Zurich Insurance Group

ZURICH®

Operating and financial review (unaudited) 2017

Results for the year ended December 31, 2017

Operating and financial review

The operating and financial review is the management analysis of the business performance of Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) for the year ended December 31, 2017, compared with 2016.

Contents

The information contained within the operating and financial review is unaudited and is based on the consolidated results of the Group for the years ended December 31, 2017 and 2016. 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 2017 of the Group and, in particular, with its consolidated financial statements and embedded value report for the year ended December 31, 2017.

In addition to the figures stated in accordance with International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business metrics 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 note 27 (table 27.4) of the audited consolidated financial statements.

Certain comparatives have been revised as a result of reclassifications and other adjustments. For details refer to note 1 of the audited consolidated financial statements.

Group structure

The Zurich Insurance Group consists of Zurich Insurance Group Ltd and its subsidiaries (the 'Group' or 'Zurich').

Zurich's business is focused on providing best-in-class general and life insurance products and services to individuals, small businesses, mid-sized and large companies.

The operational group structure reflects both, the Group's businesses and geographical regions. The Group pursues a customer-centric strategy, with the Property & Casualty (P&C) and Life businesses which are managed through our regional structure. For details on the activities of the various businesses refer to note 27 of the audited consolidated financial statements.

The Group further divides its P&C and Life business into Retail and Commercial customer units.

The Group has identified the following 13 reportable and operating segments.

Group structure

Businesses	Property & Casualty (P&C)	Life	Farmers	Non-Core Businesses	Group Functions and Operations
Reportable segments	Europe, Middle East & Africa (EMEA) North America Asia Pacific Latin America Group Reinsurance	Europe, Middle East & Africa (EMEA) North America Asia Pacific Latin America Group Reinsurance	Farmers	Non-Core Businesses	Group Functions and Operations
Customer units	Commercial Retail				

Operating and financial review (continued)

Financial highlights

in USD millions, for the years ended December 31, unless otherwise stated	2017	2016	Change[1]
Business operating profit	**3,803**	4,495	(15%)
Net income attributable to shareholders	**3,004**	3,211	(6%)
P&C business operating profit	**1,546**	2,437	(37%)
P&C gross written premiums and policy fees	**33,024**	33,122	–
P&C combined ratio	**100.9%**	98.1%	(2.7 pts)
Life business operating profit	**1,258**	1,130	11%
Life gross written premiums, policy fees and insurance deposit	**33,242**	29,323	13%
Life new business annual premium equivalent (APE)[2]	**4,868**	4,686	4%
Life new business margin, after tax (as % of APE)[2]	**23.3%**	19.4%	3.9 pts
Life new business value, after tax[2]	**999**	782	28%
Farmers business operating profit	**1,691**	1,722	(2%)
Farmers Management Services management fees and other related revenues	**2,892**	2,867	1%
Farmers Management Services managed gross earned premium margin	**7.0%**	7.0%	–
Farmers Re gross written premiums and policy fees	**995**	1,587	(37%)
Farmers Life new business annual premium equivalent (APE)[2]	**91**	94	(3%)
Average Group investments[3]	**189,723**	184,003	3%
Net investment result on Group investments	**7,249**	7,034	3%
Net investment return on Group investments[4]	**3.8%**	3.8%	–
Total return on Group investments[4]	**4.1%**	4.4%	(0.4 pts)
Shareholders' equity[5]	**33,062**	30,660	8%
Z-ECM[6]	**132%**	125%	7.0 pts
Return on common shareholders' equity (ROE)[7]	**10.9%**	11.8%	(0.9 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[7]	**9.2%**	11.5%	(2.2 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 2017. 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] Including investment cash.
[4] Calculated on average Group investments.
[5] As of December 31, 2017 and December 31, 2016, respectively.
[6] Ratios as of December 31, 2017 and December 31, 2016, respectively. Ratio for December 31, 2017 reflects midpoint estimate with an error margin of +/- 5 pts.
[7] 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.

Performance overview

The Group's business operating profit of USD 3.8 billion decreased by USD 0.7 billion or 15 percent in U.S. dollar terms and 8 percent on a local currency basis. This decrease reflects the impacts of catastrophe and weather related events beyond a normal level, in particular the hurricanes impacting the U.S. in the third quarter, Harvey, Irma and Maria. In addition, business operating profit was adversely affected by a change to capital gains tax indexation relief in the UK and measures related to the Group's restructuring.

Adjusted for the impact of the U.S. hurricanes, the change to capital gains tax indexation relief in the UK and the measures related to the Group's restructuring, business operating profit increased by USD 267 million compared to 2016, with improved performance of the Life business across all segments on a local currency basis and improvements of the Property & Casualty (P&C) loss ratio. Excluding the one-time pension plan curtailment gain in 2016, Farmers business operating profit also improved, benefiting from a lower combined ratio in Farmers Re and a strong result of Farmers Life. In addition, accumulated expense savings of around USD 700 million against the 2015 baseline have been achieved.

Net income attributable to shareholders of USD 3.0 billion decreased by USD 207 million, or by 6 percent in U.S dollar terms and by 1 percent on a local currency basis. The decrease is primarily the result of lower business operating profit and higher income tax expense which were only partly offset by higher net realized capital gains.

Shareholders' equity increased by USD 2.4 billion to USD 33.1 billion during the year, with net income for the period more than offsetting the cost of the dividend approved in March 2017. Additionally, positive currency translation adjustments and net actuarial gains on pension plans further contributed to the increase in shareholders' equity.

Business operating profit of USD 3.8 billion decreased USD 0.7 billion with improvements in all businesses other than P&C and Farmers.

- → **P&C** business operating profit decreased by USD 892 million to USD 1.5 billion. Natural catastrophes and other weather events were above normal expected levels, the largest part of which related to the USD 700 million for the hurricanes Harvey, Irma and Maria, impacting North America and EMEA with reinsurance recoveries reflected in the Group Reinsurance segment.
- → **Life** business operating profit increased by USD 129 million to USD 1.3 billion, or 11 percent both in U.S. dollar terms and on a local currency basis. On a local currency basis, all segments showed increases except EMEA, with the largest improvement driven by North America. Overall business operating profit benefited from growth resulting in higher loadings and fees net of acquisition costs, as well as improved technical margin and investment margin, partly offset by increases in policyholder taxes.
- → **Farmers** business operating profit decreased by USD 31 million to USD 1.7 billion, a decrease of 2 percent in U.S. dollar terms. An increase in Farmers Life primarily due to the favorable impact of actuarial assumption changes, as well as an increase in Farmers Re driven by an improved combined ratio, were more than offset by the effect of a pension plan curtailment gain in 2016, which benefited Farmers Management Services and Farmers Life.
- → **Group Functions and Operations (GF&O)** business operating loss reduced to USD 731 million due to administration cost savings and lower financing costs, partially offset by lower recharges to business units.
- → **Non-Core Businesses** business operating profit increased by USD 54 million to USD 39 million driven by reserve releases in run-off books.

The Group progressed against its financial targets in 2017:

BOPAT ROE decreased to 9.2 percent as a result of lower business operating profit caused in particular by the hurricanes affecting the U.S., the impact of the change to the UK capital gains tax indexation relief and the measures related to the Group's restructuring. These impacts also added to a higher effective tax rate. The lower business operating profit, coupled with a higher tax rate and a higher average equity led to the decrease of 2.2 percentage points. Adjusted for the hurricanes and the other aforementioned impacts, the annualized BOPAT ROE amounted to 12.1 percent, in line with the Group's target of 12 percent and growing over the 2017–2019 period.

The Group's capital and solvency positions remained strong and enabled the Board of Directors to propose a dividend of CHF 18 per share. Solvency measured on an economic basis as determined under the **Zurich Economic Capital Model (Z-ECM)** was 132 percent as of December 31, 2017, well above the target range of 100–120 percent, and increased by 7 percentage points from January 1, 2017.

Building on the **expense savings** achieved in 2016, the Group has made further progress toward meeting its 2019 expense target of USD 1.5 billion against the 2015 baseline. Accumulated savings of around USD 700 million have been achieved as of December 31, 2017.

Cash remittances of USD 3.7 billion were achieved during 2017, consistent with the target to deliver remittances in excess of USD 9.5 billion over the cycle.

The **net investment result on Group investments**, before allocations to policyholders, of USD 7.2 billion increased by USD 215 million, or by 3 percent in U.S. dollar terms and 2.5 percent on a local currency basis, resulting in a **net investment return on average Group investments** of 3.8 percent, in line with the same period of 2016. **Net investment income**, predominantly included in the core business results, of USD 5.2 billion decreased by USD 259 million, or 5 percent in both U.S. dollar terms and on a local currency basis as a result of the continued low-yield environment. **Net capital gains on investments and impairments** included in the net investment result increased by USD 474 million to USD 2 billion, mainly due to sales of equity securities compared with the prior period. **Total return on average Group investments** was 4.1 percent, compared with 4.4 percent in the same period of 2016. Total return includes the net investment result, net capital gains and the favorable impact from net unrealized capital gains before allocations to policyholders reported in shareholders' equity, which were USD 486 million compared with USD 1.1 billion in 2016. This decline was mainly a result of rising European government bond yields after yields fell in 2016.

The **shareholders' effective tax rate** increased to 33.2 percent for the period ended December 31, 2017 compared with 30.7 percent for the same period of 2016. This increase is explained by adverse impacts of the catastrophe events (mainly Hurricanes Harvey, Irma and Maria), several non-recurring charges in 2017, which did not attract tax relief and changes in the geographical profit mix. This was partially offset by the one-off US tax reform impact from the re-measurement of the deferred tax position of the Group's U.S. entities.

NIAS ROE decreased by 0.9 percentage points to 10.9 percent due to the reduction in net income attributable to shareholders coupled with a higher average shareholders' equity.

Property & Casualty (P&C)

in USD millions, for the years ended December 31	Total			Of which Commercial[1]		
	2017	2016	Change	**2017**	2016	Change
Gross written premiums and policy fees	33,024	33,122	–	15,852	15,873	–
Net earned premiums and policy fees	26,033	26,102	–	11,007	11,739	(6%)
Insurance benefits and losses, net of reinsurance	17,996	17,345	(4%)	9,213	8,427	(9%)
Net underwriting result	(231)	485	n.m.	(1,252)	90	n.m.
Net investment result	2,038	1,958	4%	1,271	1,186	7%
Business operating profit	**1,546**	**2,437**	**(37%)**	**(45)**	**1,315**	**(103%)**
Loss ratio	69.1%	66.4%	(2.7 pts)	83.7%	71.8%	(11.9 pts)
Expense ratio	31.8%	31.7%	(0.1 pts)	27.7%	27.4%	(0.2 pts)
Combined ratio	**100.9%**	**98.1%**	**(2.7 pts)**	**111.4%**	**99.2%**	**(12.1 pts)**

[1] Excluding Group Reinsurance and intersegment eliminations.

BOP by segment

in USD millions, for the years ended December 31	Business operating profit (BOP)			Net underwriting result		
	2017	2016	Change	**2017**	2016	Change
Europe, Middle East & Africa (EMEA)	259	1,054	(75%)	(175)	348	n.m.
North America	800	1,207	(34%)	(296)	242	n.m.
Asia Pacific	155	270	(43%)	90	210	(57%)
Latin America	177	196	(10%)	45	27	69%
Group Reinsurance[1]	155	(289)	n.m.	105	(343)	n.m.
Total	**1,546**	**2,437**	**(37%)**	**(231)**	**485**	**n.m.**

[1] Including intersegment elimination.

Business operating profit decreased by USD 892 million to USD 1.5 billion, heavily affected by catastrophe losses beyond a normal level, in particular hurricanes Harvey, Irma and Maria during the third quarter of 2017, with a total net loss of USD 700 million impacting North America, EMEA and Group Reinsurance. Adjusted for the U.S. hurricanes and the impact of measures related to the Group's restructuring of USD 99 million, business operating profit decreased by USD 93 million compared with the prior year. Non-technical expenses increased compared with 2016, impacted by lower foreign exchange gains, and other negative non-recurring items. This was partly offset by an improvement in net investment result due to hedge fund gains, mostly in North America.

EMEA business operating profit decreased by USD 795 million, due to higher catastrophe and weather related losses, and was further affected by lower volumes and higher non-technical expenses, the latter reflecting mainly the impacts of measures related to the Group's restructuring. In **North America,** business operating profit decreased by USD 407 million, reflecting improved underlying loss experience, lower other underwriting expenses and higher hedge fund gains compared with 2016, only partly offsetting the impact of the hurricane losses. In **Asia Pacific,** business operating profit decreased by USD 115 million, as 2016 benefited from higher favorable development of loss reserves established in prior years. This was only partly offset by improved underlying loss experience mostly in Australia and Japan. **Latin America** declined by USD 19 million, as foreign exchange gains decreased compared with 2016, in particular in Venezuela. The improvement in **Group Reinsurance** reflected mainly a recovery on hurricane losses.

Commercial Insurance business operating loss stemmed from catastrophe losses, including the impact of hurricanes in the U.S. during the third quarter of 2017. The result also reflected a lower level of favorable development of loss reserves established in prior years, partly related to higher loss reserve releases in 2016 in Asia Pacific. An increase in non-technical expenses in UK and Venezuela, the latter due to lower foreign exchange gains, was partly offset by hedge fund gains in North America.

Operating and financial review (continued)

Gross written premiums and policy fees remained broadly flat in U.S. dollar terms and on a local currency basis. Excluding businesses exited in South Africa, Morocco, Taiwan and the Middle East over the last eighteen months, gross written premiums and policy fees increased by 1 percent on a local currency basis. Growth in Latin America was mainly driven by the mass-consumer business in Brazil and motor insurance in Mexico. In Asia Pacific the acquisition of Cover-More contributed to the growth. EMEA and North America's large commercial book showed decreases, impacted by soft market conditions. Overall, rates rose by around 2 percent in 2017.

The **net underwriting result** decreased by USD 716 million to a loss of USD 231 million, with an overall combined ratio of 100.9 percent, 2.7 percentage points higher than in 2016. Adjusted for the impact of the U.S. hurricanes Harvey, Irma and Maria of USD 700m, the combined ratio was 98.2 percent, with the loss ratio in line with prior year. An improvement in the underlying loss experience was offset by higher other catastrophe and weather-related losses and lower favorable development of loss reserves established in prior years. The other underwriting expense ratio improved by 1.2 percentage points compared with 2016, benefiting from a lower expense base as a result of initiatives to reduce costs, while commissions increased across the segments, reflecting changes in the business mix, resulting in a slightly lower expense ratio.

The net underwriting result in **EMEA** decreased by USD 523 million due to higher catastrophe and weather related losses, unfavorable development in loss reserves established in prior years compared to favorable development in prior year, and lower net premium volumes, partly due to higher internal reinsurance cessions. The expense ratio remained broadly flat, with an increase in commissions offset by lower other underwriting expenses. **North America** decreased by USD 539 million, heavily affected by catastrophe losses in the third quarter of 2017. This was partly offset by an improvement in underlying loss experience, mainly on workers compensation and property lines of business, as well as higher gains on crop business, mostly due to higher retention. Other underwriting expenses also improved, benefiting from initiatives to reduce costs and lower corporate center charges, only partially offset by an increase in commissions due to changes in business mix. **Asia Pacific** was USD 121 million lower than in 2016, which benefited from higher favorable development of loss reserves established in prior years. The result was also affected by an increase in large losses, partly offset by improved underlying loss experience, mostly in Australia's property and motor lines of business and Japan. The net underwriting result in **Latin America** improved by USD 19 million, reflecting higher volumes and improvements in the underlying loss experience, only partly offset by a lower level of favorable development of reserves established in prior years, higher catastrophe losses, and higher commissions and other underwriting expenses.

Life

in USD millions, for the years ended December 31	2017	2016	Change
Insurance deposits	19,172	14,666	31%
Gross written premiums and policy fees	14,070	14,657	(4%)
Net investment income on Group investments	2,925	2,993	(2%)
Insurance benefits and losses, net of reinsurance	(9,259)	(11,130)	17%
Business operating profit	**1,258**	**1,130**	**11%**
Net policyholder flows[1]	7,705	7,804	(1%)
Assets under management[2, 3]	269,836	248,899	8%
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[3]	214,626	203,039	6%

[1] Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.
[2] Assets under management comprise on balance sheet Group investments and unit-linked investments plus assets that are managed by third parties, on which fees are earned.
[3] As of December 31, 2017 and December 31, 2016, respectively.

BOP by segment

in USD millions, for the years ended December 31	2017	2016	Change
Europe, Middle East & Africa (EMEA)	831	889	(7%)
North America	(2)	(85)	98%
Asia Pacific	132	76	73%
Latin America	296	249	19%
Group Reinsurance[1]	1	–	n/a
Total	**1,258**	**1,130**	**11%**

[1] Including intersegment elimination.

Business operating profit increased by USD 129 million to USD 1.3 billion, or 11 percent both in U.S. dollar terms and on a local currency basis, with increases on a local currency basis in all segments except EMEA. Adjusted for USD 121 million reflecting both the impact of the UK capital gains tax indexation relief and measures related to the Group's restructuring, business operating profit increased by USD 250 million compared to prior year, or 22 percent in U.S. dollar terms, with increases in all segments. A significant portion of the increase occurred in **North America,** driven by improved claims experience, in addition 2016 was impacted by an adverse variance resulting from a review of expected persistency in certain universal life books of business. **Asia Pacific** benefited from both organic and inorganic growth across the region, as well as improved persistency in Hong Kong. In **Latin America** higher overall volumes were the main contributors on a local currency basis. These positive contributions were partly offset by a deterioration in **EMEA**, largely due to the effect of the change to UK capital gains tax indexation relief.

Gross written premiums, policy fees and insurance deposits increased by USD 3.9 billion to USD 33.2 billion, or by 13 percent both in U.S. dollar terms and on a local currency basis. Improvements occurred in North America, driven by a large contribution to an existing corporate protection scheme, subsequent to a transfer of that business from the Non-Core segment, and improved corporate savings sales across EMEA. The latter was partly offset by an expected reduction of sales of individual savings products in Spain and Italy. **Net policyholder flows** of USD 7.7 billion remained flat compared with 2016, substantially reflecting the same factors.

Assets under management increased by 8 percent in U.S. dollar terms, but decreased 1 percent on a local currency basis compared with December 31, 2016. On a local currency basis, favorable market movements and positive net policyholder flows were offset by a reclassification of approximately USD 29 billion to held for sale of assets related to the disposal of the UK workplace pensions and savings business to Lloyds Banking Group (LBG). In U.S. dollar terms, a further improvement stemmed from the impact of the weaker U.S. dollar against the euro and the British pound on investments denominated in those currencies compared with December 31, 2016.

Operating and financial review (continued)

Source of earnings[1]

in USD millions, for the years ended December 31	2017	2016	Change
Loadings and fees	3,484	3,282	6%
Investment margin	642	546	18%
Technical margin	946	842	12%
Operating and funding costs	(1,490)	(1,419)	(5%)
Acquisition costs	(2,488)	(2,361)	(5%)
Impact of deferrals	164	240	(31%)
Business operating profit	**1,258**	**1,130**	**11%**

[1] Each line represents the Group's interest after deducting non-controlling interests, amounting in total to USD 289 million in 2017 and USD 255 million in 2016 in business operating profit.

Viewed by profit sources and on a local currency basis, business operating profit benefited from growth resulting in higher loadings and fees net of acquisition costs, as well as improvements in the investment margin and the technical margin. Expense savings were more than offset by an increase in policyholder taxes leading to higher operating costs.

Loadings and fees improved by 6 percent both in U.S dollar terms and on a local currency basis. Growth in Asia Pacific, which benefited from the 2016 acquisitions of MAA Takaful Berhad in Malaysia and the retail life insurance protection business of Macquarie Group in Australia, higher volumes in Latin America and a large contribution to an existing corporate protection scheme in North America were the main drivers. These positive factors were partially offset by lower fee revenue in Germany due to a decrease in single premium business volume. **Investment margin** improved by 18 percent in U.S. dollar terms, and 16 percent on a local currency basis. All segments improved, with the highest contribution from EMEA, where lower policyholder crediting rates in Germany were the main contributor. **Technical margin** improved by 12 percent in U.S dollar terms and 11 percent on a local currency basis, driven by the growing life insurance protection business in Asia Pacific, predominantly in Australia and Japan, and improved claims experience in North America and Latin America.

Operating and funding costs deteriorated by 5 percent in U.S dollar terms and on a local currency basis. In EMEA savings were achieved despite the negative impact which resulted from the change to UK capital gains tax indexation relief. Higher operating and funding costs in Asia Pacific, largely resulted from growth initiatives and the costs related to integrating the recently acquired businesses. In North America the increase was driven by premium taxes resulting from a large contribution to an existing corporate protection scheme. **Acquisition costs** increased by 5 percent both in U.S dollar terms and on a local currency basis. The increase on a local currency basis reflected higher volumes of business in Asia Pacific and Latin America. EMEA was broadly flat. The positive contribution from the **impact of deferrals** decreased by 31 percent in U.S. dollar terms and 30 percent on a local currency basis, mainly in EMEA, driven by an update of expected reinvestment rates, partially offset by the positive effect in North America, where prior year was impacted by the review of expected persistency in certain universal life books of business.

NBV, APE and NBM by segment

in USD millions, for the years ended December 31	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[2]		New business margin, after tax (as % of APE) (NBM)[3]	
	2017	2016	**2017**	2016	**2017**	2016
Europe, Middle East & Africa (EMEA)	605	541	3,333	3,238	19.1%	18.3%
North America	66	25	224	62	29.3%	40.8%
Asia Pacific	165	88	195	155	85.8%	57.8%
Latin America	164	126	1,117	1,231	23.2%	14.7%
Total	**999**	**782**	**4,868**	**4,686**	**23.3%**	**19.4%**

NBV, APE and NBM by line of business

in USD millions, for the years ended December 31	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[2]		New business margin, after tax (as % of APE) (NBM)[3]	
	2017	2016	**2017**	2016	**2017**	2016
Protection	736	615	1,698	1,645	54.3%	45.9%
Corporate Pensions	108	124	1,399	1,186	7.8%	10.5%
Unit Linked	167	97	1,252	1,024	14.6%	10.5%
Annuities and Savings	(12)	(54)	519	831	(3.0%)	(9.4%)
Total	**999**	**782**	**4,868**	**4,686**	**23.3%**	**19.4%**

1 New business value is calculated on embedded value principles net 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 improved by USD 183 million to USD 4.9 billion, or 4 percent both in U.S. dollar terms and on a local currency basis. On a local currency basis, the largest improvements occurred in North America, driven by a large contribution to an existing corporate protection scheme, subsequent to a transfer of that business from the Non-Core segment, and in EMEA, where higher corporate and unit-linked retail sales were only partly offset by reductions in sales of individual savings products in Spain and Italy. Asia Pacific also improved, reflecting both the impact of the MAA Takaful Berhad acquisition in Malaysia and organic growth. These positive impacts were partly offset by lower new business sales in Latin America, where growth in sales of individual protection products in Zurich Santander Brazil was more than offset by a reduction in the Zurich operations in Chile, where 2016 included the effect of a large corporate contract.

New business value increased by USD 218 million to USD 1 billion, or 28 percent both in U.S. dollar terms and on a local currency basis. On a local currency basis, new business value benefited from higher volumes of new business in EMEA and North America, and an improved product mix in EMEA. In addition, Asia Pacific benefited from a positive change in operating assumption in Japan.

New business margin improved by 3.9 percentage points to 23 percent, with improvements in all segments except North America. The most notable improvements occurred in Asia Pacific following the positive impact of assumptions changes in Japan. In Latin America, declining interest rates in Brazil resulted in an improved margin on individual protection business. In EMEA, improvements in Italy and Spain, resulting from a shift in sales away from individual savings, were partly offset by an overall increase in sales of lower margin corporate business.

Operating and financial review (continued)

Farmers

in USD millions, for the years ended December 31	2017	2016	Change
Farmers Management Services (FMS)	1,415	1,478	(4%)
Farmers Re	57	42	36%
Farmers Life[1]	220	202	9%
Total business operating profit	**1,691**	**1,722**	**(2%)**

[1] Reflects management view and contains the ongoing business and certain closed books of Farmers New World Life Insurance Company (FNWL)

Farmers business operating profit decreased by USD 31 million to USD 1.7 billion, or by 2 percent. **Farmers Management Services** business operating profit decreased by USD 64 million to USD 1.4 billion. Higher revenues from premium growth at the Farmer Exchanges[1] in 2017 partly offset a one-time USD 86 million favorable impact in 2016 from a pension curtailment gain related to changes in the Farmers pension plan. **Farmers Life** business operating profit increased by USD 17 million to USD 220 million, primarily due to the impact of updated actuarial assumptions to industry mortality tables, partly offset by the 2016 pension curtailment gain of USD 10 million. Farmers Re business operating profit increased by USD 15 million to USD 57 million, driven by an improved underwriting result, partially offset by lower investment income.

Farmers Management Services

in USD millions, for the years ended December 31	2017	2016	Change
Management fees and other related revenues	2,892	2,867	1%
Management and other related expenses	1,503	1,500	–
Gross management result	1,389	1,367	2%
Managed gross earned premium margin	7.0%	7.0%	–

Management fees and other related revenues of USD 2.9 billion increased USD 25 million, or 1 percent, due to growth in gross earned premiums of the Farmers Exchanges. **Management and other related expenses** of USD 1.5 billion remained flat.

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

Farmers Re

in USD millions, for the years ended December 31	2017	2016	Change
Gross written premiums and policy fees	995	1,587	(37%)
Net underwriting result	(1)	(51)	97%
Loss ratio	68.1%	71.3%	3.2 pts
Expense ratio	32.0%	32.0%	–
Combined ratio	**100.1%**	**103.3%**	**3.2 pts**

Gross written premiums and policy fees decreased by USD 592 million to USD 995 million, or by 37 percent, mainly due to a portfolio transfer as a result of the reduced participation in the All Lines quota share reinsurance agreement with the Farmers Exchanges to 1.0 percent effective December 31, 2017 from 8.0 percent previously.

The **net underwriting result** improved by USD 49 million to a loss of USD 1 million reflected in a 3.2 percentage point improvement in the combined ratio. The **loss ratio** decreased 3.2 percentage points as a result of an improved underlying loss ratio, favorable development of loss reserves established in prior years and slightly lower impact from catastrophe events. The **expense ratio** remained flat at 32 percent.

[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.

Farmers Life

in USD millions, for the years ended December 31	**2017**	2016	Change
Insurance deposits	149	151	(1%)
Gross written premiums and policy fees	877	873	–
New business annual premium equivalent (APE)	91	94	(3%)
New business value (NBV)	100	85	18%
Assets under management[1, 2]	5,415	6,823	(21%)
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[2]	4,679	6,085	(23%)

[1] Assets under management comprise on balance sheet Group investments and unit-linked investments plus assets that are managed by third parties, on which fees are earned.
[2] As of December 31, 2017 and December 31, 2016, respectively.

Insurance deposits decreased by USD 2 million to USD 149 million. **Gross written premiums and policy fees** increased by USD 4 million to USD 877 million.

APE was lower mainly due to lower cross-sell opportunities. **NBV** increased largely due to improved persistency and mortality, favorable sales mix and lower acquisition expenses, partially offset by lower sales volumes and the negative impact of higher interest rates on certain individual protection business.

Assets under management decreased by USD 1.4 billion to USD 5.4 billion and **total reserves** decreased by USD 1.4 billion to USD 4.7 billion. Reductions in both items were related to an agreement signed in the second quarter of 2017 with Reinsurance Group of America to reinsure a portion of Farmers Life's closed U.S. annuity book.

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.

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.

in USD millions, for the years ended December 31	**2017**	2016	Change
Gross written premiums	19,908	19,714	1%
Gross earned premiums	19,841	19,528	2%

Gross written premiums in the Farmers Exchanges increased by USD 194 million to USD 19.9 billion, or by 1 percent. Continuing operations[2] were up 3 percent, with growth across most books of business, driven primarily by rate increases in the auto lines of business.

Gross earned premiums in the Farmers Exchanges increased by USD 312 million to USD 19.8 billion, or by 2 percent.

[2] Continuing operations exclude 21st Century outside of California and Hawaii and other discontinued operations.

Operating and financial review (continued)

Group Functions and Operations

in USD millions, for years ended December 31	2017	2016	Change
Holding and Financing	(450)	(549)	18%
Headquarters	(281)	(230)	(22%)
Total business operating profit	**(731)**	**(779)**	**6%**

Holding and Financing business operating loss of USD 450 million improved by USD 100 million or 18 percent in U.S. dollar terms and 18 percent on a local currency basis. The main factors driving the improvement were savings in administration costs and lower financing costs, partly offset by lower foreign exchange gains than in the previous year.

Headquarters recorded a business operating loss of USD 281 million, USD 51 million higher compared to 2016, or 22 percent both in U.S. dollar terms and in local currency. Underlying expense savings were more than offset by lower recharges to business units and a software impairment.

Non-Core Businesses

in USD millions, for the years ended December 31	2017	2016	Change
Zurich Legacy Solutions	(8)	(24)	67%
Other run-off	47	9	n.m.
Total business operating profit	**39**	**(15)**	**n.m.**

Zurich Legacy Solutions, which predominantly comprises P&C run-off portfolios, reported a business operating loss of USD 8 million, an improvement of USD 16 million driven by net reserve releases in run-off portfolios.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a USD 38 million increase in business operating profit. This arose primarily from the release of long-term reserves as a consequence of in-force management activities in a closed Life book, market value volatility, partly offset by lower releases of long-term reserves compared to prior year.

Disclaimer and cautionary statement

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.

All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors. Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the Farmers Exchanges and in that capacity provide certain non-claims administrative and management services to the Farmers Exchanges. Neither Farmers Group, Inc., nor its parent companies, Zurich Insurance Company Ltd and Zurich Insurance Group Ltd, have any ownership interest in the Farmers Exchanges. Financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Reinsurance Company.

It should be noted that past performance is not a guide to future performance. Please also note that interim results are not necessarily indicative of full year results.

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