Operating and financial review (unaudited) 2015

Zurich Insurance Group
Results for the six months to June 30, 2015

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, 2015, compared with the same period of 2014. It also explains key aspects of the Group's financial position as of June 30, 2015 compared with December 31, 2014.

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, 2015 and compared with the same period of 2014. 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 2014 of the Group and, in particular, with its unaudited Consolidated financial statements for the six months ended June 30, 2015.

In addition to the figures stated in accordance with 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 table 13.2 of the unaudited Consolidated financial statements.

From January 1, 2015, the Global Life business changed its regional structure by establishing the regions Europe, Middle East & Africa (EMEA) and Asia Pacific. EMEA includes the European business units, Zurich International Life and Luxembourg. This change had no impact on total Global Life or the Group. Comparative figures have been restated to reflect this change.

From January 1, 2015, the management of the UK asbestos business, which is in run-off, has been transferred from General Insurance to Non-Core Businesses. This change had no impact on the Group. Comparative figures have been restated to reflect this change.

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2015	2014	Change[1]
Business operating profit	**2,238**	2,621	(15%)
Net income attributable to shareholders	**2,059**	2,123	(3%)
General Insurance gross written premiums and policy fees	**18,669**	19,995	(7%)
Global Life gross written premiums, policy fees and insurance deposits	**14,833**	14,221	4%
Farmers Management Services management fees and other related revenues	**1,380**	1,391	(1%)
Farmers Re gross written premiums and policy fees	**1,126**	1,960	(43%)
General Insurance business operating profit	**1,166**	1,681	(31%)
General Insurance combined ratio	**98.3%**	95.7%	(2.6 pts)
Global Life business operating profit	**673**	634	6%
Global Life new business annual premium equivalent (APE)[2]	**2,443**	2,373	3%
Global Life new business margin, after tax (as % of APE)[2]	**18.9%**	23.2%	(4.3 pts)
Global Life new business value, after tax[2]	**411**	487	(15%)
Farmers business operating profit	**719**	756	(5%)
Farmers Management Services gross management result	**654**	674	(3%)
Farmers Management Services managed gross earned premium margin	**7.0%**	7.3%	(0.3 pts)
Average Group investments	**200,752**	211,012	(5%)
Net investment result on Group investments	**4,023**	4,369	(8%)
Net investment return on Group investments[3]	**2.0%**	2.1%	(0.1 pts)
Total return on Group investments[3]	**0.1%**	4.8%	(4.7 pts)
Shareholders' equity[4]	**31,883**	34,735	(8%)
Swiss Solvency Test capitalization ratio[5]	**196%**	215%	(19.0 pts)
Diluted earnings per share (in USD)	**13.73**	14.31	(4%)
Diluted earnings per share (in CHF)	**12.99**	12.74	2%
Book value per share (in CHF)[4]	**200.23**	232.65	(14%)
Return on common shareholders' equity (ROE)[6]	**14.2%**	13.9%	0.2 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[6]	**11.6%**	12.5%	(0.9 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 2014. 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, 2015 and December 31, 2014, respectively.
5 Ratios as of January 1, 2015 and July 1, 2014, respectively. The Swiss Solvency Test (SST) ratio is calculated based on the Group's internal model, and both the ratio and the internal model 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 used to determine ROE and BOPAT ROE is 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 2.2 billion, a decrease of USD 383 million or 15 percent compared with the same period of 2014. This was driven by a lower contribution from General Insurance which was impacted by an increase in the costs of large losses and by an increase in expenses, partly relating to the implementation of growth initiatives. Global Life achieved a strong result whilst maintaining its focus on priority markets and on extracting value from in-force business. Farmers continued its positive momentum in premium growth, although it produced a slightly lower result. The overall lower profit from the core businesses was partly offset by lower Group borrowing costs and currency exchange gains following the action by the Swiss National Bank in January 2015 to discontinue the link of the Swiss franc to the euro. Business operating profit for the Group was negatively impacted in U.S. dollar terms because of the weakening in its major trading currencies against the U.S. dollar.

The Group's capital and solvency positions remain strong. Solvency measured on an economic basis as determined under the Swiss Solvency Test decreased by 19 percentage points since July 1, 2014 to 196 percent as of January 1, 2015, mainly as a result of changes in investment markets and business growth assumptions. Shareholders' equity decreased since December 31, 2014 by USD 2.9 billion to USD 31.9 billion. This decrease resulted from the cost of the dividend, unrealized losses on investments and negative currency translation adjustments offset by net income attributable to shareholders. The dividend of CHF 17.00 per share, approved at the Annual General Meeting on April 1, 2015, cost a total of USD 2.7 billion.

Business operating profit decreased by USD 383 million to USD 2.2 billion, or by 15 percent in U.S. dollar terms and 10 percent on a local currency basis.

- **General Insurance** business operating profit decreased by USD 515 million to USD 1.2 billion, or 31 percent in U.S. dollar terms, and 27 percent on a local currency basis. This was primarily due to a deterioration in the net underwriting result of USD 413 million and to a lesser extent lower investment income. The deterioration in the net underwriting result mainly arose in Global Corporate and EMEA and resulted from an increase in large losses, which were partly offset by higher levels of favorable loss development on reserves established in prior years. The cost of ongoing growth initiatives was reflected in an increase in the expense ratio.
- **Global Life** business operating profit increased by USD 39 million to USD 673 million, or 6 percent in U.S. dollar terms, and 21 percent on a local currency basis. The weakening of Latin American and European currencies against the U.S. dollar compared with the same period of 2014 had a significant impact on the reported results translated into U.S. dollars. On a local currency basis business operating profit improved in all regions. The ongoing focus on fee-based and protection business resulted in increases in loadings and fees and the technical margin, offset by a reduction in the investment margin.
- **Farmers** business operating profit decreased by USD 36 million, or 5 percent, to USD 719 million. This was due to a USD 44 million reduction in Farmers Management Services business operating profit partly offset by an improvement at **Farmers Re**, which benefited from a better underwriting result. **Farmers Management Services** business operating profit reduced by USD 44 million to USD 658 million, due to lower management fees and other related revenues and an increase in management and other related expenses, as well as a significant reduction in other net income.
- **Other Operating Businesses** reported a business operating loss of USD 330 million, compared with a loss of USD 452 million in the same period of 2014. This improvement was primarily driven by lower interest expense on debt refinanced in 2014 and 2015 and favorable foreign exchange impacts partly as a result of the Swiss National Bank action in January 2015.
- **Non-Core Businesses** reported a business operating profit of USD 10 million compared with USD 2 million in the same period of 2014, primarily due to the impact from the strengthening of reserves in 2014 in the UK asbestos business not repeated in 2015.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, decreased by USD 1.6 billion to USD 36.0 billion, or by 4 percent in U.S. dollar terms, but increased 7 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees decreased by USD 1.3 billion to USD 18.7 billion, or 7 percent in U.S. dollar terms, but increased by 3 percent on a local currency basis led by underlying growth in the Group's priority markets.
- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 612 million to USD 14.8 billion, or 4 percent in U.S. dollar terms, and 22 percent on a local currency basis. The increase on a local currency basis occurred predominantly in Europe, driven by growth in corporate and single premium individual savings business.
- **Farmers Management Services** management fees and other related revenues decreased by USD 11 million, or by 1 percent, to USD 1.4 billion. **Farmers Re** gross written premiums and policy fees decreased by USD 834 million to USD 1.1 billion, or by 43 percent, due to reductions in reinsurance assumed.

The **net investment result on Group investments**, before allocations to policyholders, of USD 4.0 billion decreased by USD 347 million, or 8 percent, resulting in a **net investment return on average Group investments** of 2.0 percent compared with 2.1 percent in the same period of 2014. **Net investment income**, predominantly included in the core business results, of USD 2.8 billion was USD 408 million lower in U.S. dollar terms, and USD 67 million lower on a local currency basis. **Net capital gains on investments and impairments** included in the net investment result increased marginally in U.S. dollar terms by USD 61 million to USD 1.2 billion. **Total return on average Group investments** was 0.1 percent, compared with 4.8 percent in the same period of 2014. Total return includes the net investment return as well as the effect of net unrealized investment losses, before allocations to policyholders, of USD 3.8 billion, which do not flow through net income, mainly as a result of rising interest rates and widening credit spreads, compared with net unrealized investment gains of USD 5.7 billion in the same period of 2014.

The U.S. dollar strengthened significantly against all of the Group's major trading currencies during the first six months of 2015 compared with the same period of 2014. This affected many line items in both the consolidated income and cash flow statements. The translation effect of the strengthening of the U.S. dollar in the first six months of 2015 compared with the same period of 2014 reduced business operating profit and net income attributable to shareholders by USD 119 million and USD 112 million respectively. The euro and Latin American currencies as of June 30, 2015 compared with December 31, 2014 were weaker against the U.S. dollar, but this effect was offset by strengthening of the Swiss franc and the British pound. The net effect of currency movements on translation resulted in a reduction in shareholders' equity of USD 2.1 billion since December 31,2014.

Net income attributable to shareholders decreased by USD 64 million to USD 2.1 billion, primarily due to the decrease of USD 383 million in business operating profit offset by lower tax expense attributable to shareholders and lower negative impact of non-recurring items, including foreign currency gains in 2015 and lower costs related to restructuring. The **shareholders' effective tax rate** decreased to 24.5 percent compared with 27.4 percent for the same period of 2014 and 27.0 percent for the year ended December 31, 2014. The tax rate for the six months is based on the expected rate for the full year 2015. The decrease of 2.9 percentage points, compared with the same period of 2014, reflects changes in the profit mix and the effect of several non-recurring costs which did not attract tax relief in 2014.

ROE improved by 0.2 percentage points to 14.2 percent, due to the reduction in average shareholders' equity compared with the same period of 2014, partly offset by the reduction in net income attributable to shareholders. **BOPAT ROE** decreased by 0.9 percentage points to 11.6 percent, as a result of the decrease in business operating profit partly offset by the lower shareholders' effective tax rate and the reduction in average shareholders' equity. **Diluted earnings per share** in CHF increased by 2 percent to CHF 12.99 compared with CHF 12.74 in the same period of 2014. However, diluted earnings per share in USD decreased by 4 percent to USD 13.73 compared with USD 14.31 in the same period of 2014.

Operating and financial review *continued*

General Insurance

in USD millions, for the six months ended June 30	2015	2014	Change
Gross written premiums and policy fees	18,669	19,995	(7%)
Net earned premiums and policy fees	13,928	14,990	(7%)
Insurance benefits and losses, net of reinsurance	9,315	9,857	6%
Net underwriting result	230	643	(64%)
Net investment result	1,044	1,147	(9%)
Net non-technical result (excl. items not included in BOP)	(60)	(59)	(1%)
Non-controlling interests	49	50	1%
Business operating profit	**1,166**	**1,681**	**(31%)**
Loss ratio	66.9%	65.8%	(1.1 pts)
Expense ratio	31.5%	30.0%	(1.5 pts)
Combined ratio	**98.3%**	**95.7%**	**(2.6 pts)**

in USD millions, for the six months ended June 30	Business operating profit (BOP)		Combined ratio	
	2015	2014	2015	2014
Global Corporate	214	418	101.0%	95.2%
North America Commercial	469	469	96.4%	96.3%
Europe, Middle East & Africa (EMEA)	426	692	97.2%	94.2%
International Markets	71	97	101.0%	99.9%
GI Global Functions including Group Reinsurance	(14)	6	nm	nm
Total	**1,166**	**1,681**	**98.3%**	**95.7%**

Business operating profit decreased by USD 515 million to USD 1.2 billion, or 31 percent in U.S. dollar terms, and 27 percent on a local currency basis. This resulted from a deterioration in the net underwriting result of USD 413 million to USD 230 million, principally in Global Corporate and EMEA, as well as a lower net investment result mainly from foreign currency translation and lower yields in EMEA.

Gross written premiums and policy fees decreased by USD 1.3 billion to USD 18.7 billion. On a local currency basis gross written premiums increased by 3 percent, driven by growth in most regions. In North America Commercial, this resulted from organic growth and an increase in new business through captives. Global Corporate increased on a local currency basis despite continuing pressure on rates, mainly in the property and global energy lines of business. EMEA grew slightly in local currency terms with growth in Germany and Spain, as well as in the personal lines business in Switzerland. In International Markets, gross written premiums increased on a local currency basis mainly in Latin America, partly due to inflation, but also from new distribution agreements in Brazil. Rates increased across all regions, overall by around 1 percent.

The **net underwriting result** decreased by USD 413 million to USD 230 million, reflected in the 2.6 percentage points deterioration in the combined ratio to 98.3 percent. The loss ratio increased 1.1 percentage points reflecting higher large losses in Global Corporate North America and in EMEA's UK business compared with 2014. These effects were partly offset by significantly higher levels of favorable development of loss reserves established in prior years. The expense ratio increased by 1.5 percentage points. This arose from higher expenses from investments in growth initiatives in all regions and the effect of positive non-recurring items in 2014, as well as higher commissions due to changes in both product and geographic mix for which higher levels of commission apply.

Global Corporate

in USD millions, for the six months ended June 30	2015	2014	Change
Gross written premiums and policy fees	4,974	5,426	(8%)
Net underwriting result	(29)	149	nm
Business operating profit	**214**	**418**	**(49%)**
Loss ratio	77.7%	73.4%	(4.3 pts)
Expense ratio	23.3%	21.8%	(1.4 pts)
Combined ratio	**101.0%**	**95.2%**	**(5.7 pts)**

Business operating profit decreased by USD 203 million to USD 214 million. The decrease resulted mainly from the deterioration in the underwriting result, but also from a decrease in the net investment result due to lower yields in Europe and a deterioration in the non-technical result from higher hedging costs for foreign exchange transactions.

Gross written premiums and policy fees decreased by USD 451 million, or 8 percent in U.S. dollar terms, to USD 5.0 billion, but increased 1 percent on a local currency basis, with some higher levels of retention in Europe. The rate environment continues to be under pressure and lower rates, particularly in the U.S., contributed to the decline. Rates overall increased by 0.2 percent.

The **net underwriting result** deteriorated by USD 178 million to an underwriting loss of USD 29 million, reflected in the deterioration of 5.7 percentage points in the combined ratio to 101 percent. The deterioration in the loss ratio of 4.3 percentage points was mainly due to an increase in the number of large losses, as well as higher losses from catastrophe and weather-related events in North America. These effects were partly offset by favorable development in the underlying loss ratio driven by re-underwriting actions in Europe. The expense ratio deteriorated by 1.4 percentage points as a result of investments in growth initiatives, as well as higher management expenses.

Operating and financial review *continued*

North America Commercial

in USD millions, for the six months ended June 30	2015	2014	Change
Gross written premiums and policy fees	5,383	5,229	3%
Net underwriting result	137	135	1%
Business operating profit	**469**	**469**	**–**
Loss ratio	64.1%	65.5%	1.4 pts
Expense ratio	32.2%	30.8%	(1.4 pts)
Combined ratio	**96.4%**	**96.3%**	**(0.0 pts)**

Business operating profit remained flat at USD 469 million, where a slight increase in the underwriting result and the non-technical result was offset by a reduction in the investment result.

Gross written premiums and policy fees increased by USD 154 million, or 3 percent, to USD 5.4 billion. This increase was driven by organic growth and new business in captives, particularly from workers compensation and liability lines of business. The rate environment remained positive in liability, motor and specialties lines of business with overall rates increasing by 1 percent despite market pressure.

The **net underwriting result** increased by USD 1 million to USD 137 million, with the combined ratio at 96.4 percent remaining flat. The loss ratio improved compared with the same period of 2014 reflecting a favorable development of reserves established in prior years compared with unfavorable development in the same period of 2014, as well as lower large losses and catastrophe and weather-related losses. These improvements were partly offset by unfavorable deterioration in the underlying loss ratio with an increase in the severity of liability claims. The expense ratio increased by 1.4 percentage points, mainly as a result of investments in growth initiatives and higher management expenses, as well as an increase in commissions due to growth in products for which higher levels of commission apply.

Europe, Middle East & Africa

in USD millions, for the six months ended June 30	2015	2014	Change
Gross written premiums and policy fees	6,357	7,305	(13%)
Net underwriting result	149	365	(59%)
Business operating profit	**426**	**692**	**(38%)**
Loss ratio	65.8%	64.1%	(1.7 pts)
Expense ratio	31.5%	30.1%	(1.4 pts)
Combined ratio	**97.2%**	**94.2%**	**(3.1 pts)**

Business operating profit decreased by USD 266 million to USD 426 million, or 38 percent in U.S. dollar terms, and 31 percent on a local currency basis, primarily as a result of the deterioration in the net underwriting result. The investment result reduced by USD 72 million in U.S. dollar terms, mainly as a result of foreign currency translation and lower yields, which was partly offset by an improvement in the non-technical result.

Gross written premiums and policy fees decreased by USD 947 million to USD 6.4 billion, or by 13 percent in U.S. dollar terms, but remained flat on a local currency basis. On a local currency basis, there was growth in Germany and Spain, as well as in the personal lines business in Switzerland. These positive impacts were offset by decreased premiums written in markets enduring competitive pressures especially in the UK in property and personal lines of business, and in Italy in the motor line of business, as well as from the sale of the retail market business in Russia in October 2014. There were positive developments in retention and new business levels, and overall rates have increased by 1 percent, 1 percentage point lower than in the same period of 2014.

The **net underwriting result** decreased by USD 216 million to USD 149 million, reflected in the deterioration in the combined ratio of 3.1 percentage points to 97.2 percent. The deterioration in the loss ratio of 1.7 percentage points reflected unfavorable experience of large losses, mainly in the UK, and less favorable development of reserves established in prior years. These deteriorations were partly offset by lower weather-related losses. The expense ratio deteriorated by 1.4 percentage points resulting from the effect of several favorable non-recurring items in 2014, and increased expenses following investments in growth initiatives.

Operating and financial review *continued*

International Markets

in USD millions, for the six months ended June 30	2015	2014	Change
Gross written premiums and policy fees	2,063	2,160	(4%)
Net underwriting result	(17)	1	nm
Business operating profit	**71**	**97**	**(27%)**
Loss ratio	57.8%	59.2%	1.4 pts
Expense ratio	43.1%	40.7%	(2.4 pts)
Combined ratio	**101.0%**	**99.9%**	**(1.0 pts)**

Business operating profit decreased by USD 26 million to USD 71 million, or 27 percent in U.S. dollar terms, and 32 percent on a local currency basis. The decrease resulted from a deterioration in the underwriting result with a decrease in Asia Pacific partly offset by an improvement in Latin America and a less favorable investment result, mainly in Australia.

Gross written premiums and policy fees decreased by USD 97 million to USD 2.1 billion, or by 4 percent in U.S. dollar terms, but increased by 12 percent on a local currency basis. On a local currency basis, gross written premiums grew by 26 percent in Latin America due to new distribution agreements in Brazil and inflation in Venezuela. This increase was partly offset by the impact of underwriting actions in the personal motor portfolio in Brazil which began in the second half of 2014. Despite growth in some areas of Asia Pacific, premiums decreased by 2 percent on a local currency basis due to the impact of underwriting actions in Australia. Overall, International Markets achieved average rate increases of 4 percent, mainly in Latin America.

The **net underwriting result** deteriorated by USD 18 million, reflected in the 1 percentage points deterioration in the combined ratio to 101 percent. The loss ratio improved by 1.4 percentage points, mainly as a result of an improvement in the underlying loss ratio. This positive effect was partly offset by adverse catastrophe and weather-related losses, mainly due to storms in Australia. The expense ratio deteriorated by 2.4 percentage points due to an increase in commissions and higher expenses including costs related to the implementation of new distribution agreements in Brazil.

Global Life

in USD millions, for the six months ended June 30	2015	2014	Change
Insurance deposits	7,946	7,082	12%
Gross written premiums and policy fees	6,887	7,139	(4%)
Net investment income on Group investments	1,690	1,981	(15%)
Insurance benefits and losses, net of reinsurance	(3,191)	(5,069)	37%
Business operating profit	**673**	**634**	**6%**
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[1]	216,549	221,926	(2%)
Assets under management[1, 2]	263,133	265,507	(1%)
Net policyholder flows[3]	3,410	889	nm

1 As of June 30, 2015 and December 31, 2014, 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

in USD millions, for the six months ended June 30	2015	2014	Change
New business annual premium equivalent (APE)[1]	**2,443**	**2,373**	**3%**
New business margin, after tax[2]	**18.9%**	**23.2%**	**-4.3 pts**
New business value, after tax[3, 4]	**411**	**487**	**(15%)**

1 APE is shown gross of non-controlling interests.
2 New business margin is calculated using new business value as a percentage of APE based on figures net of non-controlling interests for both metrics.
3 New business value is calculated on embedded value principles after the effect of non-controlling interests.
4 As of January 1, 2015 a change in new business value methodology was implemented relating to the calculation of the cost of residual non-hedgeable risk, which no longer includes diversification benefits between covered and non-covered business in accordance with Market Consistent Embedded Value Principles. New business value figures for 2014 have been restated.

Source of earnings[1]

in USD millions, for the six months ended June 30	2015	2014	Change
Loadings and fees	1,964	2,082	(6%)
Investment margin	226	296	(24%)
Technical margin	664	541	23%
Operating and funding costs	(857)	(877)	2%
Acquisition costs	(1,506)	(1,572)	4%
Impact of deferrals	182	163	12%
Business operating profit	**673**	**634**	**6%**

1 Each line represents Zurich's interest after deducting non-controlling interests, amounting in total to USD 124 million (in 2014 USD 111 million) in business operating profit.

Operating and financial review *continued*

Business operating profit increased by USD 39 million to USD 673 million, or 6 percent in U.S. dollar terms, and 21 percent on a local currency basis. The weakening of Latin American and European currencies against the U.S. dollar compared with the same period of 2014 had a significant impact on the reported results with only North America and Other reporting an improvement in U.S. dollar terms. However, on a local currency basis, business operating profit improved in all regions, with the largest increases occurring in North America and EMEA. EMEA benefited from improvements in both loadings and fees and the technical margin, offset by a lower investment margin. The same period of 2014 included non-recurring adverse effects from a law change in Germany and from the transfer of an annuity portfolio from North America to Non-Core Businesses, as well as impairments of software intangible assets.

Ongoing focus on fee-based and protection business has resulted in underlying improvements in loadings and fees and the technical margin, offset by a reduced contribution from the investment margin.

Loadings and fees decreased by USD 118 million, or by 6 percent in U.S dollar terms, but increased by 8 percent on a local currency basis. The increase in local currency terms was driven by higher volumes in Zurich Santander and higher fees in EMEA, half of which were from the increase in unit-linked assets under management.

The technical margin improved by USD 122 million, or by 23 percent in U.S dollar terms and by 36 percent on a local currency basis. These improvements arose mainly in EMEA, driven by favorable claims experience as well as by positive impacts associated with management actions to drive value from in-force business, including amortization of the gain on the transfer of risk in a legacy in-force annuity portfolio in the UK through reinsurance. In North America, the improvement in technical margin largely resulted from the effect of non-recurring costs incurred in the same period of 2014 relating to the transfer of an annuity portfolio to Non-Core Businesses.

The improvements in loadings and fees and in the technical margin in local currency terms were partly offset by a decrease in the investment margin. The latter decreased by USD 70 million, or 24 percent in U.S. dollar terms, and 11 percent on a local currency basis, due to the impact of persistently low yields primarily in EMEA, with a partial offset from increased investment yields in Latin America.

Operating and funding costs decreased by USD 20 million, or by 2 percent in U.S dollar terms, but increased by 10 percent on a local currency basis. The increase on a local currency basis was primarily driven by the effect of positive non-recurring items included in the same period of 2014, including the favorable impact from policyholders' tax expense and a reduction in pension liabilities, partly offset by the impairment of software assets. Acquisition costs decreased by USD 65 million, or by 4 percent in U.S dollar terms, but increased by 10 percent on a local currency basis. The increase on a local currency basis reflected higher volumes of business in EMEA, Asia Pacific and Zurich Santander, partly offset by decreasing volumes in the Independent Financial Adviser (IFA) business in North America. The impact of deferrals improved by USD 19 million, or 12 percent in U.S. dollar terms, and 28 percent on a local currency basis. The movement on a local currency basis substantially reflected the same drivers as acquisition costs.

Insurance deposits increased by USD 864 million to USD 7.9 billion, or 12 percent in U.S. dollar terms, and 31 percent on a local currency basis. Europe experienced strong growth predominantly driven by higher sales of Corporate Life and Pensions products in the UK and sales of individual saving products in both Italy and Germany.

Gross written premiums and policy fees decreased by USD 252 million to USD 6.9 billion, or 4 percent in U.S. dollar terms, but increased 12 percent on a local currency basis. The increase on a local currency basis was predominantly driven by increased sales in Zurich Santander and in individual savings products in Spain, partly offset by a reduction related to the non-renewal of a large corporate contract in Chile.

Net reserves decreased by 2 percent in U.S. dollar terms, but increased by 1 percent on a local currency basis compared with December 31, 2014, primarily reflecting favorable market movements on the underlying assets and positive net policyholder flows. **Assets under management** decreased by 1 percent in U.S. dollar terms, but increased by 2 percent on a local currency basis compared with December 31, 2014 driven by favorable market movements and positive net policyholder flows. **Net policyholder flows** were positive at USD 3.4 billion, with EMEA, Asia Pacific and Other all experiencing improved net inflows. This compared with a lower net inflow of USD 889 million in the same period of 2014, which was mainly due to the discontinuation of certain private banking products in the UK and investment products in Australia.

NBV, APE, NBM and BOP by region

in USD millions, for the six months ended June 30	New business value, after tax (NBV)[1, 2]		New business annual premium equivalent (APE)[3]		New business margin, after tax (as % of APE) (NBM)[4]		Business operating profit (BOP)	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
North America	43	57	88	104	48.5%	54.7%	100	37
Latin America	69	83	505	613	22.7%	20.9%	111	128
of which:								
Zurich Santander	*56*	*55*	*399*	*434*	*27.6%*	*24.9%*	*101*	*93*
Europe, Middle East & Africa	234	276	1,744	1,563	14.0%	18.4%	443	476
United Kingdom	*97*	*83*	*710*	*578*	*13.7%*	*14.5%*	*84*	*110*
Germany	*(7)*	*22*	*177*	*166*	*(4.0%)*	*13.3%*	*105*	*106*
Switzerland	*40*	*41*	*194*	*157*	*20.7%*	*25.8%*	*108*	*139*
Ireland	*29*	*32*	*210*	*236*	*13.8%*	*13.5%*	*37*	*35*
Spain	*48*	*44*	*152*	*132*	*57.9%*	*59.6%*	*27*	*22*
Italy	*(7)*	*12*	*122*	*84*	*(5.4%)*	*14.2%*	*19*	*23*
Zurich International Life	*32*	*39*	*165*	*179*	*19.3%*	*21.5%*	*36*	*24*
Rest of Europe, Middle East & Africa	*2*	*4*	*15*	*31*	*15.1%*	*14.1%*	*28*	*18*
Asia Pacific	40	36	73	62	56.0%	58.7%	29	29
Other	25	35	34	31	74.2%	113.2%	(10)	(37)
Total	**411**	**487**	**2,443**	**2,373**	**18.9%**	**23.2%**	**673**	**634**

NBV, APE and NBM by pillar

in USD millions, for the six months ended June 30	New business value, after tax (NBV)[1, 2]		New business annual premium equivalent (APE)[3]		New business margin, after tax (as % of APE) (NBM)[4]	
	2015	2014	**2015**	2014	**2015**	2014
Bank Distribution	119	142	793	825	22.7%	25.9%
Other Retail	138	189	750	731	18.5%	25.9%
Corporate Life and Pensions	154	156	900	817	17.1%	19.1%
Total	**411**	**487**	**2,443**	**2,373**	**18.9%**	**23.2%**

[1] New business value is calculated on embedded value principles after the effect of non-controlling interests.
[2] As of January 1, 2015 a change in new business value methodology was implemented relating to the calculation of the cost of residual non-hedgeable risk, which no longer includes diversification benefits between covered and non-covered business in accordance with Market Consistent Embedded Value Principles. New business value figures for 2014 have been restated.
[3] APE is shown gross of non-controlling interests.
[4] New business margin is calculated using new business value as a percentage of APE based on figures net of non-controlling interests for both metrics.

Global Life continued to benefit from its acquisitions and investments 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 75 million to USD 411 million, or by 15 percent in U.S. dollar terms, and 5 percent on a local currency basis. The decrease was primarily driven by the impact of low interest rates in continental Europe, particularly in Germany and Italy. This decrease was partly offset by increases in the UK, driven by higher sales of corporate business, and in Asia Pacific, driven by higher sales in Japan.

APE increased by USD 71 million to USD 2.4 billion, or 3 percent in U.S. dollar terms, and 19 percent on a local currency basis. The increase on a local currency basis was mainly driven by EMEA, which experienced increased sales of corporate business primarily in the UK and of single premium individual savings business in Spain and Italy. These increases were partly offset by decreased sales in North America.

Operating and financial review *continued*

New business margin decreased by 4.3 percentage points to 18.9 percent, with decreases occurring in North America, EMEA and Other. In North America, new business margin was primarily impacted by persistency related assumption changes and modelling changes. In addition, the continued reduction in interest rates negatively affected new business margin in continental European countries. In Other, the decrease arose from changes in product mix in corporate business.

On a **geographical basis**, the new business results were as follows:

In North America, the rapid increase in sales through IFA and Brokers seen in the same period of 2014 was not sustained and resulted in an overall decrease in APE of 15 percent and NBV of 25 percent. NBV was also affected by the persistency related assumption changes and modelling changes. Overall, this resulted in a lower, but still strong, NBM of 48.5 percent.

In Latin America, APE decreased by 18 percent in U.S. dollar terms, but increased by 2 percent on a local currency basis. The increase on a local currency basis mainly arose from increased sales in Zurich Santander. This was partly offset by decreased sales in the rest of the region, primarily in Chile, Brazil and Mexico, which also resulted in a reduced NBV on a local currency basis.

In EMEA, the increase in APE in the UK was driven by higher volumes of corporate business, which was also the largest driver of the overall APE increase in the region. APE also increased in Spain and Italy as a result of increased sales of single premium individual savings products, and in Switzerland, driven by higher sales of corporate products. The overall decrease of USD 42 million in NBV was primarily driven by Germany and Italy, which were particularly affected by the impact of lower interest rate assumptions, partly offset by the impact of increased sales in the UK and Spain.

In Asia Pacific, the increase in APE was primarily driven by increased volumes in Japan, which also drove an increase in NBV. These positive effects were both partly offset in Australia, where volumes reduced following the closure of new sales of corporate protection business.

In Other, the decrease in NBV was driven by changes in product mix in corporate business reducing the NBM despite an increase in sales.

On a **pillar basis**, the new business results were as follows:

In Bank Distribution, NBV decreased by USD 23 million to USD 119 million, or 16 percent in U.S. dollar terms, but increased 3 percent on a local currency basis. The increase on a local currency basis resulted from higher volumes in Zurich Santander and Spain, offset by a decrease in Germany, due to business mix and the impact of lower interest rates.

In Other Retail, NBV decreased by USD 51 million to USD 138 million, or 27 percent in U.S. dollar terms, and 20 percent on a local currency basis. The decrease arose mainly in North America and Latin America, impacted by lower volumes, and in EMEA, which experienced lower margins.

In Corporate Life and Pensions, NBV decreased by USD 2 million to USD 154 million, or 1 percent in U.S. dollar terms, but increased 8 percent on a local currency basis, benefiting from higher volumes in EMEA, primarily in the UK, partly offset by the effects of changes in product mix.

Farmers

Farmers business operating profit decreased by USD 36 million to USD 719 million. This was due to a USD 44 million reduction in Farmers Management Services business operating profit partly offset by an improvement in Farmers Re.

The Farmers Exchanges 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 Management Services

in USD millions, for the six months ended June 30	**2015**	2014	Change
Management fees and other related revenues	1,380	1,391	(1%)
Management and other related expenses	(727)	(717)	(1%)
Gross management result	654	674	(3%)
Other net income	5	28	(82%)
Business operating profit	**658**	**702**	**(6%)**
Managed gross earned premium margin	7.0%	7.3%	(0.3 pts)

Business operating profit decreased by USD 44 million to USD 658 million due to reduced management fees and other related revenues and an increase in management and other related expenses, as well as a significant reduction in other net income.

Management fees and other related revenues of USD 1.4 billion decreased by USD 11 million, or by 1 percent, due to a reduction in the average management fee rate, offset in part by increased revenues due to the growth in gross earned premiums of the Farmers Exchanges. **Management and other related expenses** of USD 727 million increased by USD 10 million, or by 1 percent. **Other net income** of USD 5 million decreased by USD 23 million primarily due to losses recognized in 2015 from a mark-to-market valuation of securities backing certain employee benefit liabilities that generated gains in 2014, as well as a non-recurring gain in 2014 due to the sale of a property.

The **managed gross earned premium margin** decreased to 7.0 percent compared with 7.3 percent for the same period of 2014.

Operating and financial review *continued*

Farmers Re

in USD millions, for the six months ended June 30	2015	2014	Change
Gross written premiums and policy fees	1,126	1,960	(43%)
Net underwriting result	16	(11)	nm
Business operating profit	**61**	**53**	**14%**
Loss ratio	67.7%	69.2%	1.6 pts
Expense ratio	30.9%	31.3%	0.4 pts
Combined ratio	**98.6%**	**100.6%**	**2.0 pts**

Business operating profit increased by USD 7 million to USD 61 million. The profit was negatively impacted by lower participation in the reinsurance agreements with the Farmers Exchanges, reducing both business volumes and investment income. However, despite the lower participation, the underwriting result improved, but this was further offset by the impact of lower interest rates on investment income.

Gross written premiums and policy fees decreased by USD 834 million, or by 43 percent, to USD 1.1 billion as a result of lower participation in the reinsurance agreements with the Farmers Exchanges. Participation in the All Lines quota share reinsurance agreement was reduced from 18 percent to 10 percent effective December 31, 2014. Participation in the Auto Physical Damage quota share reinsurance agreement (APD) was reduced from USD 900 million of ceded premiums in 2014 to USD 500 million in 2015.

The **net underwriting result** improved by USD 27 million to USD 16 million as a result of lower catastrophe losses assumed from the Farmers Exchanges, reflected in the 1.6 percentage points reduction in the **loss ratio**. The **expense ratio**, based on ceded reinsurance commission rates payable to the Farmers Exchanges, was slightly lower due primarily to a change in the APD ceding commission rate.

Farmers Exchanges

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	2015	2014	Change
Gross written premiums	9,527	9,335	2%
Gross earned premiums	9,338	9,216	1%

Gross written premiums in the Farmers Exchanges increased by USD 192 million to USD 9.5 billion, or by 2 percent. Growth in most books of business was partly offset by decreases in businesses managed for value, Direct Auto and Business Insurance sold through independent agents.

Gross earned premiums in the Farmers Exchanges increased by USD 122 million to USD 9.3 billion, or by 1 percent, reflecting the return to growth in gross written premiums achieved in 2014.

Other Operating Businesses

in USD millions, for the six months ended June 30	2015	2014	Change
Business operating profit:			
Holding and Financing	(216)	(358)	40%
Headquarters	(114)	(93)	(22%)
Total business operating profit	**(330)**	**(452)**	**27%**

Holding and Financing business operating loss decreased by USD 142 million to USD 216 million, primarily driven by lower interest expense on debt refinanced in 2014 and 2015 and favorable foreign exchange impacts partly as a result of the Swiss National Bank action in January 2015 to discontinue the link of the Swiss franc to the euro.

Headquarters reported a business operating loss of USD 114 million compared with a loss of USD 93 million in the same period of 2014. The result included several non-recurring items in both 2015 and 2014.

Non-Core Businesses

in USD millions, for the six months ended June 30	2015	2014	Change
Business operating profit:			
Centrally managed businesses	1	(26)	nm
Other run-off	9	28	(69%)
Total business operating profit	**10**	**2**	**nm**

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 1 million. The result is primarily driven by changes to reserves in the run-off portfolios. The improvement of USD 27 million arose primarily from the impact from the strengthening of reserves in 2014 in the UK asbestos business, not repeated in 2015.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 9 million, a reduction of USD 19 million. This arose primarily from the effect of lower decreases in loss reserves held for future liabilities established in prior years, linked to movements in investment markets.

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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.

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