ZURICH

Global Life

Source of earnings – Briefing document
Annual results 2016

Background

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SOURCE OF EARNINGS

What is the purpose of source of earnings?

- Sources of Earnings (SoE) reporting presents the key drivers of life IFRS results in more detail than the traditional insurance profit and loss account. This information is a shareholder view of earnings, generally excluding the components that are attributable to policyholders.

Why have you taken a regional rather than product split approach, as with some peers?

- The regional view aligns with how we manage our business and SoE illustrates the regional variations in terms of underlying margin generation, growth investment and level of maturity. Our reporting systems do not provide margins by product type, however, along with the KPIs and new business analysis, we can see the variations in product focus across regions.

How are the KPIs calculated?

- The KPIs help to understand the progression of the results by comparing margins against key drivers. To aid comparability we show all margins (and denominators) net of non-controlling interests for our major bank distribution agreements. Alongside longer-term KPI trends that will become visible over time there are also variations from one reporting period to the next from non-recurring items. “Adjusted KPIs” show the KPI after adjustment for the most material items.

Why have some of the figures changed vs. 2015 source of earnings?

- There have been no significant changes to approach, however we continue to refine the reporting structure and adjust historical figures to help understand progression of margins. In the current report, to avoid distorting impacts across margins, we have adjusted the presentation of 2015 and H1-2016 results to reflect:
  - The deconsolidation of a distribution company in the UK occurred at the beginning of 2016, resulting in a decrease in Loadings and Fees with an offset in Acquisition Costs; and
  - A refinement in the split of premium loadings in the UK, resulting in an increase of Loadings & Fees with an offset in Technical Margin.
- The net impact on Loadings & Fees is negative as the former adjustment more than offsets the latter

Margin overview

Key components

REVENUES	COMPONENTS	DESCRIPTION
Loadings & Fees	Unit linked (UL) fund based fees net of investment expense Premium based and other fees Continental European business expense fees Risk expense loadings	• For UL contracts, fund based fees are one of the main sources of income and we show these separately within Loadings and Fees. Investment management charges are set off against the gross fees to show the net return. Fees derived from UL off-balance sheet business are also included here. • Premium based and other UL charges which cover expenses are included in this category together with lapse charges on unit linked contracts. • Traditional continental European contracts have an explicit expense premium which can be subject to policyholder participation. Expense premium is included net of any direct policyholder participation in the margin. • The expense loading in protection contract premiums is reflected in Loadings and Fees. Any charges related to risk cover on unit linked contracts are included within the Technical Margin.
Investment margin	Policyholder spread return Return on shareholder free surplus Continental European business discretionary allocation	• ~80% of the total is driven by investment income on group investments net of policyholder participation ("spread return"). Policyholder participation includes guaranteed dividends, declared dividends and other crediting of interest to reserves, minimum participation required by law, changes to terminal bonus reserve and discretionary dividends funded from shareholder margin. • Return on shareholder free surplus represents investment income, and excludes capital gains or losses, in line with the Group BOP policy. • Investment management expenses are also deducted from the investment margin.
Technical margin	Risk result (UL& non UL) Lapse result	• The technical margin reflects the net margin on life insurance contracts, for example protection and longevity products, including claims experience. Lapse results on Non Unit Linked contracts is also included here. • Charges on UL contracts where related to risk cover are included as well as premiums charged to cover risk on protection contracts. • The margin is shown net of reinsurance

Margin overview

Key components

EXPENSES	COMPONENTS	DESCRIPTION
Operating costs	Overheads & Admin Depreciation of property & equipment Amortization of software Unallocated policyholder Tax	• These are the regular expenses of the business including operating, depreciation and amortization of software and intangibles. It excludes acquisition costs and expenses directly related to income (e.g. investment expenses). • Policyholder tax is to the extend possible allocated against the income item it relates to within the relevant revenue margin. Any unallocated policyholder tax is reflected in operating costs.
Acquisition costs	Initial & renewal commission Fund based commission Other acquisition costs Business combination costs	Acquisition costs include three main elements: • Commissions (~75% of the total) – initial, renewal and fund based. • Other acquisition costs (~15% of the total) – the part of operating expenses related to acquiring new business. • Business combination costs (~10% of the total) – Amortization of Value of Business Acquired (VOBA) and Distribution Agreements plus BOP impacts from earn-outs (liability interest unwind & fair value adjustments) and purchase price adjustments.
Deferral impacts	Deferred Acquisition & Origination Cost impacts (DAC/DOC) Deferred Front End & Origination Fee impacts (DFEF/DOF)	• Deferral impacts from both fees and acquisition costs are dealt with in this section. This includes initial deferral, regular amortization, impairment and changes to intangible balances resulting from changes to estimates and assumptions (for example lapse rate changes or market movements impacting future fee income levels).

Key performance indicators

How to interpret and use the KPIs (1/2)

Adjusted KPIs	H1 2015	H2 2015	H1 2016	H2 2016	DESCRIPTION
UL fund based fees **Av. UL AUM**	0.6%	0.6%	0.6%	0.6%	**Interpretation** • This KPI is based on fund based fees generated from both on and off-balance sheet unit linked funds, and compared against a simple average of the start of period/end of period unit linked fund values. The KPI illustrates the average fee on unit linked funds allowing comparability between regions and also trending over time. **Development** • As a long term trend we note lower fund based fees as a proportion of unit linked funds under management, and that fees earned on high volume pension business, particularly in the UK, are lower than those earned on retail business. **Sensitivities** • To business mix changes (e.g. corporate pension vs. retail).
Other loadings **GWP & Deposits**	11%	12%	11%	11%	**Interpretation** • This KPI highlights the proportion of the premium or deposit charged to cover expenses (note that a proportion of unit linked fund based fees is also intended to cover expenses). In regions like North America or Latin America, where protection sales dominate new business sales, they tend to have higher expense loadings in the product structure to cover the higher acquisition costs. In contrast, a region like Europe, where there is a larger in-force business and a proportionally higher weighting of business that attracts less commission, there would typically be a lower ratio. **Development** • Should be relatively stable over time depending on the developments of the sensitivities below. **Sensitivities** • Mainly to acquisition costs, particularly commission fee structures, either due to distribution channel or to regulatory change. Significant variations in deposits, particularly large corporate pensions contracts, can cause variability.

Key performance indicators

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

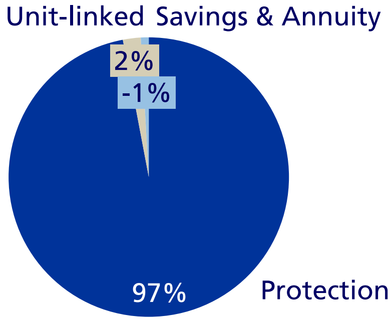
Adjusted KPIs	H1 2015	H2 2015	H1 2016	H2 2016	DESCRIPTION
Investment Margin **Av. NL reserves**	0.6%	0.9%	0.7%	0.9%	**Interpretation** • The investment margin mostly comprises spread return on assets backing non unit-linked policyholder reserves. The discretionary policyholder allocation in Germany is excluded from the KPI to allow better comparability. **Development** • Spread compression between asset returns and allocations to policyholders in Europe and North America has been negatively impacting the investment margin over the last few years. Timing of allocation to policyholder may cause seasonal volatility in the KPI. **Sensitivities** • Mainly to asset returns vs. guarantee levels.
Operating costs **Total reserves**	0.8%	0.9%	0.8%	0.8%	**Interpretation** • Useful for assessing historic trends within a region rather than comparability between regions due to varying product mix driving different levels of reserves. **Development** • Regions with a high savings element in reserves will have a lower KPI, whilst regions which are biased towards protection contracts (with relatively lower reserves) will have a higher KPI. Start-up operations will have higher costs compared with mature operations. **Sensitivities** • Product mix, absolute operating costs and the maturity of the business.
Acquisition costs **APE**	64%	67%	65%	58%	**Interpretation** • Acquisition costs as a % of APE is a measure of the cost to acquire business. **Development** • The overall ratio is sensitive to business mix. Seasonality and case size of CLP business affects the ratio. In H2 2016 the decrease is driven by the effect of a large contract in Chile attracting low commission and high APE. **Sensitivities** • Mainly to business mix changes & related acquisition costs.

Analysis by region

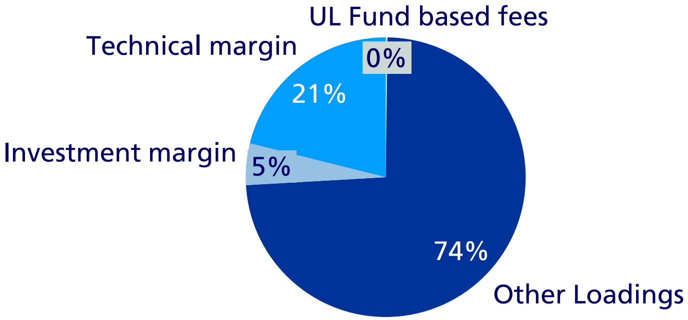
North America

NEW BUSINESS SALES & EARNINGS[1]

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	2015	2016	As a % of
UL fund based fees	0.1%	0.1%	Average UL AuM
Other loadings	27.7%	28.3%	GWP & Deposits
Investment margin	0.5%	0.4%	Average NL reserves
Operating costs	2.0%	2.1%	Average reserves
Acquisition costs	175.7%	173.2%	APE

- The Farmers New World Life (FNWL) business serving Farmers Agents is very mature and writes primarily protection products – primarily term assurance and some universal life where there is a savings component that funds risk and expense charges. This is split between other loadings and the technical margin.
- Along side FNWL we continue to sell our IFA business and are also developing our proposition in the Corporate market. As with FNWL, protection products are the main source of new business.

In the context of KPIs :

- UL fund based fees – small ratio as main source of earnings from protection components.
- Other loadings – as is typical of US protection products, universal life fees are based on deposit account balances rather than premium and therefore the ratio is not directly comparable with other regions such as Europe where fees are rather premium based.
- Investment margin – mainly reflecting returns assets net of policy holder share, mainly flat.
- Operating costs – KPI reflects investment for growth.
- Acquisition costs – Lower acquisition costs due to lower APE with a marginal KPI improvement due to business mix effects.

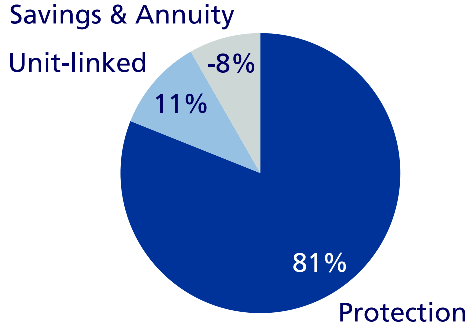
1 FY-16 figures used in the new business value and sources of earnings charts.

Analysis by region

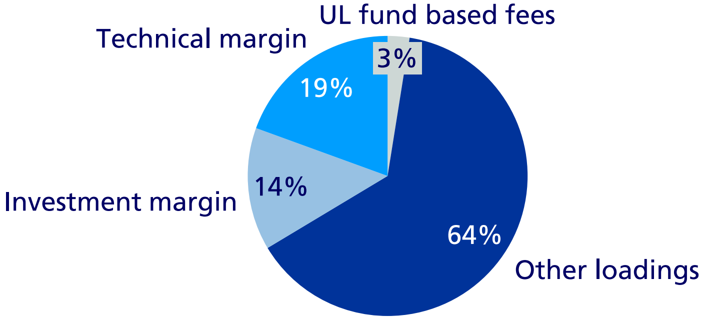
Latin America

NEW BUSINESS SALES & EARNINGS[1]

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	2015	2016	As a % of
UL fund based fees	0.6%	0.5%	Average UL AuM
Other loadings	27.6%	23.5%	GWP & Deposits
Investment margin	3.8%	4.1%	Average NL reserves
Operating costs	2.6%	2.2%	Average reserves
Acquisition costs	96.7%	66.5%	APE

- Latin America is comprised by the join-venture with Santander and the whole own operations of Zurich in Latin America.
- Zurich Santander is a fast growing but established business writing primarily protection products with some unit linked business in Brazil. Our other operations in Latin America are at different stages of development and also focus mainly on protection business (including Corporate/Affinity schemes) and to a lesser extent unit linked business.

In the context of KPIs :

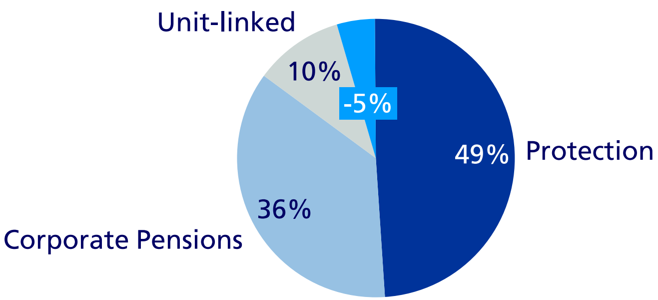
- UL fund based fees – KPI in line with average and remained stable.
- Other loadings – relative higher ratio due to expense loading covering acquisition costs greater than in the other regions, 2016 impacted by business mix.
- Investment margin – higher investment returns in Latin America lead to highest KPI % versus other regions. KPI improvement mainly driven by tactical investment actions.
- Operating costs – Cost level reflecting developing operations in Latin America.
- Acquisition costs – higher commission rates from the strong focus on protection lead to a relatively high ratio. The inclusion of business combination costs for Zurich Santander also creates some volatility. The lower KPI is driven by the effect of a large contract in Chile incurring low commission and high APE.

1 FY-16 figures used in the new business value and sources of earnings charts.

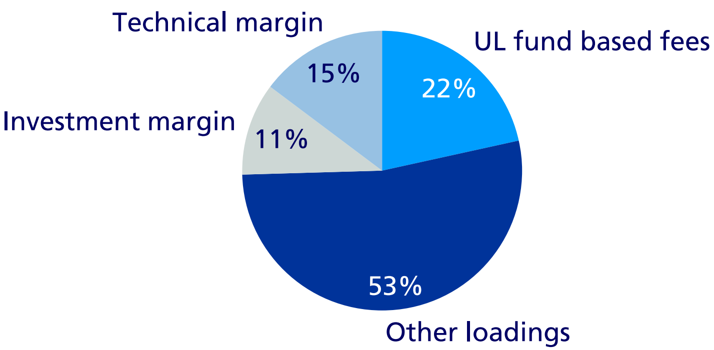
Analysis by region
EMEA

NEW BUSINESS SALES & EARNINGS[1]

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	2015	2016	As a % of
UL fund based fees	0.6%	0.6%	Average UL AuM
Other loadings	8.6%	7.9%	GWP & Deposits
Investment margin	0.6%	0.7%	Average NL reserves
Operating costs	0.6%	0.6%	Average reserves
Acquisition costs	49.2%	47.0%	APE

- Approximately two thirds of the total BOP generation is from the three largest in-force balance sheets in UK, Switzerland and Germany.
- The UK has significant UL AuM and is growing fast in CLP (protection & pension), retail sales also focus on protection through IFA/Brokers. Germany and Switzerland have a large in-force traditional product base, whereas new business is focused on UL savings and protection.

In the context of KPIs :

- UL fund based fees – stable over the short term, but expected to reduce over the long term due to increased Corporate weighting and pressure on retail margins.
- Other loadings – dominated by premium based fees in continental European countries. Decrease in fees driven by lower volumes. KPI impacted by country mix.
- Investment margin – large traditional books with policyholder participation lead to lower than average KPIs compared with other regions. The low yield environment continues to put spreads under pressure in continental Europe.
- Operating costs – high level of both traditional and unit-linked savings reserves lead to the lowest level of this KPI compared with other regions. Operating costs has gone down Y-o-Y in line with the reserves.
- Acquisition costs – reduction due to lower volumes of business, particularly in Germany, and favourable business mix in Isle of Man.

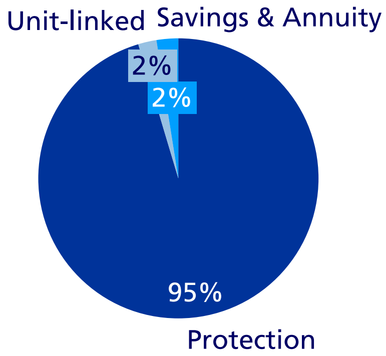
[1] FY-16 figures used in the new business value and sources of earnings charts.

Analysis by region

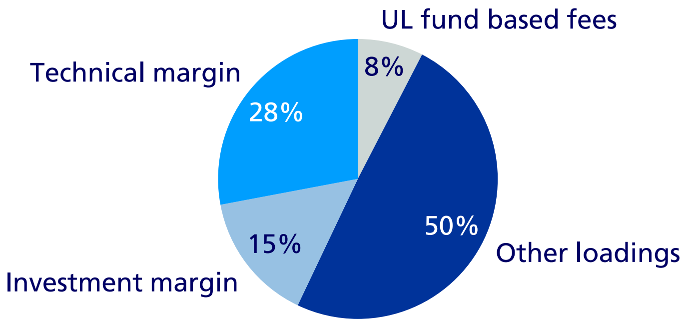
APAC

NEW BUSINESS SALES & EARNINGS[1]

New business value product split



Source of earnings by revenue margin



[1] FY-16 figures used in the new business value and sources of earnings charts.

ADJUSTED KPIs & OVERVIEW

KPIs	2015	2016	As a % of
UL fund based fees	0.7%	0.9%	Average UL AuM
Other loadings	18.2%	20.3%	GWP & Deposits
Investment margin	1.8%	2.2%	Average NL reserves
Operating costs	3.7%	4.4%	Average reserves
Acquisition costs	159.2%	174.9%	APE

- The largest Life business unit in this region is Australia primarily writing protection. Growth in the region is fueled by Japan, also writing protection products, by new acquisitions and there are also smaller developing operations. HK is closed to new business but is generating positive BOP result from the in-force book.

In the context of KPIs :

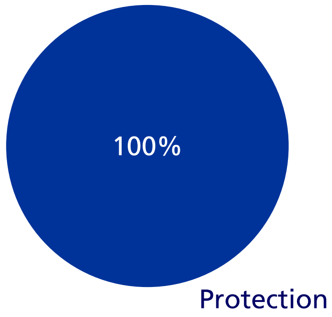
- UL fund based fees – slightly higher fees in HK driven by buoyant markets.
- Other loadings – the year-on-year increase is due to volume growth in Japan and Malaysia.
- Investment margin – relatively high compared with other more mature regions, reflecting higher yield environment in certain APAC countries. The transition to run off of life business in Singapore has reduced the NL reserve, enhancing the KPI.
- Operating costs – Investing in growth and in building the business have lead to a higher than average KPI. Partially offset by structural actions and expense management.
- Acquisition costs – relatively high commissions payable on average on the growing protection portfolio

Analysis by region

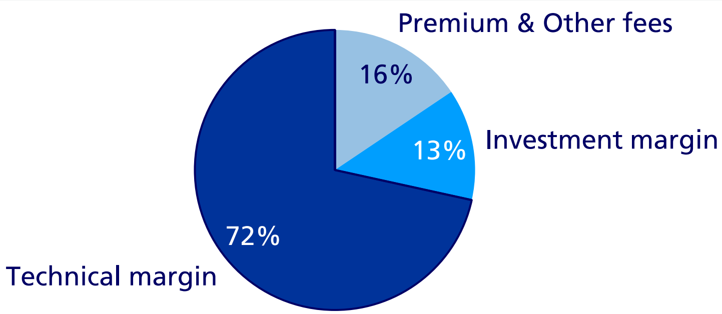
Other

NEW BUSINESS SALES & EARNINGS[1]

New business value product split



Source of earnings by revenue margin



OVERVIEW

Global Life manages its business through four main regions and the residual "Other" region includes business units that do not fall within the management responsibility of those regions. The two main units contributing to the Other result are:

- International Group Risk Solutions which writes group risk protection and pooling business.
- The expense result from the Global Life Central team which is net of recharges out to the Global Life business units. The core expenses have been decreasing following expense management actions.

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

1 FY-16 figures used in the new business value and sources of earnings charts.

Appendix

Historical margins & KPIs

Highlighting distorting impacts

MARGIN HISTORY (USDm)

Business Operating Profit	H1-15	H2-15	H1-16	H2-16
UL fund based fees	406	410	360	376
Other loadings	1'505	1'508	1'462	1'421
Investment margin	195	316	276	295
Technical margin	591	531	434	493
Operating costs	-826	-950	-707	-831
Acquisition costs	-1'386	-1'377	-1'259	-1'250
Impact of deferrals	188	188	101	174
Total BOP	673	627	667	678

IMPACTS (USDm)

H1-15	H2-15	H1-16	H2-16
0	0	0	0
0	0	0	-14
24	-35	54	-68
31	71	0	13
0	0	52	13
0	0	0	0
0	0	-54	54
55	35	52	-2

ADJ. MARGIN (USDm)

H1-15	H2-15	H1-16	H2-16
406	410	360	376
1'505	1'508	1'462	1'435
171	351	222	363
559	461	434	480
-826	-950	-759	-844
-1'386	-1'377	-1'259	-1'250
188	188	154	120
618	592	615	680

KPIs	H1-15	H2-15	H1-16	H2-16
UL fund based fees	0.6%	0.6%	0.6%	0.6%
Other loadings	11%	12%	11%	11%
Investment margin1	0.7%	0.8%	0.7%	0.9%
Operating costs	0.8%	0.9%	0.7%	0.8%
Acquisition costs	64%	67%	65%	58%

H1-15	H2-15	H1-16	H2-16
0.6%	0.6%	0.6%	0.6%
11%	12%	11%	11%
0.6%	0.9%	0.7%	0.9%
0.8%	0.9%	0.8%	0.8%
64%	67%	65%	58%

- H1 2015 – Investment margin includes negative impacts stemming from the SNB actions related to the Swiss Franc and the positive effect from a review of terminal bonus reserves in Germany. Technical margin includes distorting impacts related to the settlement of prior years items arising in current year.
- H2 2015 – Technical and investment margin include the net positive impact from in-force management initiatives in Switzerland.
- H1 2016 - Operating costs includes the release of a policyholder provision related to UL business in the UK. The investment margin and impact of deferrals hold a reclassification to neutralize the impact of the assumptions review in Germany from 2015 (presentational item only).
- H2 2016 - Other loadings includes the estimated impact of a regulatory change in the UK. Investment margin and Impact of deferrals includes the reversal of the presentational item in Germany due to timing mismatch. Technical margin impacted from a model change in Switzerland. Operating costs includes the further release of a policyholder provision related to UL business in the UK

1 Adjusted for the impact of Germany discretionary dividends.

Total margins by region

As reported and adjusted for distorting impacts

USDm	As reported			Adjusted		
Total Global Life	2015	2016	Delta	2015	2016	Delta
UL fund based fees	816	736	-10%	816	736	-10%
Other loadings	3'013	2'883	-4%	3'013	2'897	-4%
Investment margin	511	571	12%	523	585	12%
Technical margin	1'122	927	-17%	1'020	914	-10%
Operating costs	-1'776	-1'539	13%	-1'776	-1'603	10%
Acquisition costs	-2'763	-2'509	9%	-2'763	-2'509	9%
Impact of deferrals	376	274	-27%	376	274	-27%
Total BOP	1'300	1'344	3%	1'209	1'295	7%
North America	2015	2016	Delta	2015	2016	Delta
UL fund based fees	1	1	-1%	1	1	-1%
Other loadings	392	399	2%	392	399	2%
Investment margin	30	24	-19%	30	24	-19%
Technical margin	113	115	2%	113	115	2%
Operating costs	-134	-153	-14%	-134	-153	-14%
Acquisition costs	-314	-270	14%	-314	-270	14%
Impact of deferrals	90	1	-99%	90	1	-99%
Total BOP	178	118	-34%	178	118	-34%
Latin America	2015	2016	Delta	2015	2016	Delta
UL fund based fees	30	26	-12%	30	26	-12%
Other loadings	639	634	-1%	639	634	-1%
Investment margin	135	143	6%	135	143	6%
Technical margin	173	193	11%	173	193	11%
Operating costs	-225	-204	9%	-225	-204	9%
Acquisition costs	-576	-571	1%	-576	-571	1%
Impact of deferrals	19	28	48%	19	28	48%
Total BOP	195	250	28%	195	250	28%

USDm	As reported			Adjusted		
EMEA	2015	2016	Delta	2015	2016	Delta
UL fund based fees	758	680	-10%	758	680	-10%
Other loadings	1'827	1'650	-10%	1'827	1'664	-9%
Investment margin	286	337	18%	298	352	18%
Technical margin	664	460	-31%	552	447	-19%
Operating costs	-1'176	-939	20%	-1'176	-1'004	15%
Acquisition costs	-1'591	-1'364	14%	-1'591	-1'364	14%
Impact of deferrals	123	86	-30%	123	86	-30%
Total BOP	892	911	2%	791	861	9%
APAC	2015	2016	Delta	2015	2016	Delta
UL fund based fees	27	29	7%	27	29	7%
Other loadings	145	188	29%	145	188	29%
Investment margin	51	57	12%	51	57	12%
Technical margin	87	107	23%	97	107	10%
Operating costs	-164	-179	-9%	-164	-179	-9%
Acquisition costs	-246	-268	-9%	-246	-268	-9%
Impact of deferrals	144	159	10%	144	159	10%
Total BOP	43	92	nm	53	92	74%
Other	2015	2016	Delta	2015	2016	Delta
UL fund based fees	0	0	0%	0	0	0%
Other loadings	9	12	35%	9	12	35%
Investment margin	9	10	3%	9	10	3%
Technical margin	85	54	-37%	85	54	-37%
Operating costs	-76	-63	17%	-76	-63	17%
Acquisition costs	-35	-37	-8%	-35	-37	-8%
Impact of deferrals	0	0	0%	0	0	0%
Total BOP	-8	-26	nm	-8	-26	nm

Key performance indicators[1]

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

USDm

Total Global Life	H1-15	H2-15	H1-16	H2-16
Average UL AuM	130'291	130'472	125'069	121'903
GWP & Deposits	13'485	12'474	13'521	12'743
Average NL reserves	93'264	89'437	91'319	91'599
Average reserves	210'797	204'337	200'570	199'711
APE	2'173	2'048	1'946	2'173

North America	H1-15	H2-15	H1-16	H2-16
Average UL AuM	1'077	1'197	1'355	1'504
GWP & Deposits	689	729	769	644
Average NL reserves	5'673	5'733	5'788	5'854
Average reserves	6'749	6'930	7'142	7'358
APE	88	91	82	74

Latin America	H1-15	H2-15	H1-16	H2-16
Average UL AuM	5'453	4'946	5'382	6'454
GWP & Deposits	1'189	1'129	1'202	1'498
Average NL reserves	3'625	3'311	3'439	3'712
Average reserves	9'083	8'266	8'827	10'150
APE	305	290	288	571

USDm

EMEA	H1-15	H2-15	H1-16	H2-16
Average UL AuM	119'477	118'369	112'829	110'800
GWP & Deposits	11'048	10'180	10'972	10'050
Average NL reserves	80'724	77'342	79'097	79'034
Average reserves	189'875	184'464	180'157	177'762
APE	1'675	1'560	1'484	1'421

APAC	H1-15	H2-15	H1-16	H2-16
Average UL AuM	4'284	3'921	3'464	3'145
GWP & Deposits	397	401	414	510
Average NL reserves	2'882	2'716	2'677	2'678
Average reserves	4'728	4'344	4'125	4'119
APE	72	83	72	81

Other	H1-15	H2-15	H1-16	H2-16
Average UL AuM	0	2'039	2'039	0
GWP & Deposits	220	68	245	82
Average NL reserves	361	333	318	321
Average reserves	361	333	318	321
APE	34	24	20	27

[1] Figures above have been adjusted to remove the effective minority interests in the total for Zurich Santander and Banco Sabadell.

Key performance indicators

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

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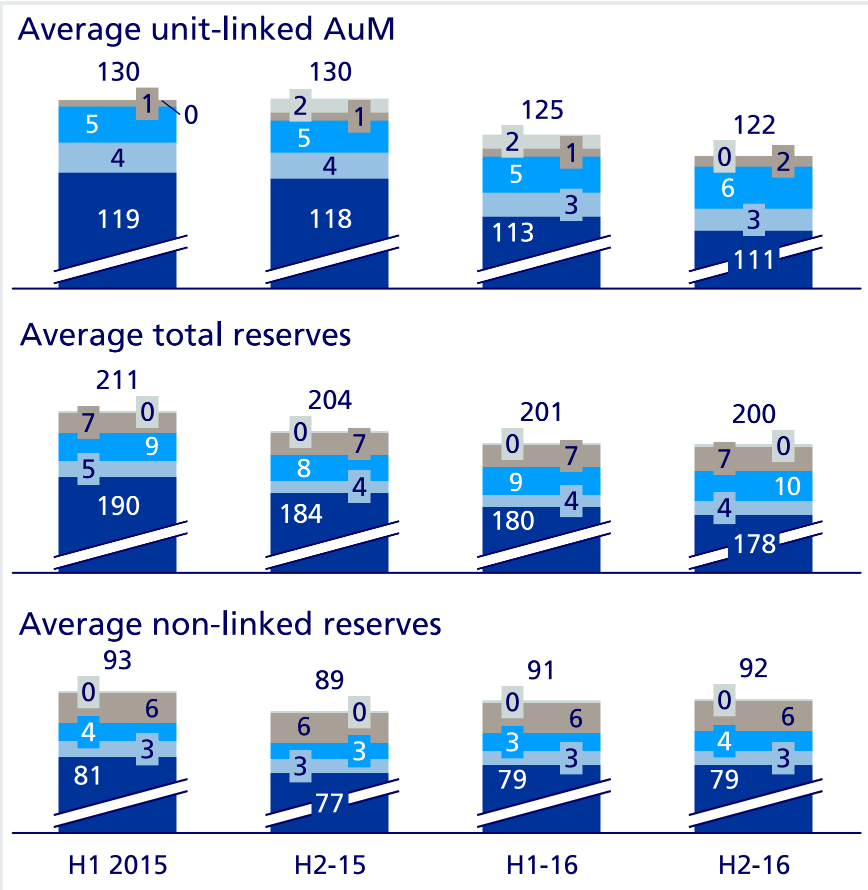
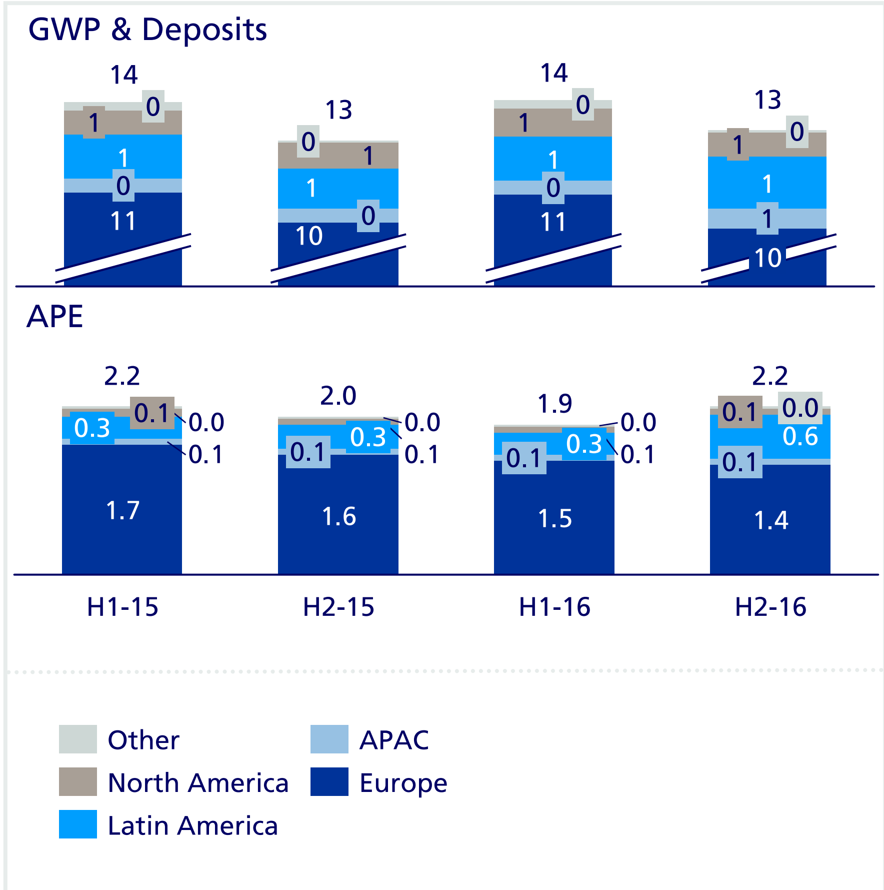
USDbn



USDbn



Movements from 2015 to 2016

Commentary on key variances

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ADJUSTED MARGIN MOVEMENTS[1]

Total Global Life	2015	2016	Delta
UL fund based fees	816	736	-10%
Other loadings	3'013	2'897	-4%
Investment margin	523	585	12%
Technical margin	1'020	914	-10%
Operating costs	-1'776	-1'603	10%
Acquisition costs	-2'763	-2'509	9%
Impact of deferrals	376	274	-27%
Total BOP	1'209	1'295	7%

KPIs	2015	2016	Delta[2]
UL fund based fees	0.6%	0.6%	0.0
Other loadings	12%	11%	-0.6
Investment margin [3]	0.7%	0.8%	0.1
Operating costs	0.9%	0.8%	-0.1
Acquisition costs	65%	61%	-4.5

1 BOP and margin values are as reported and exclude distorting impacts (see Slide 13).

2 Change in percentage points.

3 Adjusted for the impact of Germany discretionary dividends.

COMMENTARY

GL BOP reported is USD 1.344m, 3% above prior year with a strong performance in EMEA, Latin America and APAC offset by North America. The weakening of Latin American and European currencies against the U.S. dollar compared with 2015 had a significant impact on the reported results, hence the following commentary focus on adjusted variances at constant FX

UL fund based fees

- 3% decrease in fund based fees in local currency driven by a maturing in-force book in EMEA

Premium & Other loadings

- KPI flat with growth in Latin America and APAC offset by EMEA.

Investment margin

- 18% local currency increase driven by EMEA and Latin America. In EMEA because of management action on the structure of the investment portfolio and lower policyholder dividends in Switzerland and Germany. Improvements in Latin America are also driven by tactical investment actions.

Technical margin

- 7% decrease in local currency reflects adverse claims experience in EMEA, North America and International Group Risk Solutions, including large losses volatility.

Operating costs

- Operating costs decreased 5% in local currency mainly driven by cost savings initiatives in EMEA only partially reduced by investment for growth in APAC and ZSIA.

Acquisition costs

- Acquisition costs decreased 5% in local currency mainly driven by EMEA due to lower sales partially offset by positive business mix.

Impact of deferrals

- Deferral impacts deterioration in local currency mainly driven by the lower acquisition costs and a negative persistency assumption review in North America

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