

Commentary on Q1-17 results

Slide 3: Key messages

Q1-17 shows strong underlying performance with BOP up 14% adjusted for the impact of Ogden, with positive performance across all businesses and a good investment result.

The Group remains on track to deliver on the strategic priorities outlined at the investor day in November 2016.

Property & Casualty (P&C) has shown underlying improvement across most regions with the accident year loss ratio ex-catastrophe improving by over 2ppts compared to the prior year quarter, while absolute expenses continue to reduce. The expense ratio is expected to decline over the remainder of the year as absolute expenses continue to reduce and the timing of crop premiums leads to an increase in net earned premium.

P&C reserves remain strong as evidenced by ongoing favorable development slightly above the upper end of the targeted PYD range of 1-2% before the impact of Ogden. Ogden had an overall net negative impact of USD 289m within the quarter compared to the USD 315m indicated at the time of the FY-16 results. The difference relates to a combination of foreign exchange movements and use of local reserve strength. See slide 8 for further details on Ogden.

Life continues to deliver on its unit-linked and protection-orientated strategy, with this delivering consistent growth in earnings of 23% in local currency. The quarter also shows strong development of 12% and 18% respectively in reported APE and new business value.

The Farmers Exchanges, which are owned by their policyholders, delivered further growth driven mainly by rate increases. This is reflected in higher fee income at Farmers Management Services. Farmers Re was impacted by high cat losses, while Farmers New World Life (FNWL) has seen steady performance.

The Group's capital position is very strong with this confirmed by the SST ratio of 227% as of January 1, 2017 and an estimated Z-ECM ratio of 129% as at the end of March 2017.

Slide 4: Key highlights – 2017-2019 financial targets

Just as a reminder, the Group has four key targets for the 2017 to 2019 cycle.

First, the Group targets a BOPAT ROE in excess of 12% over the 2017-2019 period. This assumes no major improvement in investment yields or the current pricing environment across the core markets,

and reflects the changed strategic asset allocation. As a result the Group is not only improving the ROE, but also improving its quality.

Second, the Group will look to significantly improve the relative cost efficiency. To this end the Group will target USD 1.5bn of net expense savings against the 2015 baseline by 2019, of which USD 300m have been achieved already in 2016. The savings will not be eroded by incremental investment.

Third, the Group targets cash remittances in excess of USD 9.5bn over the next 3 years, after the cost of restructuring.

Finally, the Group will continue to manage the overall capital position within the 100-120% range based on the internal Z-ECM capital model, which is calibrated to an AA level.

Slide 5: Key highlights – Status on financial targets

The first quarter shows that the Group continues to make good progress in terms of profitability across the businesses and is on track to meet the financial targets set out at the November 2016 investor day.

In terms of the four key financial targets

1. BOPAT ROE: excluding the impact of Ogden this would have been 12.6% for the first quarter, in line with the target to deliver a BOPAT ROE in excess of 12% and growing throughout the 2017-19 period.
2. Expense savings: circa USD 0.4bn of cumulative savings achieved to date out of the USD 1.5bn target. Further actions are underway which are expected to have a positive benefit over the remainder of the year and deliver the run-rate of savings indicated at the time of the investor day.
3. Capital: Estimated Z-ECM ratio of 129% remains above the 100-120% target range.
4. Cash remittances: The Group expects to achieve remittances in 2017 in line with the run rate required to achieve the USD 9.5bn cumulative target for the 2017-19 period.

Slide 6: Key highlights – Proof points by business

In P&C continued re-underwriting efforts have resulted in a 1.6ppt improvement in the accident year loss ratio ex-cat compared to FY-16. The expense ratio in Q1-17 is 2ppts higher than in Q1-16 mainly driven by the higher commission ratio and lower net earned premium in the quarter impacting the OUE ratio. Higher NEP over the remainder of the year and ongoing cost reductions are expected to lead to a reduction in the OUE ratio. See slide 14 for further details on the expense ratio.

Prior year development of 2.2ppts was slightly above guidance of 1-2ppts before allowance for the changes to the UK Ogden discount rate, reflecting the strength of Group reserves. For the year the Group expects overall PYD to be in the indicated 1-2ppt range.

The Life business continued to show strong BOP growth with a 23% increase both in local currency and in dollars, compared to the prior year quarter.

In line with Zurich's focus on writing non-traditional life products, non-traditional products combining protection, unit-linked and corporate pensions accounted for 89% of APE written in the quarter.

Continued growth at the Farmers Exchanges benefited FMS management fees and resulted in an improved gross management result. Farmers Re BOP improved but was impacted by high catastrophe losses. FNWL BOP slightly decreased on the background of very good claims experience in the prior year period.

Slide 7: Key highlights – P&C reserves disclosure

The Group remains confident in the reserving approach, the Zurich Way of Reserving, and in the strength of the reserves.

In 2016 overall prior year reserve development for the Group was favorable at 1.8ppts, in line with the communicated expectation of 1-2ppts per annum. The regions showed greater levels of favorable PYD, while centrally held reserves were strengthened during the year.

Going forward, the Group expects to see favorable overall run off of reserves in the 1-2ppt range.

The strong reserve position can be particularly seen in long-tailed lines. In Workers Compensation in the US for example, the initial booking of IBNR and tail factor strength are above industry levels and at the high end of the peer group.

With the Q1-17 results the Group has released additional P&C reserving data as of December 31, 2016. The data are presented in the same form as the 2015 data released at the time of the Q2-16 results, are in line with the reporting structure that was in place at FY-16, and contain ten-year gross paid and incurred loss triangles, case reserves, incurred but not reported (IBNR) losses, ultimate losses and earned premiums by region and line of business.

Note that the supplied data contain a regional view and thus do not include centrally held reserves.

The triangles can be used to form a high-level assessment of Zurich's reserve adequacy provided that specific features in the data are suitably adjusted for. In particular to note are:

1. North America auto and property: a claims system conversion distorts the 2011 and prior diagonals, which should be omitted from any projection.
2. EMEA auto: the experience of older years is not always a good indicator of future development, particularly as the mix of claim types have shifted over time in major markets.
3. Liability lines: use of the chain ladder method can overstate recent accident year projections.
4. Workers compensation: tail factors require extrapolation of the triangle or use of external data.

More information on these specific data features can be found in the presentation accompanying last year's triangle data.

Slide 8: Key highlights – Ogden impact

At year end 2016 the Group reserves were set based on an assumed reduction in the UK Ogden rate from 2.5% to 1.0% for liability lines. Following the subsequent announcement by the UK Ministry of Justice on February 27 to reduce the rate to -0.75% the Group reflected the increased reserve requirements through a combination of reserve strength utilization and P&L prior year development.

This had a net negative impact of USD 289m within the quarter compared to the USD 315m indicated at the time of the FY-16 results. The difference relates to a combination of foreign exchange movements and use of local reserve strength. Of the final figure, USD 209m relates to Property & Casualty, with the balance of USD 80m relating to UK legacy books held under Non-Core Businesses.

Slide 10: Group – BOP and NIAS

Adjusting for the impact of Ogden overall BOP was up 14% against the prior year period with all businesses contributing to the good performance.

The Q1-17 results have been presented based on the revised management structure as announced last year, with prior year comparative figures also restated. This mainly affects the Life and Farmers businesses given the transfer of Farmers New World Life, a US life carrier exclusively selling its products through the Farmers distribution channels. In addition to this, the definition of BOP has been changed slightly leading to a net negative impact of USD 20m to BOP versus the previously published figures, however leaving overall net income attributable to shareholders unchanged.

Below the operating line, realized capital gains of USD 67m were below prior year levels, while restructuring costs of USD 91m are below the quarterly run rate implied by the indicated USD 500m for 2017.

The high effective shareholder tax rate of 32.0% is above our planned tax rate and driven mainly by the impact of Ogden and its tax deductibility.

Slide 11: P&C – Topline

Gross written premium (GWP) for the first three months was down 2% on a reported basis and flat in local currency. Adjusting for the RCIS acquisition in the US and the disposals of South Africa, Morocco and the Netherlands in 2016, overall premium growth was slightly up in local currency.

Net earned premiums were down 6% year over year in local currency. This is a reflection of the premium shrinkage on a gross basis seen in 2016 and is driven mainly by the commercial business. In the upcoming quarters this decline is expected to be reversed in part due to incremental premium from the RCIS acquisition which is mainly earned over the latter three quarters of the year.

Rate increases for P&C overall remained stable at 2%.

In local currency EMEA gross premiums were down 4%. Excluding the disposals of South Africa, Morocco and the Netherlands the decline was 2%, due to reductions in Germany and Spain.

North America GWP increased by 3%. Q1-17 includes gross premium from the RCIS acquisition which was reported for the first time in the second quarter in 2016. Adjusting for this the underlying growth is roughly 1%, mainly driven by growth in high margin and specialty lines, offsetting declines in large commercial.

In Asia Pacific GWP was up 4% in local currency, driven by all countries but mainly in Australia and Hong Kong. The acquisition of Cover-More, a leading travel insurance and assistance solutions provider based in Sydney, has been completed and will contribute to the results beginning in Q2-17.

GWP for Latin America also increased 7% in local currency, mainly driven by the retail business in Brazil and Mexico.

Slide 12: P&C – BOP components

Excluding the impact of the change in the Ogden rate in the UK, P&C BOP for Q1-17 was USD 630m, 13% higher than in the first quarter of last year. This was driven by improvements in both EMEA and North America. APAC BOP was USD 56m lower in the quarter, mainly due to the impact of cyclone Debbie in Australia.

Looking at the walk by P&L item for Q1-17 vs Q1-16, the impact of Ogden is partly offset by a higher investment result from hedge fund investments and according market value movements, which are

treated as fair value through profit and loss. Lower currency gains in Latin America explain most of the reduction in the other items.

Slide 13: P&C – Combined ratio details

Excluding the impact of Ogden the Group combined ratio for Q1-17 further improved to 97.2%, mainly due to a reduction in the loss ratio of 2.2ppts.

The continued focus on underwriting and portfolio actions has lowered the current accident year loss ratio excluding catastrophes further to 64.0%. This is 2.4ppts better than Q1-16 and 1.6ppts lower than FY-16. The improvement is due to both lower attritional and lower large losses in roughly equal measure, and stems from most regions.

The impact from natural catastrophes of 2ppts is in line with expectations given normal seasonal patterns and compares to benign experience in the first quarter of 2016. The significant weather events in the US and cyclone Debbie in Australia together accounted for roughly USD 80m of losses.

Prior year reserve development added 1.1ppts to the combined ratio. Adjusting for the Ogden impact favorable releases were at 2.2ppts. This is above the indicated range of expected releases of 1-2ppts and reflects the continued strength of Group reserves.

Slide 14: P&C – Expense ratio details

The expense ratio in Q1-17 was 33.5%, which is 2ppts higher than in Q1-16. The main driver was a higher commission ratio reflecting changes in the mix of business. The other underwriting expense ratio increased by 0.6ppts, where an absolute reduction in expenses was offset by lower net earned premium in the quarter. The decline in NEP in Q1-17 had an adverse impact of 1.2% on the reported OUE ratio. Looking forward;

Absolute expenses are expected to continue to reduce throughout the year, with the majority of the 2017 targeted net expense savings of circa USD 0.4bn for the Group expected to be recognized within P&C. These savings are expected to largely flow through other underwriting expenses, with a portion also being recognized within loss adjustment expenses within the loss ratio.

The decline in NEP observed in Q1-17 is expected to be reversed over the remainder of the year, due in part to the skew in the recognition of net earned premiums for the US crop business, with ~95% of premiums earned over the latter three quarters of the year.

Combined, these effects are expected to lead to a reduction in the other underwriting expense ratio over the remainder of the year.

Development of the commission ratio will depend largely on the evolution of business mix and should be considered also in combination with the development of the loss ratio.

Slide 15: P&C – Combined ratio by business and customer unit

Looking at the combined ratio by business and customer unit, reductions are visible across different businesses with some work needed in commercial insurance.

The EMEA combined ratio for Q1-17 excluding the impact of Ogden was 94.3%. This is almost 1ppt lower than the prior year quarter and driven by favorable prior year reserve releases and improvements in the AY loss ratio, partly offset by a higher expense ratio.

The North America combined ratio has increased due to a higher impact from catastrophes and a lower level of favorable prior year reserve releases.

The combined ratio of APAC is mainly impacted by cyclone Debbie in Australia, while the Latin America combined ratio shows continued improvement.

Commercial Insurance has been impacted by the Ogden adjustment in Europe. Excluding this impact the reported combined ratio was at 102.8%. The underlying increase in the combined ratio was partly driven by challenging market conditions, particularly at the larger end of the market. The Group will continue to prioritize profitability over volume.

The disclosure of the combined ratio by segment and customer units excludes Group Reinsurance. This needs to be considered to get to the total combined ratio for the overall P&C business.

Slide 16: P&C – Investment income

The Q1-17 investment result includes an improvement in the hedge fund portfolio which generated net capital gains of USD 56m versus a USD 63m loss in the prior year. Investment income was down 2% on a reported basis and 1% in local currency compared to the prior year.

Reinvestment yields for debt securities were around 2.1%. In Q1 the gap to the annualized accounting yield has narrowed by 14 bps versus Q4-16 reflecting higher yields across the Group's major geographies.

Slide 17: Life – New business and net inflows

Q1-17 Life new business APE volumes increased 15% in local currency compared to the prior year quarter. This was primarily driven by Latin America, through strong growth in individual protection and unit-linked businesses in Brazil Santander, a large corporate protection contract in Zurich Chile,

and in EMEA from higher corporate pensions sales in Ireland and Zurich International Life and retail in the UK.

New business value increased 21% in local currency year on year with higher values in all regions, primarily due to strong volumes in EMEA, improved business mix in Switzerland and Italy, and revised assumptions in Japan.

As a result the new business margin increased by 1.4ppts overall.

Slide 18: Life – Net inflows and assets under management

Net inflows were positive for the quarter, where sales of individual protection and unit linked business in Santander Brazil and corporate pension volumes in Switzerland and Ireland contributed. EMEA inflows decreased compared to the prior year as lower volumes of savings products were sold through Banco Sabadell.

These inflows, combined with positive market movements and FX impacts increased AuM by 4% during the quarter.

Slide 19: Life – BOP by segment and source

Life BOP increased 23% both in local currency and US dollars compared to the prior year quarter, to USD 312m.

In EMEA, local currency BOP earnings increased by 6%, but were flat USD, where a strong result in Zurich International Life offset slightly weaker results in Germany.

In Latin America Zurich Santander earnings increased by 12% in local currency, while the Zurich branded business increased by 27% largely due to a one-off premium tax release in Brazil.

Asia Pacific BOP increased to USD 39m, driven by a growing business in Japan and positive market development.

In North America, where the Farmers New World Life result is now reported under Farmers, earnings improved by 26%, or USD 3m compared to the prior year.

Viewed by margin and beginning with revenues, loadings and fees increased by 3 percent as reported, or 6% on a local currency basis, from volume growth in Latin America and Asia Pacific, and in EMEA where higher fee income in the UK and Ireland was partially offset by lower volumes in Germany and Switzerland.

Investment margin decreased by 30% as reported, due primarily to higher policyholder crediting in EMEA.

The technical margin improved by 31%, due to a growing business in Japan and compared to the prior year quarter which included poor claims experienced in the US and EMEA.

On the expense side, operating costs increased by 2 percent, or 6 percent on a local currency basis, where expense savings in EMEA were offset by investments for growth in APAC.

Acquisition costs were flat year on year, with decreases in EMEA offset by growth in LatAm, while favorable market movements in APAC and some true ups in EMEA drove an increase in deferrals.

Slide 20: Life – Investment income

Despite higher assets under management in all regions, Life investment income, which is gross of policyholder sharing, decreased slightly to USD 692m. This was mainly driven by lower yields in EMEA.

Reinvestment yields for debt securities were around 1.8%. In Q1 the gap to the annualized accounting yield has narrowed by 21 bps compared to Q4-16.

Slide 21: Farmers Exchanges – Growth

The two major factors impacting Farmers Exchanges growth are unchanged: Strong rate increases in Auto on one hand, resulting in average premium per policy growing 9% year-on-year, and the accelerated run-off of the 21st Century Direct Auto book outside of California and Hawaii on the other. This resulted in overall growth of 2%, or 4% for continuing operations.

Auto vehicles-in-force declined 1.3% in the first quarter. After growing for the first nine months of 2016, the momentum reversed in the fourth quarter. This largely reflects the focus on profitability and a deliberate reduction in new business. This reduction has also had some impact on homeowners volumes sold in conjunction with motor policies.

Specialty and Business Insurance both showed growth in the first quarter with the Exclusive Agent channel in particular performing well. Eastern expansion continued to progress with GWP up 26% to USD 0.2bn.

Slide 22: Farmers Exchanges – Growth drivers

Net Promoter Score and retention have remained broadly stable relative to full year 2016 levels and despite the significant rate and underwriting actions taken to restore the profitability of Auto.

These actions have had an intended negative impact on new business as the Farmers Exchanges look to restore profitability in Auto.

Slide 23: Farmers Exchanges – Profitability

The first quarter of 2017 has continued the high level of Q1 catastrophe losses and exceeded the already high level of Q1-16, with overall catastrophe losses once more surpassing USD 0.4bn. Similar to 2016, more than half of the losses were caused by Texas storms. To put this in perspective – 2016 and 2017 first quarter catastrophe losses exceed the 2013-15 average by more than a factor of four.

As a result, the Farmers Exchanges first quarter combined ratio of 104.4% continued to be at a very high level. The ex-catastrophe loss ratio, however, slightly improved 0.3ppts to 63.1%, partially offset by a somewhat higher expense ratio. Overall Auto combined ratio improved 4.0ppts to 105.4%. While this is an encouraging sign that rate and underwriting actions gain traction, restoring full Auto profitability will take time as previously noted.

The surplus ratio was stable at 37.3%, helped by the overall increase of the All Line Quota Share participation from 20% to 24% communicated at the full year.

Slide 24: Farmers Management Services – Overview

The gross management result of FMS improved 2% to USD 343m largely due to higher management fees. This, however, was offset by unfavorable movements in the marked-to-market value of assets supporting employee benefit liabilities and some other items.

The Managed Gross Earned Premium Margin remained unchanged at 7.0%.

Slide 25: FNWL and Farmers Re – Overview

Reflecting the recent change in Zurich's organization FNWL is now shown as part of Farmers. Notably its life products are exclusively sold through the Farmers distribution channels.

In FY-16 FNWL had favorable claims experience related to assumptions. This, combined with lower investment income, largely explains the small decline in BOP compared to the prior quarter to USD 45m.

FNWL APE was flat at USD 22m. Regardless, the New Business Value improved, reflecting a combination of mix and improved persistency which offset the negative impact of higher swap rates.

Farmers Re All Lines Quota Share reinsurance treaty participation was unchanged at 8%. The Farmers Re combined ratio improved 2.8ppts to 103.0%, as there was no need for reserve strengthening as in

the previous year period. This allowed BOP to improve to USD 3m despite lower investment income as result of last year's cash remittance. The overall level of the combined ratio remained elevated given continued high catastrophe losses and the current profitability of Farmers Auto business.

Slide 26: Group Functions and Operations & Non-Core Businesses – BOP

Group Functions BOP loss overall remained at a similar level as in the previous year. Within this the Headquarters BOP loss increased mainly due to lower recharges to the business units. Holding & Financing BOP loss improved roughly by the same amount as higher debt expense were more than offset by some other factors. First quarter Headquarter and Holding & Financing BOP losses are both somewhat below the run-rate expected for coming quarters.

The Non-Core Businesses result was a USD 45m loss due to the USD 80m impact from the change in the Ogden discount rate in the UK. This compares to a USD 20m gain relating to an in-force management program in the prior year quarter.

Slide 27: Group – Solvency ratios

The 2016 Z-ECM ratio was 125%, slightly above the 122% original estimate but within the normal margin of error. Note that the 2016 Z-ECM ratio and the 2016 SST ratio both reflect the full impact of change in the Ogden discount rate in the UK.

End March Z-ECM ratio is estimated at 129% driven by positive market movements and business profit partially offset by the dividend accrual. As noted above the impact of the change in the Ogden discount rate was already reflected in the 2016 Z-ECM ratio.

The SST ratio increased by 38ppts to 227% over the year, with some 27ppts relating to the new definition of the SST ratio in relation to the market-value-margin, the removal of scenarios and some other changes in the calculation, and the remaining 11ppts due to economic and business effects.

Slide 28: Group – Balance sheet and capital structure

Shareholders' equity decreased USD 1.3bn to USD 29.3bn due to the payment of the 2016 dividend, only partially compensated by net income and movements in unrealized capital gains and foreign exchange.

The overall Group capital structure remains in-line with targeted levels.

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