Comments on Q1-16 results

Slide 3: Key messages

Zurich’s operating results have improved significantly compared to the previous quarter.

The General Insurance (GI) combined ratio is improving in-line with expectations and actions taken should further strengthen performance as the year progresses.

Global Life (GL) has delivered continued underlying improvement, while US dollar strengthening against key currencies masks this in reported results.

The Farmers Exchanges continued to deliver growth and this is reflected in fee income.

And the Z-ECM ratio is slightly above the target range at the end of 2015, demonstrating a very strong capital position for the Group.

In summary, this result is a good start to the year with further improvement expected.

Slide 4: Key financials

Q1-16 Business operating profit (BOP) for the Group was USD 1.1bn and net income attributable to shareholders (NIAS) was USD 0.9bn. These results are a significant improvement compared to Q4-15, by USD 670m and USD 1.3bn, respectively.

This result represents a good start to the year. Execution of the plans for 2016 is well underway and further improvements are expected throughout the year.

The capital position of the Group is very strong, with the Z-ECM ratio at 121% end of 2015. We expect the Z-ECM ratio to be in the middle of our target range end of March, negatively affected by financial market movements and the inclusion of RCIS.

Slide 5: Group – Business Operating Profit

The GI BOP for the quarter was USD 542m, compared to a loss of USD 120m in Q4-15, while the GL BOP of USD 317m was comparable year on year. Farmers BOP of USD 343m decreased 12% as growth in fee income was offset by an exceptional level of catastrophe losses.

The Other Operating Businesses BOP loss of USD 139m is in-line with the previous year, but is below the expected quarterly run rate given timing effects in marketing and other spend and a decrease in interest expenses due to a lower amount of debt outstanding.
Non-Core Businesses had a BOP result of USD 24m, where reserve releases related to an in-force management program initiated last year continued into Q1-16.

In the reconciliation of operating profit to net income, capital gains realizations for the quarter were USD 220m. Almost two thirds of this was driven by capital gains from fixed income and equity securities, with the remainder mainly driven by the revaluation of real estate assets in Switzerland.

Accounting and restructuring charges for the first quarter were USD 55m, primarily related to efficiency improvements. Given the acceleration of cost saving measures, around USD 500m of restructuring charges are expected for the full year 2016, with the charges being phased more towards the second half of the year.

The shareholders’ effective tax rate for the quarter was 29.5%.

**Slide 6: General Insurance – Topline**

For Q1-16 gross written premiums declined by 5% in local currency or 10% in US dollars. This reduction is mainly due to the focus on profitability and the impact of the broader soft market conditions. Achieved rate increases on renewal business increased to 3%. As expected, the overall retention ratio came down 4 percentage points to just below 80%. New business premium is down 16% primarily driven by market conditions.

Global Corporate’s gross written premiums were down 11% in local currency for Q1-16, mainly as a result of lower new business volumes and actions taken to drive performance. This activity is expected to continue throughout the year.

For North America Commercial (NAC), gross written premiums decreased 4%. This includes some timing and other one-off items but is mainly driven by broad market conditions and the effects of rate tiering actions.

Gross written premiums for EMEA declined 3% in local currency for Q1-16. New business premiums are down due to the competitive environment, mainly in Germany.

In International Markets premiums for Q1-16 increased by 1% in local currency. Growth in Latin America is offset by the exit of lines of business in Australia that did not meet profitability requirements.
Slide 7: General Insurance – Tiering results

In the second half of 2015 a set of actions were taken to restore profitability in GI. These actions mainly centered around three key themes - restoring technical excellence, enhancing governance and acceleration of the expense program. One key action was the execution on revised tiering plans.

The Q1-16 tiering results for the Group are encouraging. Overall rate increases on renewal business improved to 3% for Q1-16, with substantial variation in the level of increases achieved across the various tiers of the portfolio. The focus on the lowest tier has produced double-digit rate increases with a significant reduction in retention. Similar results are seen across most regions and are in-line with the plans set at the end of last year.

This demonstrates good progress has been made in terms of the actions taken last year, with results already visible in Q1-16, and gives confidence for further combined ratio improvements in the upcoming quarters.

Slide 8: General Insurance – Loss Ratio details

Good progress in the turnaround actions is also demonstrated in the development of the underlying loss ratios. The AY loss ratio excluding catastrophes for Q1-16 was 66.5%. This is roughly 2 percentage points better than the ratio for the second half of 2015.

The reduction is driven by the actions taken and reflected in both the attritional and the large loss ratios, roughly in equal parts. Looking at a break down by region there are improvements in all the regions.

Slide 9: General Insurance – Combined ratio

GI’s combined ratio of 97.7% for Q1-16 was 5.9 percentage points lower than FY-15 and 1.0 percentage point higher than Q1-15. The AY combined ratio ex-cat improved by 1.0 percentage point versus FY-15 and almost 3 percentage points against the poor third and fourth quarters last year.

This combined ratio result is in-line with expectations and reflects strong execution of the plans in GI. More improvement on the combined ratio is expected, especially in the second half of the year.

Looking at the components in more detail, large man-made losses were 1.0 percentage point higher than Q1-15. Compared to the second half of last year the level of large losses was 1.2 percentage points lower for General Insurance and 2.0 percentage points lower for Global Corporate.

Actions implemented towards the end of last year delivered a roughly 0.8 percentage points improvement in the attritional loss ratio compared to FY-15, with reductions in most regions.
The expense ratio of 31.6% is flat compared to both Q1-15 and FY-15, and is in-line with expectations.

Natural catastrophes and other weather events were benign in all regions, overall contributing 1.1% to the combined ratio for Q1-16. Prior year reserves developed favorably in all major regions, with the 1.5 percentage points reduction in the combined ratio in-line with the expected range of 1-2%.

In terms of performance by region, Global Corporate's combined ratio of 99.3% is significantly lower than for FY-15. This is mainly driven by the benign cat quarter and favorable impact from prior year reserves. The region is taking additional steps to further improve the accident year combined ratio.

NAC’s combined ratio decreased by 1.6 percentage points compared to FY-15. Favorable prior year reserve development and improvements in attritional losses are partly offset by two large surety losses and an uptick in commissions.

The reduction in EMEA’s combined ratio of 2.0 percentage points versus Q1-15 is driven by a sharp improvement in the AY combined ratio ex-cat.

And in International Markets, the reduction in the combined ratio of 4.0 percentage points compared to Q1-15 is mainly driven by improved attritional loss ratios in Latin America and Asia Pacific, while lower levels of large losses are offset by higher commissions driven by business mix.

**Slide 10: General Insurance – BOP components**

The GI BOP for the quarter was USD 542m, compared to a loss of USD 120m in Q4-15.

Compared to Q1-15, the decline in the GI underwriting result is reflected in the increase of the combined ratio by 1.0 percentage point.

Investment income is up 3% on a reported basis and up 8% in local currency compared to the prior year. This is mainly related to higher rates from inflation-linked bonds in Latin America and the benefits of the higher allocation to equity and less liquid assets implemented last year.

Hedge fund investments generated a loss of USD 63m for Q1-16 as a result of market volatility.

The non-technical result of USD -3m compares to a USD 36m loss in Q1-15. The Q1-16 result includes a currency gain of USD 32m, and excluding this non-technical expenses would be in-line with the previously guided run-rate expense of USD 40m to USD 50m per quarter.

**Slide 11: Global Life – New business**

Q1-16 Global Life new business APE volumes were flat in local currency compared to the prior year quarter, with increases in Latin America and Asia Pacific offset by decreases in EMEA and North
America. The Group maintains its focus on protection, unit linked and corporate pensions business, which account for 80% of new business sales, and continues to limit exposure to guarantee products.

New business value increased 34% in local currency year on year, driven by a 7.8 percentage points increase in new business margin compared to the prior year quarter.

In EMEA local currency new business value increased by 41% year on year. Benefits from mix shifts to higher margin business in the UK and modeling improvements in Switzerland for Corporate Life and Pensions business, combined with higher euro swap rates and a re-pricing of individual savings products in Italy more than offset the decrease in volumes in the region.

Asia Pacific continues to achieve strong sales of profitable protection business in Japan, with volumes and modeling improvements contributing to local currency new business value doubling for the region compared to the prior year period.

Latin America values in local currency were flat, with 8% growth in Zurich Santander offset in the Zurich branded businesses, mainly due to spread compression in Chile.

And while North America experienced an overall decrease in sales, business mix changes and assumption updates resulted in new business values increasing 41% for the region.

Analyzed by pillar, Bank Distribution businesses delivered robust new business value growth, increasing 18% year on year in local currency. Corporate Life and Pensions value was up 39% compared to the prior year, while Retail new business value increased 42% in local currency, mainly driven by IFA protection sales in Japan.

And finally, net inflows were positive for the quarter with increases seen in all regions.

**Slide 12: Global Life – BOP by region**

Global Life BOP increased 11% in local currency, and was flat compared to the prior year quarter in US dollars, to USD 317m.

In EMEA, earnings increased by 3%, with local currency BOP growing by 7%, as accelerated in-force management actions were partly offset by adverse UK claims experience and negative market movements.

In Latin America Zurich Santander earnings increased by 29% in local currency, while the Zurich branded business is on track with BOP growth for the quarter. This is an excellent result with continued BOP growth in Santander Brazil despite the prevailing economic headwinds.
Asia Pacific showed strong growth at 61% in local currency or 48% in US dollars, driven by favorable claims experience in Australia and strong protection growth in Japan.

And in North America earnings were down 36% compared to the prior year quarter, where mortality experience in both the Zurich branded IFA and Farmers New World Life books was unfavorable compared to exceptional levels in the prior year quarter.

Overall this is a solid result for the Global Life business given the continued strengthening of the dollar against key currencies as well as volatile market impacts experienced during Q1-16.

**Slide 13: Farmers Exchanges – KPIs**

Farmers Exchanges, which are owned by their policyholders, sustained their growth momentum. Premiums grew 4% overall and 6% for continuing operations in Q1-16. Growth was driven by substantial rate increases in the Auto and Homeowner lines and supported by small gains in policies-in-force. While Auto retention and new business held up well in Q1-16, this may not be indicative for the remainder of the year as Farmers Exchanges continue to tighten underwriting and file for more rate.

Farmers Exchanges experienced the highest first quarter catastrophe losses in over 10 years. Two severe hailstorms in the Dallas/Fort Worth area in March caused claims of more than USD 250m, adding 5.4 percentage points to the combined ratio. Another hailstorm early April, said to be the industry’s most costly ever in Texas, is estimated to impact the second quarter with losses of more than USD 200m. In addition, the ex-catastrophe loss ratio deteriorated by some 4.3 percentage points reflecting the continued unfavorable industry wide claims trends in Auto. There are no clear signs yet that these trends will moderate, and, as indicated before, states with a strong Farmers presence like California and Texas are more exposed than others. Restoring the profitability of the Auto line thus will take time and is not expected before 2017 as rate and underwriting actions earn through the book.

Farmers Exchanges surplus ratio declined by 2.9 percentage points compared to March 2015 and 0.6 percentage points compared to December 2015 but continues to be at the upper end of the 33-36% target ratio. The movement since March 2015 was mainly due to the significant overall reduction of Quota Share reinsurance support as of the beginning of 2015, while the movement since December 2015 was due to the decrease of the surplus of the Farmers Exchanges given the unusually high first quarter catastrophe losses and continued premium growth.

**Slide 14: Farmers – KPIs**

Q1-16 Farmers Management Services BOP increased by 5%, mostly driven by higher management fees and reflecting continued premium growth.
Farmers Re gross written premiums dropped 33% as the participation in the All Lines Quota Share reinsurance treaty was reduced from 10% to 8% at year-end and the Auto Physical Damage Quota Share reinsurance treaty was eliminated at beginning of year. Going forward this should reduce the overall volatility of results.

The Farmers Re combined ratio deteriorated by 12.7 percentage points. Catastrophe losses, mostly related to the above mentioned Texas hail storms, added 7.7 percentage points. Most of the remainder is attributable to reserve increases, primarily resulting from the adverse trends in Auto.

**Slide 15: Group – Balance sheet and capital**

The decline in shareholders’ equity largely reflects the dividend payment approved at the AGM at the end of March, partially offset by first quarter net income and an increase in unrealized gains. The increase in unrealized gains was attributable to falling yields across the board, alongside some tightening of credit spreads in Europe and the US. Equity markets fell in January and early February but then recovered toward the end of the quarter.

The year-end Z-ECM ratio of 121% is almost unchanged compared to mid-year and slightly above the target range. It recovered from the 114% recorded at end-September, aided by rising yields and lower market and insurance risks. The year-end SST ratio of 189% decreased 14 percentage points compared to mid-year, partly due to the introduction of new yield curves by the Swiss regulator.

The significant decline in yields in Q1-16 together with other factors did negatively impact the Z-ECM ratio. Thus the Z-ECM ratio is estimated to be in the middle of the target range end of March.

**Slide 16: Key messages**

In summary, this result is a good start to the year with further improvement expected.

GI’s combined ratio is improving in-line with expectations. The actions taken should further strengthen performance as the year progresses.

Global Life delivered continued underlying improvement, which is masked by US dollar strengthening, while the Farmers Exchanges were able to grow further in their continuing operations, which is reflected in the fee income of Farmers.

And the Z-ECM ratio is slightly above the target range at the end of 2015, demonstrating a very strong capital position for the Group.
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