Half year results 2017 – Building a strong foundation

Investor and media presentation
August 10, 2017

Zurich Insurance Group
### Main Section

- **Key highlights**
- Group BOP and NIAS
- Property & Casualty (P&C)
- Life
- Farmers
- Group Functions and Operations & Non-Core Businesses
- Group solvency
- Group balance sheet and capital
- Disclaimer

### Appendix

- **Group**
- P&C catastrophe reinsurance program
- Farmers Exchanges
- Group solvency
- Group debt
- Commentary
- Contacts
- Calendar

**Other symbols**
- Back to content page
- Back to slide

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## Strong first half performance with delivery on key priorities

<table>
<thead>
<tr>
<th>Group</th>
<th>Strong first half performance with BOP(^1) up 14% and BOPAT ROE(^1) of 12.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses</td>
<td>~USD 550m of net savings achieved to-date</td>
</tr>
<tr>
<td>P&amp;C</td>
<td>Stabilized top-line; improved combined ratio performance; stable reserve strength</td>
</tr>
<tr>
<td>Life</td>
<td>BOP up 16% in first half; strong growth in Protection and Bancassurance NBV</td>
</tr>
<tr>
<td>Farmers</td>
<td>Continued top-line growth; Farmers Exchanges(^2) Auto combined ratio ~6ppts lower</td>
</tr>
<tr>
<td>Capital</td>
<td>Capital very strong with Z-ECM estimated at 134%(^3) at June 30, 2017</td>
</tr>
</tbody>
</table>

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1. Adjusted for the Q1 impact of the Ogden discount rate change in the UK.
2. Provided for informational purposes only. Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services.
3. Q2-17 Zurich Economic Capital Model (Z-ECM) reflects midpoint estimate with an error margin of +/- 5ppts.
On track to achieve our financial targets

**KEY HIGHLIGHTS**

**BOPAT ROE (%)**

- **HY-17**: 12.5%
- **Target**: >12.0%

**Z-ECM RATIO (%)**

- **Q2-17e**: 134%
- **Target range**: 100%

**CUMULATIVE CASH REMITTANCES (USDbn)**

- **Expected FY-17**: >9.5bn
- **2017 - 2019 Target**: >9.5bn

---

**CUMULATIVE NET EXPENSE SAVINGS (USDm)**

- **Achieved**
  - 2015
  - 2016: ~300
  - 2017: ~700
  - 2018: ~1,100
  - 2019: 1,500

- **Target**

---

1. Business Operating Profit after tax return on equity, excluding unrealized gains and losses. HY-17 excludes the impact from the change in the Ogden discount rate (see slide 32 for more details).
2. Q2-17 Z-ECM reflects midpoint estimate with an error margin of +/- 5ppts.
Continued delivery across all businesses

P&C

COMBINED RATIO (%)\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>HY-16</th>
<th>HY-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY-16</td>
<td>31.7%</td>
<td>2.6%</td>
</tr>
<tr>
<td></td>
<td>65.7%</td>
<td>98.1%</td>
</tr>
<tr>
<td>FY-17</td>
<td>-1.8%</td>
<td>2.9%</td>
</tr>
<tr>
<td></td>
<td>65.1%</td>
<td>97.8%</td>
</tr>
</tbody>
</table>

LIKE-FOR-LIKE GWP GROWTH (%)

<table>
<thead>
<tr>
<th></th>
<th>FY-15</th>
<th>FY-16</th>
<th>HY-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>HY-16</td>
<td>3%</td>
<td>-3%</td>
<td>1%</td>
</tr>
</tbody>
</table>

LIFE

BOP GROWTH IN LOCAL CURRENCY (%)\(^+18\%\)

<table>
<thead>
<tr>
<th></th>
<th>HY-16</th>
<th>HY-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>HY-16</td>
<td>65.7%</td>
<td>96.0%</td>
</tr>
<tr>
<td>HY-17</td>
<td>65.1%</td>
<td>96.0%</td>
</tr>
</tbody>
</table>

HY-17 APE SHARE OF NON-TRADITIONAL PRODUCTS

|         | Non-Traditional | 89% |

FARMERS EXCHANGES\(^2\)

COMBINED RATIO (%)

<table>
<thead>
<tr>
<th></th>
<th>HY-16</th>
<th>HY-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>HY-16</td>
<td>106.4%</td>
<td>104.9%</td>
</tr>
<tr>
<td>HY-17</td>
<td>104.9%</td>
<td>104.9%</td>
</tr>
</tbody>
</table>

GWP GROWTH (USDm)\(^3\)

<table>
<thead>
<tr>
<th></th>
<th>HY-16</th>
<th>HY-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>HY-16</td>
<td>9,520</td>
<td>9,872</td>
</tr>
<tr>
<td>HY-17</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

1 HY-17 excludes the impact from the change in the Ogden discount rate, booked in Q1-17 (see slide 32 for more details).
2 Provided for informational purposes only. Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services.
3 Continuing operations only, excludes discontinued operations (21st Century business outside of California and Hawaii mainly).
Strong first-half year with Group BOP up 14% excluding Ogden

KEY HIGHLIGHTS

BOP (USDm)

- HY-16: 2,163 - 1,204 - 562 - 766 - 26 - 395
- HY-17 Reported: 2,167 - 1,020 - 650 - 794 - 3 - 301
- HY-17 Ex. Ogden: 2,456 - 1,229 - 650 - 794 - 83 - 301

OGDEN IMPACT (USDm)

- HY-16: 289
- HY-17 Reported: 209
- HY-17 Ex. Ogden: 80

1 Booked with Q1-17 results.

August 10, 2017

Half year results 2017
Q2-17 CFO update
Strong BOP performance with most businesses growing profits

BOP (USDm)

BOP TO NIAS WALK (USDm)

1. Realized capital gains/losses.
2. Includes restructuring provisions and other restructuring charges.
## TOPLINE DEVELOPMENT

<table>
<thead>
<tr>
<th>Region</th>
<th>Q2-17 GWP (USDm)</th>
<th>Q2-17 GWP Growth in local currency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMEA</td>
<td>3,063</td>
<td>-5%</td>
</tr>
<tr>
<td>North America</td>
<td>5,051</td>
<td>-1%</td>
</tr>
<tr>
<td>APAC</td>
<td>614</td>
<td>3%</td>
</tr>
<tr>
<td>Latin America</td>
<td>663</td>
<td>9%</td>
</tr>
<tr>
<td>Total</td>
<td>9,086</td>
<td>-1%</td>
</tr>
</tbody>
</table>

### RATE CHANGE (%)

<table>
<thead>
<tr>
<th>Q2-17</th>
<th>DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>Slightly declining</td>
</tr>
<tr>
<td>1%</td>
<td>Stable</td>
</tr>
<tr>
<td>2%</td>
<td>Slightly increasing</td>
</tr>
<tr>
<td>1%</td>
<td>Stable</td>
</tr>
<tr>
<td>1%</td>
<td>Slightly declining</td>
</tr>
</tbody>
</table>

1 GWP development due to premium rate change as a percentage of the renewed portfolio against the comparable prior year period.

2 Total includes Group Reinsurance and Eliminations.
Lower BOP driven by non-technical result

**BOP BREAK DOWN (USDm)**

- **Q2-16**
  - UW result: 32
  - Investment result: 540
  - Other: 76
  - Total: 648

- **Q2-17**
  - UW result: 32
  - Investment result: 520
  - Other: 105
  - Total: 600

**KEY DRIVERS (USDm)**

- **Q2-16**
  - BOP: 648
  - EMEA: -140
  - North America: 24
  - APAC: 39
  - Latin America: -61
  - GRe: 89
  - Total: 648

- **Q2-17**
  - BOP: 600
  - EMEA: 24
  - North America: 39
  - APAC: -61
  - Latin America: 89
  - GRe: 600
  - Total: 600

1. Includes investment income and realized capital gains in BOP.
2. Includes the non-technical result and non-controlling interest.
P&C – COMBINED RATIO DETAILS

Accident year loss ratio ex-cat improving year to date

### COMBINED RATIO (%)\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>Expense ratio</th>
<th>Loss ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY-15</td>
<td>103.6%</td>
<td>31.7%</td>
</tr>
<tr>
<td>FY-16</td>
<td>98.1%</td>
<td>31.7%</td>
</tr>
<tr>
<td>HY-17</td>
<td>97.8%</td>
<td>32.4%</td>
</tr>
<tr>
<td>Q2-16</td>
<td>98.9%</td>
<td>30.3%</td>
</tr>
<tr>
<td>Q2-17</td>
<td>98.4%</td>
<td>31.4%</td>
</tr>
</tbody>
</table>

### LOSS RATIO (%)\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>Expense ratio</th>
<th>Loss ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY-15</td>
<td>71.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td>FY-16</td>
<td>66.4%</td>
<td>2.6%</td>
</tr>
<tr>
<td>HY-17</td>
<td>65.4%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Q2-16</td>
<td>68.6%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Q2-17</td>
<td>67.1%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

1. FY-15 has not been restated. HY-17 excludes the impact from the change in the Ogden discount rate, booked in Q1-17 (see slide 32 for more details).
2. Expense ratio includes premium tax and levies.
3. Catastrophes include major and mid-sized catastrophes including significant weather-related events.
4. Accident year loss ratio (AY LR) excludes prior year reserve development (PYD).
Absolute expenses reducing, OUE ratio decreasing

- Expense savings expected to increase over the year
- Higher NEP over Q2-Q4 due to skew in Crop NEP
- Leads to reduction in ratio over remainder of year
- Full year: expect ~stable NEP with lower absolute expense
Business mix drives increase in commission ratio

- Development driven by mix
- Growth in Latin America mass consumer and shrinkage in large commercial business
- Should be viewed in conjunction with loss ratio development over time

**COMMISSION RATIO (%)**

<table>
<thead>
<tr>
<th></th>
<th>Q1-16</th>
<th>Q2-16</th>
<th>Q3-16</th>
<th>Q4-16</th>
<th>Q1-17</th>
<th>Q2-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY-16</td>
<td>14.7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HY-17</td>
<td>14.7%</td>
<td>+1.0ppts</td>
<td>15.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **P&C**
  - **EXPENSE RATIO DETAILS**
  - **Q3-16** - 14.9%
  - **Q2-16** - 13.9%
  - **Q1-16** - 14.7%
  - **FY-16** - +1.0ppts
  - **HY-16** - 15.7%
Normal quarterly volatility drives differences by region

1. Excludes Group Reinsurance and Eliminations.
2. Other includes small & medium enterprises, direct market and other program business.
Lower yields and equity dividends, gap to new money yields narrowing

INVESTMENT RESULT IN BOP (USDm)

INVESTMENT INCOME YIELD

INVESTMENT INCOME YIELD OF GROUP INVESTMENTS (%)

INVESTMENT INCOME & REINVESTMENT YIELD OF DEBT SECURITIES (%)

---

1 Net of investment expenses.
2 Investment income yield calculated based on average debt securities (accounting view before eliminations).
   Reinvestment yield calculated as a weighted-average trade yield of purchased debt securities during the quarter, on an annual basis and approximated.
3 For comparative reasons investment income yield extrapolated linearly to a full-year ratio.
Improved technical margins and expense reductions support 10% growth in BOP

**BOP BY SEGMENT (USDm)**

- Q2-16:
  - EMEA: 308
  - North America: 68
  - APAC: 9
  - Latin America: 31
  - Group Re: 9
  - Q2-17:
    - EMEA: 338
    - North America: 77
    - APAC: 77
    - Latin America: 39
    - Group Re: 77
    - Q2-17 BOP: 338

**BOP BY SOURCE OF EARNINGS (USDm)**

- **Loadings & fees:**
  - Q2-16: 630
  - Q2-17: 820
  - Δ Q2-16: 190

- **Inv. margin:**
  - Q2-16: 155
  - Q2-17: 255
  - Δ Q2-16: 100

- **Technical margin:**
  - Q2-16: -586
  - Q2-17: -342
  - Δ Q2-16: -244

- **Operating costs:**
  - Q2-16: -1
  - Q2-17: -3
  - Δ Q2-16: -2

- **Acquisition costs:**
  - Q2-16: -9
  - Q2-17: -1
  - Δ Q2-16: -8

- **Deferral impacts:**
  - Q2-16: 37
  - Q2-17: 0
  - Δ Q2-16: 37

- **Q2-17 BOP:**
  - Reported: 338
  - LC: 190
  - Δ Q2-16: 148

Legend:
- Expenses
- Revenues
- UL fund based fees

*August 10, 2017*
Focus on improving business mix contributes to local currency new business value growth of 7%
Expanding margins in protection products and bancassurance

### PROTECTION PRODUCTS (USDm)\(^1,2\)

<table>
<thead>
<tr>
<th>APE</th>
<th>HY-15</th>
<th>HY-16</th>
<th>HY-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>APE</td>
<td>751</td>
<td>689</td>
<td>787</td>
</tr>
</tbody>
</table>

**NBV**

<table>
<thead>
<tr>
<th>HY-15</th>
<th>HY-16</th>
<th>HY-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>298</td>
<td>342</td>
<td>389</td>
</tr>
</tbody>
</table>

**HY-15**

119

**HY-16**

122

**HY-17**

161

\(+14\% \text{ p.a.}\)

### BANCASSURANCE DISTRIBUTION (USDm)\(^1,2\)

<table>
<thead>
<tr>
<th>APE</th>
<th>HY-15</th>
<th>HY-16</th>
<th>HY-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>APE</td>
<td>793</td>
<td>830</td>
<td>752</td>
</tr>
</tbody>
</table>

**BANCASSURANCE DISTRIBUTION**

<table>
<thead>
<tr>
<th>HY-15</th>
<th>HY-16</th>
<th>HY-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>257</td>
<td>219</td>
<td>175</td>
</tr>
</tbody>
</table>

**NBV**

<table>
<thead>
<tr>
<th>HY-15</th>
<th>HY-16</th>
<th>HY-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>99</td>
<td>97</td>
<td>113</td>
</tr>
</tbody>
</table>

**HY-15**

20

**HY-16**

25

**HY-17**

48

\(+16\% \text{ p.a.}\)

1. Annual Premium Equivalent (APE) is reported before non-controlling interests. New Business Value (NBV) is reported net of non-controlling interests.
2. Other Bancassurance includes all business distributed through banks globally, excluding Santander and Banco Sabadell joint ventures (Bank JVs).
AUM growth of 9% driven by positive net flows and markets with reduced volumes of low-margin savings business in EMEA
Growth in asset base offset by lower yields, gap to new money yields narrowing

**INVESTMENT RESULT IN BOP GROSS OF PH (USDm)**

<table>
<thead>
<tr>
<th></th>
<th>Q2-16</th>
<th>Q2-17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>968</td>
<td>803</td>
</tr>
<tr>
<td></td>
<td>150</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>819</td>
<td>758</td>
</tr>
</tbody>
</table>

3. Investment income yield calculated based on average debt securities (accounting view before eliminations).
4. Reinvestment yield calculated as a weighted-average trade yield of purchased debt securities during the quarter, on an annual basis and approximated.

**INVESTMENT INCOME YIELD**

**INVESTMENT INCOME YIELD OF GROUP INVESTMENTS (%)**

<table>
<thead>
<tr>
<th></th>
<th>Q2-16</th>
<th>Q2-17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.2%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

**INVESTMENT INCOME / REINVESTMENT YIELD OF DEBT SECURITIES (%)**

<table>
<thead>
<tr>
<th></th>
<th>Q2-16</th>
<th>Q2-17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.9%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

1. For comparative reasons investment income yield extrapolated linearly to a full-year ratio.

August 10, 2017
Rate increases in Auto continue to drive growth

**GWP GROWTH (%)**

<table>
<thead>
<tr>
<th></th>
<th>Q2-16</th>
<th>Q3-16</th>
<th>Q4-16</th>
<th>Q1-17</th>
<th>Q2-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuing Operations²</td>
<td>5.5%</td>
<td>5.5%</td>
<td>3.9%</td>
<td>3.8%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Total</td>
<td>3.8%</td>
<td>3.8%</td>
<td>2.1%</td>
<td>1.9%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

**GROWTH BY BUSINESS LINE (%)**

- **Auto**: Q2-16 5.9%, Q2-16 7.2%
- **Home**: Q2-16 0.8%, Q2-16 6.2%
- **Specialty**: Q2-16 3.0%, Q2-16 2.0%
- **Business Insurance**: Q2-16 0.4%, Q2-16 1.1%
- **Discontinued²**: Q2-16 -61.6%, Q2-16 -29.6%
- **Total**: Q2-16 1.5%, Q2-16 3.8%

---

² Excludes discontinued operations.

³ Discontinued operations include 21st Century business outside of California and Hawaii and other discontinued operations.

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1 Provided for informational purposes only. Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services.

2 Excludes discontinued operations.

3 Discontinued operations include 21st Century business outside of California and Hawaii and other discontinued operations.
Strong improvement of combined ratio driven by Auto

**COMBINED RATIO (%)**

- **Farmers Exchanges**
  - Q2-16: 108.6%, CR 12.1%
  - Q2-17: 105.4%, CR 12.1%
- Catastrophe losses 96.5% vs. 93.3%

- **Auto**
  - Q2-16: 112.1%, CR 5.4%
  - Q2-17: 106.7%, CR 4.6%

**SURPLUS**

- **Farmers Exchanges surplus (USDbn)**
  - FY-16: 5.5
  - Q2-16: 5.4

1. See footnote 1 on previous slide.
2. Combined ratio before quota share reinsurance. Auto excludes Personal Umbrella.
3. Surplus ratio based on Farmers Exchanges surplus.
Profitability measures slow down new business

**NET PROMOTER SCORE**

- FY-16: 43.2
- HY-17: 42.7

**RETENTION (%)**

- FY-16: 82.1%
- HY-17: 81.2%

**NEW BUSINESS (%)**

- FY-16: -16.0%
- HY-17: -1.6%

---

1. See footnote 1 on slide 21.
2. Survey based measure of customer loyalty for Farmers Exclusive Agent customers (Personal Lines and Business Insurance) on a YTD basis.
3. Reflects YTD 13/1 combined policy survival rate for the Farmers Exclusive Agent channel, excluding Bristol West and Farmers Specialty Auto; based on weighted average GWP.
4. YTD change in new business counts for continuing operations. Farmers and Bristol West Auto reflect New Business/New Household.
Steady growth in management fees and stable margin

<table>
<thead>
<tr>
<th>BOP (USDm)</th>
<th>Q2-16</th>
<th>Q2-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>350</td>
<td>352</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MGEP MARGIN (%)¹</th>
<th>Q2-16</th>
<th>Q2-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.0%</td>
<td>7.0%</td>
<td></td>
</tr>
</tbody>
</table>

¹ Margin on gross earned premiums of the Farmers Exchanges. Regarding Farmers Exchanges see footnote 1 on slide 21.
Farmers Life reflects management view and contains the ongoing business and some closed books of Farmer New World Life Insurance Company. Farmers Re includes all reinsurance assumed from the Farmers Exchanges by Zurich Insurance Group.

1 Farmers Life reflects management view and contains the ongoing business and some closed books of Farmer New World Life Insurance Company. Farmers Re includes all reinsurance assumed from the Farmers Exchanges by Zurich Insurance Group.
Reduced Group center expenses and FX benefit the Group Functions and Operations result

### GROUP FUNCTIONS AND OPERATIONS BOP (USDm)

- Q2-17: -39, -107
- Q2-16: -242, -164

### NON-CORE BUSINESSES BOP (USDm)

- Q2-17: 48
- Q2-16: 6

1. Includes Alternative Investments.
As of January 1, 2017. The Swiss Solvency Test (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). The full year ratio is filed with FINMA and is subject to its approval.

Q2-17 Z-ECM reflects midpoint estimate with an error margin of +/- 5ppts.

“Other” includes model changes and change in diversification benefit.
Retained earnings and FX drive growth in shareholders’ equity

**SHAREHOLDERS’ EQUITY (USDm)**

<table>
<thead>
<tr>
<th></th>
<th>Q1-17</th>
<th>NIAS</th>
<th>Net URG/L</th>
<th>CTA</th>
<th>Pension plans &amp; other</th>
<th>Q2-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>29,325</td>
<td>896</td>
<td>125</td>
<td>402</td>
<td>32</td>
<td>30,717</td>
</tr>
</tbody>
</table>

**CAPITAL STRUCTURE (%)\(^1\)**

<table>
<thead>
<tr>
<th></th>
<th>FY-16</th>
<th>Q2-17e(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>2017</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>2018</td>
<td>73%</td>
<td>75%</td>
</tr>
</tbody>
</table>

\(^1\) Calculated based on Z-ECM AFR. Q2-17 estimated.
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 and that interim results are not necessarily indicative of full year results.

Persons requiring advice should consult an independent adviser.

This communication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

THIS COMMUNICATION DOES NOT CONTAIN AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES; SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION OR EXEMPTION FROM REGISTRATION, AND ANY PUBLIC OFFERING OF SECURITIES TO BE MADE IN THE UNITED STATES WILL BE MADE BY MEANS OF A PROSPECTUS THAT MAY BE OBTAINED FROM THE ISSUER AND THAT WILL CONTAIN DETAILED INFORMATION ABOUT THE COMPANY AND MANAGEMENT, AS WELL AS FINANCIAL STATEMENTS.
Appendix
2017-2019 Financial targets

- **BOPAT ROE**² in excess of 12% and increasing, despite higher equity base
- USD 1.5bn in net savings by 2019 compared to the 2015 baseline
- Z-ECM target ratio of 100-120%
- Cash remittances in excess of USD 9.5bn over 2017-2019 period

---

² Business Operating Profit after tax return on equity, excluding unrealized gains and losses.
GROUP – OGDEN IMPACT

Material impact from the change in the Ogden discount rate

**BOPAT ROE (%)**

- **HY-17 reported**: 11.0%
- **HY-17 ex. Ogden**: 12.5%

**BOP (USDm)**

- **HY-17 reported**: 2,167
  - P&C: 1,020
  - Farmers: 650
  - Life: 794
  - NCB: -301
- **HY-17 ex. Ogden**: 2,456
  - P&C: 1,229
  - Farmers: 650
  - Life: 794
  - NCB: -301

**P&C COMBINED RATIO (%)**

- **HY-17 reported**: 99.5%
  - Cat: 2.9%
  - ER: 32.4%
  - AY LR ex-cat: 65.2%
  - PYD: -1.0%
- **HY-17 ex. Ogden**: 97.8%
  - Cat: 2.9%
  - ER: 32.4%
  - AY LR ex-cat: 65.1%
  - PYD: -2.6%
Reinsurance program in line with Group risk appetite

**CATASTROPHE REINSURANCE TREATIES (USDm)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Single global USD 200m treaty, which can be applied to any region</th>
<th>Single global USD 750m treaty, which can be applied to any region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>200</td>
<td>105</td>
</tr>
<tr>
<td>US all perils (excl. EQ)</td>
<td>750</td>
<td>300</td>
</tr>
<tr>
<td>US earthquakes</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Rest of World</td>
<td>600</td>
<td>200</td>
</tr>
</tbody>
</table>

- **Retention**
- **% of co-participation**
- **Regional cat treaties**
- **Global cat treaty**
- **US wind swap**
- **Combined global cat treaty**

**GLOBAL AGGREGATE CAT TREATY**

- **All cat losses exceeding USD 25m**
- **Combined global cat treaty**
- **Global aggregate cat treaty**
- **% of co-participation**

---

1. Europe Cat Treaty calculated with EUR/USD exchange rate as of July 31, 2017.
2. This USD 200m cover is the same combined global occurrence / aggregate treaty presiding over the global catastrophe treaty. This cover can be used only once, either for aggregated losses or for an individual occurrence or event.
3. For Canada earthquake losses the attachment point of the combined occurrence / aggregate treaty is USD 1,250m.
Rate increases in Auto drive growth

**DEVELOPMENT OF GWP (USDm)**

<table>
<thead>
<tr>
<th>HY-16</th>
<th>HY-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>9,883</td>
<td>10,047</td>
</tr>
<tr>
<td>3,768</td>
<td>4,024</td>
</tr>
<tr>
<td>299</td>
<td>295</td>
</tr>
<tr>
<td>2,584</td>
<td>2,605</td>
</tr>
<tr>
<td>1,243</td>
<td>1,276</td>
</tr>
<tr>
<td>1,037</td>
<td>1,046</td>
</tr>
<tr>
<td>456</td>
<td>290</td>
</tr>
</tbody>
</table>

**DEVELOPMENT OF PIF/VIF (000’s)**

<table>
<thead>
<tr>
<th>December 2016</th>
<th>June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>18,689</td>
<td>18,273</td>
</tr>
<tr>
<td>7,846</td>
<td>7,627</td>
</tr>
<tr>
<td>711</td>
<td>678</td>
</tr>
<tr>
<td>4,835</td>
<td>4,796</td>
</tr>
<tr>
<td>3,093</td>
<td>3,145</td>
</tr>
<tr>
<td>975</td>
<td>769</td>
</tr>
<tr>
<td>479</td>
<td>475</td>
</tr>
</tbody>
</table>

**FARMERS EXCHANGES** – GWP AND PIF/VIF

2. Bristol West writes non-standard auto business. 21st Century CA/HI are continuing operations in California and Hawaii. Other includes Personal Umbrella previously shown in Auto.

August 10, 2017

Half year results 2017

34
**Strong improvement of Auto combined ratio**

### Combined Ratio by Business Line (%)

<table>
<thead>
<tr>
<th>Business Line</th>
<th>HY-17</th>
<th>HY-16</th>
<th>Q2-17</th>
<th>Q2-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto</td>
<td>106.0%</td>
<td>111.5%</td>
<td>106.7%</td>
<td>112.1%</td>
</tr>
<tr>
<td>Bristol West</td>
<td>99.5%</td>
<td>101.5%</td>
<td>100.1%</td>
<td>100.2%</td>
</tr>
<tr>
<td>21st Century CA/HI</td>
<td>103.1%</td>
<td>107.9%</td>
<td>103.5%</td>
<td>108.7%</td>
</tr>
<tr>
<td>Home</td>
<td>109.7%</td>
<td>110.0%</td>
<td>110.6%</td>
<td>112.9%</td>
</tr>
<tr>
<td>Specialty</td>
<td>94.1%</td>
<td>93.7%</td>
<td>95.3%</td>
<td>102.9%</td>
</tr>
<tr>
<td>Business Insurance</td>
<td>99.4%</td>
<td>96.8%</td>
<td>101.3%</td>
<td>97.5%</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>121.3%</td>
<td>111.8%</td>
<td>114.0%</td>
<td>115.3%</td>
</tr>
<tr>
<td>Total</td>
<td>104.9%</td>
<td>106.4%</td>
<td>105.4%</td>
<td>108.6%</td>
</tr>
</tbody>
</table>

1. Combined ratio before quota share reinsurance. Regarding Farmers Exchanges see footnote 1 on slide 21.
2. Auto excludes Personal Umbrella. Bristol West writes non-standard Auto business. 21st Century CA/HI are continuing operations in California and Hawaii.
Available Financial Resources (AFR), Risk Based Capital (RBC), Premium & Reserving risk (P&R).

Note that Farmers Life is shown in Farmers (previously in Life).

Includes Group Functions and Operations & Non-Core Businesses.

Q1-17 AFR\(^1\) COMPOSITION (USD\text{bn})

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Amount (USD\text{bn})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders equity</td>
<td>29</td>
</tr>
<tr>
<td>Dividend accrual</td>
<td>1</td>
</tr>
<tr>
<td>Net intangibles</td>
<td>19</td>
</tr>
<tr>
<td>VIF &amp; RBC adjustments</td>
<td>20</td>
</tr>
<tr>
<td>Financial debt</td>
<td>10</td>
</tr>
<tr>
<td>Capital allocation to Farmers</td>
<td>1</td>
</tr>
<tr>
<td>Available Financial Resources</td>
<td>39</td>
</tr>
</tbody>
</table>

Q1-17 RBC\(^{1,2}\) SPLIT (%)

- **Market risk**
- **Re-ins credit risk**
- **P&R risk\(^1\)**
- **Natural cat risk**
- **Life insurance risk**
- **Operational risk**
- **Business risk**

- **Property & Casualty**
- **Life**
- **Farmers**
- **Other\(^3\)**

2. Note that Farmers Life is shown in Farmers (previously in Life).
3. Includes Group Functions and Operations & Non-Core Businesses.
Solvency ratios resilient to market movements

**GROUP – SOLVENCY RATIO SENSITIVITIES**

1 Sensitivities are best estimate and linear, i.e. will vary depending on prevailing market conditions at the time. Z-ECM is calibrated at 99.95% Value at Risk (equivalent to an ‘AA’ rating); SST is calibrated at 99.0% Expected Shortfall.

2 The impact of the changes to the required capital is approximated and takes into account Market and Insurance risks.

3 Credit Spreads (CS) include mortgages and including/excluding Euro sovereign spreads. Z-ECM sensitivity is net of profit sharing with policyholders.
Low average debt cost and balanced maturity profile

**DEBT (USDbn) AND AVERAGE DEBT COST (%)**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior</td>
<td>5.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Subordinated</td>
<td>4.2</td>
<td>7.1</td>
</tr>
<tr>
<td>Total</td>
<td>10.1</td>
<td>11.2</td>
</tr>
</tbody>
</table>

**Average debt cost (%)**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior</td>
<td>2.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Subordinated</td>
<td>5.7</td>
<td>5.5</td>
</tr>
<tr>
<td>Total</td>
<td>4.0</td>
<td>3.8</td>
</tr>
</tbody>
</table>

**MATURITY PROFILE (USDbn)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Senior</th>
<th>Subordinated</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1.4</td>
<td>0.5</td>
</tr>
<tr>
<td>2018</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>2019</td>
<td>0.5</td>
<td>0.8</td>
</tr>
<tr>
<td>2020</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>2021</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>2022</td>
<td>0.6</td>
<td>1.5</td>
</tr>
<tr>
<td>2023</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td>2024</td>
<td>0.5</td>
<td>0.3</td>
</tr>
<tr>
<td>2025</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>2026</td>
<td>1.9</td>
<td>0.2</td>
</tr>
<tr>
<td>&gt;2026</td>
<td>0.0</td>
<td></td>
</tr>
</tbody>
</table>

1 Maturity profile based on first call dates for hybrid debt and maturity date for senior debt.

August 10, 2017
Commentary
Strong first half performance, with BOP up 14% excluding the USD 289m Q1 impact of Ogden, and stable on reported basis.

The Group is on track to deliver on the strategic targets outlined at the investor day in November 2016, with absolute expense savings of around USD 550m achieved to date and a HY-17 BOPAT ROE of 12.5% excluding the Q1-17 Ogden impact.

P&C premium volumes have stabilized, while the combined ratio has improved and shows positive development against the full year 2016 run-rate and the P&C reserve strength has been stable over the first half of the year.

Life has continued to execute on its protection and unit-linked strategy, which continues to drive solid growth with BOP up 16% over the first half. The areas of focus of protection and bancassurance have also continued to see strong growth.

The Farmers Exchanges have seen a significant improvement in the combined ratio as rate increases have fed through, with these also continuing to drive top-line growth in Farmers Management Services.

The Group Capital Position is very strong with the Z-ECM ratio at 134% at the end of June up 6ppts in the quarter as a result of strong operating capital generation as well as positive market developments.

The Group has also continued to execute on the key strategic priorities outlined at the investor day. Year to date the Group has further improved its focus and strengthened its footprint. In particular, the completion of the acquisitions of Cover-More Group Ltd, a leading travel insurer based in Australia, and Halo Insurance Services Ltd, a specialist UK-based online rental car insurance platform, have further strengthened the Group’s position as a leading travel insurance provider. The Group has also added further bancassurance distribution through the exclusive distribution agreement with Standard Chartered covering the United Arab Emirates.

The Group has also undertaken a number of actions to further optimize the balance sheet and increase financial flexibility, including the reinsurance of a portfolio of US annuity business from Farmers New World Life Insurance Company and the completion of the sale of the Middle East and Taiwanese businesses. Following the end of the quarter, the Group entered into an agreement to reinsure a portfolio of individual life protection business of Bansabadell Vida.
The second quarter builds on the first quarter performance and shows that the Group continues to make good progress in terms of profitability across the businesses, and is on track to meet the financial targets set out at the November 2016 investor day.

In terms of the four key financial targets,

1. **BOPAT ROE**: excluding the first quarter impact of the changes to the Ogden discount rate in the UK, the BOPAT ROE would have been 12.5% for the first half of the year, in line with the target to deliver a BOPAT ROE in excess of 12% and growing over the 2017-2019 period.

2. **Expense savings**: Further cost savings have been achieved over Q2-17 with cumulative net savings achieved to date of around USD 550m out of the USD 1.5bn target. Additional actions are underway which are expected to have a positive benefit over the remainder of the year and deliver the run-rate of savings indicated at the time of the investor day.

3. **Capital**: Estimated Z-ECM ratio of 134% remains above the 100-120% target range.

4. **Cash remittances**: Remittances over the first half of the year are in line with the target to achieve in excess of USD 9.5bn cash remittances over the 2017-19 period.

Regarding the Ogden impact, at year-end 2016 the Group reserves were set based on an assumed reduction in the UK Ogden rate from 2.5% to 1.0% for liability lines. Following the subsequent announcement by the UK Ministry of Justice on February 27 to reduce the rate to -0.75%, the Group reflected the increased reserve requirements through a combination of reserve strength utilization and P&L prior year development. This had a net negative impact of USD 289m within the first quarter results. Of the final figure, USD 209m related to Property & Casualty, with the balance of USD 80m relating to UK legacy books held under Non-Core Businesses.
Property & Casualty (P&C) gross written premiums have stabilized and are up slightly on a like for like basis in the half year, reflecting improved retention and new business volumes. The combined ratio improved 0.3pps against the FY-16 level excluding the impact of the Ogden change in the UK, and the commercial business has improved during the course of the first six months, with the Q2-17 accident year combined ratio ex-cat around 3pps lower than in Q1-17.

The first half P&C results also show the expected improvement in the other underwriting expense ratio (OUE), with the HY-17 OUE ratio around 0.5pps below the level of the full year 2016. Year to date, the accident year loss ratio ex-cat has also improved around 0.6pps compared to the full year 2016 run-rate, demonstrating that the actions taken by management over the past eighteen months are taking effect.

Prior year reserve development in HY-17 of 1ppt is in line with the indicated 1-2ppt range even after allowing for the impact of the ~1.6pps of strengthening related to the change in the Ogden discount rate in the UK. Excluding Ogden, prior year reserve development exceeded the target range reflecting the overall strength of Group reserves and positive development on a number of specific claims. Overall reserve strength is unchanged over the first half of the year.

For the full year PYD is expected to be in the indicated 1-2ppt range including the ~0.8ppt negative impact relating to Ogden.

The Life business has shown strong BOP growth year to date with a 16% increase in US dollars and 18% increase in local currency, compared to the previous year period. This growth is supported by the combination of positive market developments and favorable experience, particularly in Asia Pacific.

In line with Zurich’s focus on writing non-traditional life products, non-traditional products combining protection, unit-linked and corporate pensions accounted for 89% of APE written year to date.

Improved business mix and higher yields have driven an improvement in new business margins with new business value up 11% compared to 3% growth in APE. Within Life the Group’s bancassurance joint ventures in Latin America and Spain continue to perform strongly with 19% growth in BOP and 17% growth in new business value.

Rate increases in Auto continued to drive premium growth and combined ratio improvement at the Farmers Exchanges. For Farmers Management Services (FMS) this resulted in higher management fees and an improved gross management result, for Farmers Re in a much improved underwriting result and BOP. Farmers Life saw stable BOP year on year.
Year to date BOP was flat in headline terms, however, allowing for the USD 289m first quarter charge relating to the change in the UK Ogden discount rate, BOP for the first half of 2017 was up 14%. Excluding Ogden, all business units have contributed to this performance.
Q2-17 BOP was up 13% with most reporting lines contributing to this performance.

The Q2-17 results have been presented based on the revised management structure as announced last year, with prior year comparative figures also restated. This mainly affects the Life and Farmers businesses given the transfer of Farmers Life, the life business sold through the Farmers distribution channels.

Below the operating line, realized capital gains of USD 106m were below prior year levels, due primarily to fair value movements on derivatives. Restructuring costs of USD 38m for the quarter and USD 129m year to date are below the run-rate implied by the indicated USD 500m for 2017.

For the full year restructuring costs are expected to be no more than USD 500m, however of these around USD 150m are expected to be taken as one-off charges through BOP with the balance taken below the operating line.

The Q2-17 effective shareholder tax rate was 32.9%, in part reflecting the true-up of tax for an expected full year rate of 32.5%. This is above the planned levels and is driven mainly by the impact of Ogden in the first quarter and its tax deductibility, together with a higher contribution to earnings from geographies with higher tax rates.
Gross written premium (GWP) for the second quarter was down 3% on a reported basis and down 1% in local currency. Adjusting for the disposals of South Africa, Morocco, Middle East and Taiwan, overall premium growth was slightly up in local currency.

On the same basis net earned premiums in local currency were flat year over year, with a higher contribution from RCIS offsetting the expected decline elsewhere caused by underwriting actions taken over 2016. For FY-17 net earned premiums are expected to be roughly flat vs. FY-16, allowing for some currency movements.

Rate increases for P&C overall remained positive, slightly above the 1% level but marginally below current estimates of loss cost inflation.

In local currency EMEA gross premiums were down 5%. Excluding the disposals of South Africa, Morocco and the Middle East the decline was 3%. As in the first quarter this was mainly due to reductions in Germany and UK.

North America GWP decreased by 1% in the second quarter and increased by 1% for the first six months. Due to some timing effects, the latter is more indicative of the underlying growth in North America, with growth in higher margin and specialty lines offsetting declines in large commercial.

In Asia Pacific GWP was up 3% in local currency, driven by all countries but especially Australia and Hong Kong. Since June 1, 2017 the Group has also assumed the underwriting for a portion of the Cover-More travel insurance portfolio, with roughly USD 20m of GWP written in the quarter.

GWP for Latin America increased 9% in local currency, mainly driven by the retail business in Brazil and Mexico.
P&C BOP for Q2-17 was USD 600m, 7% lower than in the second quarter of last year. The decline was mainly driven by lower FX gains in Latin America included in other items, with a higher underwriting result partly offset by a lower investment result.

Looking at the BOP result by region, declines in Latin America and EMEA were partly offset by increases in North America, Asia Pacific and in the central Group Reinsurance unit. The decline in the EMEA BOP quarter-over-quarter was mainly driven by the increase in the combined ratio and is explained on the following slides.
The P&C combined ratio improved by 0.5ppts in Q2-17 to 98.4% driven by improvement in the loss ratio of 1.5ppts, in part offset by higher levels of commission driven by mix.

The accident year loss ratio excluding catastrophes for the second quarter of 66.3% was 1.8ppts higher than in Q2-16. The increase reflects higher large losses mainly within EMEA, with three specific claims adding ~1ppt, and a higher weighting of crop business, which runs at a higher loss ratio and lower expense ratio, overall adding ~0.4ppts.

For HY-17 the accident year loss ratio excluding catastrophes improved 0.6ppts against FY-16, driven by the continued underwriting measures taken by the Group.

The impact from natural catastrophes of 3.8% in the second quarter was slightly higher than normal seasonal patterns, with higher frequency of weather related events in North America more than compensating for benign weather in Europe and other parts of the world.

Favorable prior year development of 3.0% was above the guidance of 1-2%, reflecting the strength of Group reserves and positive development on a number of specific claims including the 2011 Christchurch New Zealand earthquake. Overall, the Group reserve strength is unchanged over the first half of the year.

For the full year the Group expects PYD to be in the indicated 1-2ppt range including the ~0.8ppt negative impact from the change to the Ogden discount rate in the UK that was taken in the first quarter.
The expense ratio in Q2-17 was 31.4% and shows the expected improvement of roughly 2ppt vs the Q1 level. This was driven by the combined effect of continued reduction in absolute expense levels, and higher volumes due to the additional crop premium.

The other underwriting expense ratio for Q2-17 was 0.6ppt better than in Q2-16, with the latter including some positive one-offs. The HY-17 other underwriting expense ratio of 14.9% was 0.5ppt better than the FY-16 run rate.

Absolute expenses are expected to continue to reduce throughout the year, with the majority of the 2017 targeted net expense savings of circa USD 0.4bn for the Group expected to be recognized within P&C. These savings are expected to largely flow through other underwriting expenses, with a portion also being recognized within loss adjustment expenses within the loss ratio.
Compared to Q2-16 the quarter discrete commission ratio increased by 1.5ppts, while the HY-17 commission ratio increased by 1ppt vs FY-16.

The main driver of the increase relates to changes in both geographic and product mix. This is predominately the case in Latin America, driven by the increase of the mass consumer business in Brazil. Some level of business mix change is also seen North America and Europe, especially through shrinkage in the large commercial business. In addition, the Q2-17 commission ratio includes a one-time impact of around 0.3ppts from an accounting adjustment in EMEA.
Looking at the combined ratio by segment and customer unit:

The EMEA combined ratio for Q2-17 reflects a combination of higher large losses and the aforementioned one-time adjustment to commissions. Together these add slightly over 2ppts to the EMEA combined ratio. The comparison to prior year is also somewhat exaggerated by the very low level of large losses seen in Q2-16.

The North America combined ratio was above 100% and on a similar level to Q2-16, driven by the rather high level of catastrophes mainly affecting the non-commercial business.

The combined ratios of APAC and Latin America were mainly driven by respectively higher and lower levels of favorable prior year reserve development.

The combined ratio of Commercial Insurance was 98.9%, significantly improved from the level seen in Q1-17. In light of continued challenging market conditions, particularly at the larger end of the market, the Group will continue to prioritize profitability over volume within Commercial Insurance. For the retail business, the combined ratio is on a similar level to Q2-16 despite a significant higher level of catastrophes.

The disclosure of the combined ratio by segment and customer unit excludes Group Reinsurance. This needs to be considered to get to the total combined ratio for the overall P&C business.
The Q2-17 investment result of USD 520m includes fair value movements of USD 52m, mainly from the Group's hedge fund portfolio. Investment income was down 7% on a reported basis and 3% in local currency compared to the prior year. This decline is slightly higher than in Q1-17, driven mainly by the reduction in equity exposure mentioned last year and corresponding lower dividends, which are received disproportionately in the second quarter.

Reinvestment yields for debt securities were around 2.4%. In Q2-17 the gap to the annualized accounting yield has narrowed by around 30bps versus Q1-17 reflecting higher reinvestment yields across the Group's major geographies.
Life BOP increased 13% in local currency and 10% in US dollars compared to the prior year quarter, to USD 338m. In EMEA, local currency BOP earnings increased by 1%, but decreased by 4% in USD. Growth in the UK, Ireland, Spain and Italy were offset by lower earnings across the rest of the region. In the UK, a reserve adjustment of USD 10m and the final quarter of annuity book transfers to Rothesay Life contributed to the gain. The latter contributed USD 19m to BOP for the first half of 2017. In Latin America Zurich Santander reported earnings increased by USD 6m or 3% in local currency, while the Zurich branded business increased by USD 3m. Asia Pacific BOP increased to USD 39m, driven by inorganic and organic growth. In Australia, a growing portfolio combined with favorable claims experience and the integration of the Macquarie Life retail protection business more than doubled earnings compared to the prior year quarter, while growth in Malaysia and Japan combined with positive market development also contributed to the strong increase in earnings for the segment. In North America, excluding Farmers Life which is now reported under Farmers, earnings were USD 1m lower compared to the prior year. Viewed by margin and beginning with revenues, loadings and fees decreased by 3 percent as reported, but increased 1% on a local currency basis, where growth in Asia Pacific and the UK were offset by lower volumes of single premium business in Germany. Investment margin increased by 36% as reported, mainly driven by lower policyholder crediting in EMEA. The technical margin improved by 16% due to favorable claims experience in Australia, Brazil and North America, partially offset by lower margins in EMEA. On the expense side, operating costs were flat, with expense savings in EMEA offset by investments for growth in Asia Pacific and North America. Acquisition costs were up 1% year on year, with decreases in EMEA offset by growth in LatAm and Asia Pacific, while mix impacts in EMEA and assumptions in North America drove a decrease in deferrals.
Q2-17 Life new business Annual Premium Equivalent (APE) volumes decreased by 1% in local currency compared to the prior year quarter.

In EMEA, increased corporate pension sales in Switzerland and Ireland and unit-linked sales in Ireland and Italy were offset by lower volumes of individual savings business in Spain and Italy, while APE in Germany and the UK was flat compared to the prior year quarter. In Latin America overall volumes were flat in local currency terms, while growth in Asia Pacific, which was largely driven by the inclusion of the Takaful business in Malaysia, served to offset declines in the US.

New business value (NBV) increased 7% in local currency year on year, primarily due to mix of volumes, improved business mix in Italy and Spain, and higher yields in Germany, Switzerland and Japan.

As a result the new business margin (NBM) increased by 1.3pppts to 23.6%.
The Group continues to execute on its strategy of low risk Life product offerings, with protection business accounting for nearly 80% of new business value written in the quarter. Looking at the past three years, unadjusted for the currency headwinds seen in most markets, protection new business value has increased at a quicker pace than APE growth, mainly through improved product mix and assumption changes following favorable experience.

At the same time the bancassurance businesses have seen similar expansion in margins, both through local currency growth in sales of protection and unit-linked business through Santander in Latin America, but also through product repositioning in EMEA, where savings & annuity volumes have decreased as the focus moves further towards capital light products.
Net inflows were positive for the quarter and year to date, with sales of individual protection and unit linked business in Santander Brazil and unit-linked volumes in Italy and Ireland being the main contributors. The decline in inflows in EMEA compared to the prior year resulted from lower volumes of traditional savings products sold through Banco Sabadell.

On a year to date basis assets under management have increased by 9%, driven by net inflows as well as positive market movements and FX.
Life investment income, which is gross of policyholder sharing, decreased by 7% to USD 758m. This decline is slightly higher than in Q1-17, driven mainly by the reduction in equity exposure mentioned last year and the corresponding lower income.

Reinvestment yields for debt securities were around 2.0%. In Q2 the gap to the annualized accounting yield has narrowed by around 20 bps compared to Q1-17.
Gross Written Premium trends in the second quarter were unchanged from the first quarter, with strong rate-driven growth in Auto partially offset by the accelerated run-off of the 21st Century Direct Auto book outside of California and Hawaii.

Overall Auto vehicles-in-force (VIF) continued to decline in the second quarter, albeit at a slightly more moderate pace than in the first quarter, as non-standard Auto written through the Bristol West brand achieved growth in premiums and VIF. Rate actions in the non-standard Auto business were largely completed in 2016 with retention and new business production recovering year to date. In the second quarter, notably, there was a pick-up in the conversion of 21st Century Direct Auto run-off business to Farmers non-standard Auto.

Growth in Home remained subdued in the second quarter. While rate increases were relatively benign, cross-sell opportunities were restricted by reduced new Auto policy sales.
The combined ratio ex-catastrophes saw a 3.2ppts improvement as rate and underwriting actions had an increasing impact on improving profitability.

While catastrophe losses in the first quarter were exceptionally high, the level experienced in the second quarter was more in line with the seasonal pattern experienced over recent years and unchanged compared to the previous year.

Auto, which accounts for roughly 39% of gross written premiums, posted a strong combined ratio improvement of 4.6ppts to 106.7%. This improvement, in combination with further rate increases and moderating claims trends, give further confidence that Farmers Exchanges is on track in restoring Auto profitability.

The surplus ratio slightly declined by 0.2ppts to 37.1% over the second quarter. This is not unusual given the seasonal patterns in catastrophe losses mentioned above. Given the overall high level of catastrophe losses year to date, there is an increased likelihood that the Farmers Exchanges aggregate catastrophe protection will be triggered over the second half of the year resulting in higher profitability and surplus generation in second half.
Actions taken to restore the profitability in Auto continue to have a modest impact on retention. These actions also caused a reduction of new business production, albeit with the decline showing some moderation in the second quarter.
Business Operating Profit at Farmers Management Services increased slightly in second quarter. Management fees increased broadly in line with Gross Earned premiums however subscription fees were lower given the reduction in new business production. The Managed Gross Earned Premium Margin remained unchanged at 7.0%.
Business Operating Profit of Farmers Life increased slightly to USD 42m. APE was unchanged, while NBV increased primarily due to improved persistency, expense assumptions and sales mix, partially offset by the negative effect of higher interest rates on certain individual protection business.

In May Farmers New World Life Insurance Company entered an agreement with Reinsurance Group of America to reinsure part of its closed annuity book. Apart from some transaction-related costs recorded in BOP in the second quarter, the deal is not expected to have any material impact on Farmers Life results.

Farmers Re Business Operating Profit improved USD 18m following a 5.3pppts improvement in the combined ratio. This was driven primarily by an improvement in the underlying loss ratio, reflecting the trends seen in the Farmers Exchanges.
Group Functions and Operations business operating loss improved USD 97m to USD 145m.
The improvement was driven by a combination of expense savings at the Group center, which were only partially offset by lower recharges to business units and the non-recurrence of some one-time items from the prior year period, while the Holding and Financing result benefited from positive FX impacts and lower external debt charges among other factors.
Given the first half improvement the Group expects the business operating loss to be between USD 750 and 800m for the full year as expense reductions at the Group center are passed on to the business segments.
The Non-Core Businesses result recorded a USD 48m BOP gain, mainly due to reserve releases related to an in-force management program in a closed Life book and favorable run-off of other businesses, as well as reduced expenses. This compares to a USD 6m gain in the prior year quarter.
The end-March Z-ECM ratio previously estimated at 129% was finalized at 128%.
The estimate for end-June is 134%, which is 9ppts higher than at the start of the year. Strong operational capital generation from the businesses have added 6ppts, with positive market development adding a further 6ppts. Year to date, the main market movements relate to higher yields in the Eurozone, UK and Switzerland, the depreciation of the US dollar, favorable equity markets and tighter credit spreads. These more than exceeded the 4ppts of dividend accrual for the first half of the year.

Other movements included the redemption of the Series V Trust Preferred Securities (-2ppts) and the acquisition of Cover-More (-2ppts) which were offset by the reinsurance of a portion of Farmers New World Life’s closed annuity book and some minor model changes.
Shareholders’ equity increased USD 1.4bn to USD 30.7bn over the second quarter driven mainly by retained earnings. FX movements, in particular the strengthening of the Euro and British Pound relative to the US dollar, led to an increase in the cumulative translation adjustment (CTA). The above-mentioned redemption of the Series V Trust Preferred Securities was among the factors leading to a slightly changed capital structure.
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