

Commentary on annual results 2018

Slide 3: Key messages

Full year 2018 results show very strong performance in a challenging market and claims environment, with the business operating profit (BOP) up 20% on a headline basis. The results position the Group to deliver fully on the targets for the 2017 to 2019 plan period, with progress across all areas of the business both from a financial, as well as from a strategic perspective. BOPAT ROE was 12.1% in the year on a reported basis.

The Group's Life business delivered an excellent performance, with growth across all regions reflecting the success of the Group's strategy of focusing on protection and unit-linked business. Overall Life BOP increased 23% in the year driven by continued portfolio growth and further cost improvement. The quality and resilience of the life performance remains high, with 90% of life revenues on a sources of earnings basis coming from either loadings and fees or technical margins. New production remained positive with 11% growth in APE sales and 1% growth in new business value on a like-for-like basis, which adjusts for FX and acquisitions and disposals.

P&C results demonstrate further strong progress with BOP up 35% in another year of elevated natural catastrophe events and with a negative headwind from mark-to-market effects on assets held at fair value. The top-line has remained stable on a like-for-like basis. The accident year combined ratio excluding catastrophes reduced by a further 0.4 percentage points driven by an improved underwriting performance. The strength of the Group's reserves was clearly demonstrated, with prior year reserve development of 2.3% in-line with the upper end of the indicated 1-2% range. Overall, the Group's reserve strength remained stable over the year. In 2019, the Group expects to deliver further improvement in underwriting results as the benefits of portfolio shifts, higher rates in North America and lower expenses continue to earn through.

The Farmers Exchanges, which are owned by their policyholders, showed continued progress in both customer metrics and underwriting performance over the year, resulting in gross written premiums growth for continuing operations of 3.7% and a 1.7 percentage points reduction in the overall combined ratio to 99.9%. Growth was also supported by the continued successful expansion of the Farmers Exchanges into the eastern United States and growth in the commercial rideshare. Growth in the Farmers Exchanges continued to drive growth at Farmers Management Services, while Farmers Life showed strong new business value increase.

Very strong Z-ECM of 125%. Conversion of earnings into distributable cash remains strong with USD 3.8bn of cash remittances in 2018. In line with the stated dividend policy the Group proposes a 6% increase in the dividend to CHF 19 per share.

Slide 4: Key highlights – Strategic update

2018 saw the Group continue to make strong progress on key strategic priorities.

The Group further strengthened its positioning in the faster growing regions of Southeast Asia and Latin America as well as the fast growing global travel and assistance segment through a number of targeted acquisitions.

During the year, the Group announced the planned acquisition of an 80% stake in PT Asuransi Adira Dinamika (Adira Insurance) as well as an agreement to enter into long-term strategic cooperation with Indonesia's fifth largest bank PT Bank Danamon Indonesia as well as the country's second largest provider of automotive financing Adira Finance. On completion, expected in the first quarter of 2019, Zurich will become the leading foreign insurer in the Indonesian P&C market.

In Latin America, the Group consolidated its position among the industry leaders through the acquisition of QBE's Latin American operations and the individual and group life business of EuroAmerica in Chile. This was further enhanced by the acquisition of the leading regional travel and assistance businesses Travel Ace and Universal Assistance, which also further strengthened the global reach of Cover-More, the Group's travel and assistance business

In addition to the distribution agreements in Indonesia which add around 5m potential customers, the Group signed further distribution agreements covering an additional 24m potential customers, mainly in Australia and Latin America.

In 2018, the Group continued to invest in new technology and innovative customer solutions. As part of these investments, the Group launched the inaugural Zurich Innovation World Championship, which saw over 450 companies from 49 countries in 4 continents submit innovative solutions covering a wide range of applications in the insurance industry. After four months, 8 regional winners were selected for the final, with Chisel from North America being selected as the gold winning entry for its innovative solution around processing of unstructured data using artificial intelligence technology.

The Group also launched the first application based on CoverWallet's technology in Spain under the European wide agreement between the two groups. In Spain, the Group launched Klinc, an innovative provider of on demand coverage for personal possessions, while in the US, the Farmers Exchanges launched Toggle, a new brand which targets millennials offering fully digital, customizable renters insurance combined with innovative services. The Group also launched its first application for connected homes with Vodafone in the Italian market, with additional markets to follow over 2019. The Group has also entered into a strategic collaboration with leading insurtech Snapsheet to deploy the company's cloud based virtual claims technology across the Group beginning with the Irish market.

The Group also continued to invest in improving customer interactions and service, with this leading to an uplift in key customer metrics in the Group's larger retail markets. Net promoter score, a measure of customer satisfaction and loyalty, improved consistently across markets. As Farmers Exchanges experience shows, improving levels of customer satisfaction are a lead indicator of business performance.

Pro-active capital management is a key priority of the Group. During 2018, the Group announced a number of business exits aimed at reducing complexity and tail risks as well as freeing up capital for reinvestment. Transactions over the year included the sales of Endsleigh in the UK, a Life insurance portfolio in Singapore, and a run-off portfolio of compulsory third-party liability in Australia as well as reinsurance of the Group's legacy employers' liability book in the UK.

Slide 5: Key highlights – Cover-More

During the year, the Group continued to drive development of Cover-More, the group's global travel and assistance business. Bolt on acquisitions in Ireland and Latin America, further strengthened Cover-More's footprint while Zurich's other travel businesses was brought closer to Cover-More to create a top 3 player in global travel insurance, assistance and related services.

In addition to deepening the footprint, Cover-More continued to build out additional distribution capacity and to develop further product capabilities to further improve the customer proposition. One example is Benestar, a company offering wellbeing services to people when and where they need it.

2018 was the first full year for Cover-More being owned by the Group. The business is performing well and it is expected that the contribution of Cover-More to the Group will continue to increase.

Slide 6: Key highlights – Farmers

Farmers Exchanges are making consistent progress against all the key strategic priorities outlined at the 2017 Investor Day.

The expansion into the eastern U.S. continues to deliver strong growth, with gross written premiums exceeding USD 1bn in 2018. The footprint has been further widened, with Farmers brand open for business in Florida since July 2018.

Farmers Exchanges remain focused on improving the quality and performance of their agents. The shift towards a capitalized agency model is well on track. Farmers' experience shows that capitalized agents are able to provide a better customer experience, reflected in higher net promoter score, and show higher retention and productivity levels. Larger and better quality agencies have also the highest potential to serve customers across multiple lines of business.

Farmers Exchanges continue to innovate to deliver better value to customers and pursue growth opportunities. The agreement with Uber to provide commercial rideshare insurance in two U.S. states generated USD 150m of gross written premiums in the year. A new collaboration was announced in January 2019 with Alto, an innovative Texas-based rideshare start-up. Multiple collaborations are active in the area of home and car telematics. In October, the Farmers Exchanges launched Toggle, a new and innovative offering aimed at millennials which offers easy to understand, fully digital and customizable insurance and services for renters. Toggle is already actively servicing customers in two states with further expansion planned in 2019.

Slide 7: Key highlights – Proof points by business

The 2018 results show a range of financial proof points against key management goals, including:

Property & Casualty (P&C) gross written premiums increased 1% in headline terms and was stable on a like-for-like basis.

The combined ratio improved 3.1 percentage points on a headline basis due to a 1.1 percentage point improvement in the accident year loss ratio ex-catastrophes and lower levels of catastrophe events, partially offset by an increase of 1.0 percentage points in the commission ratio as a result of mix shifts. Prior year reserve development was 2.3 percentage points, with the higher positive run-off reflecting the continued strength of the Group's reserves and positive development in relation to the 2017 hurricanes.

Life performed strongly over 2018 with BOP growth of 23% on a headline basis and 24% on a like-for-like basis after adjusting for currency and acquisitions and disposals. This was driven by continued growth in portfolios and cost reductions including the absence of the USD 115m impact from the change to UK capital gains tax indexation relief in 2017.

The Group continued to focus on protection and capital efficient savings products, with 86% of APE coming from Protection, Unit-Linked and Corporate Pensions business. On a like for like basis, adjusting for foreign exchange and acquisitions and disposals, APE growth was 11% with the new business value increasing 1%.

At the Farmers Exchanges, improved customer retention and higher average premiums led to 3.7% growth in gross written premiums from continuing business, while the combined ratio improved by 1.7 percentage points as a result of underlying improvement and lower natural catastrophe experience. Higher premium volumes supported higher management fees at Farmers Management Services and an improved gross management result.

Slide 8: Key highlights – Status on financial targets

2018 continued to build on the positive performance of 2017 with the Group making further progress in terms of profitability across the businesses and remaining on track to meet the financial targets set out in November 2016.

In terms of the Group's four financial targets,

1. BOPAT ROE: Annualized BOPAT ROE as reported was 12.1% in the year and is in line with the Group's target to deliver a BOPAT ROE in excess of 12% and growing over the 2017-19 period. Adjusted for the impact of charges related to the Group's restructuring taken through business operating profits and the higher than normal level of natural catastrophe losses the BOPAT ROE would have been 13.2% up from the similarly adjusted figure of 12.1% in the prior year.
2. Expense savings: The Group delivered a further USD 400m of cost savings over the course of 2018, with cumulative net savings of approximately USD 1.1bn achieved to date, and with further savings expected to be delivered over the course of 2019 in line with the target to deliver USD 1.5bn of savings by the end of 2019.
3. Capital: As of December 31, 2018 the estimated Group Z-ECM ratio remained above the 100-120% target range at 125%.
4. Cash remittances: Over 2018, cash remittances to the Group were USD 3.8bn. As a result, cumulative remittances in the first two years of the strategic cycle reached USD 7.5bn and are expected to exceed the USD 9.5bn target for the 2017-2019 period.

Slide 9: Key highlights – Underlying BOP development

During 2018 the Group's operating results were distorted by a number of major one off impacts, with the most notable being the high level of natural catastrophe events as well as charges related to the Group's restructuring recognized within BOP.

Natural catastrophes and weather related claims were roughly 1 percentage point higher than normal levels, equivalent to USD 264m. Restructuring charges recognized through BOP were USD 187m. Of these, USD 150m were reported within P&C, USD 20m in Life and USD 17m within Group Functions and Other.

Adjusted for these impacts, BOP was USD 5,017m, representing a 5% increase over the similarly adjusted 2017 figure.

Slide 11: Group – BOP

Overall BOP growth was 20% on a reported basis.

Growth in EMEA was driven by a combination of strong performance in both Life and P&C. The performance in Life was driven by continued growth in the business as well as the absence of the impact of the change to UK indexation tax relief in 2017. Improvement in the underlying performance in P&C together with lower catastrophe losses and higher levels of prior year development also contributed to the result.

In North America growth was driven by an improved underwriting performance as a result of lower levels of natural catastrophe losses and higher investment income which more than offset fair value movements on hedge-funds recognized in BOP. Farmers showed a slight decline in earnings due to the reduction in the all lines quota share to Farmers Re and an absence of positive assumption changes in Farmers Life.

An absence of favorable one-off items in P&C more than offset continued strong growth in Life in Asia Pacific, while adverse exchange rate movements more than offset underlying growth and first time contributions from a number of acquisitions in Latin America.

By business, P&C and Life were the major contributors to growth.

Slide 12: Group – NIAS

Net income attributable to shareholders (NIAS) increased 24% in the year, with growth driven primarily by the increase in BOP together with a reduced tax rate to 24.9%.

Below the operating line, net realized capital gains of USD 720m, with half stemming from properties and the rest split between equities, derivatives and bonds, were below the elevated prior year level.

Restructuring costs recognized below the operating line were USD 350m, in line with the prior year and when combined with the USD 187m restructuring charges recognized in BOP in line with the previously indicated USD 500m figure.

The effective tax rate in 2018 was 24.9% down from 33.2% in 2017, with the decline reflecting the positive effect of tax reforms in the United States and a more favorable geographic mix of earnings.

Slide 13: Group – Expense development

The FY-18 result includes additional expense savings of USD 400m, with the cumulative total achieved to date equating to USD 1.1bn. These savings include Farmers and take into account FX and the impact

of acquisitions and disposals completed over 2016-2018, and come largely from P&C. This represents good progress towards the goal to reduce expenses by USD 1.5bn vs. the 2015 baseline, and further proof of execution against the Group targets.

To date 37% of the savings have come from Operations and IT, with a further 19% from the Group Centre and the balance from the business units. Looking forward the Group expects further savings across all areas of the business.

Slide 14: Group – Outlook

Over 2019 the Group expects to continue to progress against the targets laid out in December 2016.

Property & Casualty: The Group continues to take specific actions to adjust the portfolio mix, with these expected to offset underlying growth to leave overall net earned premiums broadly stable for the year. The combined ratio is expected to improve over 2019 from the normalized 2018 level and to be around the upper end of the indicated 95-96% range. This is expected to be driven by a combination of further expense savings, a gradual shift in portfolio mix and positive rates. P&C investment income is expected to be stable, as the gap between new money and reinvestment yields has almost closed.

Life: BOP is expected to be at a similar level to the reported 2018 level, with underlying growth expected to offset the non-repeat of a number of favorable items within the 2018 results.

On January 14, 2019, ANZ and IOOF Holdings Ltd announced that they expect to complete the separation of ANZ's Pensions and Investment business from its life insurance division towards the end of the second quarter of 2019. Therefore, the Group now expects the completion of the OnePath Life transaction to occur towards the end of the second quarter of 2019. This will result in a reduction in the expected level of earnings reported from this business during the 2019 financial year compared to previously communicated expectations.

Farmers: The Farmers Exchanges are expected to see steady growth driven both by improved customer metrics and the continued earn through of rate increases. Combined with stable margins, this is expected to continue to support top-line and earnings development at FMS.

Farmers Re: Following the reduction in the all lines quota share to 1% from 8% at the end of 2017, earnings are expected to continue to decline in 2019 reflecting lower net earned premiums and lower investment income as asset balances reduce in line with the reduction in liabilities.

Group Functions and Operations: The Group functions are expected to continue to show a run rate loss of around USD 750 – 800m per annum with benefits from cost savings at the headquarters largely offset through lower recharges to the business units.

Restructuring charges: As previously indicated, 2019 is expected to see a significant reduction in the overall level of restructuring charges from the USD 500m run rate recognized in 2017 and 2018. For 2019, restructuring charges are expected to be in a range of USD 100-200m and fully recognized outside of BOP over the year.

Tax: The Group effective tax rate for 2019 is expected to be around 26%.

Slide 15: P&C – Top line

Gross written premiums in Property & Casualty (P&C) for the full year of 2018 rose 1% in U.S. dollars and were flat in local currency and adjusting for the acquisitions which were closed during the second half of the year.

Growth in Asia Pacific and Latin America was mainly offset by a decline in North America. The Group's focus remained on profitability over volume. The level of rate increases improved across most regions compared to the previous year, with the Group achieving rate increases of around 2% overall. After four consecutive quarters of accelerating rate increases in North America, the fourth quarter showed signs of moderation in-line with industry surveys. Net earned premiums were up 2% year-over-year in local currency, with growth in both Asia Pacific and Latin America offsetting declines in EMEA and North America.

In EMEA, gross written premiums increased 4% in U.S. dollar terms and 1% on a like-for-like basis, with growth in Switzerland, Italy, Austria and Portugal offset mainly by reductions in Germany.

Gross written premiums in North America were down 3% compared to the previous year. The decline was mainly driven by planned reductions in less profitable standard commercial lines, in line with the Group's strategy of prioritizing profitability over volume.

In Asia Pacific, gross written premiums grew 15% on a like-for-like basis. Growth was supported by the first full year of underwriting of the Cover-More travel business in Australia, as well as growth in Japan, Malaysia, Singapore and Indonesia.

In Latin America, gross written premiums increased by 9% on a like-for-like basis driven by continued growth in the retail businesses in Brazil, Argentina, Chile and Colombia.

Slide 16: P&C – BOP Components

P&C BOP on a reported basis for FY-18 was USD 2,085m, 35% higher than in the previous year.

The underwriting result increased strongly by USD 805m with the previous year's result impacted by the hurricanes Harvey, Irma and Maria in North America. In line with this, the combined ratio for FY-18 improved by 3.1 percentage points to 97.8% from 100.9% for FY-17.

Investment income for the full year increased by 5% on a reported basis and 8% in local currency, driven by underlying growth in investment income across North America, Latin America and Asia Pacific, while EMEA saw a decline. This improvement was more than offset by a USD 238m reduction in the level of fair value gains on the Group's hedge fund portfolio, with a USD 48m loss in 2018 compared to a favorable contribution of USD 191m in 2017.

Other items, which include the net non-technical result and non-controlling interests, were USD 112m lower in 2018, mainly driven by the absence of a USD 68m FX gain which was included in the previous year's net non-technical result. The FY-18 net non-technical result also included USD 150m of charges related to the Group's restructuring included within BOP compared to USD 99m in the previous year period.

Looking at the BOP by region, growth in EMEA and North America due to improved underwriting results were partly offset by lower reinsurance recoveries in the Group Reinsurance unit as well as a lower level of prior year reserve releases in Asia Pacific.

Slide 17: P&C – Combined ratio details

The accident year loss ratio excluding catastrophes improved by 1.1 percentage points compared to FY-17, driven by improved underwriting.

Catastrophe losses for the full year totaled 4.0%, 1.8 percentage points below the previous year but still above expectations. In the first half EMEA experienced slightly higher than expected levels of weather and catastrophe losses, while in the second half catastrophe activity was significantly higher in North America.

Prior year development for the full year was in line with the upper end of the guided range of 1-2% at 2.3%, due to the overall strength of the Group's reserves and in part favorable development related to the 2017 hurricanes Harvey, Irma and Maria. Overall, the Group's reserve strength remained stable over the year.

The other underwriting expense ratio for FY-18 improved 0.1 percentage points to 14.1% compared to the same period in 2017. The improvements in administration expenses were partly offset by some

adverse one-off elements of approximately 30bps in 2018 compared to favorable items in 2017. Looking at the OUE development since the start of the current strategic cycle there is a clear downwards trend with an improvement of roughly 2 percentage points since 2015. In 2019 the Group expects to deliver further improvements in the absolute level of expenses, with this is expected to lead to a further reduction in the OUE ratio, with the precise impact also dependent on overall premium volumes as well as the geographical and business mix written in the year.

The commission ratio increased by 1.0 percentage point. The main drivers of the increase relate to growth in a number of areas which have structurally higher commission levels offset by lower loss ratios. These include certain specialty and retail lines in North America, mass consumer business in Latin America and travel business in Australia. In the second half of the year the commission ratio increased by 0.9 percentage points compared to 1.1 points in the first half of the year. This moderating trend in the commission ratio is expected to continue with the increases expected to be compensated through a lower and less volatile loss ratio.

Slide 18: P&C – Combined ratio by segment and customer unit

The EMEA accident year combined ratio ex-catastrophes of 95.7% was lower than in the previous year, with underlying improvements in the loss ratio.

In North America the accident year combined ratio ex-catastrophes was 94.3% and remained at a similarly low level to the prior year.

The Asia Pacific region remained stable with an accident year combined ratio ex-catastrophes around 98%. Increased volumes of business from Cover-More in Australia, which runs at a higher commission ratio, led to a higher commission ratio with this offset by improvements in the other underwriting expense, and loss ratios.

In Latin America, the accident year combined ratio ex-catastrophes for the full year was 100.0%, 1.6 percentage points higher than in the previous year, driven by some exceptional large losses in Argentina and Mexico and the absence of a one-time benefit to the insurance premium tax in Brazil included in the first half of 2017.

In Commercial Insurance, the accident year combined ratio excluding catastrophes was 99.5% and improved by 1.3 percentage points versus the previous year, mainly due to improvements in EMEA. At current levels, the Group continues to prioritize improvements in profitability over volume within Commercial Insurance.

For the retail business, the accident year combined ratio excluding catastrophes of 93.2% for FY-18 remained at an attractive level.

Slide 19: P&C – Investment result

The FY-18 investment result of USD 1,884m included unfavorable fair value movements of USD 48m, mainly from the Group's hedge fund portfolio. Investment income rose 5% on a reported basis and 8% in local currency, while fair value items showed a decline of USD 238m year on year due to a less favorable market backdrop.

Reinvestment yields for debt securities were around 2.8% over the year, with the gap to the annualized accounting yield reducing to 7bps as a result of higher reinvestment yields across the Group's major geographies, with North America seeing reinvestment yields move ahead of the portfolio yield.

Slide 20: Life – Overview

On a headline basis, Life BOP increased by 23% to USD 1,554m. Charges related to the Group's restructuring recognized in BOP were USD 20m within this figure.

In EMEA, BOP increased by 22% in U.S. dollars and 17% in local currencies, with most countries contributing to this performance. Growth was driven by a combination of portfolio growth, cost reductions and also supported by the absence of the impact from the change to UK indexation tax relief in 2017. The result also benefited from USD 42m relating to assumption changes net of policyholder sharing in Germany.

In LatAm, higher business volumes supported earnings growth, with overall BOP increasing 8% in U.S. dollars compared to 28% in local currencies as a result of headwinds from a number of Latin American currencies. The result included an FX benefit of USD 36m in Argentina, as a result of a portion of the domestic liabilities being backed by U.S. dollar denominated securities as well as integration costs of USD 8m related to the acquisitions in Chile and Mexico.

Asia Pacific BOP increased USD 53m, an increase of 40% in U.S. dollars and in local currencies reflecting consistent growth across the region as well as a first time contribution of USD 27m from the reinsurance agreement with OnePath Life. These were offset partially by initial integration costs of USD 16m relating to the OnePath Life acquisition.

In North America, which excludes Farmers Life, which is reported separately under Farmers, earnings increased by USD 33m compared to the prior year due to favorable assumption updates and a one-time provision release.

FY-18 Life new business APE increased 11% on a like-for-like basis after adjusting for currency, acquisitions and the disposal of the UK workplace savings business, with a reduction of 5% on a

reported basis. In EMEA, like-for-like growth was 5% with underlying growth in most countries. The corporate protection business was a particular driver of growth following a large longevity transaction in the UK. Asia Pacific saw growth of 17% on a like-for-like basis driven by consistent growth in protection business across the region. In Latin America APE sales increased by 40% on a like-for-like basis including a large corporate protection scheme in Chile which is offered for tender on a two year basis as well as positive developments in Brazil, Mexico and Argentina.

New business value (NBV) increased 1% on a like-for-like basis after adjusting for currency, acquisitions and the disposal of the UK workplace savings business, and decreased 2% in U.S. dollars. Underlying volume growth in EMEA, Latin America and Asia Pacific was offset by the absence of a large US corporate protection scheme in 2017. EMEA saw an increase in new business value due to improvements in business mix and favorable currency translation effects. In Latin America, higher corporate business volumes were partially offset by unfavorable operating assumption updates and currency translation effects, while in Asia Pacific higher sales volumes and positive assumption updates were partially offset by business mix developments.

The new business margin decreased by 2.9% on a like-for-like basis and improved by 0.8 percentage points to 24.1% on a headline basis.

Slide 21: Life – Product mix

Protection business sales increased by 17% and were the largest contributor to APE growth. The Group continues to focus on protection, unit-linked and corporate pension business, with these products accounting for 86% of APE sales. Compared to FY-17, this represents a 3 percentage point reduction as a result of the sale of the UK workplace pension and savings business.

Protection business contributed 75% of the overall new business value. Overall growth driven by the retail business was offset by a reduction in corporate business reflecting the disposal of the UK workplace pension and savings business.

Slide 22: Life – Net inflows & AuM

Net inflows decreased by 4% compared to the prior year. The decrease was primarily driven by the absence of a single large additional contribution to an existing corporate protection scheme in North America.

Assets under management decreased by 6% due to negative FX effects and adverse market movements in Q4-18.

Slide 23: Life – BOP by source

The Group's life business continued to be driven by stable revenue streams, with 90% of life revenues coming from loadings and fees together with technical margins.

Viewed by margin and beginning with revenues, loadings and fees increased by 1%. Growth in the year was driven by higher gross written premiums and policy fees as well as increased loadings and fee margin ratios. Strong growth in Asia Pacific and Latin America were partially offset by lower fee revenue in Germany.

The investment margin decreased by 17%, mainly driven by unfavorable market movements in Q4-18 as well as headwinds from a number of Latin American currencies which were partially offset by an FX benefit in Argentina.

The technical margin increased by 19%. Positive contributions from the growing protection portfolios in Latin America and Asia Pacific as well as reserve reviews in the UK leading to an improvement of USD 59m, USD 33m above the prior year, was partially offset by weaker mortality and disability trends in Switzerland after favorable experience in 2017.

On the expense side, operating costs improved by 5%. EMEA benefitted from the absence of the USD 115m impact from the change to UK indexation tax relief in 2017. The results also include USD 16m relating to the acquisition of OnePath Life in Australia as well as higher expenses in Asia Pacific and Latin America generated by their strong business growth.

Acquisition costs and deferrals were distorted by the reinsurance contract with OnePath Life in Australia as part of the planned acquisition announced in December 2017. In line with the announcement, the Group paid a reinsurance commission of AUD 1bn or USD 762m during the second quarter, which is booked as an acquisition cost within the sources of earnings but which is largely offset through increased deferrals due to the payment being amortized over the lifetime of the acquired portfolio. Adjusting for this, acquisition costs would have increased by 4%, driven by higher commission payments in Asia Pacific and Latin America.

Slide 24: Life – Investment result

Life investment result, which is gross of policyholder sharing, decreased by 6% to USD 3.4bn in U.S. dollars, driven mainly by adverse market developments in Q4-18.

Reinvestment yields for debt securities were around 2.4%. This represents an improvement compared to the prior year narrowing the gap to the annualized accounting yield to 30bps.

Slide 25: Farmers Exchanges – Growth

The Farmers Exchanges showed continued growth in top-line through 2018. Gross written premiums for continuing operations increased by 3.7% compared to prior year, with growth coming in all lines of business and driven by a combination of rate increases, improved retention as a result of Farmers' customer focused strategy, further expansion into the eastern United States and the agreement with Uber to provide commercial rideshare insurance in Georgia and Pennsylvania. In the eastern United States, the Farmers Exchanges saw growth in gross written premiums of 33% year-on-year including the Uber rideshare business.

Top-line growth in continuing operations was partially offset by the run-off of discontinued operations, consisting primarily of two books of business: 21st Century outside of California and Hawaii and approximately USD 200m of gross written premiums of business insurance distributed through independent agents, to which renewal rights were sold in February, 2018. It is expected that the impact on growth from the run-off of this portfolio will reduce significantly in 2019.

Slide 26: Farmers Exchanges – Growth drivers

Key customer metrics continued to improve as a result of the Farmers Exchanges customer focused strategy. Net Promoter Score, an indicator of customer satisfaction and loyalty, reached a record high of 46.1% for the full year resulting in a further improvement in overall retention continued to increase, driven primarily in the Auto book of business.

New business count returned to growth in 2018 after a strong decline in the prior year, which was affected by rate and underwriting actions in Auto.

Slide 27: Farmers Exchanges – Profitability

The Farmers Exchanges combined ratio improved by 1.7 points to 99.9%. This improvement underlines the effectiveness of underwriting actions taken in the business in recent years. The effectiveness of the Farmers Exchanges reinsurance programs was further confirmed during the year with overall natural catastrophe losses equating to 6.9 percentage points in the combined ratio, 0.4 percentage points below the prior year figure despite another year of significant natural catastrophe events. The combined ratio also benefitted from a small favorable one-time impact from the sale of renewal rights to a portfolio of business insurance sold through independent agents.

The Farmers Exchanges' surplus ratio is estimated to be 39.4%, an increase of 0.7 percentage points over the FY-17 figure. This was driven by organic growth of surplus and the increase in the all lines quota share treaty from 24% to 29% effective December 31, 2017, with these partially offset by the decision to call a USD 200m surplus note held by Zurich American Insurance Company in June 2018.

Slide 28: FMS – Overview

Farmers Management Services (FMS) BOP was broadly stable compared to the prior year, with growth in the gross management result driven by higher gross earned premiums at Farmers Exchanges offsetting USD 23m of unfavorable mark to market impacts on a deferred compensation plan.

The managed gross earned premium margin remained stable at 7.0%.

Slide 29: Farmers Life and Farmers Re – Overview

Farmers Re BOP was USD 14m lower than in the prior year, as a consequence of the announced reduction in the all lines quota share participation from 8% to 1%, effective December 31, 2017. The combined ratio was 1ppt lower driven by improved underwriting results at the Farmers Exchanges.

Farmers Life BOP was USD 43m lower than in the prior year, driven by a USD 6m negative impact from the annual assumption review compared to a USD 28m positive benefit in the prior year, and slightly unfavorable mortality experience. New business APE was USD 6m below prior year, while the new business value increased 13% driven by updated operating assumptions and the reduction in U.S. corporate tax rates.

Slide 30: Group Functions and Operations & Non-Core Businesses – BOP

The business operating loss reported under Group Functions & Operations increased by USD 22m to USD 753m. Continued reduction in gross headquarter expenses, 10% lower than in the prior year, was more than offset by lower recharges to business units, while the Holding and Financing result benefited from gains on currency hedges. The FY-18 figure also includes a USD 17m charge relating to the Group's restructuring charges recognized within BOP, compared to a charge of USD 38m in 2017.

Non-Core BOP was USD 37m reflecting the completion of a number of transactions, including the transfer of the German med-mal portfolio to Catalina and the sale of an Australian compulsory motor third-party liability portfolio to Enstar Group, as well as some expenses related to the reinsurance of the UK Employers Liability portfolio to Catalina announced in December.

Slide 31: Group – Solvency ratios

The Group's Z-ECM ratio remained very strong at 125% as of the end of December.

Strong operational capital generation from the businesses added 13 percentage points. Negative market movements in the latter part of the year reduced the ratio by 5 points, largely due to credit and Italian government spread widening and falls in equity markets.

Increased capital requirements for insurance reduced the ratio by 2 points, while dividend accrual reduced the ratio by a further 9 percentage points. Other items reduced the ratio by 4 points with closed M&A transactions contributing roughly half of the reduction.

Slide 32: Group – Balance sheet and capital structure

Shareholders' equity decreased by USD 2.8bn over the year due mainly to a decline in unrealized gains and losses and F/X movements, with net income of USD 3.7bn offset by the similar level of capital returned to shareholders through dividends and share repurchases in the first half.

The Group capital structure remains broadly unchanged from the one reported at the FY-17 results, with slightly higher levels of senior debt.

Slide 33: Group – Cash remittances & dividend proposal

During the year the Group saw net remittances of USD 3.8bn, in-line with the prior year and consistent with the Group's target for remittances to exceed USD 9.5bn over the 2017-2019 period. The level of remittances has been driven both by operational earnings and capital released as a result of the Group's continued efforts to improve allocation of capital and extract capital from non-core and underperforming areas of business.

Cash remittances from P&C were lower than in the previous year reflecting positive one off items in 2017 and negative one off items in 2018, together with the timing of cash payments related to the hurricanes in 2017. In 2018 life cash remittances benefited from the extraction of excess capital from a number of European balance sheets.

The Board proposal to the AGM is to pay a dividend of CHF 19 per share, representing a 6% increase from the 2017 level, with the dividend paid fully out of Group retained earnings.

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