

Zurich underlying BOP rises 14% in Q1

- Strong performance across all businesses with Q1 BOP, excluding Ogden¹, of USD 1.2 billion, up 14% from the prior year period
- Property & Casualty (P&C) combined ratio excluding Ogden¹ improved by 1 percentage point to 97.2%, compared to full year 2016, driven by initiatives to strengthen underwriting and reduce absolute expenses
- Life continued strong growth trend with new business value and APE up 18% and 12% respectively
- Farmers delivered continued growth in fee income
- Solid investment result as disciplined approach positions Group to take advantage of more favorable macro environment
- Group remains strongly capitalized, with a Swiss Solvency Test ratio (SST) of 227%² and an estimated Zurich Economic Capital Model (Z-ECM) ratio of 129%³

Select highlights for the Group as of March 31, 2017 (unaudited)

in USD millions, for the three months ended March 31, unless otherwise stated	2017	2016	Change ⁵ in USD
Business operating profit (BOP) ex-Ogden ¹	1,218	1,067	14%
Business operating profit	928	1,067	(13%)
Net income after tax attributable to shareholders (NIAS)	607	875	(31%)

“This is a good start to the year with strong performance from all of our businesses”, said Group Chief Financial Officer George Quinn. “Underwriting performance is improving and we have delivered another absolute reduction in expenses. The stronger economic environment is also delivering a better than expected investment performance and, given the cautious position that we took last year, could positively influence the rest of this year. New business volumes and customer retention in P&C and Life are up, while the Farmers Exchanges⁴ continue to deliver growth. The Group remains strongly



capitalized with solvency above our target range. This strong start to the year puts us on solid footing to deliver on our 2017-2019 financial targets.”

In February 2017, the UK government changed the discount rate used for calculating personal injury and accident claims, known as the Ogden¹ reserving rate. This ruling had an exceptional financial impact on the UK P&C insurance sector. For Zurich, the impact on BOP was USD 289 million in the first quarter. Given this is an industry-wide change to the UK legal framework, the commentary focuses on operating results ‘ex-Ogden’¹ to more accurately reflect Zurich’s performance.

In November 2016, Zurich set four targets for 2017 to 2019. These are: a business operating profit return on equity after tax (BOPAT ROE) in excess of 12% over the period, and growing; net expense savings against the 2015 baseline of USD 1.5 billion by 2019, of which USD 300 million were achieved in 2016; cash remittances over the three-years of USD 9.5 billion; and a target Z-ECM ratio of between 100% - 120%.

Zurich is focused on achieving these targets and actions towards them are already being reflected in the performance of the core businesses.

In **Property & Casualty (P&C)**, a focus on technical excellence in underwriting is reflected in a 1.6 percentage point improvement in the accident year loss ratio ex-catastrophes compared to the 2016 financial year. Absolute expenses have also reduced and are expected to continue to decline over the remainder of the year, while new business and customer retention have increased. P&C reserves remain strong, with the release of reserves set aside in prior years (PYD) of 2.2% for the quarter, excluding Odgen.

Excluding the impact of changes to the Ogden¹ reserving rate in the UK, P&C BOP for the quarter rose 13% to USD 630 million compared to the prior year period, driven by a robust performance in EMEA and North America, and a strong investment result. As a result, the combined ratio ex-Ogden¹ improved to 97.2% from 98.1% for the full year 2016. Gross written premiums and policy fees were 2% lower at USD 8.9 billion, reflecting measures to strengthen the overall quality and reduce the risk of the portfolio.

In **Life**, non-traditional products combining protection, unit-linked and corporate pensions accounted for 89% of APE written in the quarter. This is in line with the business' long-term strategy to make the portfolio more resilient to changes in interest rates.

New business value rose 21% on a local currency basis, with growth across all regions, particularly in EMEA. Life BOP increased 23% compared to the prior year quarter to USD 312 million.

Farmers BOP rose 2% from the prior year period to USD 396 million. BOP from Farmers Management Services remained broadly flat at USD 348 million as increased fee income from the Farmers Exchanges⁴, which are owned by their policyholders, was largely offset by unfavorable movements in the marked-to-market value of assets supporting employee benefit liabilities. Catastrophe claims weighed on earnings at Farmers Re in the first quarter, with a high level of claims related to extreme weather in Texas. Nonetheless, the unit reported a business operating profit of USD 3 million, compared to a USD 4 million loss in the prior year period.

Farmers New World Life, which is now shown as part of Farmers following changes to Zurich's structure in 2016, reported a BOP of USD 45 million compared to USD 47 million in the same quarter last year.

The **Non-Core Businesses**, which comprise run-off portfolios that are managed with the intention of proactively reducing risk and releasing capital, reported BOP of USD 35 million excluding Ogden¹, compared to USD 20 million in the prior year quarter.

Group Functions & Operations reported a net operating expense of USD 156 million for the quarter, up USD 2 million from the prior year period, as lower Holding & Financing expenses were offset by lower recharges to the business units.

The net investment result on Group investments, which includes net investment income, realized net capital gains and losses and impairments, contributed USD 1.5



billion to the Group's total revenues for the first quarter of 2017, a net return of 0.8% (not annualized) compared to 0.9% in the prior year period.

The Group maintained its very strong **capital position**. As of January 1, 2017, the Group's solvency, as determined under the Swiss Solvency Test (SST)² stood at 227%, an increase of 38 points over the year due to financial market conditions and definition changes by FINMA. At the end of the first quarter of 2017, the estimated Z-ECM stood at around 129%³, nine percentage points above target range.

Shareholders' equity decreased by USD 1.3 billion to USD 29.3 billion over the quarter reflecting the payment of the 2016 dividend of CHF 17 per share.

¹ Ogden is the discount rate for calculating personal injury and accident claims in the UK. A change to the rate in February had an impact on profitability in Q1. The file 'supplemental information' provides financial details on the three months including Ogden.

² Swiss Solvency Test (SST) ratio as of January 1, 2017. The SST ratio is calculated based on the Group's internal model, which is subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). Only the full year ratio is filed with FINMA and is subject to its approval.

³ Reflects midpoint estimates as of March 31, 2017 with an error margin of +/- 5ppts for Z-ECM.

⁴ Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides administrative and management services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services.

⁵ Parentheses around numbers represent an adverse variance.



Further information

[Supplemental information](#) will be available from 06.45 CEDT on our website www.zurich.com.

There will be a media conference call in English starting at 08.00 CEDT for questions by journalists to Group Chief Financial Officer George Quinn. In addition, there will be a conference call Q&A session for analysts and investors starting at 13.00 CEDT. Media may listen in. A podcast of this Q&A session will be available from 17.00 CEDT.

Please dial-in to register 10 minutes prior to the start of the respective call.

Dial-in numbers

- Europe +41 (0)58 310 50 00
- UK +44 (0)203 059 58 62
- USA +1 (1) 631 570 56 13

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Contact

Zurich Insurance Group Ltd
Austrasse 46, 8045 Zurich, Switzerland

www.zurich.com

SIX Swiss Exchange/SMI: ZURN, Valor: 001107539



Media Relations

Maeve Gallagher, Frank Keidel, Riccardo Moretto

phone +41 (0)44 625 21 00

twitter [@Zurich](#)

media@zurich.com

Investor Relations

Richard Burden, Aaron Beharelle, André Meier, Gianni Vitale

phone +41 (0)44 625 22 99, fax +41 (0)44 625 36 18

investor.relations@zurich.com

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