Commentary on half year results 2018

Slide 3: Key messages

The first half 2018 results show a strong underlying performance, with the business operating profit (BOP) up 12% on a headline basis and 15% after adjusting for USD 70m of restructuring charges taken through business operating profits. The results show the Group making further progress across all areas of the business, and together with an improved expense level, positions the Group well to deliver further earnings growth over the remainder of the 2017 to 2019 plan period.

The Group’s Life business stood out in the first half with strong performance across all regions reflecting the success of the Group’s strategy of focusing on protection and unit-linked business. Overall Life BOP increased 17% during the first half of the year driven by continued portfolio growth, further cost improvement as well as reduced policyholder dividends and favorable currency movements. Local currency growth was 12%. The quality of the life earnings continues to be strong with 87% of revenues on a sources of earnings basis coming from either loadings and fees or technical margins. New production also remained positive with 11% growth in APE sales and 2% growth in new business on a like-for-like basis, which adjusts for FX and the disposal of the UK workplace pensions and savings business.

In P&C the results show further progress. The top-line has remained stable in local currency over the first half, despite the continued focus on underwriting results over volume in light of challenging market conditions in commercial insurance, while the accident year combined ratio excluding catastrophes reduced by 0.6 percentage points driven by an improved underwriting performance and reduced administration expenses. Overall PYD of 2.5% was ahead of the prior indications of 1-2% per annum, reflecting the continued strength of the Group’s reserves and positive development in claims reserves for the 2017 hurricanes. Overall reserve strength at June 30 improved slightly from the end of 2017. The Group expects to deliver further improvement in the underwriting results as the benefit of higher rates in the North American market earn through and the reshaping of the portfolio and the delivery on the expense saving program continue. Prior year development is expected to be towards the upper end of the previously indicated range.

The Farmers Exchanges, which are owned by their policyholders, showed continued improvement in both customer metrics and underwriting performance over the first half, resulting in gross written premium growth for continuing business of 4.7% and a reduction of 6.6 percentage points in the combined ratio of Farmers Exchanges. Growth was also supported by the continued successful expansion of the Farmers Exchanges into the eastern United States and the agreement to provide commercial insurance to Uber drivers in Georgia and Pennsylvania.
Growth in the Farmers Exchanges has continued to support top-line development at Farmers Management Services, while the improved underwriting performance of the Farmers Exchanges also led to improved performance at Farmers Re. Farmers Life showed strong new business value growth driven by lower expenses and improved business mix.

The Group Capital position is very strong with the Z-ECM ratio estimated at 134% at June 30.

**Slide 4: Key highlights – Strategic update**

The first half of the year saw the Group continue to strengthen core businesses and customer propositions while continuing to extract capital from non-core businesses.

During the first half, the Group’s Latin American business consolidated its already strong regional presence through the announced acquisitions of QBE’s Latin American business and the individual and group life business of EuroAmerica in Chile. This position was further strengthened by the acquisition of Travel Ace and Universal Assistance, a leading provider of travel and assistance services in Latin America.

The Travel Ace and Universal Assistance transaction also further strengthened the Group’s global travel and assistance business Cover-More as a global leader in travel assistance solutions. Cover-More also expanded its European footprint through the acquisition of Blue Insurance in Ireland and the UK announced after the half-year end.

The Group has also continued to invest in innovative solutions that support the customer-focused strategy. In the first half of the year the Group took a minority stake in CoverWallet, a leading insurtech start-up, with which the Group has a European-wide agreement to develop digital solutions for small and medium-sized enterprises. During the first half the first application based on CoverWallet’s technology was launched in Spain.

The Group completed a number of business exits aimed at reducing complexity and extracting capital from non-core portfolios. As previously announced, in the first half of the year the Group completed the sale of Endsleigh in the UK, a Life insurance portfolio in Singapore, and a run-off portfolio of compulsory third-party liability in Australia.

Improved customer focus across the Group is having tangible results in the retail businesses, with the majority of our large European retail businesses showing improvement in both net promoter scores and retention. As Farmers Exchanges experience shows, improving levels of customer satisfaction are a lead indicator of business performance.
Slide 5: Key highlights – Proof points by business

The first half 2018 has seen the Group progress steadily forward against the Group’s priorities, with the business showing a range of proof points against key management goals, including:

Property & Casualty (P&C) gross written premium increased 3% in headline terms and was stable on a like-for-like basis.

The HY-18 combined ratio was slightly lower than the HY-17 level adjusted for the Ogden discount rate change in the UK. The results show a further improvement in both the accident year loss ratio excluding catastrophes and the other underwriting expense ratio of 1.3 percentage points from the prior year. These improvements were partly offset by a further increase of 1.1 percentage points in the commission ratio driven by business mix shifts. Prior year reserve development was 2.5 percentage points, with the higher positive run-off reflecting the continued strength of the Group’s reserves and positive development in relation to the 2017 hurricanes, while overall reserve strength slightly improved.

Life performed strongly in the first half, with BOP growth of 17% on a headline basis and 12% in local currency. This was driven by continued growth in portfolios and expense reductions together with reduced policyholder dividends and FX developments over the half year.

During the first half the Group continued to focus on capital efficient products, with 84% of APE coming from Protection, Unit-Linked and Corporate Pensions business. This together with improvements in business mix and assumption changes reflecting positive experience led to an increase in overall new business value of 4% on a headline basis and 2% on a like-for-like basis in the first half of the year. 78% of the new business value related to protection business.

Rate increases at the Farmers Exchanges and improved customer metrics have continued to support top line growth and improvement in the combined ratio in the first half. The combined ratio excluding catastrophes reduced by 2.6 percentage points compared to the prior year period and 6.6 percentage points overall. For Farmers Management Services (FMS) this resulted in higher management fees and an improved gross management result. The improvement in the performance of the Farmers Exchanges also benefited Farmers Re, while modest adverse mortality trends in the first half of the year led to a modest decline at Farmers Life.

Slide 6: Key highlights – Status on financial targets

The first half of 2018 continued to build on the positive performance of 2017 with the Group making good progress in terms of profitability across the businesses and remaining on track to meet the financial targets set out in November 2016.
In terms of the Group’s four financial targets,

1. **BOPAT ROE:** The annualized BOPAT ROE of 12.3% in the first half of the year is in line with the Group's target to deliver a BOPAT ROE in excess of 12% and growing over the 2017-19 period. Adjusted for the impact of charges related to the Group's restructuring taken through business operating profits the BOPAT ROE would have been 12.7%.

2. **Expense savings:** The Group continued to execute against its expense targets over the first half of 2018, with cumulative net savings of approximately USD 900m achieved to date, and with further savings expected to be delivered over the remainder of 2018. The Group is on track to deliver the targeted USD 1.5bn of savings by the end of 2019.

3. **Capital:** As of June 30, 2018 the estimated Group Z-ECM ratio remains above the 100-120% target range at 134%.

4. **Cash remittances:** During the first half of 2018, the Group continued to see remittances consistent with run rate needed to achieve the Group target of “>USD 9.5bn” for the 2017-2019 period. Remittances are expected to exceed USD 7.0bn by the end of 2018.

**Slide 8: Group – BOP**

Overall BOP growth in the first half year was 12% on a reported basis.

Growth in EMEA was driven by a combination of strong performance in the life business together with improved underlying results in P&C as well as the absence of the impact from the Ogden discount rate change. The first half of 2017 included USD 289m in respect of Ogden, with USD 209m reported in P&C and USD 80m within Non-Core Businesses.

In North America growth was driven by an improved underwriting performance at Zurich North America which offset lower realized gains on hedge-funds, while Farmers also showed growth in both Farmers Management Services and at Farmers Re.

Declines in Asia Pacific and Latin America were in part due to the absence of favorable one-off items which benefited the same period in the prior year and adverse development of currency exchange rates, particularly in Latin America.

All businesses contributed to the growth in BOP, with P&C and Life the major contributors to growth.

As previously indicated, the Group’s operating results in the first half included some charges related to the Group’s restructuring. In total these equated to USD 70m in the first half of 2018 compared to zero in the prior year period. Of these, USD 59m were reported within P&C, USD 6m in Life and USD 5m
within Group Functions and Operations. Adjusted for these impacts, BOP would have been 3% higher at USD 2,492m, representing a 15% increase over the reported 2017 figure.

**Slide 9: Group – NIAS**

Net income attributable to shareholders (NIAS) increased 19% in the first half of the year, with growth driven primarily by the increase in BOP together with a reduced tax rate.

Below the operating line, realized capital gains of USD 159m, primarily driven by the realization of gains on equities, were slightly below prior year levels.

Restructuring costs recognized below the operating line were USD 102m, slightly below the prior year.

The effective tax rate in HY-18 was 26.8% down from 32.5% in the first half of 2017, with the decline reflecting both the previously indicated impact of tax reforms in the Unites States and the impact of lower tax deductibility of charges related to the Ogden discount rate change in the first half of 2017.

**Slide 10: Group – Outlook**

Allowing for the first half performance, the Group updates its previous guidance on key items.

Property & Casualty: The Group continues to take specific actions to adjust the portfolio mix, with these expected to offset underlying growth to leave overall net earned premiums broadly stable for the year on a local currency basis. The combined ratio is expected to improve over 2018 from the normalized 2017 level, as the Group continues to progress towards the previously indicated range of 95-96% in 2019 that would be consistent with the Group’s targets. This is expected to be driven by a combination of further expense savings, a gradual shift in portfolio mix and positive rates. Over the first half the gap between new money yields and reinvestment yields has closed substantially, and as a result the Group now expects P&C investment income to be stable for the year rather than to see a decline as previously indicated.

Life: In light of the strong first half of the year, continued portfolio growth and improved expense levels, overall business operating profit growth is expected to be above the previous guidance and to be in the low double digit range from the reported FY-17 level.

Farmers: The Farmers Exchanges are expected to see steady growth driven both by improved customer metrics and the continued earn through of rate increases. Following the agreement to provide commercial rideshare insurance to Uber drivers in Georgia and Pennsylvania, which attracts a lower management fee as a result of the large-scale nature of the policies and lower servicing requirements on the part of FMS, the Managed Gross Earned Premium (MGEp) margin is expected to reduce slightly to around 6.9%.
Farmers Re: As of December 31, 2017, the all lines Quota Share from the Farmers Exchanges to Farmers Re was reduced to 1% from 8% previously. This will have an increasing effect over the coming years on the underwriting result of Farmers Re as the earned premium reduces. Investment income will also reduce steadily as asset balances reduce in line with the reduction in liabilities. These effects are expected to reduce Farmers Re's earnings progressively over the next few years.

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

Restructuring charges: As previously indicated, restructuring charges are expected to be around USD 500m for 2018. As in 2017 these will be taken partially through BOP and partially outside, with those within the P&C BOP being taken through the net non-technical line. Total charges relating to the Group’s restructuring initiatives taken over the first half of the year were USD 172m of which USD 70m were recognized within BOP. For the full year 2018, the 2017 split of approximately 30% in BOP and 70% outside of BOP serves as a guide to the likely breakdown.

Tax: As previously indicated, the Group effective tax rate for 2018 is expected to be in the 26-27% range and consistent with the level observed over the first half year of 26.8%.

**Slide 11: P&C – Top line**

Gross written premiums in Property & Casualty (P&C) for the first half year of 2018 rose 3% in U.S. dollars and were flat in local currency.

Growth in Asia Pacific and Latin America was mainly offset by a decline in North America. The Group’s focus remains on profitability over volume. The level of rate increases improved across most regions during the first half of the year, with the Group achieving rate increases of around 3% overall. In North America, rate increases continued to improve over the first half.

Net earned premiums were up 1% year-over-year in local currency, with growth in both Asia Pacific and Latin America offsetting declines in EMEA and North America. At the same time, in line with expectations, HY-18 net earned premiums show a shift in the Group’s business mix with the share of specialties business increasing and liability and workers’ compensation shrinking.

In EMEA, gross written premium increased 8% in U.S. dollar terms, but was stable on a like-for-like basis, with growth in Switzerland, Italy, Austria and Portugal offset mainly by reductions in Germany and the UK.
Gross written premium in North America was down 4% compared to the prior year period. The decline was driven by planned reductions in less profitable standard commercial lines, in line with the Group’s strategy of prioritizing profitability over volume, together with a reduction in volumes of crop business.

In Asia Pacific, gross written premium grew 16% on a like-for-like basis. Around two thirds of this growth came from incremental business resulting from the decision to underwrite the Cover-More travel business in Australia, with the balance largely resulting from growth in Japan and Malaysia.

In Latin America, gross written premium increased by 10% on a like-for-like basis driven by continued growth in the retail businesses in Brazil and Mexico in line with the Group’s strategy.

**Slide 12: P&C – BOP Components**

P&C BOP on a reported basis for HY-18 was USD 1,137m, 11% higher than in the same period last year.

The underwriting result increased strongly by USD 263m with last year’s result impacted by the adjustment in the Ogden discount rate in the UK. In line with this, the combined ratio for HY-18 improved to 97.5% versus 99.5% last year, or 97.8% when adjusted for the change in the Ogden discount rate.

Investment income for the first half year increased by 3%, driven by underlying growth in investment income across North America, Latin America and Asia Pacific, while an underlying decline in EMEA was compensated for by FX movements. This improvement was more than offset by lower fair value movements on the Group’s hedge fund portfolio which contributed USD 45m to the half year result versus USD 108m in the same period last year.

Other items, which include the net non-technical result and non-controlling interests were USD 111m lower in the first half-year, mainly driven by the absence of an USD 74m FX gain which was included in the prior year net non-technical result. The HY-18 net non-technical result also included USD 55m of charges related to the Group’s restructuring included within BOP compared to zero in the prior year period.

Looking at the BOP by region, growth in EMEA and North America due to improved underwriting results were partly offset by declines in Asia Pacific and Latin America in part due to favorable items in the prior year.

**Slide 13: P&C – Combined ratio details**

Looking at the HY-18 split of the combined ratio:
The accident year loss ratio excluding catastrophes and the other underwriting expense ratio improved by 0.7 percentage points and 0.6 percentage points respectively compared to HY-17, driven by improved underwriting and ongoing expense reductions. This 1.3 percentage point improvement was offset by an increase in the commission ratio.

Catastrophe losses for the half year totaled 3.0%, slightly above the prior year and normal first half seasonality. Europe in particular experienced higher than expected levels of catastrophe losses, due in part to first quarter winter storms in Central Europe.

Prior year development for the full year was above the guidance of 1-2% at 2.5%, largely due to favorable development related to the 2017 hurricanes Harvey, Irma and Maria. Overall, the Group’s reserve strength improved slightly over the first half of the year.

The other underwriting expense ratio for HY-18 improved 0.6 percentage points compared to the same period in 2017 as the Group continues to focus on reducing administrative expenses, with all regions contributing to the reduction.

The commission ratio increased by just over 1 percentage point in the first half. The main drivers of the increase relate to growth in a number of areas which have structurally higher commission levels offset by lower loss ratios. These include certain specialty and retail lines in North America, mass consumer business in Latin America and travel business in Australia. Over time, the increase in the commission ratio is expected to be compensated through a lower and less volatile loss ratio.

Slide 14: P&C – Combined ratio by segment and customer unit

During HY-18 the accident year combined ratio excluding catastrophes showed an underlying improvement in EMEA and North America, particularly in the commercial business.

The EMEA accident year combined ratio ex-catastrophes of 95.2% was lower than in the previous year, with underlying improvements in both the loss and expense ratio.

In North America the ratio of 96.4% was also lower than the ratio for the same period last year. The improvement has been driven by an underlying reduction in the accident year loss ratio and lower other underwriting expenses.

The Asia Pacific region saw an increase in the ratio to 98.4% mainly driven by an increase in the commission ratio reflecting the underwriting of the Cover-More business, which runs at a significant higher commission ratio, and which more than offset underlying improvements.

In Latin America the combined ratio for the first half of the year was 99.6%. Underlying reductions in the accident year loss ratio and other underwriting expense ratio were more than offset by some
exceptional large losses in Argentina and Mexico and the absence of a one-time benefit to the insurance premium tax in Brazil included in the first half of 2017.

In Commercial Insurance, the accident year combined ratio excluding catastrophes was 99.6% and improved by 1.1 percentage points versus the prior year, mainly due to improvements in North America. At current levels, the Group continues to prioritize improvements in profitability over volume within Commercial Insurance.

For the retail business, the accident year combined ratio excluding catastrophes of 94.0% for HY-18 remained at an attractive level.

**Slide 15: P&C – Investment result**

The HY-18 investment result of USD 991m included fair value movements of USD 45m, mainly from the Group’s hedge fund portfolio. Investment income rose 3% on a reported basis and 2% in local currency, while fair value items showed a decline of USD 63m year on year due to a less favorable market backdrop.

Reinvestment yields for debt securities were around 2.6% over the first half of the year, with the gap to the annualized accounting yield reducing to 14bps as a result of higher reinvestment yields across the Group’s major geographies, with North America seeing reinvestment yields move ahead of the portfolio yield.

**Slide 16: Life – Overview**

On a headline basis, Life BOP increased by 17% to USD 760m over the first half of 2018, with FX contributing 5 percentage points to this growth. Charges related to the Group’s restructuring recognized in BOP were USD 6m within this figure.

In EMEA, BOP increased by 20% in U.S. dollars and 10% in local currencies, with most countries contributing to this performance. Growth was driven by a combination of portfolio growth, ongoing expense reductions, favorable experience and reduced policyholder crediting rates.

In LatAm, higher technical margins on corporate protection business supported earnings growth, with overall BOP increasing 16% in U.S. dollars despite headwinds from a number of Latin American currencies. On a local currency basis growth was 26% including a one-time FX benefit of USD 31m in Argentina, as a result of a portion of the domestic liabilities being backed by U.S. dollar denominated securities.
Asia Pacific BOP remained flat at USD 78m, a slight decrease of 1% in U.S. dollars and 4% in local currencies. Underlying growth across the region, particularly in Japan, was offset by less favorable market movements in Hong Kong and slight negative experience in Australia and Malaysia.

In North America, which excludes Farmers Life which is reported separately under Farmers, earnings were stable compared to the prior year.

HY-18 Life new business APE increased 11% on a like-for-like basis after adjusting for currency and the disposal of the UK workplace savings business, with growth of 1% on a reported basis. Volume growth in EMEA and Asia Pacific offset a decline in Latin America.

In EMEA, like-for-like growth was 15% with underlying growth in most countries. Growth in corporate protection and pension business in Switzerland, higher individual protection business and savings volumes in Spain as well as higher individual savings and unit linked business in Italy were particular drivers of the growth. Asia Pacific saw growth of 24% on a like-for-like basis driven by growth in protection business across the region. Japan in particular showed strong growth on the back of a refreshed medical product. In Latin America APE sales declined 3% due to the absence of a large corporate protection scheme in Chile booked in the first half of 2017 and only renewed on a two year basis, which more than offset positive developments in Brazil and Argentina.

New business value (NBV) increased 4% in U.S. dollars and 2% on a like-for-like basis, with growth in EMEA, Latin America and Asia Pacific. In EMEA, overall high volume growth was partially offset by a less favorable business mix. In LatAm, positive swap rate movements were partially offset by unfavorable operating assumption updates and currency translation effects, while in Asia Pacific higher sales volumes and positive assumption updates more than offset unfavorable business mix developments.

The new business margin increased by 1 percentage point to 26.4%.

**Slide 17: Life – Product and distribution mix**

The Group continues to focus on protection, unit-linked and corporate pension business, with these products accounting for 84% of APE sales. Compared to HY-17, this represents a 5 percentage point reduction as a result of reduced sales of corporate pensions business following the sale of the UK workplace pensions business in 2017 and higher volumes of individual savings business in Italy and Spain, with the latter driven by sales through the Group’s Spanish bank distribution partner Banco de Sabadell.

Protection business contributed 78% of the overall new business value in the first half of 2018. The drop in corporate pension business reflects the disposal of the UK workplace pensions business.
Like-for-like, all distribution channels continued to perform well, displaying positive APE and new business value growth across all channels consistent with the developments outlined previously.

**Slide 18: Life – Net inflows & AuM**

Net inflows increased by 60% compared to the first half of the prior year, equating to 1.6% of assets under management in the first half. The increase was primarily driven by higher volumes of corporate savings business in Switzerland as well as the previously highlighted increased sales in Italy and Spain combined with improved retention.

Assets under management decreased by 2% over the first half of 2018 due to negative FX effects over the period offsetting positive net policyholder flows.

**Slide 19: Life – BOP by source**

The Group's life business continued to be driven by stable revenue streams, with 87 percent of life revenues coming from loadings and fees together with technical margins.

Viewed by margin and beginning with revenues, loadings and fees increased by 2% in local currency. Growth in the year was driven by higher gross written premiums, policy fees and deposits as well as an increased unit-linked fee margin ratio. Strong growth in Asia Pacific and a positive USD 14m contribution due to a model change in the UK were partially offset by lower fee revenue in Germany.

The investment margin increased by 35% in local currency and the investment margin ratio increased by 17 bps, mainly driven by higher yields, FX gains in LatAm including the above mentioned FX benefit of USD 31m in Argentina, and reduced policyholder crediting rates in EMEA.

The technical margin decreased by 1% in local currency while average non-unit-linked reserves increased by 6% since the beginning of year. Positive contributions from the corporate business in Latin America and from growing protection portfolios in Asia Pacific as well as a positive assumption review leading to a reserve release of USD 14m in the UK were offset by weaker mortality and disability trends in Switzerland after favorable experience in 2017.

On the expense side, operating costs remained flat in local currency. Benefits derived from overall cost reductions in Europe, particularly in the UK, Switzerland, and Spain were offset by initial integration costs of USD 11m relating to the acquisition of OnePath Life in Australia and the absence of a one-time benefit to the insurance premium tax in Brazil included in the first half of 2017.

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

As announced in December 2017, the timing of the completion of the acquisition of the OnePath Life business is contingent on both regulatory approval and the completion of the sale of ANZ’s Pensions and Investment business to IOOF Holdings Ltd. Following the announcements by ANZ and IOOF Holdings Ltd on July 26 that they expect to complete the sale of ANZ’s Pensions and Investment business towards the end of the first quarter of 2019, the Group now expects the completion of the OnePath Life transaction to occur towards the end of the first quarter 2019. This will result in a reduction in the expected level of earnings reported from this business during the 2019 financial year compared to that previously communicated.

**Slide 20: Life – Investment Result**

Life investment result, which is gross of policyholder sharing, increased by 16% to USD 1.9bn in U.S. dollars and 7% in local currency, driven mainly by favorable developments in overall earned portfolio yields across the Group’s major geographies, and higher realized capital gains in part related to the German ZZR.

Reinvestment yields for debt securities were around 2.3%. This represents an improvement compared to the prior year narrowing the gap to the annualized accounting yield to 39bps.

**Slide 21: Farmers Exchanges – Growth**

The Farmers Exchanges showed continued growth in the first half of the year. Gross written premiums for continuing operations increased by 4.7% compared to the prior year period, with growth coming in all lines of business and driven by a combination of rate increases, improved customer metrics as a result of the customer focused strategy, further expansion into the eastern United States and an agreement with Uber to provide commercial rideshare insurance in Georgia and Pennsylvania. In the eastern United States, the Farmers Exchanges saw growth in gross written premium of 18% year-on-year excluding the Uber rideshare business, which contributed about a third of Farmers Exchanges’ continuing operations growth in the first half of the year.

Top-line growth in continuing operations was partially offset by the run-off of discontinued operations. These predominantly consist of two books of business: 21st Century, whose run-off is largely completed, and a portfolio of roughly USD 200m of gross written premiums of business insurance distributed through independent agents, to which renewal rights were sold in February. The top-line
contribution from both books is expected to be immaterial in the upcoming quarters, while the drag on reported growth for Farmers Exchanges is expected to gradually disappear by the end of next year.

**Slide 22: Farmers Exchanges – Growth drivers**

Key customer metrics continued to improve as a result of the Farmers Exchanges customer focused strategy. Net Promoter Score, an indicator of customer satisfaction and loyalty, further improved in the second quarter of 2018. This is supportive of retention, which returned to a positive trend over the second half of 2017 following a modest decline in 2016 and the first half of 2017 due to rate and underwriting actions taken in Auto.

The new business count for continuing operations returned to growth in 2018 with the increase versus prior year also reflecting the strong decline recorded in the first half of 2017. In-force policy count for continuing operations also returned to moderate growth increasing 0.3% in the first half of the year, supported by both improved retention and new business.

**Slide 23: Farmers Exchanges – Profitability**

The Farmers Exchanges recorded an underwriting profit in the first half year. The combined ratio improved 6.6 percentage points compared to the prior year period, with the Auto combined ratio also improving by 3.2 percentage points year on year. This improvement underlines the effectiveness of underwriting actions taken in the business in recent years. The combined ratio also benefited from catastrophe losses returning to a level more in line with the historical average in the first half, as well as a small favorable one-time impact from the sale of renewal rights for a portfolio of business insurance sold through independent agents.

The Farmers Exchanges’ surplus ratio is estimated to be 38.8% at the end of June, one of the highest levels recorded in recent years. This was driven by the increase in the all lines quota share treaty from 24% to 29% effective December 31, 2017, and organic growth of surplus, partially offset by the decision to call a USD 200m surplus note held by Zurich American Insurance Company in June 2018.

**Slide 24: FMS – Overview**

Farmers Management Services (FMS) BOP was stable compared to the prior year period, driven by higher gross earned premium at Farmers Exchanges, which increased by approximately 1 percent year on year and lower expenses, offset by an unfavorable fluctuation related to mark to market impacts on a deferred compensation plan.

The managed gross earned premium margin was stable at 7.0% in the first half of the year.
Slide 25: Farmers Life and Farmers Re – Overview

Farmers Re BOP was USD 19m higher than the prior year period, driven by a 6.8 percentage points combined ratio reduction, as a consequence of improved underwriting results at the Farmers Exchanges.

Farmers Life BOP was USD 6m lower than in the prior year period, primarily due to unfavorable year on year mortality experience, yet within a normal range of expected fluctuations.

New business APE at Farmers Life was down 3% compared to the prior year period, while new business value increased 31% due to lower acquisition expenses, a favorable sales mix and the reduction in U.S. corporate tax rates.

Slide 26: Group Functions and Operations & Non-Core Businesses – BOP

The business operating loss reported under Group Functions & Operations increased by USD 33m to USD 334m. Lower recharges to business units more than offset reduced Headquarters expenses, while the Holding and Financing result benefited from gains on currency hedges as well as lower external debt charges. The HY-18 figure also includes a USD 5m charge relating to the Group’s restructuring charges recognized within BOP.

Non-Core BOP was USD 51m reflecting the completion of a number of transactions over the first half of the year, including the transfer of the German med-mal portfolio to Catalina and the sale of an Australian compulsory third-party liability portfolio to Enstar Group.

Slide 27: Group – Solvency ratios

The Group’s Z-ECM ratio is estimated at 134% as of the end of June, which is 2 percentage points higher than at the start of the year.

Strong operational capital generation from the businesses added 7 percentage points. Positive market movements added a further 3 points, largely due to positive yield curve developments principally in the US and UK which off-set the negative impact of widening sovereign spreads in Southern Europe.

Increased capital requirements for insurance and market risk each reduced the ratio by one percentage point, while dividend accrual reduced the ratio by a further 5 percentage points. Other movements netted to zero.
Shareholders’ equity decreased by USD 3.3bn over the first half of the year as a result of the approximately USD 3.7bn of capital returned to shareholders through share repurchases and dividends in the first half. Other movements included retained earnings and a reduction in pension fund liabilities, which were partially offset by FX movements and a reduction in net unrealized gains.

The Group capital structure remains broadly unchanged from the one reported at the FY-17 results.
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. Please also note 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.