Zurich Insurance Group

Operating and financial review (unaudited) 2016

Results for the six months to June 30, 2016

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 six months ended June 30, 2016, compared with the same period of 2015.

Contents

The information contained within the operating and financial review is unaudited and is based on the consolidated results of the Group for the six months ended June 30, 2016 and compared with the same period of 2015. 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 always add up to the rounded total. 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 and embedded value report 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 (NIAS), see table 13.2 of the unaudited consolidated financial statements.

On June 10, 2016, Zurich announced a planned change in the structure of the Group, effective July 1, 2016, which will lead to a simpler, more customer-oriented structure and reduced complexity. The new business structure will be focused on geographic regions and it will consist of Asia Pacific, Europe, Middle East and Africa (EMEA), Latin America and North America. In addition, the business structure will also include Global Corporate and Farmers. The changes will be implemented over the course of 2016 and the new reporting structure will be reflected in the consolidated financial statements in 2017.

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2016	2015	Change[1]
Business operating profit	**2,194**	2,238	(2%)
Net income attributable to shareholders	**1,613**	2,059	(22%)
General Insurance gross written premiums and policy fees	**18,517**	18,669	(1%)
Global Life gross written premiums, policy fees and insurance deposits	**15,363**	14,833	4%
Farmers Management Services management fees and other related revenues	**1,422**	1,380	3%
Farmers Re gross written premiums and policy fees	**759**	1,126	(33%)
General Insurance business operating profit	**1,205**	1,166	3%
General Insurance combined ratio	**98.4%**	98.3%	(0.0 pts)
Global Life business operating profit	**667**	673	(1%)
Global Life new business annual premium equivalent (APE)[2]	**2,249**	2,443	(8%)
Global Life new business margin, after tax (as % of APE)[2]	**25.4%**	18.9%	6.5 pts
Global Life new business value, after tax[2]	**495**	411	20%
Farmers business operating profit	**678**	719	(6%)
Farmers Management Services gross management result	**675**	654	3%
Farmers Management Services managed gross earned premium margin	**7.0%**	7.0%	(0.0 pts)
Average Group investments	**195,093**	200,752	(3%)
Net investment result on Group investments	**3,654**	4,023	(9%)
Net investment return on Group investments[3]	**1.9%**	2.0%	(0.1 pts)
Total return on Group investments[3]	**4.7%**	0.1%	4.6 pts
Shareholders' equity[4]	**31,632**	31,178	1%
Swiss Solvency Test capitalization ratio[5]	**189%**	203%	(14.0 pts)
Diluted earnings per share (in USD)	**10.75**	13.73	(22%)
Diluted earnings per share (in CHF)	**10.55**	12.99	(19%)
Book value per share (in CHF)[4]	**206.62**	209.27	(1%)
Return on common shareholders' equity (ROE)[6]	**11.9%**	14.2%	(2.3 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[6]	**11.3%**	11.6%	(0.3 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 June 30, 2016 and December 31, 2015, respectively.
5 Ratios as of January 1, 2016 and July 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 Report 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

For the first six months of 2016, the Group has delivered overall business operating profit of USD 2.2 billion, a decrease of USD 44 million or 2 percent in U.S. dollar terms, but an increase of 3 percent on a local currency basis compared with the same period of 2015. The General Insurance result has progressed as anticipated as re-underwriting and pricing actions initiated in the second six months of 2015 have continued to take effect. Global Life continued to achieve a strong result while maintaining its focus on priority markets and on extracting value from in-force business. Farmers Management Services continued its positive momentum from premium growth, though Farmers Re incurred higher losses, mainly as a result of higher catastrophe losses.

Net income attributable to shareholders of USD 1.6 billion decreased by USD 446 million, or 22 percent in U.S dollar terms and 17 percent on a local currency basis. The decrease arose from a reduction of USD 132 million in net capital gains on investments, an increase in restructuring related costs and a higher tax expense attributable to shareholders.

The Group's capital and solvency positions remained strong. Solvency measured on an economic basis as determined under the Swiss Solvency Test was 189 percent as of January 1, 2016, a decrease of 14 percentage points since July 1, 2015, mainly due to foreign exchange movements. Shareholders' equity increased by USD 454 million to USD 31.6 billion during the six months to June 30, 2016. This increase arose from the retention of net income in the period, net unrealized gains on investments and after charging USD 2.6 billion for the dividend of CHF17 per share paid to shareholders, as approved at the Annual General Meeting on March 30, 2016.

Business operating profit decreased by USD 44 million to USD 2.2 billion, or by 2 percent in U.S. dollar terms, but increased 3 percent on a local currency basis.

- **General Insurance** business operating profit increased by USD 40 million to USD 1.2 billion, or 3 percent in U.S. dollar terms and 10 percent on a local currency basis. This resulted from an improvement in the non-technical result, largely due to foreign exchange gains from the devaluation of the Venezuelan bolívar. These gains were partly offset by a decrease in the net investment result, mainly due to hedge fund losses compared with gains in the same period of 2015. Excluding Venezuela, business operating profit in local currency increased by 1 percent.
- **Global Life** business operating profit decreased by USD 6 million to USD 667 million, or 1 percent in U.S. dollar terms, but improved 7 percent on a local currency basis. Improvements on a local currency basis in EMEA and Latin America were offset by a lower contribution from North America. Improvements arose in the fee income, investment margin and lower overall costs, which were partly offset by a deterioration in the technical margin.
- **Farmers** business operating profit decreased by USD 41 million to USD 678 million, or by 6 percent. **Farmers Management Services** business operating profit increased by USD 39 million to USD 697 million, driven by growth in gross earned premiums at the Farmers Exchanges[1]. **Farmers Re** business operating profit deteriorated by USD 80 million to a loss of USD 19 million, mainly due to underwriting losses primarily from catastrophe losses in Texas.
- **Other Operating Businesses** reported a business operating loss of USD 388 million, compared with a loss of USD 330 million in the same period of 2015. The increased loss was primarily due to the impact of less favorable foreign exchange movements.
- **Non-Core Businesses** reported a business operating profit of USD 32 million compared with USD 10 million in the same period of 2015. The improvement 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.

[1] 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.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, increased by USD 52 million to USD 36.1 billion, almost flat in U.S. dollar terms, but increased 4 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees decreased by USD 152 million to USD 18.5 billion, or 1 percent in U.S. dollar terms. On a local currency basis, premiums written increased by 2 percent driven by the inclusion of Rural Community Insurance Services (RCIS) as of April 1, 2016 in the North America Commercial result. Apart from this increase, gross written premiums decreased by 2 percent on a local currency basis across all regions as a result of the focus on profitability and the impact of soft market conditions. Excluding Venezuela, gross written premiums and policy fees in local currency increased by 3 percent.
- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 531 million to USD 15.4 billion, or 4 percent in U.S. dollar terms and 9 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.
- **Farmers Management Services** management fees and other related revenues increased USD 41 million, or 3 percent, due to the growth in gross earned premiums of the Farmers Exchanges. **Farmers Re** gross written premiums and policy fees decreased by USD 367 million to USD 759 million, or by 33 percent, due to lower quota share reinsurance assumed from the Farmers Exchanges.

The **net investment result on Group investments**, before allocations to policyholders, of USD 3.7 billion decreased by USD 369 million, or 9 percent in U.S. dollar terms and by 6 percent on a local currency basis, resulting in a **net investment return on average Group investments** of 1.9 percent compared with 2.0 percent in the same period of 2015. **Net investment income**, predominantly included in the core business results, of USD 2.8 billion increased by USD 10 million, or almost flat in U.S. dollar terms, but 4 percent higher on a local currency basis. **Net capital gains on investments and impairments** included in the net investment result decreased by USD 379 million to USD 835 million, mainly due to the decrease in the value of equities and less active realizations compared with the same period of 2015. **Total return on average Group investments** was 4.7 percent, compared with 0.1 percent for the same period of 2015. Total return includes the net investment return and the improved return from net unrealized investment gains before allocations to policyholders, of USD 5.6 billion compared with losses of USD 3.8 billion in the same period of 2015, neither of which flow through net income. This improvement arose mainly as a result of falling bond yields, offset by equity market volatility during 2016, after bond yields had risen in the same period of 2015.

The U.S. dollar, on average, strengthened during the first six months compared with the same period of 2015 against all of the Group's major trading currencies, except the euro which remained flat. The translation effect of the strengthening of the U.S. dollar during the six months affected many line items in both the consolidated income and cash flow statements, as well as reduced business operating profit by USD 115 million. As of June 30, 2016 compared with December 31, 2015, the U.S. dollar was weaker against major currencies except the British pound, which weakened some 10 percent following the Brexit referendum vote, with most line items in the balance sheet affected.

The **shareholders' effective tax rate** increased to 29.9 percent for the period ended June 30, 2016 compared with 24.5 percent for the same period of 2015. The increase of 5.4 percentage points reflects changes in the geographical profit mix and the effect of several non-recurring charges in 2016, which will not attract tax relief.

ROE decreased by 2.3 percentage points to 11.9 percent, largely due to the reduction in net income attributable to shareholders. **BOPAT ROE** decreased by 0.3 percentage points to 11.3 percent, as a result of the decrease in business operating profit. **Diluted earnings per share** in Swiss francs decreased by 19 percent to CHF 10.55 compared with CHF 12.99 in the same period of 2015. Diluted earnings per share in U.S. dollars decreased by 22 percent to USD 10.75 compared with USD 13.73 in the same period of 2015.

Operating and financial review *continued*

General Insurance

in USD millions, for the six months ended June 30	2016	2015	Change
Gross written premiums and policy fees	18,517	18,669	(1%)
Net earned premiums and policy fees	13,227	13,928	(5%)
Insurance benefits and losses, net of reinsurance	8,924	9,315	4%
Net underwriting result	216	230	(6%)
Net investment result	996	1,044	(5%)
Net non-technical result (excl. items not included in BOP)	75	(60)	nm
Non-controlling interests	82	49	(68%)
Business operating profit	**1,205**	**1,166**	**3%**
Loss ratio	67.5%	66.9%	(0.6 pts)
Expense ratio	30.9%	31.5%	0.6 pts
Combined ratio	**98.4%**	**98.3%**	**(0.0 pts)**

in USD millions, for the six months ended June 30	Business operating profit (BOP)		Combined ratio	
	2016	2015	2016	2015
Global Corporate	273	214	99.0%	101.0%
North America Commercial	328	469	99.0%	96.4%
Europe, Middle East & Africa (EMEA)	588	426	93.8%	97.2%
International Markets	266	71	93.8%	101.0%
GI Global Functions including Group Reinsurance	(250)	(14)	nm	nm
Total	**1,205**	**1,166**	**98.4%**	**98.3%**

Business operating profit increased by USD 40 million to USD 1.2 billion, or 3 percent in U.S. dollar terms and 10 percent on a local currency basis. This resulted from an improvement in the non-technical result largely due to foreign exchange gains from the devaluation of the Venezuelan bolívar. It was partly offset by a decrease in the net investment result mainly due to hedge fund losses compared with gains in the same period of 2015. Excluding Venezuela, business operating profit in local currency increased by 1 percent.

Gross written premiums and policy fees decreased by USD 152 million to USD 18.5 billion, or 1 percent in U.S. dollar terms. On a local currency basis, premiums written increased by 2 percent driven by the inclusion of Rural Community Insurance Services (RCIS) in the North America Commercial result as of April 1, 2016. Apart from the impact of RCIS, compared with the same period of 2015, gross written premiums decreased by 2 percent on a local currency basis across all regions as a result of the focus on profitability and the impact of soft market conditions. For total General Insurance excluding Venezuela, gross written premiums and policy fees in local currency increased 3 percent. Overall, rates rose by around 2 percent in 2016.

The **net underwriting result** deteriorated by USD 14 million to USD 216 million, with an overall combined ratio of 98.4 percent, which was in line with the same period of 2015. The loss ratio deteriorated by 0.6 percentage points reflecting higher catastrophe and weather events in Global Corporate, North America and some European countries. The favorable development in loss reserves established in prior years was at a similar level as in the same period in 2015. The favorable development in the first six months of 2016 was mainly due to the reductions in Global Corporate, North America Commercial and the UK, partly offset by Group Reinsurance. The expense ratio improved by 0.6 percentage points, reflecting a lower expense base as a result of initiatives to reduce costs across all regions and the effect of positive non-recurring items in the first six months of 2016.

Global Corporate

in USD millions, for the six months ended June 30	**2016**	2015	Change
Gross written premiums and policy fees	4,251	4,974	(15%)
Net underwriting result	26	(29)	nm
Business operating profit	**273**	**214**	**27%**
Loss ratio	76.9%	77.7%	0.8 pts
Expense ratio	22.1%	23.3%	1.2 pts
Combined ratio	**99.0%**	**101.0%**	**2.0 pts**

Business operating profit increased by USD 59 million to USD 273 million, or 27 percent in U.S. dollar terms and 29 percent on a local currency basis. The increase resulted mainly from the improvement in the net underwriting result. An improvement in the non-technical result was partly offset by a decrease in the net investment result, due to hedge fund losses compared with gains in the same period of 2015.

Gross written premiums and policy fees of USD 4.3 billion decreased by USD 723 million, or 15 percent in U.S. dollar terms and 12 percent on a local currency basis. This reflects the outcome of re-underwriting measures taken to restore profitability from both existing books and new business. Rates overall increased by 1 percent in 2016. The rate environment continued to be under pressure, particularly in North America.

The **net underwriting result** improved by USD 55 million to an underwriting profit of USD 26 million, reflected in the improvement of 2.0 percentage points in the combined ratio to 99.0 percent. The improvement in the loss ratio of 0.8 percentage points was mainly attributable to increased positive development of reserves established in prior years compared with the same period of 2015, partly offset by higher large losses, catastrophe and weather related losses in Europe and North America. The expense ratio improved by 1.2 percentage points mainly as a result of initiatives to reduce costs and the effect of positive non-recurring items in the first six months of 2016.

Operating and financial review *continued*

North America Commercial

in USD millions, for the six months ended June 30	2016	2015	Change
Gross written premiums and policy fees	6,586	5,383	22%
Net underwriting result	38	137	(72%)
Business operating profit	**328**	**469**	**(30%)**
Loss ratio	67.9%	64.1%	(3.8 pts)
Expense ratio	31.1%	32.2%	1.1 pts
Combined ratio	**99.0%**	**96.4%**	**(2.7 pts)**

Business operating profit decreased by USD 141 million to USD 328 million, or by 30 percent, with a deterioration in the net underwriting result, a reduction in the net investment result driven by hedge fund losses compared with gains in the same period of 2015, and a deterioration in the non-technical result driven by foreign currency exchange losses.

Gross written premiums and policy fees increased by USD 1.2 billion to USD 6.6 billion, or by 22 percent. This increase was driven by the completion of the acquisition of RCIS on March 31, 2016 with its results included in North America Commercial from April 1, 2016. RCIS is a provider of agricultural insurance in the U.S. through a federal crop insurance program and other private crop insurance products. The rate environment remained positive with overall rates increased by 1 percent despite market pressures.

The **net underwriting result** decreased by USD 99 million to USD 38 million, reflected in the 2.7 percentage points deterioration in the combined ratio to 99.0 percent. The loss ratio deteriorated by 3.8 percentage points resulting from an increase in the current accident year loss ratio, driven by higher catastrophe and weather related losses and the higher loss ratio pertaining to the RCIS business. The expense ratio improved by 1.1 percentage points, mainly as a result of initiatives to reduce costs and the effect of positive non-recurring items in the first six months of 2016, as well as a lower expense ratio in RCIS.

Europe, Middle East & Africa

in USD millions, for the six months ended June 30	**2016**	2015	Change
Gross written premiums and policy fees	5,958	6,357	(6%)
Net underwriting result	320	149	nm
Business operating profit	**588**	**426**	**38%**
Loss ratio	63.1%	65.8%	2.7 pts
Expense ratio	30.7%	31.5%	0.8 pts
Combined ratio	**93.8%**	**97.2%**	**3.5 pts**

Business operating profit increased by USD 162 million to USD 588 million, or 38 percent in U.S. dollar terms and 43 percent on a local currency basis as a result of an improvement in the net underwriting result.

Gross written premiums and policy fees decreased by USD 399 million to USD 6.0 billion, or by 6 percent in U.S. dollar terms and 4 percent on a local currency basis. Premiums written declined in the markets where competitive pressures were endured. In particular, there was lower new business in the UK in both property and motor lines of business, and also in Italy and Germany in the motor lines of business. In Switzerland, the re-underwriting measures in commercial lines and the exit of an agency business in Netherlands, also resulted in the reduction of premiums.

The **net underwriting result** improved by USD 171 million to USD 320 million, reflected in the positive development in the combined ratio of 3.5 percentage points to 93.8 percent. The improved loss ratio by 2.7 percentage points reflected an improved current accident year loss ratio more than offsetting higher weather related losses mainly from flooding in Germany, Switzerland and Austria. The expense ratio improved by 0.8 percentage points as a result of initiatives to reduce costs and the effect of positive non-recurring items in the first six months of 2016.

Operating and financial review *continued*

International Markets

in USD millions, for the six months ended June 30	**2016**	2015	Change
Gross written premiums and policy fees	1,813	2,063	(12%)
Net underwriting result	96	(17)	nm
Business operating profit	**266**	**71**	**nm**
Loss ratio	49.6%	57.8%	8.2 pts
Expense ratio	44.1%	43.1%	(1.0 pts)
Combined ratio	**93.8%**	**101.0%**	**7.2 pts**

Business operating profit increased by USD 195 million to USD 266 million, an increase of more than 250 percent in U.S. dollar terms. The increase resulted from improvements in the net underwriting result and the non-technical result. The latter was mainly a result of foreign exchange gains from the devaluation of the Venezuelan bolívar. The increases were partly offset by a lower net investment result, primarily in Australia. Excluding Venezuela, business operating profit in local currency increased significantly.

Gross written premiums and policy fees decreased by USD 250 million to USD 1.8 billion, or 12 percent in U.S. dollar terms, but increased by 2 percent on a local currency basis. On a local currency basis, gross written premiums grew by 8 percent in Latin America due to an increase in the mass consumer business in Brazil and the impact of inflation in the region. Despite growth in some areas of Asia Pacific, premiums decreased overall by 7 percent on a local currency basis due to the impact of underwriting actions taken in Australia. Excluding Venezuela, gross written premiums and policy fees in local currency increased by 6 percent. Overall, International Markets achieved average rate increases of 1 percent in 2016.

The **net underwriting result** improved by USD 113 million to USD 96 million, reflected in the 7.2 percentage points improvement in the combined ratio to 93.8 percent. The loss ratio improved by 8.2 percentage points, mainly as a result of an improvement in the current accident year loss ratio, including lower catastrophe and weather related losses, as well as higher levels of favorable development of loss reserves established in prior years compared with the same period of 2015. The expense ratio deteriorated by 1.0 percentage points due to a shift toward business that carries higher commission rates in Latin America.

Global Life

in USD millions, for the six months ended June 30	2016	2015	Change
Insurance deposits	7,747	7,946	(2%)
Gross written premiums and policy fees	7,616	6,887	11%
Net investment income on Group investments	1,683	1,690	–
Insurance benefits and losses, net of reinsurance	(5,679)	(3,191)	(78%)
Business operating profit	**667**	**673**	**(1%)**
Net policyholder flows[1]	4,521	3,410	33%
Assets under management[2, 3]	258,802	256,657	1%
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[3]	210,947	207,542	2%

[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 June 30, 2016 and December 31, 2015, respectively.

New business – highlights

in USD millions, for the six months ended June 30	2016	2015	Change
New business annual premium equivalent (APE)[1]	**2,249**	**2,443**	**(8%)**
New business margin, after tax[2]	**25.4%**	**18.9%**	**6.5 pts**
New business value, after tax[3]	**495**	**411**	**20%**

[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.

Source of earnings[1]

in USD millions, for the six months ended June 30	2016	2015	Change
Loadings and fees	1,723	1,816	(5%)
Investment margin	273	197	38%
Technical margin	534	693	(23%)
Operating and funding costs	(704)	(822)	14%
Acquisition costs	(1,260)	(1,393)	10%
Impact of deferrals	101	182	(45%)
Business operating profit	**667**	**673**	**(1%)**

[1] Each line represents the Group's interest after deducting non-controlling interests, amounting in total to USD 122 million (in 2015 USD 124 million) in business operating profit.

Operating and financial review *continued*

Business operating profit decreased by USD 6 million to USD 667 million, or 1 percent in U.S. dollar terms, but improved 7 percent on a local currency basis. Improvements on a local currency basis in EMEA and Latin America were offset by a lower contribution from North America. In EMEA, the main improvement on a local currency basis arose through the investment margin and lower overall costs. This improvement was partly offset by a deterioration in the technical margin from higher claims experience and lower fees from lower market values and the run-off of in-force business. In Latin America, higher volumes, mainly in Brazil, and increased investment returns mainly in Brazil and Argentina were the main contributors on a local currency basis. North America was mainly affected by a higher level of claims, including two large losses.

Loadings and fees deteriorated by USD 93 million to USD 1.7 billion, or by 5 percent in U.S dollar terms, but increased by 1 percent on a local currency basis. The increase in local currency was driven by higher volumes in Latin America and Asia Pacific reduced by lower unit-linked fund based fees in EMEA resulting from lower market values and run-off of in-force books.

Investment margin improved by USD 76 million to USD 273 million, or 38 percent in U.S. dollar terms, and 51 percent on a local currency basis. The improvement largely occurred in EMEA and Latin America. In EMEA the increase arose mainly from lower policyholder crediting rates in Switzerland and Germany and higher asset bases in countries where business has been growing. Improvements in Latin America in local currency were driven by higher investment returns, mostly in Brazil and Argentina.

Technical margin deteriorated by USD 159 million to 534 million, or by 23 percent in U.S dollar terms and 19 percent on a local currency basis. This deterioration was predominantly driven by adverse claims experience in EMEA, North America and the International Group Risk (IGR) business. Both North America and IGR experienced higher levels of large losses than normally expected.

Operating and funding improved by USD 118 million to USD 704 million, or by 14 percent in U.S dollar terms, and 9 percent on a local currency basis. In local currency, the positive impact of disciplined central expense management, expense reductions in the UK, Spain and Germany and the one-off release of a tax provision relating to unit-linked funds in the UK were partly offset by project costs for growth initiatives.

Acquisition costs decreased by USD 133 million to USD 1.3 billion, or by 10 percent in U.S dollar terms, and by 3 percent on a local currency basis. The decrease on a local currency basis reflected lower volumes of business and changes in business mix in EMEA, particularly in Germany, and also in North America. The contribution from the **impact of deferrals** decreased by USD 82 million to USD 101 million, or by 45 percent in U.S. dollar terms and 44 percent on a local currency basis. The negative effect arose mainly in EMEA, partly as a result of a one-off benefit in the same period of 2015 in Germany and from changes in product mix.

Insurance deposits decreased by USD 199 million to USD 7.7 billion, or 2 percent in U.S. dollar terms, but increased by 3 percent on a local currency basis. On a local currency basis, increases in North America and in Latin America were partly offset by reductions in EMEA. The lower volume in EMEA was driven by Corporate Life & Pensions products in Ireland, where a small number of large cases had boosted volumes in the same period of 2015, with a partial offset from higher sales in 2016 of individual savings business in Italy.

Gross written premiums and policy fees increased by USD 729 million to USD 7.6 billion, or 11 percent in U.S. dollar terms, and 16 percent on a local currency basis. The increase on a local currency basis arose in all regions, predominantly from increased sales in EMEA, particularly from Corporate Life & Pensions products in the UK and individual savings in Spain, and in Zurich Santander from an increase in sales of protection products.

Net policyholder flows were positive at USD 4.5 billion and 1.1 billion higher compared with the same period of 2015. The majority of the improvement occurred in the Retail business in EMEA, largely driven by Spain and Italy. **Assets under management** increased by 1 percent in U.S. dollar terms, and by 2 percent on a local currency basis compared with December 31, 2015. The increase was driven by positive net policyholder flows and the favorable impact of lower interest rates on fixed income investments. In U.S. dollar terms, this improvement was partly offset by the impact from the weakening of the British pound against the U.S. dollar just before the end of the reporting period on investments denominated in British pounds. **Net reserves** increased by 2 percent in U.S. dollar terms, and by 3 percent on a local currency basis compared with December 31, 2015, substantially reflecting movements similar to those in the related assets.

NBV, APE, NBM and BOP by region

in USD millions, for the six months ended June 30

	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[2]		New business margin, after tax (as % of APE) (NBM)[3]		Business operating profit (BOP)	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
North America	57	43	82	88	69.9%	48.5%	69	100
Latin America	56	69	473	505	19.4%	22.7%	121	111
of which:								
Zurich Santander	*49*	*56*	*376*	*399*	*25.7%*	*27.6%*	*101*	*101*
Europe, Middle East & Africa (EMEA)	311	234	1,601	1,744	21.0%	14.0%	460	443
United Kingdom	*121*	*97*	*618*	*710*	*19.5%*	*13.7%*	*91*	*84*
Germany	*15*	*(7)*	*148*	*177*	*9.9%*	*(4.0%)*	*100*	*105*
Switzerland	*63*	*40*	*142*	*194*	*44.3%*	*20.7%*	*117*	*108*
Ireland	*20*	*29*	*172*	*210*	*11.8%*	*13.8%*	*30*	*37*
Spain	*52*	*48*	*247*	*152*	*40.3%*	*57.9%*	*28*	*27*
Italy	*1*	*(7)*	*150*	*122*	*0.4%*	*(5.4%)*	*25*	*19*
Zurich International Life	*39*	*32*	*109*	*165*	*35.4%*	*19.3%*	*37*	*36*
Rest of EMEA	*2*	*2*	*16*	*15*	*9.6%*	*15.1%*	*33*	*28*
Asia Pacific	47	40	73	73	65.2%	56.0%	28	29
Other	23	25	20	34	119.8%	74.2%	(12)	(10)
Total	**495**	**411**	**2,249**	**2,443**	**25.4%**	**18.9%**	**667**	**673**

NBV, APE and NBM by pillar

in USD millions, for the six months ended June 30

	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[2]		New business margin, after tax (as % of APE) (NBM)[3]	
	2016	2015	**2016**	2015	**2016**	2015
Bank Distribution	122	119	830	793	23.1%	22.7%
Other Retail	165	138	643	750	25.7%	18.5%
Corporate Life & Pensions	208	154	776	900	26.8%	17.1%
Total	**495**	**411**	**2,249**	**2,443**	**25.4%**	**18.9%**

[1] New business value is calculated on embedded value principles after the effect of non-controlling interests.
[2] APE is shown gross of non-controlling interests.
[3] 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.

APE decreased by USD 194 million to USD 2.2 billion, or by 8 percent in U.S. dollar terms, and was flat on a local currency basis. Lower new business in Corporate Life & Pensions in EMEA, particularly in the UK and Switzerland, and retail in Zurich International Life, was partly offset by increased sales from Bank Distribution in Italy and Spain. A 20 percent increase in Latin America on a local currency basis was mostly due to strong sales of individual protection and unit-linked business in Zurich Santander Brazil.

New business value increased by USD 84 million to USD 495 million, or 20 percent in U.S. dollar terms and 28 percent on a local currency basis. The increase was mainly explained by improved business mix across most EMEA countries, in spite of the reduction in APE, in particular in Corporate Life & Pensions in the UK and Switzerland, higher sales in Japan and a refinement in the modeling of policyholder participation in Switzerland.

New business margin increased by 6.5 percentage points to 25.4 percent, despite generally lower interest rates with the increase occurring primarily in EMEA and North America due to changes in product mix and a refinement in the modeling of policyholder participation in Switzerland.

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

In North America, APE decreased by USD 6 million or 6 percent due to lower sales through IFA and Brokers. NBM increased by 21.4 percent from the previous year to 69.9 percent driven by the successful launch of a new protection product in the retail segment. As a consequence, NBV increased by USD 15 million or 35 percent.

Operating and financial review *continued*

Latin America delivered APE of USD 473 million, a decrease of USD 32 million, or 6 percent in U.S. dollar terms, driven by the weakening of Latin American currencies against the U.S. dollar. On a local currency basis, APE increased by 20 percent due to increased sales, most notably in Zurich Santander Brazil. The deterioration of 3.3 percentage points in the margin was mainly explained by changes in business mix and also negative economic variances in Zurich Chile and Zurich Santander Brazil. NBV decreased by USD 13 million or 19 percent in U.S. dollar terms, but increased by USD 3 million, or 5 percent, on a local currency basis.

In EMEA, APE decreased by USD 143 million or by 8 percent in U.S. dollar terms and 5 percent on a local currency basis. The main decrease in sales arose in Corporate Life & Pensions in the UK and Switzerland, as well as from the withdrawal of certain low margin unit-linked products in Zurich International Life. APE increased in Spain and Italy, from increased sales of single premium individual savings products. NBV of USD 311 million increased by USD 77 million or by 33 percent in U.S. dollar terms and 38 percent on a local currency basis; this positive impact was driven by improved margins in Germany and from changes in business mix, particularly in the UK and Switzerland, and from a refinement in the modeling of policyholder participation in Switzerland.

In Asia Pacific, APE remained flat at USD 73 million, but increased by 2 percent on a local currency basis. Strong sales driven by Japan were partly offset by lower volumes in Australia in retail protection business. Margins increased in both Japan and Australia from re-pricing activities, as well as business mix. As a consequence, NBV increased by USD 7 million, or 17 percent in U.S. dollar terms and 16 percent on a local currency basis.

In Other, NBV decreased by USD 2 million, or by 6 percent in U.S. dollar terms and 3 percent on a local currency basis, as a result of a decrease in APE of USD 14 million, or 42 percent in U.S. dollar terms and 40 percent on a local currency basis. This decrease was partly offset by improved margins as a result of business mix.

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

In Bank Distribution, NBV increased by USD 3 million to USD 122 million, or 3 percent in U.S. dollar terms and 16 percent on a local currency basis. The increase on a local currency basis resulted from higher margins in Germany and in the Zurich Santander operations in Mexico, together with higher sales in Zurich Santander Brazil, Zurich International Life and Spain from protection business.

In Other Retail, NBV increased by USD 27 million to USD 165 million, or 19 percent in U.S. dollar terms, and 23 percent on a local currency basis. The increase arose mainly in North America, Germany and Italy mainly due to positive business mix impacts, and in Japan due to improved volumes and business mix.

In Corporate Life & Pensions, NBV increased by USD 54 million to USD 208 million, or 35 percent in U.S. dollar terms, and 42 percent on a local currency basis, benefiting from improved business mix in the UK, and a refinement in the modeling of policyholder participation, as well as improved business mix in Switzerland.

Farmers

Farmers business operating profit decreased by USD 41 million to USD 678 million. An improvement of USD 39 million in Farmers Management Services was more than offset by a reduction in business operating profit of USD 80 million in Farmers Re.

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 six months ended June 30	**2016**	2015	Change
Management fees and other related revenues	1,422	1,380	3%
Management and other related expenses	(746)	(727)	(3%)
Gross management result	675	654	3%
Other net income	22	5	nm
Business operating profit	**697**	**658**	**6%**
Managed gross earned premium margin	7.0%	7.0%	(0.0 pts)

Business operating profit increased by USD 39 million to USD 697 million driven by growth in gross earned premiums at the Farmers Exchanges.

Management fees and other related revenues of USD 1.4 billion increased by USD 41 million, or 3 percent, due to the growth in gross earned premiums across most lines of business of the Farmers Exchanges. **Management and other related expenses** of USD 746 million also grew 3 percent, in line with revenue growth. **Other net income** of USD 22 million increased by USD 17 million primarily due to unrealized gains from a mark-to-market valuation of securities supporting employee benefit liabilities.

The **managed gross earned premium margin** remained unchanged at 7.0 percent.

Operating and financial review *continued*

Farmers Re

in USD millions, for the six months ended June 30	**2016**	2015	Change
Gross written premiums and policy fees	759	1,126	(33%)
Net underwriting result	(54)	16	nm
Business operating profit	**(19)**	**61**	**nm**
Loss ratio	75.1%	67.7%	(7.5 pts)
Expense ratio	32.0%	30.9%	(1.1 pts)
Combined ratio	**107.1%**	**98.6%**	**(8.6 pts)**

Business operating profit deteriorated by USD 80 million to a loss of USD 19 million due to underwriting losses and lower net investment income resulting from lower invested assets due to a repatriation of capital to the Group at the end of 2015.

Gross written premiums and policy fees decreased by USD 367 million to USD 759 million, or by 33 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 10 percent to 8 percent, effective December 31, 2015. The Auto Physical Damage (APD) quota share reinsurance agreement was terminated, effective January 1, 2016. Participation in the APD quota share reinsurance agreement was USD 250 million in the first six months of 2015.

The **net underwriting result** deteriorated by USD 70 million to a loss of USD 54 million, reflected in the increase of 7.5 percentage points in the **loss ratio**, due to higher assumed catastrophe losses, mainly related to Texas storms, as well as unfavorable prior year development, primarily in the auto lines of business. The **expense ratio**, based on ceded reinsurance commission rates payable to Farmers Exchanges, increased 1.1 percentage points due to the termination of the APD quota share reinsurance agreement which had a lower 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 six months ended June 30	**2016**	2015	Change
Gross written premiums	9,883	9,527	4%
Gross earned premiums	9,652	9,338	3%

Gross written premiums in the Farmers Exchanges increased by USD 356 million to USD 9.9 billion, or by 4 percent. Growth in most lines of business from continuing operations was partly offset by decreases due to discontinued 21st Century operations.

Gross earned premiums in the Farmers Exchanges increased by USD 314 million to USD 9.7 billion, or by 3 percent.

Other Operating Businesses

in USD millions, for the six months ended June 30	2016	2015	Change
Business operating profit:			
Holding and Financing	(286)	(216)	(32%)
Headquarters	(103)	(114)	10%
Total business operating profit	**(388)**	**(330)**	**(18%)**

Holding and Financing business operating loss of USD 286 million increased by USD 70 million, or by 32 percent in U.S. dollar terms and 37 percent on a local currency basis. This was primarily driven by less favorable foreign exchange impacts compared with the same period of 2015, when they were higher partly as a result of the Swiss National Bank action to discontinue the link of the Swiss franc to the euro.

Headquarters business operating loss of USD 103 million decreased by USD 12 million, or by 10 percent in U.S. dollar terms and 6 percent on a local currency basis.

Non-Core Businesses

in USD millions, for the six months ended June 30	2016	2015	Change
Business operating profit:			
Zurich Legacy Solutions	6	1	nm
Other run-off	27	9	nm
Total business operating profit	**32**	**10**	**nm**

Zurich Legacy Solutions, which comprise run-off portfolios managed with the intention of proactively reducing risk and releasing capital, reported a business operating profit of USD 6 million. The result was primarily driven by net investment income on the run-off portfolios. The improvement of USD 5 million arose primarily from the impact of both lower adverse development of loss reserves established in prior years and lower loan losses due to the sale of a loan book at the end of 2015.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 27 million, an improvement of USD 18 million. 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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