteriorated by USD 730 million to a loss of USD 138 million, reflected in the deterioration in the combined ratio of 6.1 percentage points to 101.3 percent. The deterioration in the loss ratio of 5.1 percentage points reflected higher catastrophe related losses mainly from flooding in the UK in December and higher large losses, also mainly in the UK, as well as less favorable development of reserves established in prior years. The expense ratio deteriorated by 1.1 percentage points resulting from the effect of several favorable non-recurring items in 2014 and increased expenses following investments in growth initiatives.

Operating and financial review *continued*

International Markets

in USD millions, for the years ended December 31	2015	2014	Change
Gross written premiums and policy fees	3,894	4,460	(13%)
Net underwriting result	(112)	(175)	36%
Business operating profit	**82**	**40**	**nm**
Loss ratio	56.5%	61.7%	5.2 pts
Expense ratio	46.8%	42.9%	(3.9 pts)
Combined ratio	**103.3%**	**104.6%**	**1.3 pts**

Business operating profit increased by USD 42 million to USD 82 million. The increase resulted from an improvement in the net underwriting result and lower non-technical expenses in Latin America, partly offset by a lower net investment result, mainly in Australia.

Gross written premiums and policy fees decreased by USD 566 million to USD 3.9 billion, or by 13 percent in U.S. dollar terms, but increased by 9 percent on a local currency basis. On a local currency basis, gross written premiums grew by 19 percent in Latin America due to new distribution agreements in Brazil and the impact of inflation in the region. Despite growth in some areas of Asia Pacific, premiums decreased by 3 percent on a local currency basis due to the impact of underwriting actions taken in Australia. Overall, International Markets achieved average rate increases of 5 percent, mainly in Latin America.

The **net underwriting result** improved by USD 62 million, reflected in the 1.3 percentage points improvement in the combined ratio to 103.3 percent. The loss ratio improved by 5.2 percentage points, mainly as a result of an improvement in the underlying loss ratio, as well as lower catastrophe and weather-related losses and higher levels of favorable development of loss reserves established in prior years compared with 2014. The expense ratio deteriorated by 3.9 percentage points due to an increase in commissions and higher expenses, including costs related to the implementation of new distribution agreements in Brazil and several one-off costs in 2015.

Global Life

in USD millions, for the years ended December 31	2015	2014	Change
Insurance deposits	14,591	17,289	(16%)
Gross written premiums and policy fees	14,446	14,594	(1%)
Net investment income on Group investments	3,320	3,815	(13%)
Insurance benefits and losses, net of reinsurance	(8,612)	(10,685)	19%
Business operating profit	**1,300**	**1,273**	**2%**
Net policyholder flows[1]	7,200	5,470	32%
Assets under management[2, 3]	254,210	265,507	(4%)
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[3]	207,542	221,926	(6%)

1 Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.
2 Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties, on which fees are earned.
3 As of December 31, 2015 and December 31, 2014, respectively.

New business – highlights

in USD millions, for the years ended December 31	2015	2014	Change
New business annual premium equivalent (APE)[1]	**4,772**	**5,203**	**(8%)**
New business margin, after tax[2, 4]	**21.6%**	**20.8%**	**0.8 pts**
New business value, after tax[3, 4]	**912**	**965**	**(5%)**

1 APE is shown gross of non-controlling interests.
2 New business margin is calculated using new business value as a percentage of APE based on figures net of non-controlling interests for both metrics.
3 New business value is calculated on embedded value principles after the effect of non-controlling interests.
4 As of January 1, 2015 a change in new business value and new business margin methodology was implemented relating to the calculation of the cost of residual non-hedgeable risk, which no longer includes diversification benefits between covered and non-covered business in accordance with Market Consistent Embedded Value Principles. New business value and new business margin figures for 2014 have been restated to reflect this change.

Source of earnings[1]

in USD millions, for the years ended December 31	2015	2014	Change
Loadings and fees	3,943	4,300	(8%)
Investment margin	480	544	(12%)
Technical margin	1,334	1,212	10%
Operating and funding costs	(1,847)	(1,895)	3%
Acquisition costs	(2,988)	(3,335)	10%
Impact of deferrals	376	447	(16%)
Business operating profit	**1,300**	**1,273**	**2%**

1 Each line represents the Group's interest after deducting non-controlling interests, amounting in total to USD 223 million (in 2014 USD 239 million) in business operating profit.

Operating and financial review *continued*

Business operating profit increased by USD 27 million to USD 1.3 billion, or 2 percent in U.S. dollar terms and 16 percent on a local currency basis, with local currency improvements across all regions and all sources of earnings. The majority of these improvements arose in North America and EMEA with both benefitting from improvements in loadings and fees and in technical margin. 2014 was impacted by non-recurring adverse effects from a law change in Germany and from the transfer of an annuity portfolio from North America to Non-Core Businesses, as well as impairments of software intangible assets.

Loadings and fees decreased by USD 357 million, or by 8 percent in U.S dollar terms, but increased by 5 percent on a local currency basis. The increase in local currency was driven by higher volumes in Zurich Santander and higher fees in North America and EMEA, with the largest contribution from an increase in unit-linked fund based fees.

Investment margin decreased by USD 64 million, or 12 percent in U.S. dollar terms, but increased 4 percent on a local currency basis. The improvement in local currency largely resulted from increased investment returns in Latin America, while the investment margin in EMEA remained flat.

Technical margin improved by USD 123 million, or by 10 percent in U.S dollar terms and by 22 percent on a local currency basis, with the largest improvements arising in EMEA and North America. In EMEA, the improvement was driven by favorable claims experience, as well as by positive impacts associated with management actions to drive value from in-force business. It also includes the partial recognition of a significant gain on the transfer of risk through reinsurance in a legacy in-force annuity portfolio in the UK to be recognized in total over the lifetime of the reinsurance contract. In North America, the improvement in technical margin largely resulted from the effect of non-recurring costs incurred in 2014 relating to the transfer of an annuity portfolio to Non-Core Businesses.

Operating and funding costs decreased by USD 48 million, or by 3 percent in U.S dollar terms, but increased by 10 percent on a local currency basis. In local currency, the positive impact of disciplined central expense management in 2015 was more than offset by the effect of positive non-recurring items in 2014, including a favorable impact from policyholders' tax expense in the UK and a reduction in pension liabilities in Switzerland.

Acquisition costs decreased by USD 347 million, or by 10 percent in U.S dollar terms, but increased by 4 percent on a local currency basis. The increase on a local currency basis reflected higher volumes of business in EMEA, Asia Pacific and Zurich Santander, partly offset by decreasing volumes in the Independent Financial Adviser (IFA) business in North America. The contribution from the impact of deferrals reduced by USD 70 million, or by 16 percent in U.S. dollar terms and 5 percent on a local currency basis. The positive effect of higher volumes in Asia Pacific and Zurich Santander was more than offset by North America due to decreasing volumes and EMEA, where in spite of higher volumes of business the impact of deferrals reduced due to business mix and higher policy surrenders.

Insurance deposits decreased by USD 2.7 billion to USD 14.6 billion, or 16 percent in U.S. dollar terms and 2 percent on a local currency basis. EMEA experienced a decrease predominantly driven by lower sales of Corporate Life and Pensions products in the UK, where a small number of large cases had boosted volumes in 2014, with a partial offset from higher sales of individual savings business in Ireland and Italy.

Gross written premiums and policy fees decreased by USD 147 million to USD 14.4 billion, or 1 percent in U.S. dollar terms, but increased 15 percent on a local currency basis. The increase on a local currency basis predominantly arose from increased sales in EMEA, particularly in individual savings business in Spain, and in protection products in Zurich Santander, partly offset by a reduction related to the non-renewal of a large corporate contract in Chile.

Net policyholder flows were positive at USD 7.2 billion, with EMEA and Zurich Santander experiencing improved net inflows. The lower net inflow of USD 5.5 billion in 2014 was mainly due to higher surrenders linked to the discontinuation of certain private banking products in the UK. **Assets under management** decreased by 4 percent in U.S. dollar terms, but increased by 4 percent on a local currency basis compared with December 31, 2014 driven by favorable market movements and positive net policyholder flows. **Net reserves** decreased by 6 percent in U.S. dollar terms, but increased by 3 percent on a local currency basis compared with December 31, 2014, substantially reflecting similar movements as those in the related assets.

NBV, APE, NBM and BOP by region

in USD millions, for the years ended December 31	New business value, after tax (NBV)[1, 2]		New business annual premium equivalent (APE)[3]		New business margin, after tax (as % of APE) (NBM)[2, 4]		Business operating profit (BOP)	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
North America	100	111	179	208	56.1%	53.3%	178	141
Latin America	125	164	957	1,160	21.1%	22.2%	195	222
of which:								
Zurich Santander	*99*	*110*	*726*	*846*	*26.8%*	*25.4%*	*184*	*203*
Europe, Middle East & Africa	526	546	3,422	3,651	16.3%	15.6%	892	917
United Kingdom	*200*	*199*	*1,242*	*1,510*	*16.1%*	*13.2%*	*173*	*189*
Germany	*19*	*30*	*406*	*428*	*4.9%*	*7.0%*	*220*	*210*
Switzerland	*70*	*68*	*335*	*253*	*21.0%*	*26.8%*	*229*	*241*
Ireland	*57*	*47*	*443*	*452*	*13.0%*	*10.5%*	*58*	*61*
Spain	*90*	*88*	*378*	*325*	*44.4%*	*49.2%*	*50*	*53*
Italy	*–*	*13*	*234*	*190*	*0.2%*	*6.9%*	*41*	*46*
Zurich International Life	*84*	*93*	*349*	*439*	*23.9%*	*21.1%*	*70*	*67*
Rest of Europe, Middle East & Africa	*5*	*8*	*34*	*53*	*13.6%*	*15.1%*	*50*	*48*
Asia Pacific	112	88	157	127	72.1%	70.4%	43	52
Other	49	56	57	57	85.1%	97.4%	(8)	(59)
Total	**912**	**965**	**4,772**	**5,203**	**21.6%**	**20.8%**	**1,300**	**1,273**

NBV, APE and NBM by pillar

in USD millions, for the years ended December 31	New business value, after tax (NBV)[1, 2]		New business annual premium equivalent (APE)[3]		New business margin, after tax (as % of APE) (NBM)[2, 4]	
	2015	2014	**2015**	2014	**2015**	2014
Bank Distribution	241	269	1,599	1,741	22.7%	22.9%
Other Retail	353	405	1,472	1,554	24.0%	26.1%
Corporate Life and Pensions	318	291	1,701	1,908	18.8%	15.3%
Total	**912**	**965**	**4,772**	**5,203**	**21.6%**	**20.8%**

[1] New business value is calculated on embedded value principles after the effect of non-controlling interests.
[2] As of January 1, 2015 a change in new business value and new business margin methodology was implemented relating to the calculation of the cost of residual non-hedgeable risk, which no longer includes diversification benefits between covered and non-covered business in accordance with Market Consistent Embedded Value Principles. New business value and new business margin figures for 2014 have been restated to reflect this change.
[3] APE is shown gross of non-controlling interests.
[4] New business margin is calculated using new business value as a percentage of APE based on figures net of non-controlling interests for both metrics.

The weakening of Latin American and European currencies against the U.S. dollar compared with 2014 had a significant impact on the reported results. Global Life continued to benefit on a local currency basis from its acquisitions and investments in organic growth in priority markets, leveraging global bank distribution and corporate life relationships, as well as maintaining focus on protection and unit-linked products.

New business value decreased by USD 53 million to USD 912 million, or by 5 percent in U.S. dollar terms, but increased 7 percent on a local currency basis. The increase on a local currency basis was primarily driven by EMEA, where improved profitability of corporate business more than offset the negative impact of low interest rates on individual savings business. Higher sales in Zurich Santander and Asia Pacific, particularly in Japan, also contributed to the overall improvement on a local currency basis.

APE decreased by USD 432 million to USD 4.8 billion, or 8 percent in U.S. dollar terms, but increased 7 percent on a local currency basis. The increase in local currency was driven by growth in Bank Distribution and Other Retail partly offset by Corporate Life and Pensions, for which there were significantly higher levels of business in 2014. On a geographical basis, the local currency growth mainly arose in EMEA, which experienced increased sales of individual savings business in some continental European countries, and protection business in Zurich Santander and Asia Pacific. These increases were partly offset by decreased volumes of corporate business in the UK and IFA business in North America.

Operating and financial review *continued*

New business margin increased by 0.8 percentage points to 21.6 percent, with increases occurring in North America, Zurich Santander and Asia Pacific. New business margin in EMEA slightly increased, despite the continued reduction in interest rates negatively affecting new business margin in continental European countries, supported by improved profitability in corporate business. In Other, the decrease arose from changes in product mix in corporate business.

On a **geographical basis**, the new business results were as follows:

In North America, the rapid increase in sales seen in 2014, when IFA and Brokers achieved an exceptionally high volume of sales, was not repeated in 2015 and resulted in an overall decrease in APE of 14 percent and NBV of 10 percent. The less than proportional decrease in NBV was primarily due to changes in product mix, overall resulting in a strong NBM of 56 percent.

In Latin America, APE decreased by 18 percent in U.S. dollar terms, but increased by 9 percent on a local currency basis. The increase in local currency mainly arose from increased sales in Zurich Santander. This increase was partly offset by decreased sales in the Zurich operations, primarily in Chile and Brazil, resulting in an overall flat NBV on a local currency basis.

In EMEA, APE decreased by 6 percent in U.S. dollar terms, but increased by 6 percent on a local currency basis. In local currency, APE increased in Spain and Italy as a result of increased sales of individual savings business, and in Switzerland, driven by higher sales of corporate products, partly offset by a decrease in APE in the UK driven by lower volumes of corporate business and unit-linked business in Zurich International Life. NBV also increased in local currency, with the improved profitability of corporate business only partly offset by the negative impact of low interest rates on individual savings business.

In Asia Pacific, APE increased by 23 percent in U.S. dollar terms and 44 percent on a local currency basis. The increase in local currency was primarily driven by increased volumes in Japan, resulting in an increase in NBV. This positive effect was partly offset as NBV reduced in Australia, as a result of both lower sales and assumption changes.

On a **pillar basis**, the new business results were as follows:

In Bank Distribution, NBV decreased by USD 28 million to USD 241 million, or 10 percent in U.S. dollar terms, but increased 12 percent on a local currency basis. The increase in local currency resulted from higher volumes in Zurich Santander and Spain and improved margins in Germany.

In Other Retail, NBV decreased by USD 52 million to USD 353 million, or 13 percent in U.S. dollar terms and 6 percent on a local currency basis. The decrease in local currency arose in most regions; North America was impacted by lower volumes, EMEA experienced lower margins mainly due to the negative impact of low interest rates in continental European countries, and in Latin America both volumes and margins decreased. These negative effects were partly offset by Asia Pacific, primarily from increased volumes in Japan.

In Corporate Life and Pensions, NBV increased by USD 27 million to USD 318 million, or 9 percent in U.S. dollar terms, and 18 percent on a local currency basis, largely benefiting from higher margins in EMEA, partly offset by the effects of changes in product mix in Other.

Farmers

Farmers business operating profit decreased by USD 152 million to USD 1.4 billion. This was due to a reduction in business operating profit of USD 129 million in Farmers Re and USD 23 million in Farmers Management Services.

The Farmers Exchanges are owned by their policyholders. Farmers Group Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

Farmers Management Services

in USD millions, for the years ended December 31	**2015**	2014	Change
Management fees and other related revenues	2,786	2,791	–
Management and other related expenses	(1,448)	(1,455)	1%
Gross management result	1,338	1,335	–
Other net income	22	48	(54%)
Business operating profit	**1,360**	**1,383**	**(2%)**
Managed gross earned premium margin	7.1%	7.2%	(0.1 pts)

Business operating profit decreased by USD 23 million to USD 1.4 billion with the gross management result at the same level as in 2014, but with a reduction in other net income.

Management fees and other related revenues of USD 2.8 billion remained broadly flat reflecting increased revenues due to the growth in gross earned premiums of the Farmers Exchanges offset by a reduction in average management fee rates. **Management and other related expenses** of USD 1.4 billion were slightly lower compared with 2014. **Other net income** of USD 22 million decreased by USD 26 million primarily due to unrealized losses recognized in 2015 compared with gains in 2014 from a mark-to-market valuation of securities supporting employee benefit liabilities, as well as a non-recurring gain in 2014 from the sale of a property.

The **managed gross earned premium margin** decreased to 7.1 percent compared with 7.2 percent for 2014.

Operating and financial review *continued*

Farmers Re

in USD millions, for the years ended December 31	2015	2014	Change
Gross written premiums and policy fees	2,145	3,428	(37%)
Net underwriting result	(26)	66	nm
Business operating profit	**61**	**190**	**(68%)**
Loss ratio	70.1%	67.0%	(3.1 pts)
Expense ratio	31.1%	31.3%	0.3 pts
Combined ratio	**101.2%**	**98.3%**	**(2.8 pts)**

Business operating profit decreased by USD 129 million to USD 61 million due to underwriting losses, as well as lower net investment income resulting from reduced participation in the reinsurance agreements with the Farmers Exchanges.

Gross written premiums and policy fees decreased by USD 1.3 billion to USD 2.1 billion, or 37 percent, as a result of lower participation in the reinsurance agreements with the Farmers Exchanges. Participation in the All Lines quota share reinsurance agreement was reduced from 18 percent to 10 percent, effective December 31, 2014, and further reduced from 10 percent to 8 percent, effective December 31, 2015, subject to the approval of the California Department of Insurance. Participation in the Auto Physical Damage (APD) quota share reinsurance agreement was reduced from USD 900 million in 2014 to USD 500 million in 2015.

The **net underwriting result** deteriorated by USD 92 million to a loss of USD 26 million driven by higher losses assumed from the Farmers Exchanges, including increased underlying losses, prior year reserve strengthening, primarily in the auto book of business, and an increase in catastrophe losses in 2015 compared with 2014 which together are reflected in the 3.1 percentage points increase in the **loss ratio**. The **expense ratio**, based on ceded reinsurance commission rates payable to Farmers Exchanges, was slightly lower due to a reduction in the APD ceding commission rate.

Farmers Exchanges

Financial information about the Farmers Exchanges, which are owned by their policyholders, is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Re.

in USD millions, for the years ended December 31	2015	2014	Change
Gross written premiums	19,077	18,635	2%
Gross earned premiums	18,885	18,545	2%

Gross written premiums in the Farmers Exchanges increased by USD 442 million to USD 19.1 billion, or by 2 percent. Growth in most books of business was partly offset by decreases in premiums from the decision in September 2015 to discontinue 21st Century operations in all U.S. states except California and Hawaii, and Business Insurance sold through independent agents.

Gross earned premiums in the Farmers Exchanges increased by USD 340 million to USD 18.9 billion, or by 2 percent.

Other Operating Businesses

in USD millions, for the years ended December 31	2015	2014	Change
Business operating profit:			
Holding and Financing	(520)	(678)	23%
Headquarters	(200)	(282)	29%
Total business operating profit	**(720)**	**(960)**	**25%**

Holding and Financing business operating loss of USD 520 million decreased by USD 159 million, or by 23 percent in U.S. dollar terms and 19 percent on a local currency basis. This was primarily driven by lower interest expense on debt refinanced in 2014 and 2015 and favorable foreign exchange impacts partly as a result of the Swiss National Bank action in January 2015 to discontinue the link of the Swiss franc to the euro.

Headquarters business operating loss of USD 200 million decreased by USD 82 million, or by 29 percent in U.S. dollar terms and 25 percent on a local currency basis. The result is driven by several one-off items in both 2015 and 2014, including a reduction in performance related remuneration costs in 2015.

Non-Core Businesses

in USD millions, for the years ended December 31	2015	2014	Change
Business operating profit:			
Zurich Legacy Solutions	(50)	(209)	76%
Other run-off	101	(18)	nm
Total business operating profit	**51**	**(227)**	**nm**

Zurich Legacy Solutions, which comprise run-off portfolios managed with the intention of proactively reducing risk and releasing capital, reported a business operating loss of USD 50 million. The result was primarily driven by changes to reserves in the run-off portfolios. The improvement of USD 159 million arose primarily from the impact of both lower adverse development of loss reserves established in prior years and lower loan losses compared with 2014.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 101 million, an improvement of USD 119 million compared with 2014. This arose primarily from the release of long-term reserves as a consequence of a buy-back program for a variable annuity product in the U.S.

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Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives of Zurich Insurance Group Ltd or the Zurich Insurance Group (the Group). Forward-looking statements include statements regarding the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding the Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Insurance Group Ltd or the Group to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of a global economic downturn; (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; and (viii) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of Zurich Insurance Group Ltd and its Group and on whether the targets will be achieved. Zurich Insurance Group Ltd undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

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