Zurich Insurance Group

ZURICH®

Financial review (unaudited) 2019

Results for the six months ended June 30, 2019

Financial review

Contents

The information contained within the financial review is unaudited and is based on the consolidated results of the Group for the six months ended June 30, 2019 and 2018. 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 2018 of the Group and, in particular, with its consolidated financial statements and embedded value report for the year ended December 31, 2018.

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 14 (table 14.4) of the unaudited consolidated financial statements for the six months ended June 30, 2019.

Certain comparatives have been revised as a result of reclassifications and other adjustments.

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	**2019**	2018	Change[1]
Business operating profit	**2,815**	2,422	16%
Net income attributable to shareholders	**2,041**	1,791	14%
P&C business operating profit	**1,656**	1,137	46%
P&C gross written premiums and policy fees	**18,555**	18,543	0%
P&C combined ratio	**95.1%**	97.5%	2.4 pts
Life business operating profit	**701**	760	(8%)
Life gross written premiums, policy fees and insurance deposit	**18,101**	16,966	7%
Life new business annual premium equivalent (APE)[2]	**2,229**	2,291	(3%)
Life new business margin, after tax (as % of APE)[2]	**25.9%**	26.4%	(0.5 pts)
Life new business value, after tax[2]	**505**	522	(3%)
Farmers business operating profit	**866**	808	7%
Farmers Management Services management fees and other related revenues[3]	**1,868**	1,586	18%
Farmers Management Services managed gross earned premium margin	**7.0%**	7.0%	(0.0 pts)
Farmers Re gross written premiums and policy fees	**99**	97	2%
Farmers Life new business annual premium equivalent (APE)[2]	**39**	45	(13%)
Average Group investments[4]	**189,334**	192,606	(2%)
Net investment result on Group investments[4]	**3,564**	3,139	14%
Net investment return on Group investments[4,5]	**1.9%**	1.6%	0.3 pts
Total return on Group investments[4,5]	**6.0%**	0.2%	5.8 pts
Shareholders' equity[6]	**32,929**	30,114	9%
Z-ECM[7]	**121%**	124%	(3 pts)
Return on common shareholders' equity (ROE)[8]	**14.2%**	12.5%	1.7 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[8]	**15.0%**	12.4%	2.6 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 2018. 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 First half 2018 numbers restated as a result of an IFRS 15 adjustment made in December 2018, which resulted in a USD 141 million increase to revenues and a USD 141 million increase to expenses.
4 Including investment cash.
5 Calculated on average Group investments.
6 As of June 30, 2019 and December 31, 2018, respectively. Balance as of December 31, 2018 includes adjustment for effect of adoption of IFRS 16 and IAS 29.
7 Ratios as of June 30, 2019 and December 31, 2018 respectively. Ratio for June 30, 2019 reflects midpoint estimate with an error margin of +/- 5 pts.
8 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.

Business operating profit (BOP) for the six months ended June 30, 2019 was USD 2.8 billion, up 16 percent compared with the prior period. This was driven by underlying growth across the business and a strong underwriting performance in Property & Casualty.

Net income attributable to shareholders (NIAS) increased 14 percent in the first six months of 2019, with growth driven by the increase in business operating profit together with a reduction in the effective tax rate.

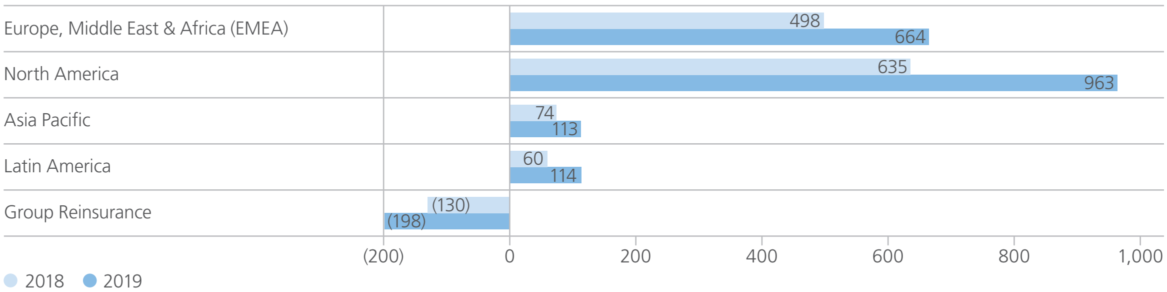
Financial review (continued)

Property & Casualty (P&C)

in USD millions, for the six months ended June 30			Total
	2019	2018	Change
Gross written premiums and policy fees	18,555	18,543	0%
Net earned premiums and policy fees	12,382	13,041	(5%)
Insurance benefits and losses, net of reinsurance	7,734	8,477	9%
Net underwriting result	610	325	88%
Net investment result	1,129	991	14%
Business operating profit	**1,656**	**1,137**	**46%**
Loss ratio	62.5%	65.0%	2.5 pts
Expense ratio	32.6%	32.5%	(0.1 pts)
Combined ratio	**95.1%**	**97.5%**	**2.4 pts**

P&C business operating profit (BOP)

in USD millions, for the six months ended June 30



Property & Casualty gross written premiums were stable year on year as reported in U.S. dollars terms and grew 4 percent on a like-for-like basis, i.e. in local currency and after adjusting for closed acquisitions and disposals. Underlying growth was seen across all regions.

Business operating profit for the first half 2019 was USD 1.7 billion, 46 percent higher than in the previous year, showing strong progress across all regions.

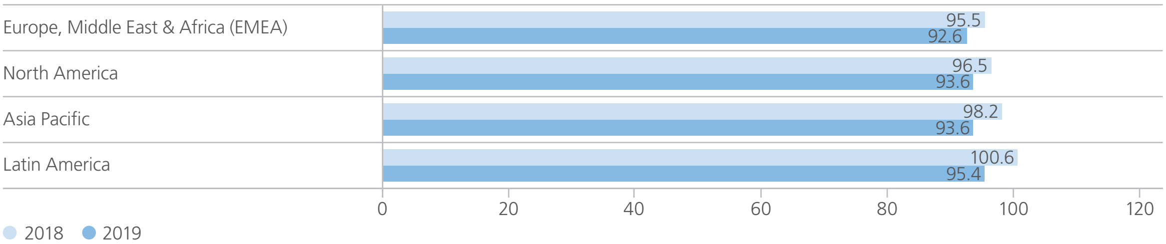
The underwriting result increased by USD 285 million. In line with this, the combined ratio for the first half of 2019 improved by 2.4 percentage points to 95.1 percent.

Investment income increased by 2 percent, with growth in investment income across North America, Latin America and Asia Pacific (APAC) more than offsetting a decline in Europe, Middle East & Africa (EMEA). The strong performance of financial markets in the first six months of 2019 led to an increase in fair value gains on the Group's hedge fund portfolio amounting to USD 162 million compared to USD 45 million in the first half of 2018.

Other items, which include the net non-technical result and non-controlling interests, were USD 95 million more favorable than in the previous year. This was mainly driven by the absence of charges related to the Group's restructuring included in the non-technical result for the first half of 2018.

All regions contributed to the P&C performance, with North America and EMEA in particular standing out. Growth in the regions was partly offset by higher losses in the Group Reinsurance unit.

P&C combined ratio
in %, for the six months ended June 30



The combined ratio improved by 2.4 percentage points, driven by a reduction in the underlying accident year loss ratio excluding natural catastrophes of 2.7 percentage points, a decline in the other underwriting expense ratio of 0.6 percentage points and lower natural catastrophe losses. These improvements were partially offset by slightly higher levels of commission due to changes in business mix and a lower favorable prior year reserve development. Prior year reserve development remained strong at 1.6 percent but reduced from the elevated level of 2.5 percent in the first six months of 2018.

In EMEA the combined ratio reduced by 2.9 percentage points mainly due to a lower underlying accident year loss ratio and lower level of natural catastrophes.

In North America the combined ratio reduced by 2.9 percentage points, primarily due to improvements in the underlying accident year loss ratio.

The Asia Pacific combined ratio was 4.6 percentage points lower, mainly driven by lower other underwriting expenses, lower man-made large losses and catastrophe losses.

In Latin America, the combined ratio improvement of 5.2 percentage points was largely due to reduced large losses in Argentina and Mexico, a reduced commission ratio due to a more favorable mix of business and a higher level of favorable prior year reserve releases.

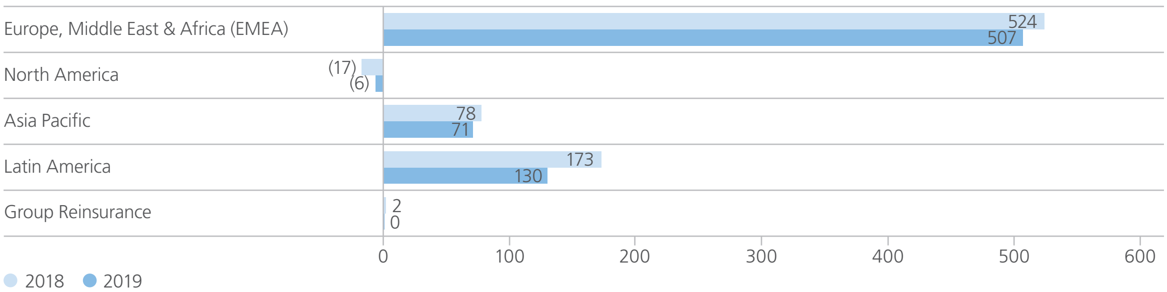
Financial review (continued)

Life

in USD millions, for the six months ended June 30	2019	2018	Change
Insurance deposits	10,736	8,985	19%
Gross written premiums and policy fees	7,365	7,980	(8%)
Net investment income on Group investments	1,484	1,575	(6%)
Insurance benefits and losses, net of reinsurance	(5,053)	(5,554)	9%
Business operating profit	**701**	**760**	**(8%)**
Net policyholder flows[1]	4,547	4,330	5%
Assets under management[2,3]	282,006	254,248	11%
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[3]	219,224	202,024	9%

[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 June 30, 2019 and December 31, 2018, respectively.

Life business operating profit (BOP)
in USD millions, for the six months ended June 30



Life business operating profit declined 8 percent as a result of the strengthening of the U.S. dollar compared to the prior year period. On a like-for-like basis, i.e., in local currency and after adjusting for closed acquisitions and disposals, growth was 2 percent.

In EMEA, business operating profit declined 3 percent, due to currency movements. On a like-for-like basis growth was 3 percent, with Switzerland and Spain in particular contributing to the underlying growth. Stronger technical results were the main driver of this growth.

In Latin America, reported business operating profit decreased 25 percent due to a combination of currency movements and weaker underlying performance. On a like-for-like basis the decline was 7 percent. The main driver of this decline was higher claims in corporate protection business in Chile, which more than offset growth across the remainder of the region.

Business operating profit in Asia Pacific decreased 8 percent in U.S. dollars, but grew 2 percent on a like-for-like basis. Growth across the region was largely offset by one-time deal-related costs included within business operating profit of USD 18 million related to the OnePath acquisition.

In North America, excluding Farmers Life, which is reported separately under Farmers, losses improved by USD 10 million compared with the same period in 2018.

Net policyholder flows of USD 5 billion increased by 5 percent compared with 2018. The increase was mainly attributable to higher volumes of unit-linked business in Latin America, which was partially offset by a reduction in lower-margin traditional savings business in EMEA.

Assets under management increased by 11 percent, driven by positive net inflows, which were 2 percent of the assets under management at the start of 2019, and favorable market movements.

NBV, APE and NBM by Segment

in USD millions, for the six months ended June 30	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[2]		New business margin, after tax (as % of APE) (NBM)[3]	
	2019	2018	**2019**	2018	**2019**	2018
Europe, Middle East & Africa (EMEA)	314	345	1,446	1,615	22.8%	23.0%
North America	24	8	80	43	30.1%	18.9%
Asia Pacific	99	93	114	113	89.0%	83.5%
Latin America	67	76	589	521	17.5%	23.6%
Total	**505**	**522**	**2,229**	**2,291**	**25.9%**	**26.4%**

[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.

Life new business annual premium equivalent (APE) decreased 3 percent largely due to exchange rate movements. On a like-for-like basis growth was 4 percent.

APE sales in EMEA declined 5 percent on a like-for-like basis. Strong growth in corporate life and pension business in Switzerland and Ireland was more than offset by reduced volumes of lower-margin traditional savings business and the inclusion of a large longevity transaction in 2018.

On a like-for-like basis APE sales increased by 24 percent in Latin America. Growth in Brazil, Mexico and Argentina was complemented by the signing of a large corporate protection scheme in Chile.

Asia Pacific saw an increase in APE sales of 5 percent on a like-for-like basis, with continued growth in protection business in Southeast Asia and Australia.

North America grew 84 percent on a like-for-like basis, with growth across all product lines.

New business value (NBV) decreased 3 percent largely due to changes in exchange rates compared to the prior year. Growth was 3 percent on a like-for-like basis.

EMEA saw a decrease in new business value of 4 percent on a like-for-like basis due to changes in business mix and modelling enhancements.

In Latin America, like-for-like growth of 5 percent in new business value was driven by a combination of higher sales volumes and an improved business mix and partially offset by adverse changes in economic assumptions.

On a like-for-like basis, Asia Pacific saw growth of 11 percent reflecting a mix of underlying portfolio growth and positive updates to assumptions.

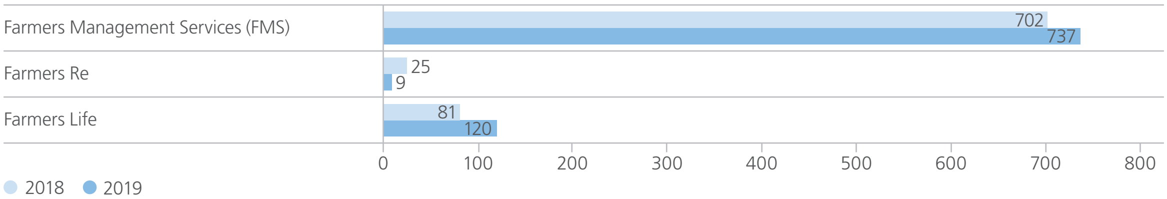
Higher volumes and an improved business mix led to a trebling in the new business value in North America on a like-for-like basis.

The new-business margin decreased by 0.5 percentage points to 25.9.

Farmers

Farmers business operating profit (BOP)

in USD millions, for the six months ended June 30



Farmers Management Services (FMS) business operating profit grew 5 percent in the first half of 2019. This was driven by 2 percent growth in the gross management result, in line with the development of the Farmers Exchanges gross earned premiums, and a USD 14 million favorable mark-to-market impact on a deferred compensation plan, compared with a USD 7 million unfavorable impact in 2018. The managed gross earned premium margin remained stable at 7.0 percent.

Farmers Re business operating profit of USD 9 million was USD 16 million lower than in 2018. This reflects the ongoing impact of the reduced participation in the all lines quota share from 8 percent to 1 percent, effective December 31, 2017, and higher levels of natural catastrophe losses in the period.

Farmers Life business operating profit of USD 120 million was USD 39 million higher than in the prior year. Around half of the improvement was driven by favorable mortality experience over the first half of the year. A further USD 9 million came from lower amortization of deferred acquisition costs resulting from positive market movements and better lapse experience on some older blocks of business.

Farmers Exchanges

The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative, management and ancillary services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

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 Re.

in USD millions, for the six months ended June 30	**2019**	2018	Change
Gross written premiums	10,458	10,335	1%
Gross earned premiums	10,137	9,965	2%

The Farmers Exchanges continued to grow in the first half of 2019. Gross written premiums for continuing operations increased by 2 percent compared to prior year, with growth coming in all lines of business and driven by a combination of rate increases, improved retention and further expansion into the eastern U.S. Overall reported gross written premiums were up 1 percent, reflecting the impact from the run-off of discontinued operations, which has now been completed, but which continues to have an impact on the prior year comparisons.

Group Functions and Operations

in USD millions, for the six months ended June 30	**2019**	2018	Change
Holding and Financing	(232)	(191)	(21%)
Headquarters	(139)	(143)	3%
Total business operating profit	**(371)**	**(334)**	**(11%)**

The business operating loss reported under Group Functions & Operations increased by USD 37 million to USD 371 million. The increase was driven by higher holding and financing costs due to lower gains on currency hedges compared with the prior year and an increase in external debt expenses for recent acquisitions, while headquarters expenses were 3 percent lower than 2018.

Non-Core Businesses

in USD millions, for the six months ended June 30	**2019**	2018	Change
Zurich Legacy Solutions	(41)	37	nm
Other run-off	4	14	(70%)
Total business operating profit	**(37)**	**51**	**nm**

Non-Core Businesses, which comprise run-off portfolios that are managed with the intention of proactively reducing risk and releasing capital, reported an operating loss of USD 37 million. The loss reflected the net impact of previously announced transactions to exit legacy liabilities related to UK employer’s liability and U.S. asbestos and environmental business.