Global Life

Source of earnings – Briefing document
Half year results 2015

Background

ZURICH

SOURCE OF EARNINGS

What is the purpose of source of earnings?

- Sources of Earnings (SoE) reporting presents the key drivers of life IFRS results in more detail than the traditional insurance profit and loss account. This information is a shareholder view of earnings, generally excluding the components that are attributable to policyholders.

Why have you taken a regional rather than product split approach, as with some peers?

- The regional view aligns with how we manage our business and SoE illustrates the regional variations in terms of underlying margin generation, growth investment and level of maturity. Our reporting systems do not provide margins by product type, however, along with the KPIs and new business analysis, we can see the variations in product focus across regions.

How are the KPIs calculated?

- The KPIs help to understand the progression of the results by comparing margins against key drivers. To aid comparability we show all margins (and denominators) net of non-controlling interests for our major bank distribution agreements. Alongside longer term KPI trends that will become visible over time there are also variations from one reporting period to the next from non-recurring items. "Adjusted KPIs" show the KPI after adjustment for the most material items.

Why have some of the figures changed vs. Half Year 2014 source of earnings?

- There have been no significant changes to approach, however we continue to refine the reporting structure and adjust historical figures to help understand progression of margins which led to an adjustment increasing the H2 2014 technical margin by USD 16m and decreasing Premium & Other loadings by the same amount.

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Margin overview

Key components

REVENUES	COMPONENTS	DESCRIPTION
Loadings & Fees	Unit linked (UL) fund based fees net of investment expense Premium based and other fees Continental European business expense fees Risk expense loadings	• For UL contracts, fund based fees are one of the main sources of income and we show these separately within Fees and Loadings. Investment management charges are set off against the gross fees to show the net return. Fees derived from UL off-balance sheet business are also included here. • Premium based and other UL charges which cover expenses are included in this category together with lapse charges on unit linked contracts. • Traditional continental European contracts have an explicit expense premium which can be subject to policyholder participation when aggregate expense premiums exceed expenses. These expense premiums are included here, net of any direct policyholder participation in the margin. • The expense loading in protection contract premiums is reflected in Fees and Loadings. Any charges related to risk cover on unit linked contracts are included within the Technical Margin.
Investment margin	Policyholder spread return Return on shareholder free surplus Continental European business discretionary allocation	• ~80% of the total is driven by investment income on group investments net of policyholder participation ("spread return"). Policyholder participation includes guaranteed dividends, declared dividends and other crediting of interest to reserves, minimum participation required by law, changes to terminal bonus reserve and discretionary dividends funded from shareholder margin. • Return on shareholder free surplus represents investment income, and excludes capital gains or losses, in line with the Group BOP policy. • Investment management expenses are also included within the investment margin.
Technical margin	Risk result (UL& non UL) Lapse result	• The technical margin reflects the net margin on life insurance contracts, for example protection and annuity products, and includes the lapse result on insurance contracts. • Charges on UL contracts where related to risk cover are included as well as premiums charged to cover risk on protection contracts. • The margin is shown net of claims experience.

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Margin overview

Key components

EXPENSES	COMPONENTS	DESCRIPTION
Operating costs	Overheads & Admin Depreciation of property & equipment Amortization of software Unallocated policyholder Tax	• These are the regular expenses of the business including depreciation and amortization of software and intangibles. It excludes acquisition costs and expenses directly related to income (e.g. investment expenses). • Policyholder tax is generally allocated against the income item it relates to within the relevant revenue margin. Any unallocated policyholder tax is reflected in operating costs, but is typically small.
Acquisition costs	Initial & renewal commission Fund based commission Other acquisition costs Business combination costs	Acquisition costs include three main elements: • Commissions (~75% of the total) – initial, renewal and fund based. • Other acquisition costs (~15% of the total) – the part of administration expenses related to acquiring business. • Business combination costs (~10% of the total) – Amortization of Value of Business Acquired (VOBA) and Distribution Agreements plus BOP impacts from earn-outs (liability interest unwind & fair value adjustments) and purchase price adjustments.
Deferral impacts	Deferred Acquisition & Origination Cost impacts (DAC/DOC) Deferred Front End & Origination Fee impacts (DFEF/DOF)	• Deferral impacts from both fees and commissions are dealt with in this section. This includes initial deferral, regular amortization, impairment if relevant and changes to intangible balances resulting from changes to estimates and assumptions (for example lapse rate changes or market movements impacting future fee income levels).

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Key performance indicators

How to interpret and use the KPIs (1/2)

Adjusted KPIs	H1 2014	H2 2014	H1 2015	DESCRIPTION
UL fund based fees / **Av. UL AUM**	0.7%	0.7%	0.6%	**Interpretation** • This KPI is based on fund based fees generated from both on and off-balance sheet unit linked funds, and compared against a simple average of the start of period/end of period unit linked fund values. The KPI illustrates the average fee on unit linked funds allowing comparability between regions and also trending over time. **Development** • Two factors we note are a long term trend towards lower fund based fees as a proportion of unit linked funds under management, and that fees earned on high volume pension business, particularly in the UK, are considerably lower than those earned on retail business. **Sensitivities** • To business mix changes (e.g. corporate pension vs. retail).
Other loadings / **GWP & Deposits**	13%	11%	12%	**Interpretation** • This KPI highlights the proportion of the premium or deposit charged to cover expenses (note that a proportion of unit linked fund based fees is also intended to cover expenses). In regions like North America or Latin America, where protection sales dominate new business sales, they tend to have higher expense loadings in the product structure to cover the higher acquisition costs. In contrast, a region like Europe, where there is a larger in-force business and a proportionally higher weighting of business that attracts less commission, there would typically be a lower ratio. **Development** • Should be relatively stable over time depending on the developments of the sensitivities below. **Sensitivities** • Mainly to acquisition costs, particularly commission fee structures, either due to distribution channel or to regulatory change. Significant variations in deposits, particularly large corporate pensions contracts, can cause variability.

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Key performance indicators

How to interpret and use the KPIs (2/2)

Adjusted KPIs	H1 2014	H2 2014	H1 2015	DESCRIPTION
Investment Margin / **Av. NL reserves**	0.8%	0.7%	0.7%	**Interpretation** • The investment margin mostly comprises spread return on assets backing non unit-linked-policyholder reserves. The discretionary policyholder allocation in Germany is excluded from the KPI to allow better comparability. **Development** • Spread compression between asset returns and allocations to policyholders in Europe and North America has been negatively impacting the investment margin over the last few years. **Sensitivities** • Mainly to asset returns vs. guarantee levels.
Operating costs / **Total reserves**	0.8%	0.9%	0.8%	**Interpretation** • Useful for assessing historic trends within a region rather than comparability between regions due to varying product mix driving different levels of reserves. **Development** • Regions with a high savings element in reserves will have a lower KPI, whilst regions which are biased towards protection contracts (with relatively lower reserves) will have a higher KPI. Start-up operations will have higher costs compared with mature operations. **Sensitivities** • Product mix, absolute operating costs and the maturity of the business.
Acquisition costs / **APE**	76%	68%	69%	**Interpretation** • Acquisition costs as a % of APE is a measure of the cost to acquire business. **Development** • The overall ratio has been reducing on a year to date basis compared to H1 2014, primarily driven by Europe and Latin America. This is mainly following the strong growth in CLP, which typically has lower acquisition costs and higher APE than products such as retail protection. **Sensitivities** • Mainly to business mix changes & related acquisition costs.

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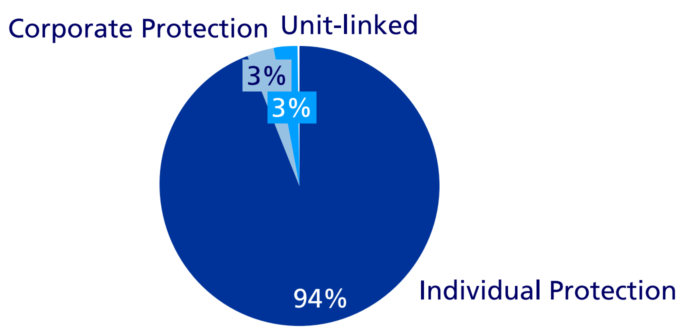
Analysis by region

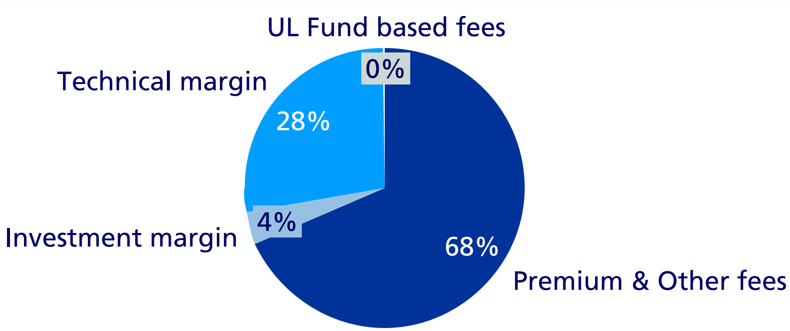
North America

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	H1-14	H1-15	As a % of
UL fund based fees	0.2%	0.1%	Average UL AuM
Other loadings	24%	28%	GWP & Deposits
Investment margin	0.7%	0.4%	Average NL reserves
Operating costs	2.4%	1.9%	Average reserves
Acquisition costs	192%	181%	APE

- The Farmers New World Life (FNWL) business serving Farmers Agents is very mature and writes primarily protection products – simple protection and universal life where there is a savings component that funds risk and expense charges. This is split between premium & other fees and the technical margin.
- Along side FNWL we have a fast growing IFA business and are also developing our proposition in the Corporate market. As with FNWL, protection products are the main source of new business, although there are also small volumes of unit-linked business.

In the context of KPIs :

- UL fund based fees – small ratio as main source of earnings from protection components.
- Other loadings – as is typical of US protection products, universal life fees are based on deposit account balances rather than premium and therefore the ratio is not directly comparable with other regions such as Europe where fees are more premium based.
- Investment margin – mainly reflecting returns on shareholder surplus, with yield compression evident in the year on year comparison.
- Operating costs – KPI improvement from lower operating costs/higher reserves
- Acquisition costs – high ratio versus APE due to commission strain.

Note: HY-15 figures used in the new business value and sources of earnings charts.

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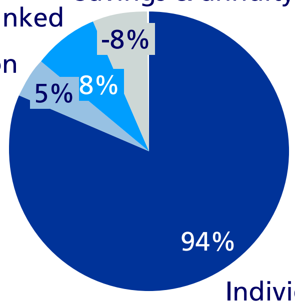
Analysis by region

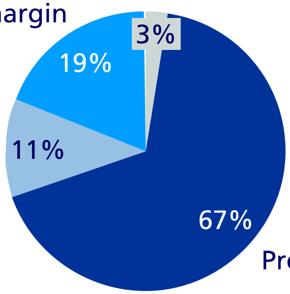
Latin America

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	H1-14	H1-15	As a % of
UL fund based fees	0.6%	0.5%	Average UL AuM
Other loadings	26%	30%	GWP & Deposits
Investment margin	3.3%	3.4%	Average NL reserves
Operating costs	2.5%	2.4%	Average reserves
Acquisition costs	89%	104%	APE

- Zurich Santander is a fast growing but established business writing primarily protection products with some unit linked business in Brazil. Our other operations in Latin America are at different stages of development and also focus mainly on protection business (including Corporate/Affinity schemes) and to a lesser extent unit linked business.

In the context of KPIs :

- UL fund based fees – significantly lower fees on UL business in Zurich Santander vs. Zurich existing operations reduces the ratio below average.
- Other loadings – high ratio due to expense loading covering mainly acquisition costs with the increase impacted by business mix.
- Investment margin – higher yields in LatAm and some FX hedging gains lead to highest KPI versus other regions.
- Operating costs – relatively high costs for the developing Latin American operations.
- Acquisition costs – higher commission rates from the strong focus on protection lead to a relatively high ratio. The inclusion of business combination costs for Zurich Santander also creates some volatility and contributed to the increase in this half year.

Note: HY-15 figures used in the new business value and sources of earnings charts.

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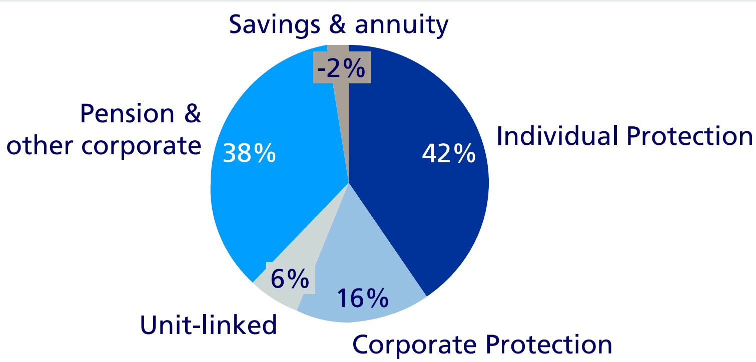
Analysis by region

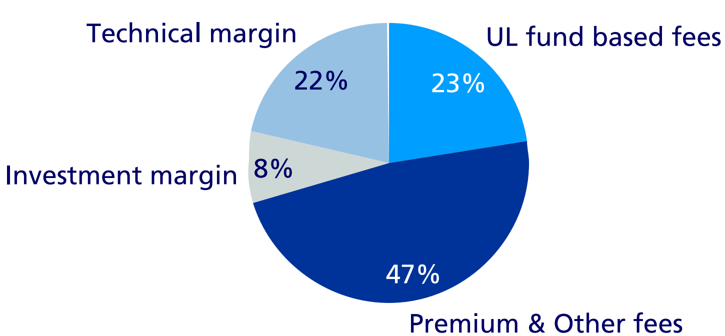
EMEA

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	H1-14	H1-15	As a % of
UL fund based fees	0.7%	0.6%	Average UL AuM
Other loadings	8%	7%	GWP & Deposits
Investment margin	0.6%	0.6%	Average NL reserves
Operating costs	0.5%	0.6%	Average reserves
Acquisition costs	55%	47%	APE

- BOP generation is dominated by the three largest in-force balance sheets in UK, Switzerland and Germany generating approximately two thirds of the total. The UK has significant UL AuM and is growing fast in CLP (protection & pension). It also sells retail protection and UL new business through IFA/Brokers. Germany and Switzerland have a large in-force traditional product base, whereas new business is focused on UL components for savings. Zurich International Life and Ireland focus on UL and protection contracts while Spain writes protection business with some volume increases from individual savings contracts.

In the context of KPIs :

- UL fund based fees – stable over the short term, but expected to reduce over the long term due to increased Corporate weighting and pressure on retail margins.
- Other loadings – dominated by expense loading on cont. European business.
- Investment margin – large traditional books with high policyholder participation lead to lower than average KPI s compared with other regions. Yields reducing.
- Operating costs – high level of both traditional and unit-linked savings reserves lead to the lowest level of this KPI compared with other regions. 2014 included favorable expense impacts including IAS 19 which influenced the KPI
- Acquisition costs – influenced by UK market where commissions are not paid on retail and corporate savings, reducing the average for this KPI.

Note: HY-15 figures used in the new business value and sources of earnings charts.

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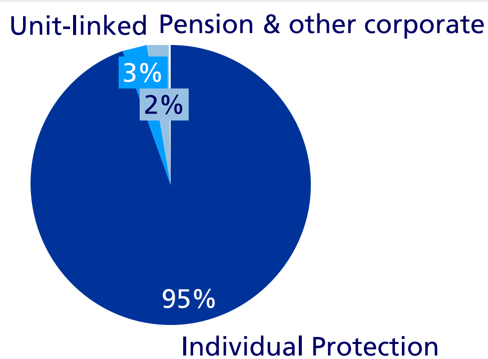
Analysis by region

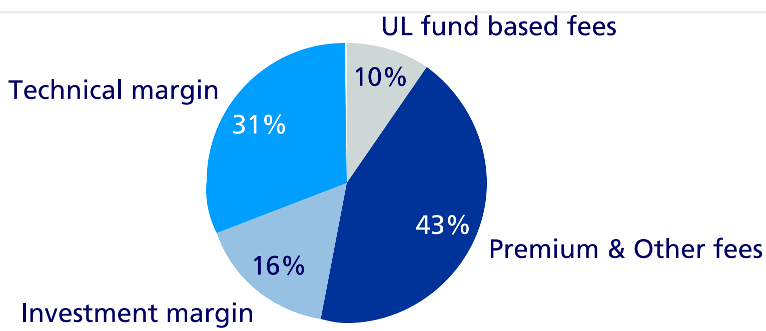
APAC

NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



ADJUSTED KPIs & OVERVIEW

KPIs	H1-14	H1-15	As a % of
UL fund based fees	1.8%	1.7%	Average UL AuM
Other loadings	17%	18%	GWP & Deposits
Investment margin	2.0%	1.8%	Average NL reserves
Operating costs	3.1%	3.4%	Average reserves
Acquisition costs	145%	152%	APE

- The largest Life business unit in this region is the domestic Australian business unit with new business being primarily protection. HK is closed to new business but is generating a healthy BOP result from the in-force book. Sales growth is being driven by Japan writing protection products and there are also smaller developing operations in Asia.

In the context of KPIs :

- UL fund based fees – slightly higher margins generated in APME markets.
- Other loadings – lower premium based fees reduce the KPI when compared with other regions.
- Investment margin – comparatively high compared with the average, reflecting higher yield environment in certain APME countries.
- Operating costs – start-up operations lead to a higher than average KPI due to scale and investing in building the business. The KPI increased following high growth in Japan which led to an increase in Operating costs, offset in BOP by increases in Other loadings and the Technical margin
- Acquisition costs – relatively high commissions payable on average and growth in Japan has led to an increase in the KPI.

Note: HY-15 figures used in the new business value and sources of earnings charts.

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Analysis by region

Other

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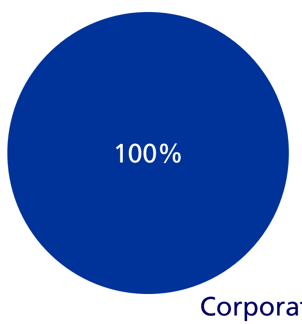
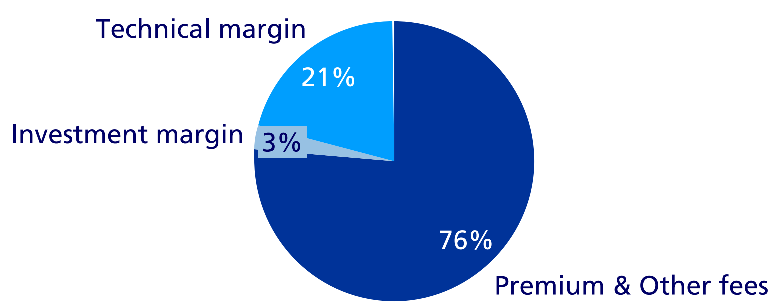
NEW BUSINESS SALES & EARNINGS

New business value product split



Source of earnings by revenue margin



OVERVIEW

Other region mirrors the segmental reporting in the Group Annual Report. Global Life manages its business through four main regions and the residual "Other" region includes business units that do not fall within the management responsibility of those regions. The four main units contributing to the Other result are:

- International Group Risk Solutions which writes high margin group risk protection and pooling business.
- The expense result from the Global Life Central team which is net of recharges out to the Global Life business units. The core expenses are relatively stable, however there can be more variation in the level and timing of recharges, which net out in total across all regions, but can create volatility in Other region. 2014 included additional costs related to development of the in-force strategy, corporate business expansion and a write-off of software intangibles.
- A distribution company in the UK where commission received from non Zurich Insurance Group manufacturers is included in Premium & Other fees.

Due to the very different natures of the businesses included in Other region the KPIs are not meaningful and are therefore not presented.

Note: HY-15 figures used in the new business value and sources of earnings charts.

Appendix

Key performance indicators

Key financial data used in the calculations (net of minorities)

USDm

Total Global Life	H1-14	H2-14	H1-15
Average total unit-linked AuM	128'596	129'261	127'843
Average total reserves	220'773	218'995	210'797
Average non-linked reserves	102'056	99'939	93'264
GWP & Deposits	13'130	16'007	13'485
APE	2'096	2'536	2'173

North America	H1-14	H2-14	H1-15
Average total unit-linked AuM	782	928	1'077
Average total reserves	6'492	6'520	6'749
Average non-linked reserves	5'710	5'592	5'673
GWP & Deposits	743	727	689
APE	104	104	88

Latin America	H1-14	H2-14	H1-15
Average total unit-linked AuM	5'651	5'789	5'453
Average total reserves	9'941	9'891	9'083
Average non-linked reserves	4'287	4'099	3'625
GWP & Deposits	1'543	1'508	1'189
APE	396	342	305

USDm

EMEA	H1-14	H2-14	H1-15
Average total unit-linked AuM	120'040	120'534	119'477
Average total reserves	198'738	197'155	189'875
Average non-linked reserves	88'605	86'844	80'724
GWP & Deposits	10'275	13'271	11'048
APE	1'504	1'999	1'675

APAC	H1-14	H2-14	H1-15
Average total unit-linked AuM	2'123	2'010	1'836
Average total reserves	5'256	5'068	4'728
Average non-linked reserves	3'108	3'043	2'882
GWP & Deposits	445	424	397
APE	61	64	72

Other	H1-14	H2-14	H1-15
Average total unit-linked AuM	0	0	0
Average total reserves	346	361	361
Average non-linked reserves	346	361	361
GWP & Deposits	195	88	220
APE	0	0	0

Note: All figures above have been adjusted to remove the effective minority interests in the total for Zurich Santander and Banco Sabadell.

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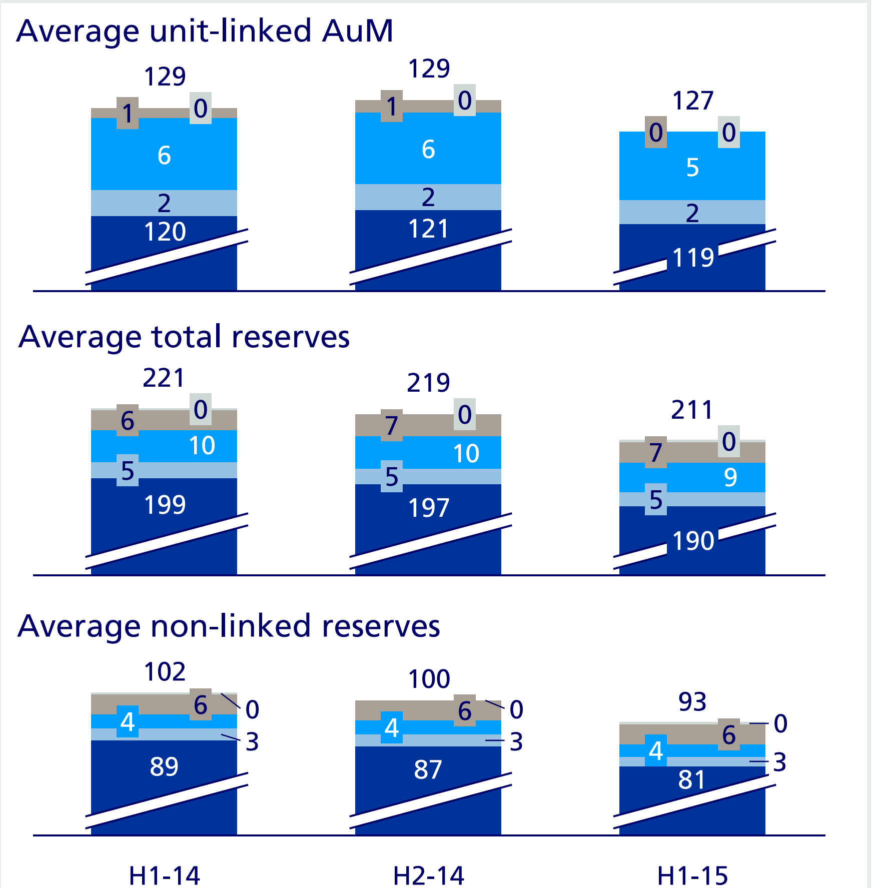
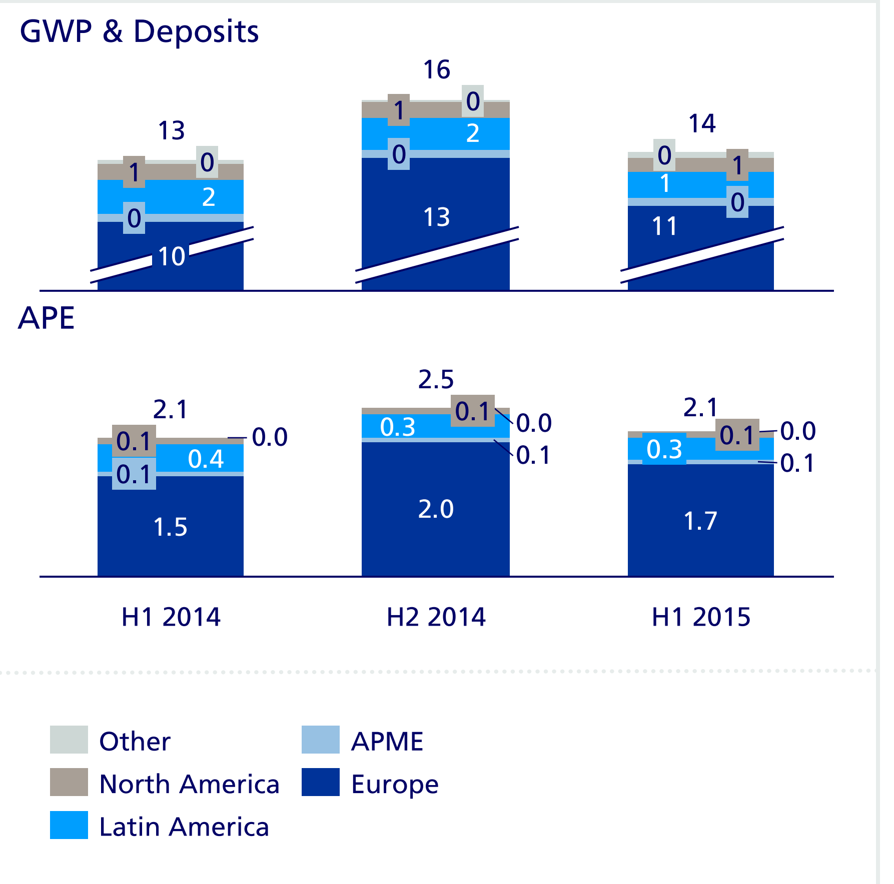
Key performance indicators

Key financial data used in the calculations (net of minorities)

USDbn



USDbn



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Historical margins & KPIs

Highlighting distorting impacts

MARGIN HISTORY (USDm)

Business Operating Profit	H1-14	H2-14	H1-15
UL fund based fees	438	449	406
Premium & Other loadings	1'644	1'805	1'558
Investment margin	296	245	226
Technical margin	541	618	664
Operating costs	-877	-1'024	-857
Acquisition costs	-1'572	-1'737	-1'506
Impact of deferrals	163	284	182
Total BOP	634	639	673

IMPACTS (USDm)

H1-14[1]	H2-14	H1-15[2]
0	0	0
0	0	0
1	0	-10
-84	0	33
36	0	0
32	0	0
-4	0	0
-19	0	24

ADJ. MARGIN (USDm)

H1-14	H2-14	H1-15
438	449	406
1'644	1'805	1'558
295	245	236
625	618	631
-913	-1'024	-857
-1'603	-1'737	-1'506
166	284	182
653	639	650

KPIs	H1-14	H2-14	H1-15
UL fund based fees	0.7%	0.7%	0.6%
Other loadings	13%	11%	12%
Investment margin[3]	0.8%	0.7%	0.7%
Operating costs	0.8%	0.9%	0.8%
Acquisition costs	75%	68%	69%

H1-14	H2-14	H1-15
0.7%	0.7%	0.6%
13%	11%	12%
0.8%	0.7%	0.7%
0.8%	0.9%	0.8%
76%	68%	69%

1 H1 2014 – Technical margin includes impacts from a transfer of annuity portfolio to Non-Core Business segment & a German law change ("LVRG"). Operating costs includes a positive policyholder tax item in the UK and an IAS 19 pension charge benefit in Switzerland, partly offset by software impairments in North America & Other Region. Actuarial model changes in Germany positively impacted acquisition costs and technical margin.

2 H1 2015 – Investment margin includes impacts stemming from the SNB actions related to the Swiss Franc. Technical margin includes distorting impacts related to prior years items arising in current year including settlement of reinsurance accounts.

3 Adjusted for the impact of Germany discretionary dividends.

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Total margins by region

As reported and adjusted for distorting impacts

USDm	As reported			Adjusted		
Total Global Life	H1-14	H1-15	Delta	H1-14	H1-15	Delta
UL fund based fees	438	406	-7%	438	406	-7%
Premium & Other loadings	1'644	1'558	-5%	1'644	1'558	-5%
Investment margin	296	226	-24%	295	236	-20%
Technical margin	541	664	23%	625	631	1%
Operating costs	-877	-857	2%	-913	-857	6%
Acquisition costs	-1'572	-1'506	4%	-1'603	-1'506	6%
Impact of deferrals	163	182	12%	166	182	9%
Total BOP	634	673	6%	653	650	0%
North America	H1-14	H1-15	Delta	H1-14	H1-15	Delta
UL fund based fees	1	1	15%	1	1	15%
Premium & Other loadings	181	195	7%	181	195	7%
Investment margin	20	11	-47%	20	11	-47%
Technical margin	14	80	481%	70	80	14%
Operating costs	-79	-66	17%	-69	-66	5%
Acquisition costs	-200	-159	20%	-200	-159	20%
Impact of deferrals	101	38	-62%	101	38	-62%
Total BOP	37	100	167%	104	100	-4%
Latin America	H1-14	H1-15	Delta	H1-14	H1-15	Delta
UL fund based fees	16	15	-4%	16	15	-4%
Premium & Other loadings	397	358	-10%	397	358	-10%
Investment margin	70	61	-13%	70	61	-13%
Technical margin	133	102	-23%	133	102	-23%
Operating costs	-127	-108	15%	-127	-108	15%
Acquisition costs	-351	-317	10%	-351	-317	10%
Impact of deferrals	-10	0	102%	-10	0	102%
Total BOP	128	111	-14%	128	111	-14%

USDm	As reported			Adjusted		
EMEA	H1-14	H1-15	Delta	H1-14	H1-15	Delta
UL fund based fees	403	375	-7%	403	375	-7%
Premium & Other loadings	873	782	-10%	873	782	-10%
Investment margin	172	124	-28%	170	133	-22%
Technical margin	308	390	26%	336	357	6%
Operating costs	-500	-529	-6%	-561	-529	6%
Acquisition costs	-823	-785	5%	-855	-785	8%
Impact of deferrals	45	87	93%	49	87	78%
Total BOP	476	443	-7%	415	419	1%
APAC	H1-14	H1-15	Delta	H1-14	H1-15	Delta
UL fund based fees	19	16	-17%	19	16	-17%
Premium & Other loadings	74	70	-5%	74	70	-5%
Investment margin	30	25	-16%	30	25	-16%
Technical margin	47	50	7%	47	50	7%
Operating costs	-81	-80	1%	-81	-80	1%
Acquisition costs	-88	-109	-24%	-88	-109	-24%
Impact of deferrals	28	57	107%	28	57	107%
Total BOP	29	29	2%	29	29	2%
Other	H1-14	H1-15	Delta	H1-14	H1-15	Delta
UL fund based fees	0	0	0%	0	0	0%
Premium & Other loadings	119	153	29%	119	153	29%
Investment margin	4	6	49%	4	6	49%
Technical margin	39	42	6%	39	42	6%
Operating costs	-89	-74	17%	-76	-74	2%
Acquisition costs	-109	-137	-25%	-109	-137	-25%
Impact of deferrals	0	0	0%	0	0	0%
Total BOP	-37	-10	73%	-23	-10	57%

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Movements from 2014 to 2015

Commentary on key variances

ADJUSTED MARGIN MOVEMENTS

Business Operating Profit [1]	H1-14	H1-15	Change
UL fund based fees	438	406	-7%
Premium & Other loadings	1'644	1'558	-5%
Investment margin	295	236	-20%
Technical margin	625	631	1%
Operating costs	-913	-857	6%
Acquisition costs	-1'603	-1'506	6%
Impact of deferrals	166	182	9%
Total BOP	653	650	0%

KPIs	H1-14	H1-15	Change [2]
UL fund based fees	0.7%	0.6%	-0.05
Other loadings	13%	12%	-0.97
Investment margin [3]	0.8%	0.7%	-0.03
Operating costs	0.8%	0.8%	-0.01
Acquisition costs	76%	69%	-7.19

1 BOP and margin values are as reported and exclude distorting impacts (see Slide 15, footnotes 1 & 2).

2 Change in percentage points.

3 Adjusted for the impact of Germany discretionary dividends.

COMMENTARY

UL fund based fees

- 7% growth in fund based fees in local currency driven by growth in UL AuM in EMEA, particularly in Ireland. KPI stable.

Premium & Other loadings

- Moderate growth in all regions. Increase in single premiums in EMEA reduces the overall KPI.

Investment margin

- 8% local currency drop driven by low interest rates in the US and Europe partly offset by improving margin in Latin America. The net reduction also impacts the KPI.

Technical margin

- 13% overall increase in local currency reflects strong development in all regions except Latin America which was impacted by the non-renewal of a material contract.

Operating costs

- Operating costs increased 6% in local currency over half of which related to positive items in the prior year including IAS 19 impacts.

Acquisition costs

- Acquisition costs increasing more slowly than APE reducing the KPI. This was due to increased volumes in the UK where a lower proportion of APE is subject to commission, partly offset by an increase in APAC driven by growth in Japan

Impact of deferrals

- Deferral impacts improved by 25% in local currency reflecting higher acquisition cost levels.

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