ZURICH

Operating and financial review (unaudited) 2014

Zurich Insurance Group
Results for the six months to June 30, 2014

Operating and financial review

The Operating and financial review is the management analysis of the business performance of Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) for the six months ended June 30, 2014, compared with the same period of 2013. It also explains key aspects of the Group's financial position as of June 30, 2014 compared with December 31, 2013.

Contents

The information contained within the Operating and financial review is unaudited and is based on the consolidated results of the Group for the six months ended June 30, 2014 and 2013 and the financial position as of June 30, 2014 and December 31, 2013. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated, with the consequence that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts. This document should be read in conjunction with the Annual Report 2013 of the Group and, in particular, with its unaudited Consolidated financial statements for the six months ended June 30, 2014.

In addition to the figures stated in accordance with the International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business measures and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the separately published Glossary. These should be viewed as complementary to, and not as substitutes for the IFRS figures. For a reconciliation of BOP to net income attributable to shareholders, see note 13 of the unaudited Consolidated financial statements.

From January 1, 2014, the General Insurance business manages Middle East and Africa together with Europe to form a single market-facing business called Europe, Middle East & Africa (EMEA). This change had no impact on total General Insurance or the Group. Comparative figures have been restated to reflect this.

The Group has reviewed the definition of net technical expenses within the General Insurance segment resulting in the reclassification of certain income and expenses between the net non-technical result and net technical expenses. As a result, comparative figures for the total net technical expenses, net underwriting result, net non-technical result (excl. items not included in BOP), expense ratio and combined ratio have been restated to reflect this change.

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2014	2013	Change[1]
Business operating profit	**2,621**	2,288	15%
Net income attributable to shareholders	**2,109**	1,851	14%
General Insurance gross written premiums and policy fees	**19,995**	19,770	1%
Global Life gross written premiums, policy fees and insurance deposits	**14,221**	13,029	9%
Farmers Management Services management fees and other related revenues	**1,391**	1,408	(1%)
Farmers Re gross written premiums and policy fees	**1,960**	2,034	(4%)
General Insurance business operating profit	**1,652**	1,369	21%
General Insurance combined ratio	**96.1%**	98.1%	2.0 pts
Global Life business operating profit	**634**	659	(4%)
Global Life new business annual premium equivalent (APE)[2]	**2,373**	2,081	14%
Global Life new business margin, after tax (as % of APE)[2]	**24.6%**	29.6%	(5.0 pts)
Global Life new business value, after tax[2]	**515**	547	(6%)
Farmers business operating profit	**756**	696	9%
Farmers Management Services gross management result	**674**	670	1%
Farmers Management Services managed gross earned premium margin	**7.3%**	7.1%	0.2 pts
Average Group investments	**211,012**	205,726	3%
Net investment result on Group investments	**4,369**	3,323	31%
Net investment return on Group investments[3]	**2.1%**	1.6%	0.5 pts
Total return on Group investments[3]	**4.8%**	(0.5%)	5.2 pts
Shareholders' equity[4]	**33,699**	32,503	4%
Swiss Solvency Test capitalization ratio[5]	**217%**	206%	11.0 pts
Diluted earnings per share (in CHF)	**12.66**	11.70	8%
Book value per share (in CHF)[4]	**201.75**	196.14	3%
Return on common shareholders' equity (ROE)[6]	**13.9%**	12.7%	1.2 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[6]	**12.5%**	12.1%	0.4 pts

[1] Parentheses around numbers represent an adverse variance.
[2] Details of the principles for calculating new business are included in the Embedded value report in the Annual Report 2013. New business value and new business margin are calculated after the effect of non-controlling interests whereas APE is presented before non-controlling interests.
[3] Calculated on average Group investments.
[4] As of June 30, 2014 and December 31, 2013, respectively.
[5] Ratios as of January 1, 2014 and July 1, 2013, respectively. The Swiss Solvency Test (SST) ratio is calculated based on the Group's internal model, and both are subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The ratio is filed with FINMA bi-annually.
[6] Shareholders' equity adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

Operating and financial review *continued*

Performance overview

The Group delivered overall business operating profit of USD 2.6 billion, an increase of USD 333 million or 15 percent compared with the same period of 2013. This performance was achieved by focusing on priority markets while maintaining the Group's disciplined approach to products, underwriting and pricing. General Insurance and Farmers benefited from an improvement in the underlying loss experience as well as a lower level of catastrophe and weather-related losses. Global Life continued to focus on its priority markets increasing its new business premiums and taking steps to improve its in-force business.

The Group's capital and solvency positions remain strong. Solvency measured on an economic basis as determined under the Swiss Solvency Test was 217 percent as of January 1, 2014, an increase of 11 percentage points compared with July 1, 2013. Shareholders' equity has increased since December 31, 2013 by USD 1.2 billion to USD 33.7 billion from the positive effects of net income and net unrealized gains on investments, and after deducting the total cost of USD 2.8 billion for the dividend of CHF 17.00 per share approved by shareholders at the Annual General Meeting on April 2, 2014.

Business operating profit increased by USD 333 million to USD 2.6 billion, or by 15 percent in U.S. dollar terms and 16 percent on a local currency basis.

- **General Insurance** business operating profit increased by USD 283 million to USD 1.7 billion, or by 21 percent in U.S. dollar terms and 19 percent on a local currency basis, driven by a substantially improved net underwriting result. The net underwriting result reflected the improvement in the underlying loss experience and the absence of major catastrophe and weather-related losses.
- **Global Life** business operating profit decreased by USD 25 million to USD 634 million, or by 4 percent in U.S. dollar terms and 1 percent on a local currency basis. Increases in Latin America and Europe, where most of the markets improved compared with the same period of 2013, were more than offset by impacts in North America related to one-off costs.
- **Farmers** business operating profit increased by USD 60 million to USD 756 million compared with the same period of 2013 primarily due to an improved net underwriting result in **Farmers Re**. **Farmers Management Services** increased its business operating profit by USD 15 million, or by 2 percent, with lower management and other related expenses more than compensating for lower management fees and other related revenues, as well as from a gain on the sale of a property.
- **Other Operating Businesses** reported a business operating loss of USD 452 million, unchanged compared with the same period of 2013. Lower interest expenses on debt and an increase in investment income in Holding and financing were offset by several non-recurring items in the Headquarters result.
- **Non-Core Businesses** reported a business operating profit of USD 31 million compared with USD 17 million in 2013. This improvement resulted from positive reserve movements.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, increased by USD 1.3 billion to USD 37.6 billion, or by 4 percent in U.S. dollar terms and 3 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees increased by USD 225 million to USD 20.0 billion, or by 1 percent in both U.S. dollar terms and on a local currency basis, led by growth in the Group's priority markets, partly offset by other markets where the Group is taking action to improve profitability.
- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 1.2 billion to USD 14.2 billion, or by 9 percent in U.S. dollar terms and 8 percent on a local currency basis. Growth in gross written premiums and policy fees arose mainly in North America and Europe. Insurance deposits increased in North America, Latin America and especially in Europe, driven by growth of Corporate Savings business.
- **Farmers Management Services** management fees and other related revenues of USD 1.4 billion decreased by USD 17 million, or by 1 percent, reflecting lower premiums earned in the Farmers Exchanges, which are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services. **Farmers Re** gross written premiums decreased by 4 percent to USD 2.0 billion, reflecting reduced participations in the quota share reinsurance agreements with the Farmers Exchanges, as well as a 2 percent reduction in gross written premiums in the Farmers Exchanges.

The **net investment result on Group investments** increased by USD 1.0 billion or by 31 percent to USD 4.4 billion. **Net investment income**, predominantly included in the core businesses, increased by 1 percent to USD 3.2 billion, but was flat in local currency terms. **Net capital gains on investments and impairments** included in the net investment result increased by USD 1.0 billion to USD 1.2 billion primarily as a result of active management and positive revaluation of debt securities booked at fair value through profit or loss and from derivative financial instruments used for hedging underlying business or investment risks.

Overall, the net effect of currency fluctuations on the results for the six months 2014 has been relatively small with the strengthening of European currencies against the U.S. dollar, in particular the British pound, being broadly offset by the weakening of Latin American currencies, partly reflecting high inflation rates in that region.

Net income attributable to shareholders increased by USD 258 million to USD 2.1 billion, or by 14 percent, mainly as a result of the increased business operating profit and higher net capital gains after allocations to policyholders partially offset by an increase in income tax expense attributable to shareholders. The **shareholders' effective tax rate** increased to 27.5 percent compared with 22.9 percent for the same period of 2013 and 24.9 percent for the year ended December 31, 2013. The tax rate for the six months is based on the expected rate for the full year 2014. The increase of 4.6 percentage points, compared with the same period of 2013, reflect changes in the profit mix and several one-off costs including the anticipated loss related to the sale of the Group's retail business in Russia, none of which will attract tax relief.

ROE increased by 1.2 percentage points to 13.9 percent, mainly driven by the increase in net income attributable to shareholders. **BOPAT ROE** of 12.5 percent increased by 0.4 percentage points compared with the same period of 2013, mainly as a result of the increased business operating profit partially offset by the increase of the shareholders' effective tax rate. **Diluted earnings per share** increased by 8 percent to CHF 12.66 compared with CHF 11.70 for the same period of 2013.

Operating and financial review *continued*

General Insurance

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums and policy fees	19,995	19,770	1%
Net earned premiums and policy fees	14,990	14,464	4%
Insurance benefits and losses, net of reinsurance	9,909	9,914	–
Net underwriting result	588	279	nm
Net investment result	1,173	1,182	(1%)
Net non-technical result (excl. items not included in BOP)	(59)	(46)	(29%)
Non-controlling interests	50	46	8%
Business operating profit	**1,652**	**1,369**	**21%**
Loss ratio	66.1%	68.5%	2.4 pts
Expense ratio	30.0%	29.5%	(0.4 pts)
Combined ratio	**96.1%**	**98.1%**	**2.0 pts**

in USD millions, for the six months ended June 30	Business operating profit (BOP)		Combined ratio	
	2014	2013	2014	2013
Global Corporate	401	479	95.8%	92.2%
North America Commercial	469	365	96.3%	99.6%
Europe, Middle East & Africa (EMEA)	679	407	94.7%	99.0%
International Markets	97	122	99.9%	101.5%
GI Global Functions including Group Reinsurance	6	(5)	nm	nm
Total	**1,652**	**1,369**	**96.1%**	**98.1%**

Business operating profit increased by USD 283 million to USD 1.7 billion, or by 21 percent in U.S. dollar terms and 19 percent on a local currency basis primarily due to the improvement in the underwriting result of USD 309 million to USD 588 million.

Gross written premiums and policy fees increased by USD 225 million to USD 20.0 billion, or by 1 percent in both U.S. dollar terms and on a local currency basis. On a local currency basis, growth was achieved in Global Corporate while EMEA was flat. In North America Commercial, gross written premiums decreased due to the non-renewal of a fronted portfolio. Adjusting for this, North America Commercial increased by 3 percent compared with the same period in 2013. In International Markets, gross written premiums decreased mainly in Latin America. The rate environment remained positive in all regions and overall rates increased by 2.5 percent.

The **net underwriting result** increased by USD 309 million to USD 588 million, reflected in the 2.0 percentage points improvement in the combined ratio to 96.1 percent. The loss ratio improved by 2.4 percentage points reflecting the benefit of improved underlying loss experience across most of the businesses as well as reduced levels of catastrophe and weather-related losses compared with the same period in 2013. These benefits were partially offset by lower levels of favorable development of loss reserves established in prior years. The expense ratio deteriorated by 0.4 percentage points compared with the same period in 2013. This arose from higher management expenses, which was partly due to a change in cost allocations in certain European countries and investments in growth.

Global Corporate

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums and policy fees	5,426	5,192	5%
Net underwriting result	131	227	(42%)
Business operating profit	**401**	**479**	**(16%)**
Loss ratio	74.0%	71.5%	(2.4 pts)
Expense ratio	21.9%	20.7%	(1.2 pts)
Combined ratio	**95.8%**	**92.2%**	**(3.6 pts)**

Business operating profit decreased by USD 78 million to USD 401 million due to a deterioration in the underwriting result. This was partly offset by an increase in the net investment result, due to higher invested assets and hedge fund gains in the U.S.

Gross written premiums and policy fees increased by USD 234 million to USD 5.4 billion, or by 5 percent in U.S. dollar terms and 4 percent on a local currency basis. New business production in North America and Asia Pacific, as well as rate increases across Global Corporate, contributed to the increase. The rate environment remained positive in all major lines of business and overall rates increased by 2.4 percent.

The **net underwriting result** decreased by USD 96 million to USD 131 million, reflected in the deterioration of 3.6 percentage points in the combined ratio to 95.8 percent. The deterioration in the loss ratio of 2.4 percentage points was mainly due to adverse development of loss reserves established in prior years. This was partly offset by improvements in underlying losses across the business, and the absence of major catastrophe and weather-related events, in contrast to 2013 which was impacted by the losses from flooding in Europe as well as other severe weather-related losses in North America. The expense ratio deteriorated by 1.2 percentage points as a result of the one-off impact of a change in premium tax costs in North America and higher management expenses.

Operating and financial review *continued*

North America Commercial

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums and policy fees	5,229	5,318	(2%)
Net underwriting result	135	14	nm
Business operating profit	**469**	**365**	**28%**
Loss ratio	65.5%	70.1%	4.6 pts
Expense ratio	30.8%	29.5%	(1.3 pts)
Combined ratio	**96.3%**	**99.6%**	**3.3 pts**

Business operating profit increased by USD 104 million to USD 469 million, or by 28 percent, driven by an increase in the underwriting result. This was partly offset by a decrease in net investment income due to lower invested assets and yields.

Gross written premiums and policy fees decreased by USD 89 million to USD 5.2 billion, or by 2 percent. Underlying growth was 3 percent after adjusting for a fronted portfolio that was not renewed. This underlying premium growth reflected the continued benefit of the successful execution of growth initiatives targeting the construction, real estate, and healthcare industry groups. These initiatives also positively impacted specialty lines products as well as the captive and auto warranty businesses. The rate environment remained positive in all major lines of business and overall rates increased by 2.9 percent.

The **net underwriting result** increased by USD 121 million to USD 135 million, which was reflected in the improvement of 3.3 percentage points in the combined ratio to 96.3 percent. The underlying loss ratio improved compared with the same period of 2013 reflecting favorable impacts of sustained rate increases as well as from claims and underwriting initiatives. The net underwriting result also benefited from stable development of reserves established in prior years compared with unfavorable development in the same period in 2013. The unfavorable development in 2013 was substantially due to lines of business that were discontinued or closed to new business. The expense ratio deteriorated by 1.3 percentage points, mainly as a result of higher and partially non-recurring management expenses, as well as an increase in commissions due to growth in lines of business with higher than average commissions.

Europe, Middle East & Africa

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums and policy fees	7,305	7,037	4%
Net underwriting result	328	59	nm
Business operating profit	**679**	**407**	**67%**
Loss ratio	64.6%	69.2%	4.6 pts
Expense ratio	30.1%	29.8%	(0.3 pts)
Combined ratio	**94.7%**	**99.0%**	**4.3 pts**

Business operating profit increased by USD 272 million to USD 679 million, or by 67 percent in U.S. dollar terms and 57 percent on a local currency basis. This improvement was due to the increase in the net underwriting result.

Gross written premiums and policy fees increased by USD 268 million to USD 7.3 billion, or by 4 percent in U.S. dollar terms but remained flat on a local currency basis. On a local currency basis, there was solid growth in the UK, Germany and in the personal lines business in Switzerland but this was offset by decreases in premium in markets where the focus has been on improving profitability and in Italy where the personal motor market continued to decline. Average rate increases of 2.1 percent were achieved during the first six months of 2014.

The **net underwriting result** increased by USD 269 million to USD 328 million, which was reflected in the improvement in the combined ratio of 4.3 percentage points to 94.7 percent. The improvement in the loss ratio of 4.6 percentage points arose from continued improvements in underlying losses, particularly in Germany, Italy, the UK and Switzerland, as a result of sustained underwriting actions. The net underwriting result also benefited from reduced weather-related losses compared with the same period of 2013, when there was significant flooding in Europe. These improvements were partly offset by lower levels of favorable development of reserves established in prior years. The expense ratio deteriorated by 0.3 percentage points reflecting increased expenses in Germany, due to a change in cost allocations, and investments in growth partially offset by a one-off pension curtailment gain in Switzerland.

Operating and financial review *continued*

International Markets

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums and policy fees[1]	2,160	2,510	(14%)
Net underwriting result	1	(29)	nm
Business operating profit	**97**	**122**	**(21%)**
Loss ratio	59.2%	59.6%	0.4 pts
Expense ratio	40.7%	41.9%	1.1 pts
Combined ratio	**99.9%**	**101.5%**	**1.6 pts**

[1] From January 2014, gross written premiums and policy fees relating to Latin American corporate business have been included in Global Corporate. 2013 figures have not been restated.

Business operating profit decreased by USD 25 million to USD 97 million, or by 21 percent in U.S. dollar terms but increased by 10 percent on a local currency basis. The underwriting result improved by USD 30 million partly offset by a reduction in the positive contribution from the non-technical result which in 2014 included non-recurring charges in Latin America and, in the same period of 2013, a one-off gain from the sale of an own-use property in Taiwan.

Gross written premiums and policy fees decreased by USD 350 million to USD 2.2 billion, or by 14 percent in U.S. dollar terms and by 1 percent on a local currency basis. On a local currency basis, gross written premiums decreased in Latin America by 3 percent. This decrease arose due to the change in the reporting of the Latin American corporate business and in Brazil, due to the impact of underwriting actions in the personal motor portfolio, partly offset by growth in Argentina and Venezuela. Overall, Latin America achieved average rate increases of 5.5 percent. Asia Pacific premiums increased by 4 percent on a local currency basis, reflecting growth in Japan, Hong Kong and Malaysia, partly offset by lower premiums in Australia. Overall Asia Pacific achieved average rate increases of 2.3 percent.

The **net underwriting result** improved by USD 30 million, reflected in the 1.6 percentage points improvement in the combined ratio to 99.9 percent. The loss ratio improved by 0.4 percentage points mainly as a result of lower catastrophe and weather-related losses compared with the same period in 2013, which included the losses from flooding in Queensland, Australia. The underlying loss ratio deteriorated in Australia and in Latin America, primarily in personal lines business in Brazil, where there is focus on underwriting actions. Favorable changes in the development of loss reserves established in prior years were slightly lower than in the same period of 2013. The expense ratio improved by 1.1 percentage points compared with the same period of 2013 partly due to the impact of non-recurring charges in Latin America in 2013, reduced commission costs resulting from changes in business mix, and the impact of higher premium volumes.

Global Life

in USD millions, for the six months ended June 30	2014	2013	Change
Insurance deposits	7,082	6,098	16%
Gross written premiums and policy fees	7,139	6,931	3%
Net investment income on Group investments	1,981	1,990	–
Insurance benefits and losses, net of reinsurance	(5,069)	(4,493)	(13%)
Business operating profit	**634**	**659**	**(4%)**
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[1]	235,407	226,166	4%
Assets under management[1, 2]	279,687	267,202	5%
Net policyholder flows[3]	889	(1,203)	nm

1 As of June 30, 2014 and December 31, 2013, respectively.
2 Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties, on which fees are earned.
3 Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.

New business – highlights[1]

in USD millions, for the six months ended June 30	2014	2013	Change
New business annual premium equivalent (APE)	**2,373**	**2,081**	**14%**
New business margin, after tax	**24.6%**	**29.6%**	**(5.0 pts)**
New business value, after tax	**515**	**547**	**(6%)**

1 Details of the principles for calculating new business are included in the Embedded value report in the Annual Report 2013. New business value and new business margin are calculated after the effect of non-controlling interests whereas APE is presented before non-controlling interests.

Source of earnings

in USD millions, for the six months ended June 30	2014	2013
Loadings and fees	2,078	2,009
Investment margin	296	275
Technical margin	567	609
Operating and funding costs	(899)	(873)
Acquisition costs	(1,572)	(1,583)
Impact of deferrals	163	221
Business operating profit	**634**	**659**

Operating and financial review *continued*

Business operating profit decreased by USD 25 million to USD 634 million, or by 4 percent in U.S. dollar terms and 1 percent on a local currency basis. Increases in Latin America and Europe, where most of the markets improved compared with the same period of 2013, were more than offset by a negative impact in North America related to the transfer of an annuity portfolio to Non-Core Businesses as well as asset impairments associated with Global Life's in-force management strategy, and a reduction in Asia-Pacific and Middle East (APME) which included a one-off benefit from deferred intangibles in the same period of 2013.

Loadings and fees increased by USD 69 million, the majority of which arose from higher volumes in Zurich Santander and higher fees in Europe and APME, predominantly driven by unit-linked assets under management. The investment margin increased by USD 21 million with increased investment yields in Latin America, albeit reduced by the effects of foreign currency translation, being partly offset by the impact of persistently low yields in other regions. The underlying technical margin improved by USD 58 million more than offset by one-off impacts of USD 56 million from the transfer of the annuity portfolio in North America and USD 44 million from a law change in Germany. The underlying improvement was largely driven by North America, Zurich Santander and Europe.

Operating and funding costs increased by 3 percent with the effect of an impairment of software assets being offset by policyholder tax impacts, particularly in the UK. Acquisition costs remained broadly flat and the overall decrease in the impact of deferrals largely resulted from market and other movements which affected deferred intangibles.

Insurance deposits increased by USD 984 million to USD 7.1 billion, or by 16 percent in U.S. dollar terms and 14 percent on a local currency basis. North America, Latin America and Europe all experienced strong growth with a 24 percent increase in Europe driven by single premium Corporate Savings products. There was a significant reduction in insurance deposits in private banking business included in Bank Distribution following the withdrawal from new business in certain markets.

Gross written premiums and policy fees increased by USD 207 million to USD 7.1 billion, or by 3 percent in both U.S. dollar terms and on a local currency basis. Continued strong growth in protection sales in North America and Europe, predominantly in Spain, have driven this increase partly offset by a reduction in Latin America due to a change in timing of some large contract renewals.

Net reserves increased by 4 percent in U.S. dollar terms and 3 percent on a local currency basis compared with December 31, 2013 primarily reflecting increased values of unit-linked assets. **Assets under management** increased by 5 percent in U.S. dollar terms and 4 percent on a local currency basis compared with December 31, 2013 driven by favorable market movements in Europe and favorable foreign currency translation in Europe and Brazil. **Net policyholder flows** were a net inflow of USD 889 million compared with a net outflow of USD 1.2 billion in the same period of 2013, which was driven by net outflows from private banking products included in Bank Distribution. North America, Latin America and Europe all experienced improved net inflows.

NBV, APE, NBM and BOP by region

in USD millions, for the six months ended June 30	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[1]		New business margin, after tax (as % of APE) (NBM)[1]		Business operating profit (BOP)	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
North America	62	59	104	81	59.5%	72.5%	37	84
Latin America	86	119	613	582	21.6%	31.2%	128	122
of which:								
Zurich Santander	*56*	*72*	*434*	*404*	*25.5%*	*34.7%*	*93*	*95*
Europe	251	224	1,373	1,045	19.1%	22.1%	452	392
United Kingdom	*86*	*94*	*578*	*389*	*14.9%*	*24.2%*	*110*	*93*
Germany	*27*	*13*	*166*	*167*	*16.6%*	*8.1%*	*106*	*81*
Switzerland	*43*	*35*	*157*	*147*	*27.5%*	*23.7%*	*139*	*131*
Ireland	*34*	*34*	*236*	*198*	*14.5%*	*17.1%*	*35*	*26*
Spain	*44*	*35*	*132*	*65*	*60.6%*	*89.0%*	*22*	*21*
Italy	*12*	*11*	*84*	*67*	*14.6%*	*16.1%*	*23*	*18*
Rest of Europe	*3*	*2*	*20*	*13*	*17.1%*	*18.6%*	*17*	*22*
APME	79	84	241	271	33.0%	31.3%	56	72
Other	38	61	42	102	89.8%	60.0%	(39)	(11)
Total	**515**	**547**	**2,373**	**2,081**	**24.6%**	**29.6%**	**634**	**659**

NBV and APE by pillar

in USD millions, for the six months ended June 30	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[1]		New business margin, after tax (as % of APE)[1]	
	2014	2013	**2014**	2013	**2014**	2013
Bank Distribution	148	152	825	789	26.9%	27.1%
Other Retail	205	240	731	674	28.1%	35.8%
Corporate Life and Pensions	162	155	817	618	19.8%	25.1%
Total	**515**	**547**	**2,373**	**2,081**	**24.6%**	**29.6%**

[1] Details of the principles for calculating new business are included in the Embedded value report in the Annual Report 2013. New business value and new business margin are calculated after the effect of non-controlling interests whereas APE is presented before non-controlling interests.

Global Life continued to benefit from its acquisitions and investment in organic growth in priority markets, leveraging global bank distribution and corporate life relationships as well as maintaining focus on protection and unit-linked products.

New business value decreased by USD 32 million to USD 515 million, or by 6 percent in both U.S. dollar terms and on a local currency basis despite an increase in APE. The decrease was primarily driven by reduced new business margins due to assumption changes and methodology updates introduced in 2014.

APE increased by USD 291 million to USD 2.4 billion, or by 14 percent in both U.S. dollar terms and on a local currency basis. North America, Latin America and Europe all increased by more than 20 percent on a local currency basis offset by decreases in APME and Other following the withdrawal from the tied agent channel in Hong Kong and the private banking business included in Bank Distribution in Luxembourg.

New business margin decreased by 5.0 percentage points to 24.6 percent compared with the same period of 2013 primarily driven by Europe, North America and Latin America. In the first six months of 2013, the UK new business margin benefited from exceptional volumes of protection business with relatively high margins. In 2014, the volumes of this business returned to normal levels. In North America and Zurich Santander the lower margins were impacted primarily by updated assumptions. In addition a revision to the expense allocation methodology also contributed to the overall decrease of new business margin.

Operating and financial review *continued*

In North America, IFA/Brokers continued to gain traction leading to an overall growth in APE of 28 percent and an increase in new business value of 5 percent. Higher volumes of lower margin IFA/Brokers products resulted in a lower, but still very strong, new business margin of 59.5 percent.

In Latin America, strong volume growth was more than offset by assumption and methodology updates which reduced new business margins, particularly in Zurich Santander.

In Europe, the overall increase of USD 27 million in new business value was primarily driven by Germany, Spain and Switzerland. Margins improved in Germany as a result of changes in product mix and updates to assumptions. Volume and margin improvements in Switzerland also contributed to the increase. The UK benefited from growth in lower margin Corporate Savings business during the period, but this positive impact was offset by lower levels of high margin protection business resulting in reduced new business value.

In APME, Australia experienced strong growth in new business value with both volume and margin improvements in protection business. This was more than offset by lower volumes in the Middle East and the decision to close the agency channel in Hong Kong.

In Bank Distribution, new business value decreased by USD 4 million to USD 148 million, or by 2 percent in U.S. dollar terms but increased 2 percent on a local currency basis. Strong volume growth in Zurich Santander and Spain was more than offset by a reduction in new business margin from updated assumptions and the adverse effect of foreign currency translation in Zurich Santander.

In Other Retail, new business value decreased by USD 35 million to USD 205 million, or by 14 percent in U.S. dollar terms and 15 percent on a local currency basis, as a result of decreased volumes of individual protection business in both Latin America and Europe. Latin America was impacted by new business margin reductions and adverse foreign currency translation, whereas Europe had benefited in the first six months of 2013 from an exceptionally strong result in new business value from protection business.

In Corporate Life and Pensions, new business value increased by USD 7 million to USD 162 million, or by 4 percent in U.S. dollar terms, but remained flat on a local currency basis, benefiting from higher margins particularly in Europe partly offset by a decrease from Other due to lower margins and volumes.

Farmers

Farmers business operating profit increased by USD 60 million to USD 756 million compared with the same period of 2013 primarily due to an improved net underwriting result in Farmers Re. Farmers Management Services increased its business operating profit by USD 15 million, or by 2 percent, with lower management and other related expenses more than compensating for lower management fees and other related revenues as well as from a gain on the sale of a property.

Farmers Management Services

in USD millions, for the six months ended June 30	**2014**	2013	Change
Management fees and other related revenues	1,391	1,408	(1%)
Management and other related expenses	(717)	(738)	3%
Gross management result	674	670	1%
Other net income	28	18	58%
Business operating profit	**702**	**687**	**2%**
Managed gross earned premium margin	7.3%	7.1%	0.2%

Business operating profit increased by USD 15 million to USD 702 million, primarily due to a decrease in management and other related expenses compensating for lower management fees and other related revenues as well as an increase in other net income.

Management fees and other related revenues of USD 1.4 billion decreased by USD 17 million, or by 1 percent, reflecting lower premiums earned in the Farmers Exchanges, which are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services. **Management and other related expenses** of USD 717 million decreased by USD 22 million mainly as a result of lower labor costs and a gain from employment benefits. **Other net income** of USD 28 million increased by USD 10 million partially due to a gain on the sale of the Farmers headquarters complex partially offset by a lower investment result.

The **managed gross earned premium margin** increased to 7.3 percent compared with 7.1 percent for the same period of 2013.

Operating and financial review *continued*

Farmers Re

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums and policy fees	1,960	2,034	(4%)
Net underwriting result	(11)	(58)	81%
Business operating profit	**53**	**9**	**nm**
Loss ratio	69.2%	71.5%	2.3 pts
Expense ratio	31.3%	31.3%	0.0 pts
Combined ratio	**100.6%**	**102.8%**	**2.3 pts**

Business operating profit increased by USD 44 million to USD 53 million, primarily due to an improvement in the net underwriting result.

Gross written premiums and policy fees decreased by USD 74 million, or by 4 percent, to USD 2.0 billion as a result of the lower participation in reinsurance agreements with the Farmers Exchanges as well as the 2 percent decrease in the gross written premiums in the Farmers Exchanges. The participation in the All Lines quota share reinsurance agreement was reduced from 18.5 percent to 18.0 percent, effective December 31, 2013. The participation in the Auto Physical Damage quota share reinsurance agreement was reduced from USD 925 million of ceded premium in 2013 to USD 900 million in 2014.

The **net underwriting result** improved by USD 47 million to a loss of USD 11 million reflected in the improvement of 2.3 percentage points in the **loss ratio** as a result of lower catastrophe and underlying losses. The **expense ratio**, based on ceded reinsurance commission rates payable to Farmers Exchanges, was unchanged.

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 attorney-in-fact and receives fees for its services. Financial information about the Farmers Exchanges, which are owned by their policyholders, is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Re.

in USD millions, for the six months ended June 30	2014	2013	Change
Gross written premiums	9,335	9,477	(2%)
Gross earned premiums	9,216	9,401	(2%)

Gross written premiums in the Farmers Exchanges decreased by USD 142 million to USD 9.3 billion, or by 2 percent. This decrease was driven by lower Business Insurance sold through independent agents, Farmers Auto and Direct Auto reflecting pricing and underwriting actions as well as the effect of lower marketing expenditure. Other major lines of business, including Business Insurance sold through exclusive agents, non-standard Auto, Homeowners and Specialty increased compared with the same period of 2013.

Gross earned premiums in the Farmers Exchanges decreased by USD 186 million to USD 9.2 billion, or by 2 percent.

Other Operating Businesses

in USD millions, for the six months ended June 30	2014	2013	Change
Business operating profit:			
Holding and financing	(358)	(407)	12%
Headquarters	(93)	(46)	nm
Total business operating profit	**(452)**	**(453)**	**–**

Holding and financing business operating loss decreased by USD 49 million to USD 358 million, primarily driven by lower interest expenses on debt due to favorable refinancing conditions as well as increased investment income.

Headquarters reported a business operating loss of USD 93 million compared with a loss of USD 46 million in the same period of 2013. This deterioration was driven by several non-recurring items.

Non-Core Businesses

in USD millions, for the six months ended June 30	2014	2013	Change
Business operating profit:			
Centrally managed businesses	3	5	(43%)
Other run-off	28	11	nm
Total business operating profit	**31**	**17**	**86%**

Centrally managed businesses, which comprise run-off portfolios managed with the intention of proactively reducing risk and releasing capital, reported a business operating profit of USD 3 million resulting from underlying movements in the portfolios under management.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 28 million. The USD 17 million improvement compared with the same period of 2013 was due to positive reserve movements primarily as a result of increased market volatility.

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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.

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