Zurich Insurance Group

Annual Report 2015

About Zurich

Zurich is a leading multi-line insurer that serves its customers in global and local markets. With about 55,000 employees, we provide a wide range of general insurance and life insurance products and services. We serve individuals, small businesses, and mid-sized and large companies, including multinational corporations, in more than 170 countries.

AA–/stable
Standard & Poor's financial strength rating on Zurich Insurance Company Ltd
(December 31, 2015)

55,000
Employees (approximately)[1]
(December 31, 2015)

170+
Countries
(December 31, 2015)

Our business segments

General Insurance

Business
Property and casualty insurance and services, risk insights

Market segments
Individual, SME, commercial and corporate customers

Distribution channels
Agents, banks, brokers, direct, other distribution agreements

Geography
Global

USD 864 m
Business operating profit

USD 34,020 m
Gross written premiums and policy fees

Global Life

Business
Protection, savings and investment solutions

Market segments
Individual, commercial and corporate customers

Distribution channels
Agents, banks, brokers and independent financial advisers, employee benefits consultants, direct

Geography
Global

USD 1,300 m
Business operating profit

USD 29,037 m
Gross written premiums, policy fees and insurance deposits

Farmers[2]

Business
Management services related to property and casualty insurance

Market segments of the Farmers Exchanges[3]
Individual and commercial customers

Distribution channels of the Farmers Exchanges[3]
Exclusive and independent agents, direct

Geography
United States

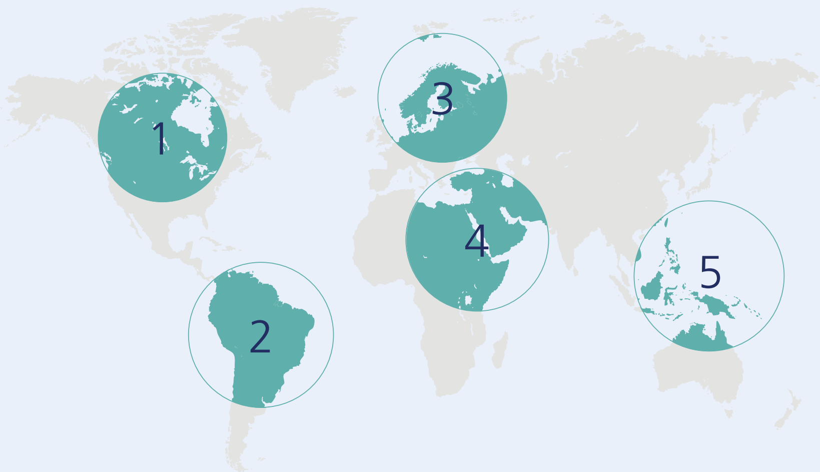
USD 1,421 m
Business operating profit

USD 2,786 m
Management fees and other related revenues

[1] This number also corresponds to the average number of employees in 2015.
[2] 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.
[3] 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.

A global presence

Zurich operates globally and locally, according to our customers' needs.



1
North America
In North America, Zurich is a leading commercial property-casualty insurance provider serving the global corporate, large corporate, middle market, specialties and programs sectors. It also serves life customers in the retail, affluent and corporate markets.

2
Latin America
Zurich operates in Argentina, Brazil, Chile, Colombia, Mexico and Venezuela.

3
Europe
Zurich has major operations in Germany, Italy, Spain, Switzerland, and the UK and a significant presence in other countries.

4
Middle East & Africa
Our business spans the region with key operations in the Middle East, South Africa, Morocco and Turkey.

5
Asia Pacific
Zurich has operations in Australia, China, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, Singapore and Taiwan.

Contents

Our cover
We serve individuals, small businesses, and mid-sized and large companies. All of our customers, large and small, rely on us to help them understand and protect themselves from risk.

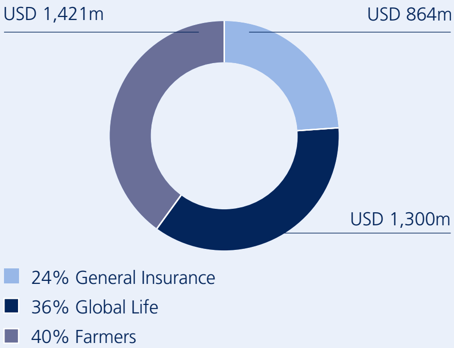
Performance overview

Financial highlights (unaudited)

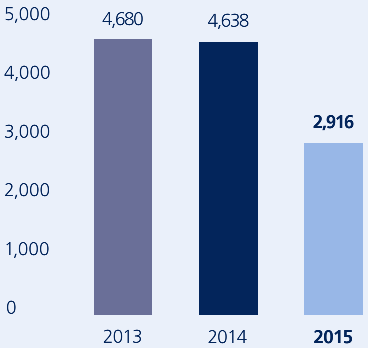
in USD millions, for the years ended December 31, unless otherwise stated	2015	2014	Change in USD[1]
Business operating profit (BOP)	**2,916**	4,638	(37%)
Net income attributable to shareholders (NIAS)	**1,842**	3,949	(53%)
Total Group business volumes[2]	**67,988**	74,434	(9%)
Net investment return on Group investments[3]	**3.8%**	4.5%	(0.7 pts)
Total return on Group investments[3]	**1.7%**	8.6%	(6.9 pts)
Shareholders' equity[4]	**31,178**	34,735	(10%)
Diluted earnings per share (in CHF)	**11.86**	24.17	(51%)
Book value per share (in CHF)[4]	**209.27**	232.65	(10%)
Return on common shareholders' equity (ROE)[5]	**6.4%**	13.0%	(6.6 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[5]	**6.4%**	11.2%	(4.7 pts)

See page 107 for a more detailed financial highlights table.

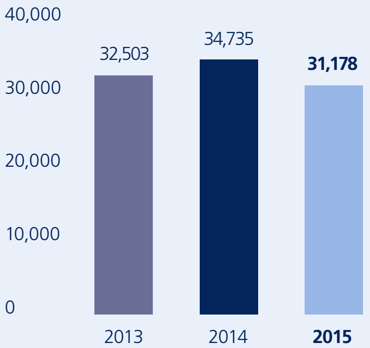
2015 Business operating profit by business segment[6]



Business operating profit[7]
(in USD millions)



Shareholders' equity
(in USD millions)



1 Parentheses around numbers represent an adverse variance.
2 Total Group business volumes comprises gross written premiums, policy fees, insurance deposits and management fees generated within General Insurance, Global Life and Farmers.
3 Calculated on average Group investments.
4 As of December 31, 2015 and December 31, 2014, respectively.
5 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.
6 All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated, with the consequence that the rounded percentages may not add to 100 percent in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.
7 Includes Other Operating Businesses and Non-Core Businesses.

Strategy highlights 2015

- **Investing in distinctive positions**
  We are acquiring a major U.S. crop insurer. Global Corporate and Corporate Life & Pensions increased the number of large corporations they jointly serve. Our bank distribution networks saw continued growth, capitalizing on our access to millions of customers in 15 countries.

- **Managing other businesses for value**
  We retained more business from maturing life policies and reduced the number of policies that lapse. We exited some non-core businesses, including in the UK, Singapore, Australia and the Middle East.

- **Growing our operating earnings**
  We initiated programs to achieve savings and increase efficiency. We added more than USD 3 billion of less-liquid assets to the Group's balance sheet in 2015, enhancing our investment return.

- **Building supporting capabilities**
  We made progress in recruiting, developing and retaining a diverse, talented workforce. We became the first global insurer to be certified under a gender equality standard. We introduced a Swiss-style apprenticeship program in the U.S.

- **Living up to the Zurich Commitment**
  Zurich achieved its highest score since joining the Dow Jones Sustainability Index (DJSI) of 83 and outperformed 99 percent of other companies in the insurance industry group. We reached over USD 1 billion in overall impact investments in 2015, an increase of 54 percent. Our flood resilience alliance extended its work with at-risk communities.

2015 Key results

USD 2.9 bn
Business operating profit (BOP)

USD 1.8 bn
Net income attributable to shareholders (NIAS)

Targets over strategic period

BOPAT ROE[1]	**2015**	6.4%
	Target	12–14%
Z-ECM[2]	**To October 1, 2015**	114%
	Target	100–120%
Net cash remittances	**2015**	USD 3.9 bn
	Cumulative 3-year target[3]	>USD 9 bn

[1] Business operating profit (after-tax) return on shareholders' equity. Excludes unrealized gains and losses.
[2] The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy. It also forms the basis of Zurich's Swiss Solvency Test (SST) model, which is subject to approval by the Swiss Financial Market Supervisory Authority (FINMA). As of July 1, 2015, the Group's SST ratio was 203 percent.
[3] Cumulative net cash remittances to Zurich Insurance Company Ltd, after deducting central costs, in 2014–2016.

Message from the Chairman

Chairman
Tom de Swaan

Dear Shareholder,

In 2015, our business operating profit[1] (BOP) was USD 2.9 billion, 37 percent lower than in 2014. Net income attributable to shareholders (NIAS) was USD 1.8 billion, a decrease of 53 percent from the prior year. This is a disappointing result for Zurich, reflecting challenges in our General Insurance business and some charges as we position ourselves for the future. We have initiated rigorous actions to improve profitability.

General Insurance's BOP fell by 71 percent to USD 864 million, while its combined ratio deteriorated by 6.7 percentage points to 103.6 percent. The result reflects large losses and catastrophe claims, including explosions in the port of Tianjin in August, and flooding in the UK and Ireland in December. We are taking measures to reduce earnings volatility, such as re-underwriting or exiting underperforming portfolios.

The rest of the Group continues to perform well. Global Life's BOP increased by 2 percent to USD 1.3 billion. Gross written premiums, policy fees and insurance deposits fell 9 percent in U.S. dollar terms, but rose 6 percent on a local currency basis. Our bank joint ventures continued to show steady growth, while Global Life has already achieved its 2016 goal of a run-rate improvement in BOP of more than USD 80 million from in-force management initiatives.

[1] Business operating profit indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables.

Farmers[2] BOP declined by 10 percent to USD 1.4 billion following underwriting losses in Farmers Re and lower participation in reinsurance agreements with the Farmers Exchanges. Farmers Exchanges, which are owned by their policyholders, have continued to make good progress in the execution of their strategy, with improved customer satisfaction and retention rates, as well as continued growth in their agents network.

Our Zurich Economic Capital Model[3] ratio stood at 114 percent as of September 30, 2015, within our target range. We are on track to deliver cash remittances in excess of USD 10 billion in our three-year strategy period from 2014 to 2016, well ahead of our target. Our strong capital position and cash remittances have given the Board the confidence to propose a dividend of CHF 17 per share, subject to shareholder approval at the Annual General Meeting on March 30.

A new CEO and other senior executive appointments

In recent months, we have made several senior appointments. In January we announced that, subject to regulatory approval, Mario Greco will join Zurich as our new Chief Executive Officer (CEO). We are convinced that Mario is best placed to lead Zurich into the future. He was most recently CEO of Generali. Prior to that, he was at Zurich, where he held the position of CEO Global Life and then CEO General Insurance. He will take over the position I have held on an interim basis since Martin Senn stepped down in December 2015. We would like to thank Martin for guiding Zurich with foresight and great commitment.

On the Group Executive Committee (GEC), Kristof Terryn also took on a new role as CEO General Insurance in October after Mike Kerner decided to leave the company. We thank Mike for his many contributions. Gary Shaughnessy, who has been CEO of Zurich UK Life since 2012, took on the role of CEO Global Life in January 2016. In addition, Cecilia Reyes, who served as Chief Investment Officer (CIO), was named Chief Risk Officer in July after Axel Lehmann decided to leave Zurich. We thank Axel for his dedicated and outstanding service to Zurich. Urban Angehrn, who was formerly head of Alternative Investments, joined the GEC as the new CIO in July.

Board appointments

In December, our Board proposed two new members: Jeffrey L. Hayman, a U.S. citizen with extensive experience in the insurance industry and David Nish, a British citizen, who until 2015 was Group CEO of Standard Life plc. As already announced, Don Nicolaisen, Thomas K. Escher and Rafael del Pino will not stand for re-election at the Annual General Meeting. We are grateful to them for their service and commitment to Zurich.

Corporate responsibility

Through acting responsibly, we believe we can create sustainable value for all our stakeholders. Reflecting our efforts, in 2015, Zurich achieved its highest score since joining the Dow Jones Sustainability Index (DJSI), outperforming 99 percent of companies in the insurance industry group in the Index. We also reached over USD 1 billion in overall impact investments in 2015, and our flood resilience alliance extended its work with at-risk communities.

Outlook

The global economic outlook remains challenging. We have accelerated a program to increase efficiencies, and aim to exceed the previously communicated cost savings target for 2016 of USD 300 million. We are also on our way to achieving group-wide annual run-rate cost savings of more than USD 1 billion by the end of 2018.

Our key priorities in 2016 will be turning around our General Insurance business and continuing actions to position the group for 2017 and beyond, including enhancing efficiency and sharpening the group's retail footprint. I am convinced that with the strength of our global franchise, the breadth of talent within our organization and our strong brand, we have everything we need for future success. We thank you for your continued support.

Yours sincerely,

Tom de Swaan
Chairman of the Board of Directors and Chief Executive Officer a.i.

[2] 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.

[3] The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy, which also forms the basis of Zurich's Swiss Solvency Test (SST) model.

Business environment

The global risk landscape is changing fast. At Zurich, we are developing our insurance products, services and solutions to keep ahead of customers' changing needs, while paying close attention to the expectations of all our stakeholders.

Corporate market

Zurich is a leader in the corporate insurance marketplace, offering a full spectrum of general and life insurance products, services and solutions through Global Corporate and Corporate Life & Pensions. Corporate customers' needs are evolving in response to a number of long-term trends.

These include globalization and the attendant interconnectivity of risks, growing regulatory complexity and advances in digital technologies. Global corporations are increasingly centralizing insurance buying and risk management to take advantage of economies of scale. Many are choosing to do so through global insurance brokers and employee benefit consultants, who help them select from listed, pre-approved insurance carriers.

On the life insurance side, key factors driving demand for corporate pension and employee benefit solutions are: the effects of demographic aging on the make-up of the workforce; weakening state support for health services, social security and pensions; international mobility; and the desire to de-risk balance sheets by phasing out defined benefit pension plans, replacing them with defined contribution plans.

Across all product lines, global corporations are looking for internationally compliant solutions and are growing more interested in what they can learn about insurance and risk from data collection, predictive analytics and risk insights.

Commercial mid-market

For our commercial mid-market customers, the world is risky and becoming riskier. They must get to grips with emerging risks such as cyber-attacks, data theft, terrorism and the disruption of global supply chains. Natural catastrophes are becoming more frequent and costly, and the regulatory environment is more complex.

Zurich's research has shown that many commercial customers are not fully aware of these risks, creating an opportunity to provide risk analysis, insights and protection. Data collection and predictive analytics provide the tools to more precisely price commercial risks, by eliminating the inherent cross-subsidy of traditional insurance averaging. The larger the data pool, the more accurate the results, creating a competitive advantage for large insurers like Zurich and potentially improving loss ratios.

Services such as these are particularly important to Zurich's target segment: 'expertise-seekers,' who look to those companies that can best help them manage and mitigate – not just insure – their risks. As in the corporate market, brokers and other intermediaries are a key part of the insurance buying process. Intermediaries are themselves making use of data and analytics to strengthen their offer.

Retail markets

Retail insurance is being transformed by evolving customer needs and the pervasiveness of digital technologies. As a result, customer behavior is undergoing a fundamental shift: people are better informed, more demanding, technology-savvy and more open to switching between insurers.

Retail insurance customers expect technology to make their lives easier, which means that insurers must fully adopt digital platforms while continuously improving standards of service. They want products that are tailored to their needs, making modular insurance solutions increasingly important. They often look to friends and social media for advice and are open to sharing products with others – including insurance. And because their lives are changing fast, they want flexibility.

Our target market segment – customers we describe as 'confident planners' – have high expectations. They are prepared to pay a premium price for insurance services and solutions if they are available quickly and conveniently; accessible across multiple channels; customizable to their specific needs; backed by expert advice; and supported by a continuing dialogue on social media.

Zurich aims to build an omni-channel, customer-centric distribution approach that will allow our retail customers to navigate seamlessly across channels and facilitate collaboration with retail insurance intermediaries such as agents, brokers and independent financial advisers (IFAs).

Regulatory developments

Globalization affects the insurance industry as well as its customers. Although many of today's risks are globally interconnected and the largest insurers operate globally, insurance regulation is still mainly focused on national markets. From a global perspective, the regulatory framework is fragmented. This threatens the efficient use of capital and makes it harder for global insurers to fulfil their potential as bearers of risk. As a global insurer, Zurich advocates a consolidated group-wide approach to regulation, such as the International Association of Insurance Supervisors' Common Framework for the Supervision of Internationally Active Insurance Groups initiative.

In November 2015, the Financial Stability Board (FSB) updated its list of global systemically important insurers (G-SIIs) – those that in its judgment are 'too big to fail.' As in 2014, Zurich was not designated as systemically important. We believe that this decision recognizes our focus on traditional insurance business and our view that it poses no systemic threat.

In addition to efforts to strengthen regulations on business conduct and governance, we expect some of the new developments that affect our customers will become a focus for regulators, as such developments raise concerns as well as offering benefits. For

"As a global insurer, we advocate a consolidated group-wide approach to regulation."

example, the use of so-called 'Big Data' and predictive analytics may raise concerns about privacy or discrimination. These tools, by allowing insurers to pinpoint risks, may also be seen to threaten the 'solidarity principle' that is inherent to traditional insurance pooling. New technologies such as the use of drones and driverless vehicles may also create challenges for insurance regulators.

In these and other areas, Zurich will take a more active role in consultation with regulators and in the broader debate that is taking place on the opportunities and risks of new technologies.

Corporate responsibility
At Zurich, we have made corporate responsibility (CR) part of our business strategy because sustainable and responsible business practices matter to stakeholders whose support we rely on: our customers, our people and potential recruits, our shareholders and investors, the communities in which we do business, and society more widely.

That is why we pro-actively address environmental, social and governance factors as part of our day-to-day business activity. CR helps us to differentiate Zurich with our customers; attract and retain talented people; improve long-term investment returns; build relationships of trust with policy-makers and regulators; and strengthen our brand and reputation.

It also provides us with an opportunity to use our core insurance skills – such as risk management, underwriting expertise and investment management – to respond to long-term societal and environmental trends, including climate change and extreme weather, aging populations and financial exclusion. CR applies to our corporate governance procedures, too: good corporate governance strengthens Zurich's reputation for integrity and ethical conduct.

Stakeholders expect us to be transparent about how we engage with politicians and governments, including political contributions. Zurich supports voluntary disclosure around these topics.

Our people
Our people drive our success. With this in mind, we need to be able to recruit, develop and retain a diverse and talented workforce that can thrive in a culture of mutual trust, transparency and inclusion. We are making progress in creating a diverse environment that brings out the best in our people and attracts the brightest talent.

To help ensure that our people act in accordance with our responsible and ethical approach to business, the Zurich Commitment to stakeholders and Zurich Basics, our code of conduct, are a compulsory part of training for virtually every employee. They encapsulate our core values.

For further information:

Corporate responsibility
To learn more about the progress we have made in CR in 2015, see the Business Review section in this Annual Report and the online-only supplement 'CR highlights 2015' on:
www.zurich.com/corporate-responsibility

Our people
To find out more about developments affecting our people in 2015, see the Business Review section in this Annual Report and the online-only supplement 'Our people 2015' on:
www.zurich.com/cr/our-people

Political engagement
For more information on positions and engagement, see:
www.zurich.com/cr/strategy-priorities

How we create sustainable value

We aim to create sustainable value for all our stakeholders: our customers, employees, shareholders and the communities in which we live and work.

At Zurich, our ambition is to be the best global insurer, as measured by our customers, employees, investors and the communities in which we live and work. Our business model creates value for all our stakeholders.

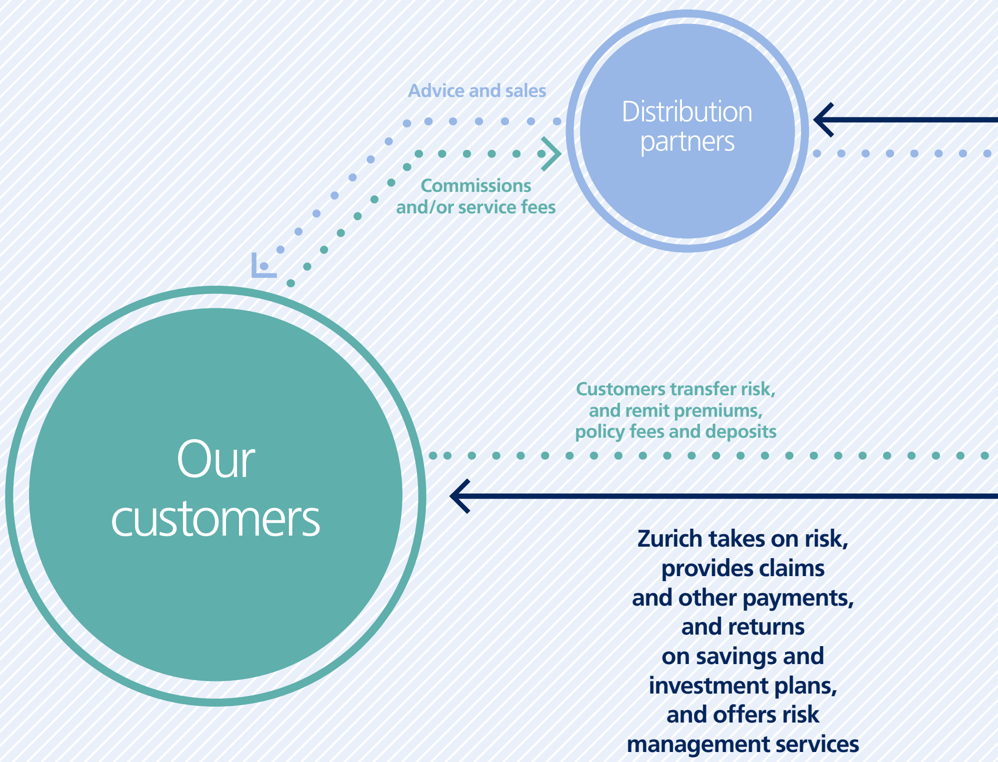
Value creation begins with our service to customers: through our brand promise of intelligent protection, we help them understand and protect themselves from risk. We create value for our employees by investing in their skills and expertise so that each may fulfill his or her potential.

We create value for our shareholders by paying an attractive and sustainable dividend, and seeking to increase the value of the company by carrying out our strategy. And we create value for the communities in which we live and work, both through our core insurance business, which supports economic growth and social welfare, and by including corporate responsibility in everything we do.

Our customers
Zurich's customers range from global corporations through mid-sized and large companies, small businesses and individuals in over 170 countries.

Distribution partners
Along with direct sales, our distribution partners are an essential part of our business model. They include agents, banks, brokers, independent financial advisers, retailers, automobile dealers and employee benefit consultants.

Zurich Insurance Group
With about 55,000 employees worldwide, Zurich delivers insurance products and services through its General Insurance and Global Life segments, and through Farmers.[1]



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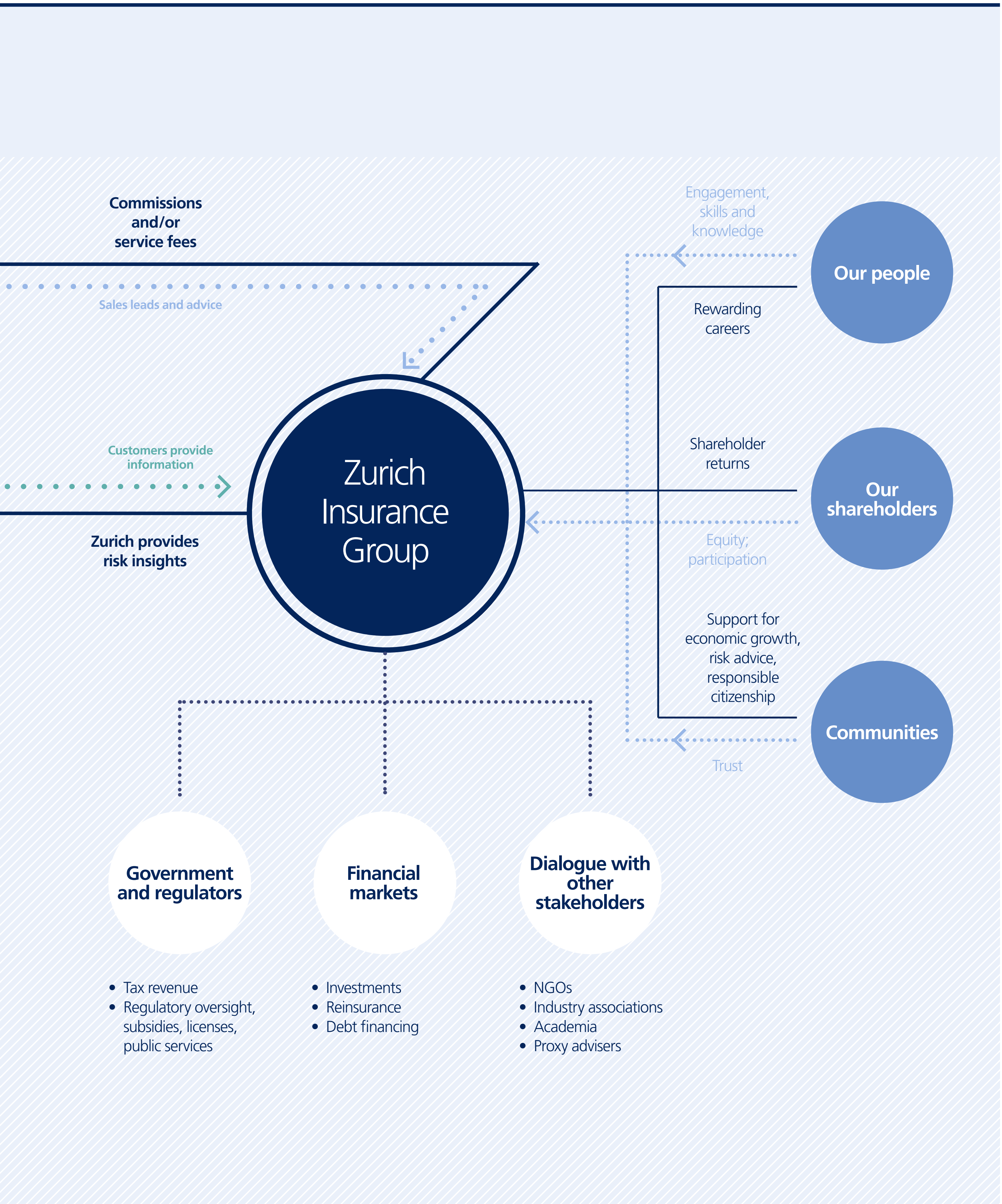

Commissions and/or service fees
Sales leads and advice
Customers provide information
Zurich provides risk insights
Zurich Insurance Group
Engagement, skills and knowledge
Our people
Rewarding careers
Shareholder returns
Our shareholders
Equity; participation
Support for economic growth, risk advice, responsible citizenship
Communities
Trust
Government and regulators
• Tax revenue
• Regulatory oversight, subsidies, licenses, public services
Financial markets
• Investments
• Reinsurance
• Debt financing
Dialogue with other stakeholders
• NGOs
• Industry associations
• Academia
• Proxy advisers

Our strategy 2014–2016

Zurich's strategy is designed to deliver sustainable, profitable growth in a changing and more competitive business environment. We summarize our strategy under the headings 'who we are, what we do and how we do it.'

Who we are
Founded in Switzerland in 1872, Zurich is one of the world's most experienced insurers. Our customers choose Zurich to protect the people and things they love because they value our expertise, knowledge and stability. We care about our customers, employees, shareholders and the communities in which we live and work. Our brand promise of intelligent protection is Zurich's unique approach to understanding and managing risk – not only on behalf of our customers, but also in the long-term interest of all stakeholders. We share our risk expertise and insights with customers, communities and other stakeholders to help them understand the risks they face.

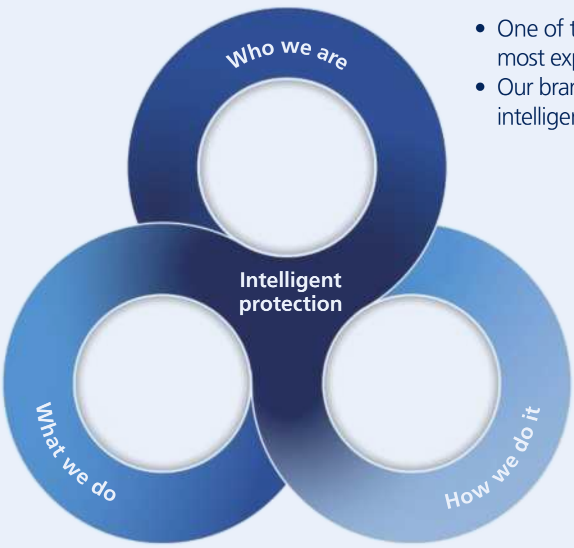
What we do
We are prioritizing investment in distinctive positions – our high-potential market positions – in the corporate market, commercial mid-market and select retail markets. We are managing other businesses for value. This means optimizing selected Global Life in-force books and capturing value in our smaller General Insurance markets, while turning around or exiting under-performing businesses.

How we do it
We are growing our operating earnings by reducing complication and overhead costs throughout our business, increasing operational efficiency and improving processes, and enhancing investment returns.

We are also building the necessary supporting capabilities. This includes investing in our people; laying the foundations for industry top quartile operations and technology; investing in the Zurich brand with its promise of intelligent protection and building our reputation. In all that we do, we are living up to the Zurich Commitment to stakeholders, which includes acting responsibly throughout our business and following our core values.

Further detail
For more information on our strategy and the Zurich Commitment, see: www.zurich.com/strategy

Our strategic framework



- One of the world's most experienced insurers
- Our brand promise: intelligent protection

- Investing in distinctive positions
- Managing other businesses for value

- Growing our operating earnings
- Building supporting capabilities
- Living up to the Zurich Commitment

Cornerstones of our strategy

	Progress in 2015
Investing in distinctive positions Implementing our customer strategies in the corporate market, commercial mid-market and select retail markets.	We are acquiring a major U.S. crop insurer, Rural Community Insurance Services (RCIS). Through a combined approach, Global Corporate and Corporate Life & Pensions increased the number of large corporations they jointly serve. Our bank distribution networks saw continued growth, capitalizing on our access to millions of customers in 15 countries.
Managing other businesses for value Generating the most value from Global Life in-force books; capturing value from profitable, smaller General Insurance markets; turning around or exiting under-performing businesses.	We retained more business from maturing life policies in Germany, and reduced the number of policies that lapse in the U.S. We exited some non-core businesses, including in the UK, Singapore, Australia and the Middle East.
Growing our operating earnings Reducing complexity and overhead costs; increasing operational efficiency and improving processes; increasing excess investment returns.	We initiated programs to achieve savings and increase efficiency, and continued to upgrade our processes and technology. We added more than USD 3 billion of less-liquid assets to the Group's balance sheet in 2015, enhancing our investment return.

Enablers of success

	Progress in 2015
Building supporting capabilities Investing in our people and their capabilities; laying the foundations for industry top quartile operations and technology; building the Zurich brand and our reputation.	We continued to make progress in recruiting, developing and retaining a diverse, talented workforce. We became the first global insurer to be certified under a gender equality standard. We introduced a Swiss-style apprenticeship program in the U.S. Our marketing and communications strategy highlighted our 'intelligent protection' brand promise.
Living up to the Zurich Commitment Caring for our customers, employees, shareholders and the communities in which we live and work. Corporate responsibility is an integral part of this.	Zurich achieved its highest score since joining the Dow Jones Sustainability Index (DJSI) of 83 and outperformed 99 percent of other companies in the insurance industry group. We reached over USD 1 billion in overall impact investments in 2015, an increase of 54 percent. Our flood resilience alliance extended its work with at-risk communities.

Business review 2015

We aim to focus on our strengths, improve or exit other businesses and grow our operating earnings, supported by our people, processes and technology.

Our 2014–2016 strategy aims to generate sustainable, profitable growth in a changing and competitive environment. We are prioritizing investment in our businesses in high-potential markets where we have strong competitive positions, managing other businesses for value and taking measures to grow our operating earnings.

We are also building the supporting capabilities that underpin our ambitions. This means developing our people and their skills, investing in efficient and cost-effective operations and technology, and building our brand and reputation. And it means living up to our Zurich Commitment to stakeholders, which includes acting responsibly throughout our business.

Prioritizing investments in distinctive positions

We are prioritizing investment in our high-potential market positions in the corporate market, the commercial mid-market and select retail markets.

Simplifying challenges at big corporations

Large companies have complex insurance needs, typically across many countries, and increasingly want to centralize how they buy and manage insurance. General Insurance's Global Corporate (GC), and Global Life's Corporate Life & Pensions (CLP) are serving these customers through a unified approach by offering them both general insurance, and life insurance products and services, while helping them to standardize benefits and coverage across countries. This not only makes it easier for these customers to manage all their insurance needs, it is more cost-efficient as well. This approach also gives customers the confidence that their insurance programs are fully compliant in today's complex regulatory environment. In 2015, we increased the number of customers taking advantage of this approach by 220, the highest level since we introduced this program in 2011, and 32 percent more than the agreements added in 2014.

Reaching more customers through bank networks

We are constantly looking to expand our network of bank alliances. Our bank distribution agreements contribute significantly to our results, providing us access to over 60 million customers in major markets in 15 countries.

These agreements include two joint ventures with major banks. The Zurich Santander joint venture agreed in 2011 provides long-term exclusive distribution agreements with Banco Santander S.A., giving access to about 40 million customers in Latin America. In Spain, our joint venture with Banco Sabadell S.A., signed in 2008 and expanded in 2014, provides a channel to sell insurance products across Sabadell's network, offering access to about six million customers. In 2015, both Zurich Santander and our joint venture with Banco Sabadell continued to improve profitability and deliver strong sales of both life and general insurance products. Currency volatility, however, can affect the income from these agreements.

In 2015, business operating profit (BOP) from both joint ventures was USD 268 million. Additionally, a strategic relationship with Deutsche Bank in Germany, Italy and Spain gives us access to 10 million potential customers. Agreements recently signed include a 15-year exclusive bank distribution agreement with Citibank NA in the Middle East that began operation in 2015.

Appealing to SMEs in Hong Kong

Small and mid-sized companies (SMEs) remain an important market for Zurich. In Hong Kong we found that medical insurance ranks only behind salary in importance to employees. Even so, and despite a tight job market, less than three percent of Hong Kong employers offer their employees a group medical plan; SMEs in particular lack the resources to provide such coverage, even though they face challenges recruiting top talent. To meet this need, in 2015 we launched a group medical plan specifically targeting SMEs. 'FlexiCare' offers options to match employers' budgets. Via a smart phone application, employees can choose benefits and 'wellness' options. The app also reduces paperwork. Early market response has been positive: We received a gold award for this product in the category Best Employee Insurance Provider in HR Magazine's Vendor of the Year Awards.

Corporate Life & Pensions gains market share in UK and Ireland and a major German customer

Gaining scale in key markets contributes to the success of our Corporate Life & Pensions (CLP) business. In the UK, both our corporate protection and our corporate pensions businesses in our target market segments have grown market shares from a marginal position in 2009.

In Ireland, where our new business volumes have more than doubled since 2012, we have also grown our market share of the corporate risk market and corporate pension market.

We also gained a major customer in Germany. In October, CLP reached an agreement with a major German institution to manage pensions of 2,300 employees.

Targeting Select Brokers in North America

In North America, Zurich is transforming the way it works with its Select Brokers – brokers that Zurich is targeting to grow our business. We identified the needs and priorities of these brokers through research and developed a new model that makes it easier for our sales team to share information with the brokers. We piloted the approach with four brokers in over 20 locations. It has made our sales process more effective, and is helping to make our relationship with Select Brokers more efficient. We are now aiming to expand the model to all Select Broker relationships in North America.

Focusing on target customers, retention in the U.S.

Farmers Group, Inc., which is owned by the Group,[1] provides the non-claims administrative and management services necessary to help the Farmers Exchanges, which are owned by their policyholders, identify customers who want professional, high-quality service and products that fit their specific needs.

This includes delivering a positive customer experience and developing products and services for Farmers Exchanges target customers, who seek the counsel and high level of service that Farmers Exchanges agents can provide. Farmers Group, Inc. is helping the Farmers Exchanges to support their agents' success, introduce new products, and offer more options to better serve these customers.

The Farmers Exchanges continued to make progress in customer satisfaction results, with the Net Promoter Score, a broad measure of customer satisfaction and loyalty, increasing to 40.3 from 35.0, and retention increasing to 77.3 from 76.8 in 2015.

Strengthening our position in U.S. commercial lines

One of our strategic priorities is to expand our commercial lines capabilities. As part of this approach, we announced in December that we plan to acquire Rural Community Insurance Services (RCIS), a U.S. agricultural insurance provider that insures one in six farmers in the U.S. With a network of over 4,000 agents, RCIS conducts business in all 50 U.S. states, providing risk management for more than 130 crops on over 90 million acres (36 million hectares). The acquisition, which still needs final regulatory approval, will increase General Insurance's risk diversity in the U.S. and strengthen our top-five position in U.S. commercial insurance.

Addressing challenges in General Insurance

The performance of parts of our General Insurance Business was disappointing. We are implementing several measures to improve it.

General Insurance reported a business operating profit of USD 864 million, a decrease of 71 percent. The unsatisfactory result was due to a number of factors; these included USD 275 million in claims related to explosions in the port city of Tianjin, China, in August, a significant level of other large losses, and natural catastrophe claims especially following severe flooding in parts of the UK and Ireland in December. In the third quarter we also identified issues in certain areas such as U.S. auto liability, Global Corporate property and North America Commercial construction liability that are being addressed with highest priority through targeted measures.

Our General Insurance business has clear strengths to build on; a well-diversified portfolio, excellent franchises, including Global Corporate, strong technical foundations and highly-skilled people, and global distribution reach. But we need to reinforce underwriting discipline, reduce exposure to large losses and improve efficiency.

We are re-evaluating the commercial priorities and earnings power of each business unit as we work to reduce earnings volatility. Our focus includes re-underwriting unprofitable portfolios and exiting those we see as unattractive. In addition, we are working to sustainably increase cost efficiency, while identifying opportunities to further simplify the organization.

[1] 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.

Business review 2015 *continued*

Zurich as an innovator

My Zurich
Giving corporate customers an edge

Our Corporate business is helping multinational customers manage international insurance programs through our award-winning online platform, My Zurich. This not only helps them to manage their insurance needs centrally, it also strengthens our relationships with them, allowing us to retain more of these customers. Starting in 2016, customers using the My Zurich platform will also be able to see the results of risk assessments done on our Zurich Risk Advisor tool.

Zurich Risk Advisor
Making it easier to spot risks

Zurich Risk Advisor gives customers insights on potential risks their businesses may face. The 'app' lets them analyze a risk by themselves and compare potential impact across locations, drawing on the knowledge and expertise of Zurich's 900 risk engineering specialists. It also allows customers to see how specific actions to reduce risks could improve their risk grading score.

Smart Business Growth
Gaining insights into bids

Focusing on opportunities with the greatest chance of success helps us to more effectively manage our pipeline of potential new business. Through our Smart Business Growth system, we can focus on broker 'submissions' (requests for bids) with large companies and concentrate on those bids that have the greatest chance of succeeding, drawing on information we have collected on over 500,000 transactions. The system produces an expected probability of winning a bid, making us more efficient and giving us more time to manage existing customer relationships.

SDVs
Enhancing insights on self-driving vehicles

Worldwide over one million people die each year in traffic accidents: In most cases, human error is at least partly to blame. As one of the world's largest motor insurers, we are very interested in technologies that can make driving safer. In 2015, as part of our aim to learn more about self-driving vehicles (SDV), we were pleased to be appointed as the insurance associate for 'CityMobil2,' the largest EU-funded research project testing automated public transport systems. We contribute management support and consulting on insurance solutions to this project.

Natural hazard tool
Reducing risks in Switzerland

In Switzerland we have developed a free, easy-to-use online tool to help people assess risks to their homes and property posed by natural hazards. Since its launch in June 2015, more than 25,000 people have used this tool to spot potential risks from landslides, mud and rock slides, and floods. Developed with engineers and geologists at Swiss natural hazards specialist GEOTEST AG, the tool also suggests ways to reduce risks.

Next-generation consumer business
Helping customers save for retirement

Global Life in the UK is introducing services to help customers plan and manage their financial well-being, including through a new online platform. In an increasingly complex retirement savings market, and with fewer than one in five people in the UK seeking financial advice, such services are more important now than ever before. In 2015 we piloted three digital tools to help customers plan for retirement. These can make it easier for customers to achieve their long-term financial goals, while providing flexibility in how we support them through an 'omni-channel' approach.

Managing other businesses for value

Our strategy also calls for us to create the most value from existing businesses such as Global Life's in-force books of business and smaller but profitable General Insurance businesses. We also seek to turn around or exit non-core or under-performing businesses, taking great care that our customers are properly served in any new arrangements that may be put in place.

Germany focuses on maturing policies
Global Life in Germany is successfully targeting customers with maturing policies, working to help more of them to re-invest their savings from these policies with us. Our efforts were encouraged by the fact that many customers bought policies prior to changes in German regulations in 2004 and these policies are now maturing. Our in-force team gives us precise information about the number of policies maturing and the amount invested and helps us to identify the policyholders or their beneficiaries. This offers us a chance to tailor products that appeal to these customers, encouraging them to take the opportunity to re-invest.

We improved our processes to better serve these customers and focused our efforts on retaining their business within our distribution channels, especially in the bank distribution and tied agents channels. Our efforts are paying off. In 2015, our single premium products increased significantly, helped by business generated through 're-capturing' more maturing policies.

Reducing lapse rates in North America
Global Life is reducing 'lapse' rates in the U.S. A life insurance policy can lapse if a customer fails to pay premiums. This has serious consequences for customers who might forfeit their policy, and for insurers, which face a loss of future profits. To reduce lapse risk, Farmers New World Life in the U.S. introduced various programs to identify policies at risk, and engaged with customers to reduce lapse rates. In 2015, we experienced 12,300 fewer lapses (including cancellations and surrenders), a reduction of 11 percent versus 2014. We also incurred USD 1.3 billion less in lapses based on the insured amount, a reduction of 7 percent.

Exiting underperforming and non-core businesses
In 2015, we exited some businesses. For example, we began transferring around 28,000 policies in UK Life's legacy annuity book to Rothesay Life. Zurich also sold its stake in 7IM Holdings Limited to Caledonia Investments plc. In Singapore, Zurich's Life business stopped accepting new policy applications starting December 1, 2015. In New South Wales, Australia, we are withdrawing from the compulsory third-party (CTP) 'green slip' business that protects drivers against injury claims. In the Middle East, we are closing to new retail and small business customers in our general insurance lines, and we will exit this business by the end of 2016, or as soon as possible after that. Zurich remains firmly committed to its life and corporate business in the region.

Business review 2015 *continued*

Growing our operating earnings

We aim to grow our operating earnings by reducing complexity and overhead costs, making our operations and processes more efficient, and increasing excess investment returns.

Achieving greater efficiency and lower costs

As part of our third strategic cornerstone, Group Operations and Technology (GOT), together with all Zurich's segments and functions, is working on several initiatives to make us more efficient. Our overarching Zurich efficiency transformation plan comprises three main work streams to provide expense savings of at least USD 300 million by the end of 2016, achieve at least USD 1 billion in efficiency improvements by the end of 2018, and transform our operational processes and technology for the future.

As part of our efficiency improvements, GOT is leading efforts to standardize processes, work more efficiently and share more services throughout the organization. Zurich has operated shared service centers across the Group for a number of years and we plan to continue to expand this activity.

GOT is also consolidating the number of data centers we rely on, which improves efficiency and means we need less space and less power to run our businesses. We are reducing the number of own-use properties and renegotiating leases to better utilize our office space. In addition, we have focused our telecoms and network suppliers on one global strategic provider.

Through our Zurich Way of Working (ZWoW), we are implementing fundamental changes to become a more efficient organization in our staff training process, our business organization, and the way we manage individual performance; all the while placing greater emphasis on customer service delivery and higher employee engagement.

To date, several of Zurich's businesses in Europe, North America, Asia Pacific, and Latin America have adopted a more efficient management approach. We are committed to expanding the program to improve efficiency in other business units, and supporting them as they transform the way they work.

Seeking optimum returns in a challenging environment

Investment Management's mandate is to achieve superior, risk-adjusted investment returns relative to liabilities with the risk capital allocated to market risk. Investment Management's strategy to enhance investment returns and grow operating earnings was supported by investing in less liquid assets throughout 2015.

Overall performance was negatively influenced by the strengthening of the U.S. dollar and a continuing decline in yields to record low levels. We managed to partly offset the impact of some of those factors by slightly increasing equity and corporate bond holdings, and by successfully implementing our less-liquid asset strategy. In 2015, more than USD 3 billion of additional less-liquid assets were added to the Group's balance sheet, mainly in the areas of corporate lending, real estate and infrastructure debt. In line with our disciplined investment approach, we ensure that these investments match our insurance obligations and are within our risk appetite, while seeking to obtain optimum returns relative to risks.

Building supporting capabilities

We are investing in the capabilities needed to carry out our strategy. This includes developing our people, investing in efficient and cost-effective operations and technology, and building our brand and reputation.

Focus on our people

Our people drive our success. With this in mind, we need to be able to recruit, develop and retain a diverse and talented workforce that can thrive in a culture of mutual trust, transparency and inclusion. At Zurich, we believe this is key to meeting our strategic objectives. We are making progress in creating a diverse environment that brings out the best in our people and attracts the brightest talent. In 2015, we launched a range of global programs designed to enhance our culture, create more opportunities for career growth, advance people manager skills and provide flexible ways of working.

Setting standards for gender equality

In November we became the first global company in the insurance industry to be certified by 'EDGE' (Economic Dividends for Gender Equality) in six key markets: Germany, Hong Kong, Italy, Spain, Switzerland and the UK. EDGE provides assessment methodology and a business certification standard for gender equality. The certification demonstrates Zurich's commitment to be the employer of choice in the insurance industry.

Our inclusive culture and development opportunities support learning through all phases of a career. We are also helping to develop new talent.

Introducing a Swiss approach in the U.S.

Ensuring the next generation has the right skills and expertise offers clear benefits for Zurich, and for our people's long-term success. While it is common for insurers in Europe to offer apprenticeships, this approach is not nearly as popular in the U.S. The success of our traditional Swiss apprenticeship program convinced us that it would make sense to introduce this system in the U.S., too. We began what we believe is the first 'Swiss-style' insurance apprenticeship program in early 2016 with 23 participants enrolled in classes at William Rainey Harper College, not far from Zurich's offices in Schaumburg, Illinois. For two years, they will combine coursework with on-the-job training at Zurich. The program aims to train at least 100 apprentices by 2020.

Our people

For more on the progress we are making in developing and managing our people, please see: www.zurich.com/cr/our-people

Our people – operational KPIs

	2015	2014	Change
Total number of employees – headcount	**55,732**	55,969	(0.4%)
Employees – full-time equivalents (FTE)	**54,335**	54,551	(0.4%)
Employee turnover rate (%)	**12.9%**	12.4%	0.5 pts
Average tenure (years)	**9.6**	9.3	3.2%

Building talent KPIs

	2015	2014	Change
Female workforce participation (%)	**51.9%**	52.1%	(0.2 pts)
Female participation in Leadership Team (%)	**13.7%**	15.0%	(1.3 pts)

Business review 2015 *continued*

Building our brand and reputation

Zurich's brand promise of intelligent protection is our unique approach to understanding and managing risk – not only on behalf of our customers, but also in the long-term interest of all stakeholders. In 2015, we continued to build this message – that Zurich provides intelligent protection for the things and people our customers truly love – around the world, focusing our investments in priority markets, including Switzerland, our home market.

We invest in our brand because it increases our customers' willingness to consider, purchase and pay a premium for our products and services, in both retail and business markets.

In all retail markets where we have invested in building our brand through advertising, there has been a significant increase in the number of people considering the brand. In commercial and corporate markets, Zurich's global media partnerships with the Financial Times, Bloomberg, LinkedIn and Twitter helped us increase our visibility with senior business people by 10 percent. Our online industry 'knowledge hub' on www.zurich.com also helps us reach this audience and has seen a significant increase in the number of visits since launch.

In 2015, we successfully targeted business customers and other stakeholders with original Zurich-produced reports on key topics such as cyber risk, flood resilience, supply chain risk and the 'income protection gap'. A 2015 advertising campaign featured Zurich's risk profiling – a structured approach that helps business customers to identify, prioritize and mitigate risk, thereby helping to manage risk, rather than just insuring against it.

We reprised our successful 'snowman' campaign during the 2015 winter holidays. This campaign helps to communicate the emotional side of the Zurich brand and aims to instill pride among our employees in being part of a company that helps people protect the things they truly love.

We support the prestigious World Economic Forum (WEF), which rated us one of its most-engaged companies for the second year in a row. We sponsor golf tournaments including the Zurich Classic in New Orleans that raises funds for children's charities. Four of our 'golf ambassadors,' who are committed to several humanitarian and social causes, were ranked among the top 10 players in 2015. We also provide sponsorship for events with broad public appeal such as ice hockey and 'Opera for All' in Switzerland, and the Barcelona marathon in Spain.

Living up to the Zurich Commitment

Corporate responsibility is an important part of our Zurich Commitment to care for our customers, employees, shareholders and the communities in which we live and work. We act responsibly by taking environmental, social and governance issues into account throughout our business.

Zurich reaches new high in sustainability index

Zurich is a member of the Dow Jones Sustainability World and Europe indices. Companies in these indices are evaluated based on a range of financially relevant sustainability criteria covering economic, environmental and social dimensions. In 2015, Zurich achieved its highest score since joining the DJSI of 83 and outperformed 99 percent of other companies in the insurance industry group.

Investing responsibly

Responsible investment means managing our portfolio of USD 191 billion in assets to create sustainable value. We believe environmental, social and governance (ESG) factors can affect risk and return; integrating these into our investment approach will help us to succeed on a long-term basis. With this in mind, in 2015 we trained over 200 people in our team worldwide, as well as external asset managers, in Zurich's approach to ESG in investment decisions. To better incorporate ESG factors in our overall approach, we are also updating our proxy voting strategy to take a more active role as a shareholder in companies in which we invest.

Responsible investment KPIs

	2015	2014	Change
External asset managers who are signatories to PRI (%)[1]	**70.4%**	67.9%	2.5 pts
Group assets managed by PRI signatories (%)[2]	**98.1%**	98.8%	(0.7 pts)
Total amount of impact investments (USD millions)[3]	**1,031**	667	54%
Total Group investments (USD millions)	**191,238**	204,860	(7%)

[1] The United-Nations supported Principles for Responsible Investment (PRI).
[2] Including assets managed by Zurich.
[3] 2015 impact investments consisted of: green bonds (USD 870 million); investments committed to private equity funds (USD 105 million, thereof 17 percent drawn down); and other investments (USD 55 million).

Investing for positive impact
Our impact investing portfolio topped USD 1 billion for the first time in 2015, an increase of 54 percent from 2014. This included USD 870 million invested in 'green' bonds that finance renewable energy or similar projects; we have committed to invest, in total, up to USD 2 billion in these instruments. We also have committed USD 105 million to impact private equity funds, as part of our plan to allocate up to 10 percent of our private equity investments to such funds. In addition, we have increased our investment in 'sustainability bonds' to USD 55 million. These bonds provide funding for projects that benefit social welfare.

Sustainable real estate investments
We believe there is a clear business case for including ESG factors in our real estate investment decisions. Real estate consumes a significant amount of energy and resources, and is a major source of carbon emissions. In 2015, we extended our ESG integration approach to real estate assets, which represent over six percent of our investment portfolio. We will begin to implement this program in 2016. In addition, our goal is to reduce greenhouse gas emissions in Swiss real estate, which comprises over half of our portfolio, by 20 percent by 2020. By 2050, we aim to cut greenhouse gas emissions by 80 percent (both targets versus 2010 levels).

Addressing the challenges of floods
Floods affect more people globally than any other type of natural hazard. Although worldwide, the greatest portion of resources go to short-term disaster response, it is far more cost-effective to take a long-term approach. That is why we launched a global program to enhance flood resilience in 2013.

As part of this program, we set up the Zurich flood resilience alliance, whose members include the International Federation of Red Cross and Red Crescent Societies (IFRC). We are working with the IFRC to establish flood programs in 21 communities in the state of Tabasco, Mexico. We are also working with the Indonesian Red Cross (PMI) to help 21 communities in West and Central Java develop solutions to recurring flooding. Along with another alliance member, Practical Action, similar programs are underway in 74 communities in Nepal, 15 communities in Peru, and 15 communities in Bangladesh, where access to efficient early warning systems, alternative livelihoods and strengthened collaboration with local decision makers are key to enhancing resilience.

Using a 'PERC' approach to reduce risk
Together with two other members of our alliance, the International Institute for Applied Systems Analysis (IIASA) and the Wharton Business School's Risk Management and Decision Processes Center (Wharton), we have developed processes and tools that can be applied to increase flood resilience at the community level, including a flood resilience measurement framework.

Our 'post-event review capability' or 'PERC' methodology also aims to address flood risks through in-depth studies of past flood events. In 2015, together with the Institute for Social and Environmental Transition (ISET), we published a PERC study about the deadly floods in Nepal in August 2014. Also, in conjunction with non-governmental organization Targa-AIDE, we published a similar study about devastating floods in Morocco in November 2014.

The Water Window
In line with our approach, in August 2015 we also announced that we are investing USD 10 million in a grant-based competition called the Water Window, an initiative led by the international Global Resilience Partnership. The Water Window aims to identify, encourage and scale up local innovations to address challenges related to water, including floods. Zurich is the first private-sector member of the Partnership.

Corporate responsibility
Learn more about our corporate responsibility initiatives:
www.zurich.com/corporate-responsibility

Governance

In this section

Chairman's statement on corporate governance

Dear shareholders

Over the last year we have been taking steps to strengthen Zurich and changes to our governance structure have been a part of these actions. As I wrote to you last year, we have given our business units more power to make decisions and enhanced internal processes and policies. We have seen important developments following these steps, while continuously building on them.

We have further improved our remuneration structure, about which you can find further information in the remuneration report, which follows this section of our Annual Report.

Board and GEC changes
In the past year there have been several changes on the Board and on the Group Executive Committee. At the Annual General Meeting on April 1, 2015, you elected Joan Amble and Kishore Mahbubani as new members of the Board of Directors.

As already announced last year, after 10 years on the Board, Don Nicolaisen will not stand for re-election at the Annual General Meeting 2016. Also Rafael del Pino and Thomas K. Escher will not stand for re-election. Mr. Escher will have served the maximum tenure of office of 12 years. The Board proposes to the shareholders to re-elect all other current members of the Board at the Annual General Meeting on March 30, 2016 and to elect Jeffrey L. Hayman and David Nish as new members.

On the Group Executive Committee (GEC), as of July 1, 2015, we have appointed Urban Angehrn as the new Chief Investment Officer while Cecilia Reyes, who was previously in that role, has been appointed Chief Risk Officer. Kristof Terryn was appointed CEO of General Insurance as of 1 October 2015, while retaining his position as CEO of Global Life ad interim. During 2015, Geoffrey Riddell, Axel Lehmann and Michael Kerner stepped down from the GEC. In December 2015, we appointed Gary Shaughnessy as CEO Global Life and member of the GEC as of 1 January 2016.

In December 2015, our long term CEO, Martin Senn, decided to step down by mutual agreement with the Board and I have taken over as Chief Executive Officer ad interim. In January 2016, we appointed Mario Greco Chief Executive Officer, effective March 7, 2016. During my time as Chairman of the Board and CEO ad interim, Fred Kindle, Vice-Chairman of the Board, has taken on certain additional responsibilities to ensure continued good governance.

New technologies
New technologies and the opportunity to gain ever more information (using so-called 'big data') provide new and transformational insights that will trigger changes in the insurance industry. It will likely bring new business opportunities, but also new regulations and will attract the attention of data and consumer protectors. While big data has the potential to unlock vast societal and economic benefits, it also has the potential to undermine the solidarity principle and the principle of equal access to information. Zurich's goal is to actively engage in the emerging debate by stressing the importance of a responsible regulatory approach that takes into account the societal costs and benefits.

"Zurich's goal is to actively engage in the emerging big data debate by stressing the importance of a responsible regulatory approach that takes into account the societal costs and benefits."

Corporate responsibility

Over the last two decades, a consensus has grown that corporations should respect ethical standards, human rights, the environment and related areas. This approach to doing business is known as corporate responsibility (CR). For Zurich, CR is about sustainable value creation for our stakeholders, by proactively addressing relevant environmental, social and governance issues. CR has been part of our way of doing business for a long time; in fact the Swiss insurance industry has its origins in the concept of solidarity.

Zurich's position with respect to transparency on CR-related matters is not limited to compliance with regulatory requirements. We seek to ensure concise and informative disclosure of Zurich's financial position, strategy, governance and remuneration. Zurich has also included certain non-financial KPIs in the area of CR in its external reporting and is one of the first companies in Switzerland to include aspects of integrated reporting.

Zurich Stakeholders

Zurich benefits from a wide group of stakeholders, including our shareholders and it is important to us to keep up the dialogue with you at institutional investors' meetings, at our Investor Day and foremost at our Annual General Meeting. I'd like to encourage you to attend this year's AGM on March 30, 2016. And I would like to thank you for your continued support and engagement.

Tom de Swaan
Chairman of the Board of Directors and
Chief Executive Officer a.i.

Corporate governance report

Good corporate governance enables Zurich to create sustainable value for the benefit of its shareholders, customers, employees and other stakeholders.

The Corporate governance report describes the structures, rules and processes that are in place to provide effective governance by Zurich's Board of Directors (the Board) and Management. It also reports on the work of the Board and its committees.

Contents

Introduction

The Zurich Insurance Group consisting of Zurich Insurance Group Ltd and its subsidiaries (the 'Group' or 'Zurich'), is committed to effective corporate governance for the benefit of its shareholders, customers, employees and other stakeholders based on the principles of fairness, transparency and accountability. Structures, rules and processes are designed to provide for the proper organization and conduct of business within Zurich and to define the powers and responsibilities of its corporate bodies and employees.

This report describes the Group's approach to corporate governance and illustrates the key elements of corporate governance within the Group. It includes the information required by the following rules, with which Zurich complies:

- Directive on Information Relating to Corporate Governance of the SIX Exchange Regulation (as of September 1, 2014).
- Swiss Code of Best Practice for Corporate Governance (Swiss Code of Best Practice), issued in 2002 by economiesuisse, as amended in October 2007 and in August 2014.

The shares of Zurich Insurance Group Ltd are listed on the SIX Swiss Exchange. Certain Group companies have listed debt issued under its Euro Medium Term Note Program and other financial instruments.

Zurich is subject to insurance group supervision by the Swiss Financial Market Supervisory Authority (FINMA). As set out in its decree of December 28, 2011, FINMA stated that Zurich is subject to insurance group supervision according to art. 64 et seq. of the Swiss Insurance Supervision Law (ISL) and no longer qualified as a conglomerate. The Joint Committee of the European Supervisory Authorities has also designated the Group as an insurance group and not as an insurance conglomerate because of the small size of its non-insurance activities. The ISL requires Swiss insurance companies and groups to establish and maintain strong governance and risk management systems as well as effective internal control systems that are appropriate to their business activities. It prescribes the calculation of a risk-based solvency margin on a Group wide basis and at legal entity level pursuant to the Swiss Solvency Test (SST) and also a Solvency I margin (only applicable to Zurich Insurance Company Ltd). All major intra-group transactions must be reported to FINMA. In addition to the group supervision exercised by FINMA and its supervision of the legal entities Zurich Insurance Company Ltd, Zurich Life Insurance Company Ltd and Orion Rechtsschutz-Versicherung AG, the insurance subsidiaries and remaining financial services entities of the Group are supervised by relevant regional and local supervisory authorities.

The principles of corporate governance and the standards described above are incorporated and are reflected in a number of corporate documents, in particular the Articles of Incorporation, the Organizational Rules and the Charters of the Committees of the Board of Directors of Zurich Insurance Group Ltd. The Governance and Nominations Committee of the Board of Directors of Zurich Insurance Group Ltd regularly reviews the Group's corporate governance against best practice standards and ensures compliance with corporate governance requirements.

An effective structure is in place providing for cooperation between the Board of Directors of Zurich Insurance Group Ltd, management and internal control functions. This structure establishes checks and balances and is designed to provide for institutional independence of the Board from the Group Chief Executive Officer (CEO) and the Group Executive Committee (GEC) who together are responsible for managing the Group on a day-to-day basis. Until December 1, 2015, the Board was composed entirely of non-executive members independent from the management. The roles of Chairman of the Board and CEO were split, until the Chairman of the Board, Tom de Swaan, took over the role of Chief Executive Officer ad interim on December 1, 2015. In January 2016, Mario Greco was appointed Chief Executive Officer, effective March 7, 2016, when the roles of Chairman and CEO will be split again and the Board will as before consist entirely of non-executive members. While the Chairman of the Board is serving as Chief Executive Officer ad interim, Fred Kindle, Vice-Chairman of the Board, has taken on certain additional responsibilities to ensure continued good governance.

This report essentially follows the recommended structure outlined in the Directive on Information Relating to Corporate Governance of the SIX Exchange Regulation. The information on compensation, shareholdings and loans to Board members and members of the GEC is contained in a separate report, the Remuneration report (see pages 62 to 95) which supplements this Corporate governance report and also includes the information as required by the Circular 2010/1 on remuneration schemes (minimum standards for remuneration schemes of financial institutions) issued by FINMA on October 21, 2009 as amended on June 1, 2012 as well as the Ordinance against Excessive Compensation (Ordinance AEC) of November 20, 2013.

Corporate governance report *continued*

Key governance developments in 2015 – at a glance
as of December 31, 2015

Board of Directors

Elections:

- Joan Amble, elected as a new member (as of April 1, 2015)
- Kishore Mahbubani, elected as a new member (as of April 1, 2015)

Group Executive Committee

New appointments:

- Urban Angehrn, Chief Investment Officer (as of July 1, 2015)
- Tom de Swaan, Chief Executive Officer (ad interim) (as of December 1, 2015)

Change of role:

- Cecilia Reyes, Chief Risk Officer, former Chief Investment Officer (as of July 1, 2015)
- Kristof Terryn, CEO General Insurance and CEO Global Life (ad interim), former CEO Global Life (as of October 1, 2015)

Retirements and resignations:

- Geoffrey Riddell, Regional Chairman of Asia-Pacific, Middle East and Africa (as of April 1, 2015)
- Axel P. Lehmann, Chief Risk Officer (as of October 1, 2015)
- Michael Kerner, CEO General Insurance (as of October 1, 2015)
- Martin Senn, Chief Executive Officer (as of December 1, 2015)

Group structure and shareholders

Operational Group structure

Zurich Insurance Group Ltd, the Group's holding company, is a Swiss corporation organized in accordance with the laws of Switzerland. Zurich's business is focused on providing best-in-class general and life insurance products and services to individuals, small businesses and mid-sized and large companies.

Operational Group Structure
as of December 31, 2015

CEO and Group Executive Committee

General Insurance	Global Life	Farmers	Other Operating Businesses	Non-Core Businesses
Consisting of five market facing businesses: 1. Global Corporate (covering all regions) 2. North America Commercial 3. Asia-Pacific 4. Latin America 5. Europe, Middle East & Africa	Consisting of four regions: 1. North America 2. Europe, Middle East & Africa 3. Latin America 4. Asia-Pacific			

Core business segments   Non-core business segments

The Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both lines of business and geography. The GEC is headed by the CEO. The CEOs of the business segments General Insurance, Global Life and Farmers as well as the Chief Financial Officer (CFO), the Chief Investment Officer (CIO), the Chief Risk Officer (CRO), the Chief Operations and Technology Officer, the Group General Counsel and the Chief Human Resources Officer, are members of the GEC. From October 1, 2015, to December 31, 2015, the CEO General Insurance was also CEO ad interim for Global Life. The geographic regions of North America, Latin America and Asia-Pacific, as well as Europe, Middle East and Africa are represented on the GEC by Regional Chairmen who focus on stakeholder management and strategic business development in the respective regions. For further information on the GEC see pages 50 to 59.

The Group's operating segments have been identified on the basis of the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. The Group's reportable segments are as follows:

- General Insurance is the segment through which the Group provides a variety of motor, home and commercial products and services for individuals, as well as small and large businesses.
- Global Life pursues a strategy with market-leading propositions in unit-linked and protection products as well as fee-based solutions managed through three global pillars (Bank Distribution, Corporate Life & Pensions and Other Retail) to develop leading positions in its target markets.
- Farmers provides, through Farmers Group, Inc. (FGI) and its subsidiaries, non-claims related, administrative and management services to the Farmers Exchanges as attorney-in-fact. FGI receives fee income for the provision of services to the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc. a wholly owned subsidiary of the Group. This segment also includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S.

For the purpose of discussing financial performance the Group considers General Insurance, Global Life and Farmers to be its core segments. The other business segments are:

- Other Operating Businesses predominantly consist of the Group's headquarter and Holding and Financing activities. In addition, certain alternative investment positions not allocated to business operating segments are included within Holding and Financing.
- Non-Core Businesses include insurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. Non-Core Businesses also include the Group's remaining banking activities. Non-core businesses are mainly situated in the U.S., Bermuda, the United Kingdom and Ireland.

At a secondary level, the General Insurance segment is managed based on market-facing businesses, including: Global Corporate, North America Commercial, Europe, Middle East & Africa (EMEA), Latin America and Asia-Pacific.

The Global Life segment is managed based on its global pillars and on the four regions North America, Europe, Middle East & Africa (GL EMEA), Latin America and Asia Pacific (GL APAC). The new Global Life region EMEA was established as of January 1, 2015, and includes the former Global Life Europe business units, Global Life Middle East, the Zurich International Life business (ZIL) on the Isle of Man, as well as the Zurich EuroLife Luxembourg (ZEL) business. The newly formed Global Life Asia Pacific (GL APAC) region includes the following business units: Australia, Hong Kong, Indonesia, Japan, Malaysia, Singapore and Taiwan. This new structure aligns the Global Life and General Insurance segments more closely.

A detailed review of the respective business segment results during 2015 can be found in the operating and financial review starting on page 106. Furthermore, an overview of the Group's business strengths and activities is contained in the Annual Review, available on Zurich's website www.zurich.com (www.zurich.com/en/investor-relations/results-and-reports).

A list of the Group's significant subsidiaries, including information on significant subsidiaries that are listed, can be found on pages 254 to 257. For further information on the share listing of Zurich Insurance Group Ltd, see the shareholder information on pages 276 to 278.

Corporate governance report *continued*

Significant shareholders

According to the rules regarding the disclosure of significant shareholdings of Swiss companies listed in Switzerland, disclosure has to be made if certain thresholds starting at three percent are reached or if the shareholding subsequently falls below those thresholds. Call options and other financial instruments are added to any share position, even if they allow for cash settlement only. Disclosure must be made separately for purchase positions (including shares, long call options and short put options) and sale positions (including long put options and short call options). The percentage thresholds are calculated on the basis of the total amount of voting rights according to the number of shares issued as disclosed in the commercial register.

Zurich Insurance Group Ltd is obliged to announce shareholdings by third parties in its shares when notification is received from a third party that a threshold has been reached. During 2015 the Group received no notifications by third parties that they had either exceeded or fallen below the threshold of three percent as a result of purchases or sales.

As of December 31, 2015, Zurich Insurance Group Ltd is not aware of any person or institution, other than BlackRock, Inc., New York (> 5%), which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd representing three percent or more of its issued shares.

The announcements related to these notifications can be found via the search facility on the SIX Disclosure Office's platform: https://www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html.

Zurich Insurance Group Ltd is not aware of any person or institution which, as of December 31, 2015, directly or indirectly, alone or with others, exercised or was a party to any arrangements to exercise control over Zurich Insurance Group Ltd.

Overview on shareholder structure

Number of shares held

as of December 31, 2015	Number of registered shareholders	% of registered share capital
1–500	120,060	14.9
501–1,000	5,381	4.6
1,001–10,000	4,243	12.1
10,001–100,000	397	12.5
100,001+	70	55.9
Total registered shares[1]	**130,151**	**100.0**

[1] of registered shareholders.

Registered shareholders by type

as of December 31, 2015	Registered shareholders in %	Registered shares in %[1]
Individual shareholders	95.8	29.2
Legal entities	4.1	26.7
Nominees, fiduciaries	0.1	44.1
Total	**100.0**	**100.0**

[1] of registered shareholders.

Registered shareholders by geography

as of December 31, 2015	Registered shareholders in %	Registered shares in %[1]
Switzerland	94.2	49.1
UK	0.5	22.9
North America	0.7	11.1
Asia	0.2	0.8
Latin America	0.1	–
Rest of the World	4.3	16.1

[1] of registered shareholders.

Cross-shareholdings

Zurich Insurance Group Ltd has no interest in any other company exceeding five percent of the voting rights of that other company, where such other company has an interest in Zurich Insurance Group Ltd exceeding five percent of the voting rights in Zurich Insurance Group Ltd.

Capital structure

Share capital

As of December 31, 2015, the ordinary share capital of Zurich Insurance Group Ltd amounted to CHF 15,040,496.40 divided into 150,404,964 fully paid registered shares with a nominal value of CHF 0.10 each. The Board will propose to the shareholders at the Annual General Meeting on March 30, 2016 a dividend of CHF 17.00 per share. As it is planned that the dividend payment be made from the capital contribution reserve, it will be exempt from Swiss withholding tax.

Authorized and contingent share capital

As of December 31, 2015, as specified in Article 5bis(1) of the Articles of Incorporation, the Board is authorized to increase the share capital of Zurich Insurance Group Ltd by up to CHF 1,000,000 representing 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each until April 2, 2016. The contingent share capital of Zurich Insurance Group Ltd, as specified in Article 5ter(1a) of the Articles of Incorporation, may be increased by an amount not exceeding CHF 1,000,000 by issuing up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each by exercising conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Insurance Group Ltd or one of its Group companies in national or international capital markets and/or option rights which are granted to the shareholders. Moreover, there is an additional contingent share capital of CHF 89,029.50 as specified in Article 5ter(2a) of the Articles of Incorporation, representing 890,295 fully paid registered shares with a nominal value of CHF 0.10 each, which may be issued to employees of the Group. For further information on the capital structure and the authorized and contingent share capital, see the audited consolidated financial statements, note 20 on pages 214 to 215.

Changes to share capital during 2015

During 2015, a total of 768,128 shares were issued to employees out of contingent capital. As a result, on December 31, 2015, the share capital amounted to CHF 15,040,496.40 (150,404,964 shares) and both the authorized capital and the contingent share capital (as specified in Article 5bis(1) and in Article 5ter(1a) of the Articles of Incorporation, respectively) amounted to CHF 1,000,000 (10,000,000 shares) and the other contingent share capital (as specified in Article 5ter(2a) of the Articles of Incorporation) amounted to CHF 89,029.50 (890,295 shares).

Changes to share capital during 2014

During 2014, a total of 733,614 shares were issued to employees out of contingent capital. As a result, on December 31, 2014, the share capital amounted to CHF 14,963,683.60 (149,636,836 shares) and both the authorized share capital and the contingent share capital (as specified in Article 5bis(1) and in Article 5ter(1a) of the Articles of Incorporation, respectively) amounted to CHF 1,000,000 (10,000,000 shares) and the other contingent share capital (as specified in Article 5ter(2a) of the Articles of Incorporation) amounted to CHF 165,842.30 (1,658,423 shares).

Corporate governance report *continued*

Summary of changes in the ordinary share capital over the last two years

	Share capital in CHF	Number of shares	Nominal value in CHF
As of December 31, 2013	14,890,322.20	148,903,222	0.10
Newly issued shares from contingent capital	73,361.40	733,614	0.10
As of December 31, 2014	14,963,683.60	149,636,836	0.10
Newly issued shares from contingent capital	76,812.80	768,128	0.10
As of December 31, 2015	15,040,496.40	150,404,964	0.10

For information on changes of share capital during 2013, see the Annual Report 2014 of Zurich Insurance Group, page 26, pages 164 to 165 and pages 213 to 214.

Shares and participation certificates

Zurich Insurance Group Ltd's shares are registered shares with a nominal value of CHF 0.10 each. The shares are fully paid in. Pursuant to article 14 of the Articles of Incorporation, each share carries one vote at shareholders' meetings and entitles the registered holder to exercise all other membership rights in respect of that share.

Some interests in shares are held by investors in the form of American Depositary Receipts (ADRs)[1]. As of December 31, 2015, investors held 28,483,340 ADRs (representing 2,848,334 Zurich Insurance Group Ltd shares).

Profit-sharing certificates

Zurich Insurance Group Ltd has not issued any profit-sharing certificates.

Limitations on transferability and nominee registrations

The Articles of Incorporation do not provide for any limitations on transferability except for the following:

Registration as a shareholder requires a declaration that the shareholder has acquired the shares in his or her own name and for his or her own account. Nominees holding Zurich Insurance Group Ltd shares may for the benefit of, or as nominee for another person be registered for up to 200,000 shares with voting rights notwithstanding that the nominee does not disclose the identity of the beneficial owner. A nominee, however, is entitled to be registered as a shareholder with voting rights of more than 200,000 shares if the nominee undertakes to disclose the identity of each beneficial owner and to inform the beneficial owners about corporate actions, to consult as to the exercise of voting rights and pre-emptive rights, to transfer dividends and to act in the interests of and in accordance with the instructions of the beneficial owner.

There are special provisions relating to the registration and exercise of rights attached to shares by The Bank of New York Mellon Corporation in connection with the Zurich Insurance Group Ltd ADR program.

Convertible bonds and options

Zurich Insurance Group Ltd had no public convertibles or options outstanding as of December 31, 2015. For information on employee share option plans, see the audited consolidated financial statements, note 22 on pages 224 to 225.

[1] Zurich Insurance Group Ltd has established an American Depositary Share, or ADS, level 1 program in the U.S. Under this program, The Bank of New York Mellon Corporation issues the ADSs. Each ADS represents the right to receive one-tenth of one share of Zurich Insurance Group Ltd. Each ADS also represents securities, cash or other property deposited with The Bank of New York Mellon Corporation but not distributed to ADS holders. Zurich's ADSs are traded over the counter (OTC) and are evidenced by American Depositary Receipts, or ADRs. Since 1st July 2010, Zurich's ADRs have been traded on "OTCQX", an electronic platform operated by OTC Markets Group Inc. (formerly "Pink OTC Markets Inc.") under the symbol ZURVY. ADS holders are not treated as shareholders of Zurich Insurance Group Ltd and are not able to directly enforce or exercise shareholder rights. Only The Bank of New York Mellon Corporation as Depositary of the level 1 program may exercise voting rights with respect to instructions received from beneficial owners of ADRs.

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Board of Directors

The governance structure that controls relations between our Board and our Management is designed to help both bodies to fulfill their mandates. This structure provides checks and balances including the institutional independence of the Board of Directors from the Chief Executive Officer and the Group Executive Committee.


Tom de Swaan
Chairman and
Chief Executive Officer (ad interim)


Fred Kindle
Vice-Chairman


Joan Amble


Susan Bies


Dame Alison Carnwath


Rafael del Pino


Thomas K. Escher


Christoph Franz


Monica Mächler

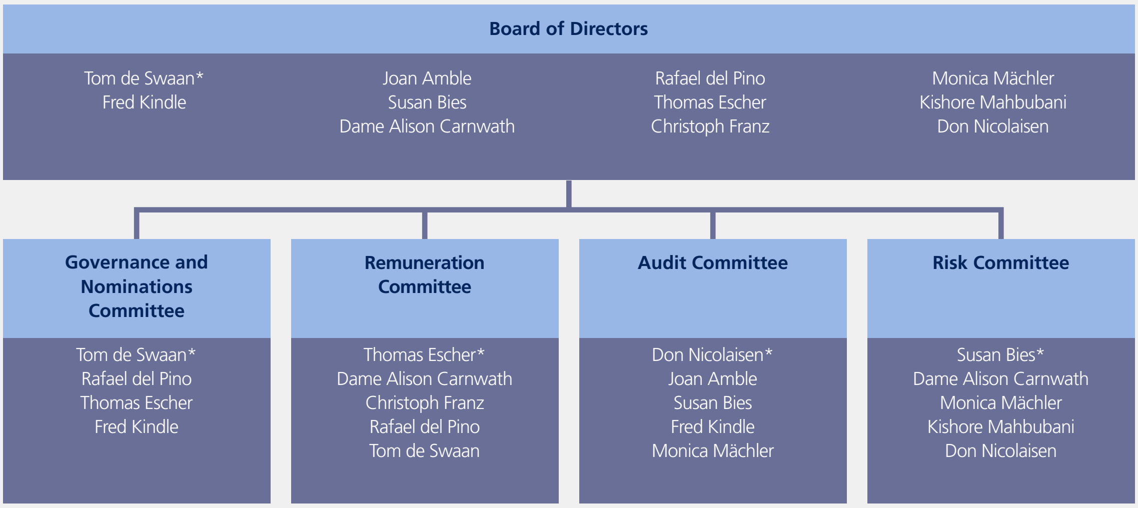

Kishore Mahbubani


Don Nicolaisen

Board of Directors

The Board, under the leadership of the Chairman, is responsible for determining the overall strategy of the Group and the supervision of senior management. It holds the ultimate decision-making authority for Zurich Insurance Group Ltd, except for decisions on matters reserved for the shareholders.

Board of Directors and its Committees
as of December 31, 2015



* Chairman of Board or Chairperson of Board Committee, respectively

The members of the Board are elected by the shareholders at the AGM. The Board constitutes itself in its first meeting after the AGM, except for the Chairman and the members of the Remuneration Committee who, as required by the Ordinance Against Excessive Compensation (AEC), in force since January 1, 2014, are elected by the shareholders.

The term of office of a Board member ends after completion of the next AGM. As a consequence, each member of the Board must be re-elected at the AGM each year.

All Directors of Zurich Insurance Group Ltd are also members of the Board of Directors of Zurich Insurance Company Ltd. Mr. de Swaan also serves as Chairman of that board. Ms. Bies and Mr. Nicolaisen are members of the Board of Directors of Zurich Holding Company of America, Inc. With the exception of Ms. Bies and Mr. Nicolaisen, the Directors have no further board memberships within the Group.

Fritz Gerber is the Honorary Chairman of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd. He was Chairman of Zurich Insurance Company between 1977 and 1995 and its Chief Executive Officer between 1977 and 1991. In recognition of his leadership and services to that company, he was appointed Honorary Chairman. Such designation does not confer Board membership or any Director's duties or rights, nor does it entitle him to any Directors' fees.

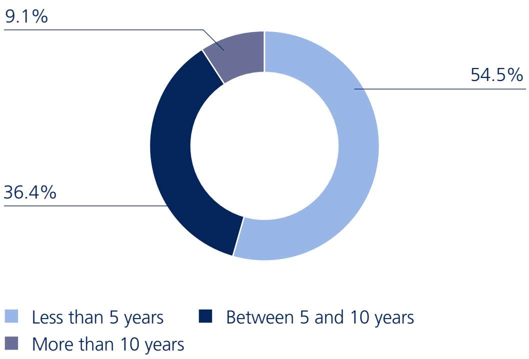
Corporate governance report *continued*

Board Composition
Diversity is a key success factor in today's fast-changing global environment. Zurich's Board consists of individuals with wide-ranging relevant backgrounds, experiences, skills and knowledge resulting in a favorable balance that enables the Board as a group to exercise its tasks and responsibilities while fully taking into account contemporary business needs.

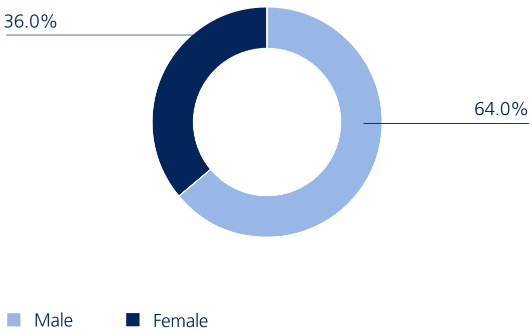
As of December 31, 2015, the Board included members of eight nationalities. The Board members gained their business experience in a broad range of jurisdictions resulting in a profound collective knowledge of international business practices. The Board also benefits from the broad cultural, educational and professional backgrounds of its members, which collectively include financial services, manufacturing, engineering, as well as legal and regulatory experience.

The current composition as of December 31, 2015 in terms of length of tenure and gender representation is as follows:

Board by length of tenure
as of December 31, 2015



Board by gender
as of December 31, 2015



Biographies

Tom de Swaan
Chairman and Chief Executive Officer a.i.
Nationality: Dutch
Born: 1946

Skills and experience
Tom de Swaan has served in the banking industry of the Netherlands for over 40 years. He joined De Nederlandsche Bank N.V. in 1972 and from 1986 until 1998 was a member of the governing board. In January 1999, he became a member of the managing board and chief financial officer of ABN AMRO Bank. He retired from ABN AMRO in May 2006, but continued as an adviser to the managing board until June 2007. Between 1987 and 1988, Mr. de Swaan was chairman of the Amsterdam Financial Center and from 1995 to 1997, chairman of the banking supervisory sub-committee of the European Monetary Institute. He was also a member of the Basel Committee on Banking Supervision from 1991 to 1996, its chairman from 1997 to 1998, and a non-executive director on the board of the UK's Financial Services Authority from January 2001 until the end of 2006. From 2006 until May 2015 he was a non-executive member of the board of GlaxoSmithKline Plc. He has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2006. In March 2012 he was elected vice-chairman, acting as chairman from August 2013 on. He was elected chairman of the Board in September 2013. As of December 1, 2015, Tom de Swaan also serves as Chief Executive Officer ad interim (a.i.).

Committee membership
Governance and Nominations Committee (chairperson), Remuneration Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. de Swaan has been a member of the supervisory board of Royal DSM, a Netherlands based global life sciences and material sciences group, since 2006. He is also a member of the supervisory board of Van Lanschot NV, the holding company of F. van Lanschot Bankiers, an independent Dutch bank, since 2008 and served as its chairman until December 2015.* In addition, Mr. de Swaan is chairman of the board of the Netherlands Cancer Institute, chairman of the board of trustees of the Van Leer Jerusalem Institute and acts as director of certain other non-profit organizations. He is also a member of the European Financial Services Round Table (EFR) and of the advisory board of China Banking Regulatory Commission in Beijing.

Educational background
Mr. de Swaan graduated from the University of Amsterdam with a master's degree in economics.

* While serving as Chief Executive Officer a.i., Mr. de Swaan will hold his mandates with these listed companies in abeyance.

Fred Kindle
Vice-Chairman
Nationality: Swiss and Principality of Liechtenstein
Born: 1959

Skills and experience
Fred Kindle worked at Hilti AG in Liechtenstein from 1984 until 1986. From 1988 until 1992 he was a consultant with McKinsey & Company in New York and Zurich. He then joined Sulzer AG in Switzerland, where he held several management positions. In 1999 he was appointed CEO of Sulzer Industries and in 2001 he became CEO of Sulzer AG. After joining ABB Ltd in 2004, Mr. Kindle was appointed CEO of ABB Group, a position he held until 2008. He then became a partner of Clayton, Dubilier & Rice LLP, a private equity firm based in New York and London. He has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2006. He was elected vice-chairman in September 2013.

Committee membership
Governance and Nominations Committee, Audit Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
In his capacity as a partner of Clayton, Dubilier & Rice, Mr. Kindle has served as chairman of Exova Plc, UK since 2008, and was chairman of BCA Group from 2010 until April 2015. He has been on the board of VZ Holding Ltd, Zurich, since 2002 and was elected chairman in 2014. He has been serving on the board of privately-held Stadler Rail AG since 2008.

Educational background
Mr. Kindle graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a master's degree in engineering and holds an MBA from Northwestern University, Evanston.

Corporate governance report *continued*

Joan Amble
Member of the Board of Directors
Nationality: U.S.
Born: 1953

Skills and experience
Joan Amble has substantial financial industry experience. She started her professional career as an accountant with Ernst & Young in 1977. From 1984 to 1989 she served at the Financial Accounting Standards Board (FASB), specializing in pensions, derivatives and other financial instruments. She then spent 14 years with General Electric Company (GE) in various leadership roles, including CFO GE Real Estate, COO and CFO GE Capital Markets, and as Vice President and corporate controller for GE Capital Services. From 2003 to May 2011, Ms. Amble served as executive vice president and corporate comptroller, and until the end of 2011 as executive vice president, Finance, of the American Express Company. In December 2011, Ms. Amble completed a four-year term as a member of the Financial Accounting Standards Advisory Council (FASAC). She has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2015.

Committee membership
Audit Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
She is a member of the boards of Sirius XM Satellite Radio and Brown-Forman, where she chairs the audit committees. In addition, she is a member of the board and the audit committee at Booz Allen Hamilton. In January 2015, Ms. Amble was appointed to the Public Company Accounting Oversight Board's Standing Advisory Group, which advises on the development of auditing and professional practice standards. She is also involved in several organizations focused on the development of women in business, including chair emeritus and co-founder of W.O.M.E.N in America Inc.

Educational background
Ms. Amble received a Bachelor of Science in accounting from the Pennsylvania State University, and later became a certified public accountant (currently inactive).

Susan Bies
Member of the Board of Directors
Nationality: U.S.
Born: 1947

Skills and experience
Susan Bies began her career in 1970 as regional and banking structure economist with the Federal Reserve Bank of St. Louis, Missouri. In 1972, she became assistant professor of economics at Wayne State University, Detroit, Michigan. In 1977, she moved to Rhodes College, Memphis, Tennessee, in a similar role and in 1979 joined First Tennessee National Corporation in Memphis, where she remained until 2001. Her areas of responsibility included tactical planning and corporate development. In 1984 she became chief financial officer and chairman of the asset/liability committee. In 1995, she became executive vice president of risk management and auditor and chairman of the risk management committee, as well as continuing her duties with the asset/liability committee. From 2001 until 2007, she was a member of the Board of Governors of the Federal Reserve System. Between 1996 and 2001, Ms. Bies was a member of the Emerging Issues Task Force of the Financial Accounting Standards Board. She has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2008.

Committee membership
Audit Committee, Risk Committee (chairperson)

Other directorships within the Group
Zurich Insurance Company Ltd,
Zurich Holding Company of America, Inc.

External appointments
Ms. Bies has served as a member of the board of directors of The Bank of America Corporation since June 2009, and joined the board of directors of Merrill Lynch International, London, a subsidiary of Bank of America Corporation, in 2013. She has also been a member of the senior advisory board of Oliver Wyman since 2009.

Educational background
Ms. Bies graduated with a B.S. degree from the State University College at Buffalo, New York and with an M.A. degree from Northwestern University, Evanston, where she later gained a Ph.D.

Dame Alison Carnwath
Member of the Board of Directors
Nationality: British
Born: 1953

Skills and experience
Dame Alison Carnwath has substantial financial industry experience. She began her career with Peat Marwick Mitchell, now KPMG, where she practiced as a chartered accountant from 1975 to 1980. From 1980 to 1982, she worked as a corporate financier for Lloyds Bank International. From 1982 to 1993, she was assistant director, then director, at J. Henry Schroder Wagg & Co in London and New York. From 1993 to 1997, Dame Alison was a senior partner at the financial advisory firm Phoenix Partnership. The firm was taken over by Donaldson, Lufkin & Jenrette (DLJ) in late 1997; Dame Alison continued working for DLJ until 2000. Dame Alison has held several board offices. From 2000 to 2005, she was the chairman of the board of Vitec Group plc, from 2001 to 2006 a director of Welsh Water, from 2004 to 2007 of Friends Provident plc, from 2004 to 2007 of Gallaher Group and from 2007 to 2010, she was the independent chairman of MF Global Inc. She also served on the boards of directors of Barclays from 2010 to 2012, and of Man Group plc from 2001 to 2013. She has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since March 2012. She was awarded a Dame of the British Empire (DBE) in the 2014 New Year Honours List in the UK.

Committee membership
Remuneration Committee, Risk Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Dame Alison has been a senior advisor of Evercore Partners since 2011 and an independent chairman of Living Bridge Equity Partners LLP (formerly ISIS Equity Partners LLP) since 2000. She has been chairman of the board of Land Securities Group plc since 2008 and a member of the board of PACCAR Inc. since 2005. Dame Alison is also a trustee of the British Library. In September 2013, she was appointed to the advisory council of the St. George's Society of New York. Since May 2014 she is a member of the supervisory board of BASF SE and Chairman of the Audit Committee of BASF SE.

Educational background
Dame Alison graduated in economics and German from the University of Reading. She was also awarded an honorary doctorate (LLB) from the University of Reading and the University of Exeter.

Rafael del Pino
Member of the Board of Directors
Nationality: Spanish
Born: 1958

Skills and experience
Rafael del Pino has more than 30 years of international management experience. From 1992 to 1999, he was CEO of Grupo Ferrovial and in 1999, he was appointed executive vice-chairman. In 2000, Mr. del Pino assumed the position of executive chairman and managing director of Ferrovial S.A. During his career at Ferrovial he has transformed the company from a mostly domestic construction company to a leading provider of infrastructure services around the world. In addition, Mr. del Pino was a member of the board of Banesto (Banco Español de Crédito S.A.) from 2003 to 2012 and of the International Advisory Board of Blackstone from 2007 to 2013. He has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since March 2012.

Committee membership
Governance and Nominations Committee, Remuneration Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. del Pino maintains contact with the academic world through his memberships on the MIT Corporation, the International Advisory Board of IESE and the European Advisory Board of Harvard Business School and of MIT Sloan School of Management.

Educational background
Mr. del Pino graduated in civil engineering from the Universidad Politécnica Madrid and obtained an MBA from MIT Sloan School of Management.

Corporate governance report *continued*

Thomas K. Escher
Member of the Board of Directors
Nationality: Swiss
Born: 1949

Skills and experience
Thomas Konrad Escher has extensive experience in the fields of information technology (IT) and banking. He joined IBM in 1974 and had managerial responsibility for several international markets. In 1996, Mr. Escher joined Swiss Bank Corporation as a member of the executive board and was CEO for the major market region in Switzerland and for the IT organization. Following the merger of Swiss Bank Corporation and Union Bank of Switzerland to form UBS AG in 1998, he headed the IT business area of the wealth management and business banking division until mid-2005 as a member of the group managing board. Mr. Escher held the function of vice-chairman in the business group Global Wealth Management & Swiss Bank of UBS AG from 2005 until early 2013. He has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2004.

Committee membership
Governance and Nominations Committee, Remuneration Committee (chairperson)

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. Escher has been a member of the board of directors of Silent-Power AG of Cham, Switzerland, a company in the alternative energy field, since 2012, and its chairman since 2013.

Educational background
Mr. Escher graduated both in electrical engineering and business management from the Swiss Federal Institute of Technology (ETH).

Christoph Franz
Member of the Board of Directors
Nationality: German
Born: 1960

Skills and experience
Christoph Franz started his professional career in 1990 at Deutsche Lufthansa AG. From 1994 until 2003 he held different executive functions at Deutsche Bahn AG, including as member of the executive board and CEO of the passenger transport division. In 2004 he became CEO of Swiss International Air Lines Ltd, and in 2009 was promoted to the role of deputy chairman of the executive board of Deutsche Lufthansa AG and CEO Passenger Airlines. From 2011 to 2014, Mr. Franz was chairman of the executive board and CEO of Deutsche Lufthansa AG. He became a member of the boards of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd in April 2014.

Committee membership
Remuneration Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. Franz was elected chairman of the board of Roche Holding Ltd in March 2014. He is also a member of the Board of Directors of Swiss International Air Lines Ltd and of Stadler Rail. Mr. Franz serves as a member of the board of trustees of Avenir Suisse and Ernst-Goehner-Stiftung.

Educational background
Mr. Franz studied industrial engineering at the Technical University Darmstadt (Germany) and completed his studies with a Ph.D. in economic sciences (Dr. rer. pol.) at the same university. He also studied at the Ecole Centrale de Lyon (France) and conducted post-doctorate research at the University of California, Berkeley.

Monica Mächler
Member of the Board of Directors
Nationality: Swiss
Born: 1956

Skills and experience
Monica Mächler has substantial legal, regulatory and governance expertise in a national and international context. She served as vice-chair of the board of directors of the integrated Swiss Financial Market Supervisory Authority (FINMA) from 2009 to 2012, after having been the director of the Swiss Federal Office of Private Insurance from 2007 to 2008. From 2010 to 2012, Ms. Mächler chaired the Technical Committee of the International Association of Insurance Supervisors (IAIS). She assumed the roles of Group General Counsel and Head of the Board Secretariat of Zurich Insurance Group from 1999 to 2006 and was appointed a member of the Group Management Board in 2001 after joining in 1990. During the years 1985 to 1990 she was in private practice specializing in banking and business law. Ms. Mächler has been a member of several Swiss federal expert commissions on regulatory projects and regularly speaks, lectures and publishes on matters related to international business law and regulation, and their impact. She has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2013.

Committee membership
Audit Committee, Risk Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Ms. Mächler has been a member of the supervisory board of directors of Deutsche Börse AG since May 2012 and since April 2015 a member of the board of directors of Cembra Money Bank AG. She also chairs the advisory board of the International Center for Insurance Regulation at the Goethe University Frankfurt am Main and serves on the board of the Stiftung für schweizerische Rechtspflege.

Educational background
Ms. Mächler earned her J.D. at the University of Zurich's Law School and complemented her studies by attending programs on UK, U.S. and private international law. She is admitted to the bar of the Canton of Zurich.

Kishore Mahbubani
Member of the Board of Directors
Nationality: Singapore
Born: 1948

Skills and experience
Kishore Mahbubani began his career as a diplomat with the Singapore Foreign Service in 1971 in which he served until 2004, with postings in Cambodia, Malaysia, Washington D.C. and New York. He served two postings as Singapore's ambassador to the UN and as President of the UN Security Council in January 2001 and May 2002. Mr. Mahbubani was permanent secretary of the Foreign Ministry from 1993 to 1998. He has spoken and published globally on geopolitical and economic issues. His latest book The Great Convergence: Asia, the West and the Logic of One World, was selected by the Financial Times as one of the best books of 2013. He has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2015.

Committee membership
Risk Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. Mahbubani is dean and professor in the practice of public policy at the Lee Kuan Yew School of Public Policy of the National University of Singapore. He serves on boards and councils of several institutions in Singapore, Europe and North America, including Yale's President's Council on International Activities (PCIA), the University of Bocconi International Advisory Committee, the World Economic Forum's Global Agenda Council on Geo-economics, and as chairman of the Lee Kuan Yew World City Prize Nominating Committee.

Educational background
Mr. Mahbubani graduated with a first-class honours degree in philosophy from the University of Singapore and an M.A. in philosophy from Dalhousie University, Canada, where he was also awarded an honorary doctorate.

Corporate governance report *continued*

Don Nicolaisen
Member of the Board of Directors
Nationality: U.S.
Born: 1944

Skills and experience
Don Nicolaisen has substantial expertise in accounting, auditing and financial reporting. He joined Price Waterhouse in 1967 (which subsequently became PricewaterhouseCoopers or PwC). Mr. Nicolaisen was admitted to that firm's partnership in 1978 where he served in various capacities, including as an auditor and as chairman of their Financial Services practice. Mr. Nicolaisen also led PwC's National Office for Accounting and Securities and Exchange Commission Services from 1988 to 1994 and served on both the U.S. and global boards of PwC from 1994 to 2001. From September 2003 to November 2005, Mr. Nicolaisen was Chief Accountant of the U.S. Securities and Exchange Commission where he served as the principal adviser to the Commission on accounting and auditing matters. He has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2006.

Committee membership
Audit Committee (chairperson), Risk Committee

Other directorships within the Group
Zurich Insurance Company Ltd,
Zurich Holding Company of America, Inc.

External appointments
Mr. Nicolaisen has been a member of the board of directors of Verizon Communications Inc. since 2005, Morgan Stanley since 2006 and MGIC Investment Corporation since 2006. In addition, he serves on the board of advisors for the University of Southern California Leventhal School of Accounting.

Educational background
Mr. Nicolaisen graduated from the University of Wisconsin-Whitewater with a B.B.A. degree.

The business address for each Board member is Mythenquai 2, 8002 Zurich, Switzerland.

Independence of the members of the Board of Directors

Zurich considers the independence of its Board members to be an essential feature of good corporate governance. Zurich's independence criteria comply with applicable laws and reflect best-practice standards such as the SIX Exchange Regulation Directive on Information relating to Corporate Governance and the Swiss Code of Best Practice. The Board consisted up to December 1, 2015 entirely of Directors who are non-executive, independent from the management and who – except for Ms. Mächler – have never held an executive position in the Group. Ms. Mächler held an executive position until 2006 and was elected in 2013 as a non-executive board member. According to the guidelines of the Swiss Code of Best Practice, she is considered independent.

The roles of Chairman and CEO were separated up to December 1, 2015 and will be separated again as of March 7, 2016, when Mario Greco will be taking over the role of Chief Executive Officer. For the interim period during which the Chairman of the Board, Tom de Swaan, is serving as Chief Executive Officer ad interim, Fred Kindle, Vice-Chairman of the Board, has taken on certain additional responsibilities to ensure continued good governance. The Board, with the exception of this period, consists entirely of non-executive members and there is no requirement for a lead director to be appointed under the Swiss Code of Best Practice.

The Governance and Nominations Committee reviews the independence of the Board members annually and reports its findings to the Board for final determination. Board members are also subject to rules and regulations to avoid conflicts of interest and the use of inside information.

External Mandates

In line with the Ordinance AEC, art. 33 of Zurich's Articles of Incorporation, contains rules regarding the number of mandates members of the Board and of the GEC are permitted to hold, as shown in the table below. Board and GEC members' individual mandates, which are in line with those rules, are shown in their respective biographies.

Art. 33, para. 1, of the Articles of Incorporation sets forth the following, generally applicable, maximum limits:

	Board of Directors	Group Executive Committee
Additional mandates for listed companies	3 maximum	1 maximum
Mandates for non-listed companies	5 maximum	3 maximum

Exempted from this general limit are the following categories of mandates (art. 33, para. 2, of the Articles of Incorporation):

	Board of Directors	Group Executive Committee
Mandates for Group subsidiaries	No limit	
Mandates on behalf of the Group	5 maximum	5 maximum
Mandates for associations, charitable organizations, foundations or pension funds	5 maximum	5 maximum

Multiple mandates for different companies under unified control are counted as a single mandate. The maximum limits set forth in the Articles of Incorporation do not discharge the members of the Board or Group Executive Committee from their generally applicable duties to act with due care and to protect Group interests. As in the past, the assumption of additional mandates is possible only where, upon assumption of such mandates, sufficient time and resources remain available for performance of the office held in the Group.

Size of Board and tenure

The Articles of Incorporation require that the Board shall consist of not less than seven and not more than thirteen members. According to the Group's internal guidelines, in general, the maximum tenure of Board members may not exceed twelve years and no individual of 72 years of age or older shall be nominated or stay in office as a Director, although exceptions may be made under special circumstances.

Elections

As required by Swiss law, directors are elected annually. Directors are elected by a majority of the votes cast.

At the AGM on April 1, 2015, all Board members were re-elected for another one-year term. Ms. Joan Amble and Mr. Kishore Mahbubani were newly elected. The shareholders elected Mr. Tom de Swaan as Chairman. As members of the Remuneration Committee, they elected Mr. Thomas Escher, Dame Alison Carnwath, Mr. Rafael del Pino, Mr. Tom de Swaan and Mr. Christoph Franz. As independent voting rights representative, the shareholders elected Mr. lic. iur. Andreas G. Keller, Attorney at Law.

As already announced last year, after 10 years on the Board, Mr. Don Nicolaisen will not stand for re-election at the Annual General Meeting 2016. Also Mr. Rafael del Pino and Mr. Thomas K. Escher will not stand for re-election. Mr. Escher will have served the maximum tenure of office of 12 years. The Board proposes to the shareholders to re-elect all other current members of the Board at the AGM, which will take place on March 30, 2016, and that they elect Jeffrey L. Hayman and David Nish as new members.

Corporate governance report *continued*

The Board proposes to the shareholders that they elect or re-elect as follows:

- As members: Mr. Tom de Swaan, Mr. Fred Kindle, Ms. Joan Amble, Ms. Susan Bies, Dame Alison Carnwath, Mr. Christoph Franz, Ms. Monica Mächler, and Mr. Kishore Mahbubani.
- As new members: Mr. Jeffrey L. Hayman and Mr. David Nish
- As Chairman: Mr. Tom de Swaan
- As members of the Remuneration Committee: Mr. Tom de Swaan, Mr. Fred Kindle, Mr. Christoph Franz and Mr. Kishore Mahbubani.
- As independent voting rights representative: Mr. lic. iur. Andreas G. Keller, Attorney at Law

Internal organizational structure and responsibilities

The Board is chaired by the Chairman, or in his absence the Vice-Chairman. The Vice-Chairman is appointed by the Board. The Board also appoints its Secretary. The Board has a program of topics that is presented at its meetings throughout the year. It is regularly informed of developments relevant to the Group and is provided with timely information in a form and of a quality appropriate to the discharge of its duties in accordance with the standards of care set out in Article 717 of the Swiss Code of Obligations.

The CEO attends Board meetings ex officio. Members of the GEC are regularly invited by the Board to attend meetings. Other executives also attend meetings from time to time at the invitation of the Board. Most Board meetings include private sessions of the Board without the participation of management.

The Board is required to meet at least six times each year. During 2015 it held 16 meetings (of which 15 were partly attended by tele-/videoconference and six were held over two days). One meeting was fully dedicated to the discussion of strategy. Five meetings lasted four or more hours during the course of a day, four meetings took about three hours on average and seven meetings lasted less than three hours. In addition, the Board approved two circular resolutions.

In 2015, average attendance at Board meetings was 93 percent. In fulfillment of their duties, the members of the Board spent additional time participating in Board Committee meetings and preparing for meetings.

Overview of meeting attendance

Overview of meeting attendance

as of December 31, 2015	Board of Directors	Governance & Nominations Committee	Audit Committee	Remuneration Committee	Risk Committee
No. of meetings held	16	4	7	5	7
No. of members[1]	11	4	5	5	5
Meeting attendance, in %	93	94	97	87	97

[1] Until April 1, 2015, the Board had 9 and the Audit Committee, the Remuneration Committee and the Risk Committee each 4 members.

The Board is responsible for the ultimate management of Zurich Insurance Group Ltd and of the Group as a whole as well as for the supervision of management. In particular, it is responsible for taking actions in the following areas:

- **Group strategy:** The Board regularly reviews and discusses in particular the Group's business portfolio including its target market, acquisitions, customer and intermediaries strategy and its human resources strategy;
- **Finance:** The Board particularly approves the financial and operating plan annually, establishes guidelines for capital allocation and financial planning. Further, the Board reviews and approves the annual and interim (half year and quarterly) consolidated financial statements of the Group. Above certain thresholds, the Board approves major lending and borrowing transactions;
- **Structure and organization of the Group:** The Board determines and regularly reviews the basic principles of the Group's structure and major changes in the Group's management organization including major changes of management functions. In this respect, the Board particularly discusses the Group's corporate governance framework and its remuneration system. The Board also adopts and regularly reviews the Group's basic principles of conduct, compliance and risk management. Further, as part of its duty to convene the shareholders' meeting and submit proposals to the shareholders' meeting, it discusses the dividend policy and the Board's proposal for the payment of dividends. Within its authorities the Board also makes resolutions on capital increases and the certification of capital increases and respective amendments to the articles of incorporation;
- **Business Development:** Above certain thresholds, the Board regularly discusses and approves acquisitions and disposals of businesses and assets, investments, new businesses, mergers, joint ventures, co-operations and restructurings of business units or books of businesses.

In 2015, the Board specifically focused on the following topics:

- Strategy implementation and execution including further development of Zurich's human resources strategy;
- Detailed reviews of various regional business operations;
- Customer trends, structural industry changes and disruptive technologies;
- Merger & acquisition transactions;
- Board self-assessment and resulting recommendations.

The Board may establish committees for specific topics, terms of reference and rules with respect to delegated tasks, responsibilities and reporting to the Board. Except for the Remuneration Committee, the Board constitutes such committees from among its members at its own discretion. The members of the Remuneration Committee are elected by the shareholders' meeting. The committees assist the Board in performing its duties. They discuss and propose matters to the Board in order that it may take appropriate actions and pass resolutions unless they are authorized to take resolutions in specific areas on their own. In 2015, committee meetings lasted two hours on average.

Corporate governance report *continued*

Self-assessment

A self-assessment of the full Board and its committees is carried out once a year. In 2015, the self-assessment was carried out on the basis of a comprehensive questionnaire. It considered the following key aspects of the effectiveness of the Board and its committees: a) the Board and committee environment (culture and composition, skill set and definition and delineation of tasks); b) the work of the Board and its committees (strategy, risk and control, and performance management); and c) the use of time and process (planning and allocation). A detailed report identifying key strengths and challenges was produced for, and considered by the Board. A respective action plan decided by the Board is currently being implemented.

Committees of the Board of Directors

The Board has the following standing committees, which regularly report to the Board and submit proposals for resolution by the Board:

Governance and Nominations Committee

Composition and membership: The Governance and Nominations Committee consists of at least four Board members. Currently, Tom de Swaan (Chairperson), Rafael del Pino, Thomas Escher and Fred Kindle serve on this committee.

Key tasks and responsibilities: In general, the Governance and Nominations Committee:

- oversees the Group's governance and measures it against best practice with a view to ensuring that the rights of shareholders are fully protected;
- develops and proposes guidelines to the Board for corporate governance and reviews them from time to time;
- ensures compliance with corporate governance disclosure requirements as well as legal and regulatory requirements;
- is entrusted with succession planning for the Board, the CEO and members of the GEC. In this regard, it proposes the principles for the nomination and ongoing qualification of members of the Board and makes proposals to the Board on the composition of the Board, the appointment of the Chairman, the Vice-Chairman, the CEO and members of the GEC. Final decisions for nominations and appointments are made by the Board, subject to shareholder approval, where required. When identifying and proposing candidates as new Board members, the preservation and improvement of the Board's diversity is a key factor. This includes diversity in many respects, such as gender, culture, technical and interpersonal skills, education and viewpoints, experience, geographical origins and a variety of complementary backgrounds, which should enable the Board to meet the Group's current and future challenges. Notwithstanding the specific profile, every individual candidate should possess integrity and be in good standing, and be capable and available to fulfill his or her duty of care by serving, in close collaboration with the other Board members, in the best interest of the Group's stakeholders;
- reviews the system for management development and supervises progress made in respect of succession planning.

Activities 2015: During 2015, in particular the following topics were discussed:

- Board and management succession planning,
- developments with regard to corporate governance-related matters, including the implementation of legislative and regulatory changes on Swiss and international levels;
- review of corporate governance rules, review of independence of Board members.

The Governance and Nominations Committee meets at least four times a year. In 2015 it met four times.

Remuneration Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Remuneration Committee to consist of at least four independent non-executive Board members. Currently, Thomas Escher (Chairperson), Dame Alison Carnwath, Rafael del Pino, Tom de Swaan and Christoph Franz serve on this committee.

Key tasks and responsibilities: In general, the Remuneration Committee:

- regularly evaluates the Group's remuneration system and Zurich's remuneration rules and proposes amendments to the Board, which is responsible for the design, implementation and monitoring of the Group's remuneration framework

  (Further details of the Group's remuneration framework, including the remuneration philosophy and the remuneration governance are set out in the Remuneration report on pages 66 to 103);

- reviews and proposes to the Board on an annual basis the terms of remuneration of the members of the Board;
- based on Zurich's Remuneration Rules, reviews and proposes to the Board the terms and conditions of employment of the CEO and reviews those of other members of the GEC, as proposed by the CEO, before submitting them to the Board for approval;
- liaises with the CEO on other important employment, salary and benefit matters;
- reviews and proposes to the Board the total variable remuneration pool and reviews the performance relating to short-term and long-term incentive plans, and also makes a qualitative assessment of the performance, reviews and makes proposals to the Board for submission to the General Meeting on the approval of the Board's and GEC's remuneration;
- and prepares the remuneration report annually in accordance with applicable laws and regulations.

Activities 2015: During 2015, in particular the following topics were discussed:

- the performance of the Group, the segments and the GEC as well as the approval of STIP award level and LTIP vesting level in 2015 including the approval of the total variable remuneration pool for 2014;
- the regulatory environment regarding remuneration and its implications on Zurich as well as external developments;
- the Ordinance AEC with respect to the implementation of its requirements, in particular on the amounts of total remuneration for the Board and the GEC presented to the vote of the shareholders at the AGM on April 1, 2015, including the results thereof,
- the review of the employment agreements of the members of the GEC, and
- remuneration-related matters arising from Solvency II; share ownership levels of the members of the Board and the GEC (for more details see the remuneration report on pages 66 to 103);
- in the annual joint meeting with the Risk Committee, risk management aspects of the Group's remuneration architecture, as well as key activities with respect to identified Key Risk Taker (KRT) positions, e.g. risk-based assessment of KRTs;
- the remuneration report and the Board of Directors report on the approval of the remuneration of the Board of Directors and the Group Executive Committee;
- Zurich's Remuneration Rules and the Remuneration Committee Charter were revised and approved by the Board of Directors;
- the Board's and GEC's compensation;
- activities of the Group Pension Committee.

The Remuneration Committee has retained its own independent advisors, Meridian Compensation Partners, LLC and New Bridge Street, to assist in its review of the remuneration structures and practices.

The Remuneration Committee meets at least four times a year. In 2015 it met five times.

Corporate governance report *continued*

Audit Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Audit Committee to consist of at least four non-executive Board members, independent from management. Currently, Don Nicolaisen (Chairperson), Joan Amble, Susan Bies, Fred Kindle and Monica Mächler, all of whom meet the relevant requirements for independence and qualification, serve on this committee.

The Audit Committee Charter provides that the Audit Committee, as a whole, should have (i) an understanding of IFRS and financial statements, (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience in preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those of Zurich Insurance Group Ltd and the Group, or experience in actively supervising one or more persons engaged in these activities, (iv) an understanding of internal controls and procedures for financial reporting, and (v) an understanding of audit committee functions.

To facilitate an ongoing exchange of information between the Risk Committee and the Audit Committee, the Chairperson of the Audit Committee is a member of the Risk Committee and at least one member of the Risk Committee is a member of the Audit Committee. The Chairman of the Board regularly participates in both the Audit and Risk Committee meetings as a guest.

The external auditors, the internal auditors, appropriate members of the GEC and other executives attend its meetings in order to, inter alia, discuss auditors' reports, review and assess the auditing concept and the examination process and to assess the activities of both external and internal auditors. Private sessions with external and internal auditors are scheduled at the majority of Audit Committee meetings to enable discussion without the presence of management.

For more information on the supervision and control of the external audit process, see pages 62 and 64.

Key tasks and responsibilities: In general, the Audit Committee:

- serves as a focal point for communication and oversight regarding financial accounting and reporting, internal control, actuarial practice, and financial and regulatory compliance;
- reviews the Group's auditing process (including establishing the basic principles relating to and making proposals for the audit of Zurich Insurance Group Ltd and the Group);
- at least annually, reviews the standards of internal control, including activities, plans, organization and quality of Group Audit and Group Compliance;
- reviews the annual, half-year and quarterly financial reporting of the Group before submission to the Board.

Activities 2015: During 2015, in particular the following topics were discussed:

- quarterly reporting with a strong focus on accounting and reserving matters;
- the effectiveness of the internal control framework, including SOX;
- Group Audit work plans, Group Audit findings and management implementation of remediation actions;
- the work of the external auditors, the terms of their engagement and the external auditor's findings on key judgments and estimates in financial statements; and
- the annual Group Compliance Plan, against which it monitored progress during the year, and compliance issues and trends, such as evolving regulatory expectations.

The Audit Committee meets at least four times a year. In 2015 it met seven times.

Risk Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Risk Committee to consist of at least four non-executive Board members independent from the management. Currently, Susan Bies (Chairperson), Dame Alison Carnwath, Monica Mächler, Kishore Mahbubani and Don Nicolaisen serve on this committee.

To facilitate an ongoing exchange of information between the Risk Committee and the Audit Committee, the Chairperson of the Audit Committee is a member of the Risk Committee and a member of the Risk Committee is a member of the Audit Committee.

Key tasks and responsibilities: In general, the Risk Committee:

- oversees the Group's risk management, in particular the Group's risk tolerance, including agreed limits that the Board regards as acceptable for Zurich to bear, the aggregation of agreed limits across the Group, the measurement of adherence to agreed risk limits and the Group's risk tolerance in relation to anticipated capital levels;
- further oversees the Group-wide risk governance framework, including risk management and control, risk policies, their implementation and the risk strategy and the monitoring of operational risks;
- reviews the methodologies for risk measurement and the Group's adherence to its risk limits and reviews the performance of the risk management function;
- reviews, with business management and the Group risk management function, the Group's general policies and procedures and satisfies itself that effective systems of risk management are established and maintained; and
- receives periodic reports from the Group risk management function and assesses whether significant issues of a risk management and control nature are being appropriately addressed by management in a timely manner.

Activities 2015: From an enterprise risk management perspective, during 2015 the Risk Committee particularly discussed the following topics:

- the results of the Group's risk profile assessment, and the development and assessment of the Group's economic and regulatory capital;
- the results of the Group Total Risk Profiling™ (TRP) assessment including an update regarding risk ownership and mitigation actions;
- Zurich Risk Policy (ZRP) including the annual review and approval of new and changed chapters;
- investment and asset/liability management, market and credit risks and controls including reports on derivatives;
- operational risks and controls, including enhancements to the integrated operational risk framework;
- regular updates on the main developments in the Group's risk profile;
- regulatory risk updates; and
- in the annual joint meeting with the Remuneration Committee, risk management aspects of the Group's remuneration architecture.

Moreover, from a segment perspective, the Risk Committee discussed:

- Farmers risk and controls, including a detailed review of selected risks of the segment risk profile;
- General Insurance risks and controls, accumulation management, underwriting reviews and reinsurance;
- Global Life risks and controls, including an assessment of the lower interest rate environment on the business performance.

For further information on risk governance, see the risk review on pages 122–155.

The Risk Committee meets at least six times a year. In 2015 it met seven times.

Corporate governance report *continued*

Areas of responsibility of the Board and management

The Board determines the overall strategy of the Group, supervises senior management and addresses key matters in the area of strategy, finance, structure and organization and business development. In particular, the Board approves the Group's strategic plan and the annual financial plans developed by management and reviews and approves the annual, half-year and quarterly financial statements of the Group and the annual financial statements of Zurich Insurance Group Ltd. For more details with regard to the responsibilities of the Board see page 42 to 43.

Subject to the powers reserved to the Board as set out above, the Board has delegated the management of the Group to the CEO. The CEO and, under his leadership, the GEC are responsible for the development and execution of the strategic and financial plans approved by the Board. The CEO has specific powers and duties relating to strategic, financial and other matters as well as to the structure and organization of the Group and manages, supervises and coordinates the activities of members of the GEC. The CEO ensures that appropriate management tools for the Group are developed and implemented and represents the overall interests of the Group. The CEO holds delegated authority to approve certain acquisitions and divestments of businesses and assets, investments and the establishment of new businesses, mergers, joint ventures or cooperation with other organizations.

Information and control instruments vis-à-vis the Group Executive Committee

The Board supervises management and monitors its performance through reporting and controlling processes. Regular reporting by the CEO and other executives to the Board provides for appropriate information and updates, including key data for the core businesses, financial information, existing and upcoming risks, and updates on developments in important markets and with regard to major competitors and other significant events. During 2015, before taking over as CEO ad interim, the Chairman of the Board regularly met with the former CEO. He meets from time to time with other GEC members and executives outside regular Board meetings. The other members of the Board do so as well, especially with the Chief Financial Officer and the Chief Risk Officer. While the Chairman of the Board is serving as CEO ad interim, the Vice-Chairman of the Board is taking on certain additional responsibilities to ensure continued good governance.

The Group has an information and financial reporting system. The annual plan for the Group, which includes a summary of financial and operational metrics, is reviewed by the GEC in detail and approved by the Board. Full-year forecasts are revised if necessary to reflect changes in sensitivities and risks that may affect the results of the Group. Action is taken, where appropriate, when variances arise. This information is reviewed regularly by the GEC and the Board.

The Group has adopted and implemented a coordinated, formalized and consistent approach to risk management and control. Information concerning the Group's risk management and internal control processes is included in the risk review starting on page 122. The internal audit function, the external auditors and the compliance function also assist the Board in exercising its controlling and supervisory duties. Information on these functions' major areas of activity is set out on pages 62 to 64.

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Group Executive Committee

Our Management strives to meet our ambition to become the best global insurer as measured by our shareholders, customers and employees.

Tom de Swaan
Chairman and
Chief Executive Officer (ad interim)

Urban Angehrn
Chief Investment Officer

Jeff Dailey
CEO of Farmers Group, Inc.

Robert Dickie
Chief Operations and
Technology Officer

Mike Foley
CEO North America Commercial and
Regional Chairman of North America

Yannick Hausmann
Group General Counsel

George Quinn
Chief Financial Officer and
Regional Chairman of Europe,
Middle East and Africa

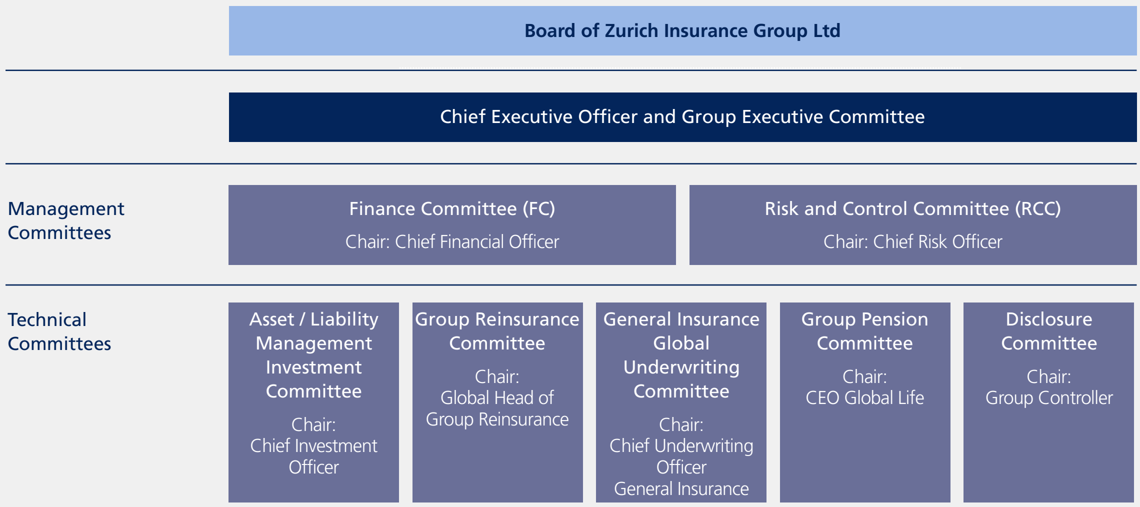
Cecilia Reyes
Chief Risk Officer and
Regional Chairman of Asia Pacific

Kristof Terryn
CEO General Insurance and
CEO Global Life (ad interim)

Isabelle Welton
Chief Human Resources Officer and
Regional Chairman of Latin America

Group Management
Group Executive Committee

Group Management
as of December 31, 2015



To the extent not reserved to the Board, management is delegated to the CEO. The CEO, and under his supervision the Group Executive Committee (GEC), are responsible for dealing with strategic, financial and business policy issues of Group-wide relevance, including consolidated performance, capital allocation and mergers and acquisitions.

The GEC is headed by the CEO. As of December 31, 2015, members of the GEC included the Chief Financial Officer, the Chief Investment Officer, the Chief Operations and Technology Officer, the Chief Risk Officer, the Group General Counsel and the Chief Human Resources Officer; and in order to reflect both lines of business and geography, the CEOs of the business segments General Insurance, Global Life and Farmers, as well as the CEO of North America Commercial are also members of the GEC. Members of the GEC also act as the Regional Chairmen of North America, Latin America and Asia-Pacific, as well as Europe, Middle East and Africa.

Changes to the GEC
As of April 1, 2015, Geoffrey Riddell resigned from the GEC. As of July 1, 2015, Urban Angehrn was appointed Chief Investment Officer and member of the GEC. Cecilia Reyes who was Chief Investment Officer up to that date, was appointed Chief Risk Officer. Axel Lehmann resigned as Chief Risk Officer as of July 1, 2015 and stepped down from the GEC as of October 1, 2015, serving as Regional Chairman Europe, Middle East and Africa up to that date. George Quinn was appointed Regional Chairman of Europe, Middle East and Africa effective October 1, 2015. Michael Kerner resigned as CEO General Insurance and member of the GEC as of October 1, 2015. Kristof Terryn was appointed CEO General Insurance as of October 1, 2015, while continuing to serve as CEO Global Life ad interim, a position he held until the end of 2015. As of 1 December 2015, Martin Senn, resigned and stepped down from the GEC, in mutual agreement with the Board, and Tom de Swaan was appointed Chief Executive Officer ad interim.

For key areas, the following cross-functional committees have been established to facilitate the coordination and alignment of recommendations to the CEO for approval on specific subjects.

Corporate governance report *continued*

Management Committees

In 2014, an initiative was carried out to streamline certain group processes in order to achieve more effective decision making, and to clearly allocate the duties and responsibilities of certain positions, corporate bodies and functions. In particular a new management committee structure and three distinct decision-making models for Group functions were established.

From January 1, 2015, the Finance Committee (FC) and the Risk and Control Committee (RCC) have replaced the Group Balance Sheet Committee and the Group Finance and Risk Committee with clear mandates to avoid potential overlaps and duplication.

The Finance Committee (FC)

Members: Chief Financial Officer (Chairman), CFO GI, CFO GL, Head of Risk and Control, Representative of Investment Management, Representative of Group Legal, Group Controller, Head of Group Treasury & Capital Management, Head of M & A.

Key tasks and responsibilities: The FC acts as a cross-segment and cross-functional advisory body for matters that could materially affect the financial position or the profitability of the Group as a whole. The committee issues recommendations to the Group Executive Committee. Core topics are:

- capital management on capital allocations and lending and borrowing decisions;
- balance sheet planning on liquidity, solvency, changes to the foreign exchange policy, investment and asset/liability management strategies and associated capital allocation, including changes to investment strategy;
- management of financial risk;
- business development matters on corporate transactions with third parties, internal restructuring, investments, including real estate, IT and e-business, and entry into new types of business and markets;
- material group reinsurance strategy and reinsurance programs; and
- other topics and matters where the CFO reports directly into the Audit Committee or Risk Committee of the Board of Directors.

The Risk and Control Committee (RCC)

Members: Chief Risk Officer (Chair),Chief Operations Officer GI, Chief Operations Officer GL, Head of Strategy, Enterprise Architecture, Governance and Consulting (SAGC), Global Head of Risk and Control, Head of IM Strategy and Development, Corporate Center General Counsel, Group Compliance Officer, Group Controller.

Key tasks and responsibilities: The RCC acts as cross-segment and cross-functional body for matters that could materially affect the overall risk of the Group as a whole. The core mandate of the committee refers to matters that result in a recommendation to the Group Executive Committee, and therefore discusses:

- risk tolerance and adherence to risk limits;
- the Zurich Risk Policy and group policies and any significant revisions thereof;
- implementation and alignment of Group Risk and Control frameworks;
- material changes to the Group's risk-based capital methodology and the overall risk tolerance;
- the governance of the economic capital calculations; and
- other topics and matters where the Chief Risk Officer reports directly into the Risk Committee of the Board of Directors.

Technical Committees

In addition to the management committees the Group governance structure provides for committees of a more technical nature to support further aspects of Zurich's business activities.

The Asset/Liability Management Investment Committee, chaired by the Chief Investment Officer, acts as a cross-divisional body and has primary responsibility for monitoring and reviewing the Group's asset/liability management and the strategic asset allocation of Zurich's invested assets.

The Group Reinsurance Committee, chaired by the Global Head of Group Reinsurance, leads the Group's reinsurance business process and is responsible for defining and executing its reinsurance strategy in alignment with its risk framework. It also governs the segments' reinsurance activities and ensures that they have access to re-insurance capacity on economic terms.

The General Insurance Global Underwriting Committee, chaired by the Chief Underwriting Officer, General Insurance, is the focal point for the underwriting function within General Insurance. In particular, it approves the underwriting and related risk control policy for all General Insurance business, develops and agrees the Group's underwriting strategy, observes emerging issues and trends, monitors accumulation control and approves mitigation plans. The committee is also responsible for approving new products and oversees and monitors technical underwriting.

The Group Pension Committee, chaired by the CEO Global Life, is responsible for developing, reviewing and advising on the Group governance framework for matters relating to retirement benefit arrangements and post-employment benefits, including the relevant policies and processes. It provides oversight and guidance over the Group's retirement benefit arrangements and post-retirement benefits for benefit design, funding, investment and accounting purposes and provides recommendations to the Finance Committee in terms of material pension-related matters.

The Disclosure Committee, chaired by the Group Controller, is responsible for reviewing all external communications and disclosures with information material to the financial position and/or performance of the Group. In particular it reviews quarterly, half-year and year-end IFRS financial results and related documents, e.g. related news releases and analysts' information. It reviews other external communications with material information as to the financial position and performance of the Group, proposals from Group Compliance regarding projects that have an impact on the Group and respective dealing restrictions as well as controls and procedures regarding the effectiveness of the Group's internal controls over financial reporting. It makes recommendations to the Chief Financial Officer.

Panels

To enhance its understanding and assessment of the challenges and risks Zurich may face, the Group continues to seek external expertise and perspective. As of December 31, 2015, the Group had access to three panels of leading academics and experts from business and industry which provide feedback and insight. They are not corporate bodies of the Group and have no decision-making powers. These panels provide expertise and advice to senior management or certain functions of the Group. In particular, the International Advisory Council is mandated to provide an external perspective and expertise to the CEO and to members of the GEC on the Group's growth and public policy strategies. The Investment Management Advisory Council offers feedback on Zurich's investment results and strategy and on achieving superior risk-adjusted returns relative to liabilities for the Group's invested assets. The Natural Catastrophe Advisory Council provides insight into the patterns of occurrence, predictability and destructiveness of catastrophes and feedback about Zurich's approach to such catastrophes in order to help improve the effectiveness of its underwriting and reinsurance purchasing.

For information on contractual termination benefits, see pages 60 and 61 of this report.

Corporate governance report *continued*

Biographies

Tom de Swaan
Chairman and Chief Executive Officer a.i.
Nationality: Dutch
Born: 1946

Skills and experience
Tom de Swaan has served in the banking industry of the Netherlands for over 40 years. He joined De Nederlandsche Bank N.V. in 1972 and from 1986 until 1998 was a member of the governing board. In January 1999, he became a member of the managing board and chief financial officer of ABN AMRO Bank. He retired from ABN AMRO in May 2006, but continued as an adviser to the managing board until June 2007. Between 1987 and 1988, Mr. de Swaan was chairman of the Amsterdam Financial Center and from 1995 to 1997, chairman of the banking supervisory sub-committee of the European Monetary Institute. He was also a member of the Basel Committee on Banking Supervision from 1991 to 1996, its chairman from 1997 to 1998, and a non-executive director on the board of the UK's Financial Services Authority from January 2001 until the end of 2006. From 2006 until May 2015 he was a non-executive member of the board of GlaxoSmithKline Plc. He has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2006. In March 2012 he was elected vice-chairman, acting as chairman from August 2013 on. He was elected chairman of the Board in September 2013. As of December 1, 2015, Tom de Swaan also serves as Chief Executive Officer ad interim (a.i.).

Committee membership
Governance and Nominations Committee (chairperson), Remuneration Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. de Swaan has been a member of the supervisory board of Royal DSM, a Netherlands based global life sciences and material sciences group, since 2006. He is also a member of the supervisory board of Van Lanschot NV, the holding company of F. van Lanschot Bankiers, an independent Dutch bank, since 2008 and served as its chairman until December 2015.* In addition, Mr. de Swaan is chairman of the board of the Netherlands Cancer Institute, chairman of the board of trustees of the Van Leer Jerusalem Institute and acts as director of certain other non-profit organizations. He is also a member of the European Financial Services Round Table (EFR) and of the advisory board of China Banking Regulatory Commission in Beijing.

Educational background
Mr. de Swaan graduated from the University of Amsterdam with a master's degree in economics.

* While serving as Chief Executive Officer a.i., Mr. de Swaan will hold his mandates with these listed companies in abeyance.

Urban Angehrn
Chief Investment Officer
Nationality: Swiss
Born: 1965

Skills and experience
Urban Angehrn joined the Group Executive Committee as Chief Investment Officer in July 2015. Before taking his current position he served as Head of Alternative Investments and prior to that, from 2010 to 2012, as Head of Strategy Implementation in Investment Management. He joined Zurich in 2007 as Regional Investment Manager for Europe. Before joining Zurich he held various positions in capital markets-related roles in the insurance and investment banking industries, including as Head of Allocation & Strategy in asset management at the Winterthur Group. He also served as an adviser to Swiss institutional clients in the use of derivatives, and held positions in derivatives marketing and fixed income sales at Credit Suisse and J.P. Morgan.

External appointments
None

Educational background
Mr. Angehrn holds a Ph.D. in mathematics from Harvard University and a Master of Science in theoretical physics from the Swiss Federal Institute of Technology in Zurich (ETH).

Jeff Dailey
CEO of Farmers Group, Inc.
Nationality: U.S.
Born: 1957

Skills and experience

Jeff Dailey began his career in 1980 with Mutual Service Insurance Company. He also worked for Progressive Insurance Company. He went on to form Reliant Insurance Company, an auto insurance start-up owned by Reliance Group Holdings, which was sold to Bristol West Holdings Inc. in 2001. From 2001 until 2004, Mr. Dailey was Chief Operating Officer (COO) of Bristol West and, in 2004, he was named President of Bristol West, following the firm's initial public offering (IPO) on the New York Stock Exchange. In 2006, he became CEO of Bristol West. Mr. Dailey joined Farmers in 2007 as President of Personal Lines for Farmers when Farmers acquired Bristol West. In January 2011, he was promoted to the position of President and COO of Farmers Group, Inc. He became a member of the Board of Farmers Group, Inc. in February 2011 and has been its Chairman since October 2015. Mr. Dailey was appointed to his current role of CEO of Farmers Group, Inc. and became a member of the Group Executive Committee in January 2012.

External appointments

Mr. Dailey is a member of The Institutes Board of Trustees.

Educational background

Mr. Dailey graduated from the University of Wisconsin-Madison with a bachelor's degree in economics and has an MBA from the University of Wisconsin-Milwaukee.

Robert Dickie
Chief Operations and Technology Officer
Nationality: British
Born: 1959

Skills and experience

Robert Dickie held various senior positions with National Australia Bank Group in Australia and the UK from 1994 to 2000. From 2000 to 2002, he served as Managing Director, UK Enterprise, for Zurich in the UK. From 2003 to 2008 Mr. Dickie was Group Operations Director and a member of the executive committee of the UK-based bank Bradford & Bingley plc. In 2008 he joined American International Group, Inc. (AIG) where he served as Chief Operations and Systems Officer and was a member of the global leadership team. He joined Zurich in March 2014 as Chief Operations and Technology officer and member of the Group Executive Committee responsible for Zurich's shared services, information technology (IT), procurement and sourcing and operational transformation initiatives. He is a member of the Board of Farmers Group, Inc. since October 2015.

External appointments

Mr. Dickie is a fellow and currently Senior Vice President of the Chartered Institute of Bankers in Scotland and a fellow of the Royal Society for the encouragement of Arts, Manufactures and Commerce.

Educational background

Robert Dickie holds an MBA from the University of Strathclyde Graduate Business School.

Corporate governance report *continued*

Mike Foley
CEO North America Commercial and Regional Chairman of North America
Nationality: U.S.
Born: 1962

Skills and experience
Mike Foley joined the financial management training program of Armtek Corporation in 1984. After graduating from Kellogg in 1989, Mr. Foley joined the Deerpath Group in Lake Forest, Illinois, as an associate. He later became vice president responsible for managing a portfolio of equity investments in various acquired businesses. In 1993 he joined Electrocal, Inc. in Connecticut as president. In 1996, Mr. Foley joined McKinsey & Company, where he later became a principal and led its North American property/casualty insurance practice. He joined Zurich in 2006 as Chief Operating Officer of its North America Commercial business division and in January 2008 was appointed CEO of that division and a member of the GEC. Mr. Foley is also the Regional Chairman of North America and Chairman of the Board of Zurich Holding Company of America, Inc.

External appointments
Mr. Foley is a member of the Board of the American Insurance Association.

Educational background
Mr. Foley graduated with a Bachelor of Science from Fairfield University, in Fairfield, Connecticut in 1984 and a master's degree from the J.L. Kellogg Graduate School of Management at Northwestern University, Evanston, in 1989.

Yannick Hausmann
Group General Counsel
Nationality: Swiss
Born: 1967

Skills and experience
Yannick Hausmann started his career in 1995 at a law firm in Basel. From 1998 to 2000, he was associate in the tax and legal department of Arthur Andersen AG and Andersen Legal in Zurich. He was a member of the Legal and Compliance Group of the Swiss Insurance Association for several years. Mr. Hausmann joined the Zurich Corporate Center Litigation and Investigation Team in 2000. He has held his current position since December 2009 and was promoted to be a member of the Group Executive Committee in July 2012. He oversees the Legal, Compliance and Public Affairs functions worldwide across the Zurich Group, as well as the Board Secretariat. Mr. Hausmann has served on the Board of Directors of Farmers Group, Inc. since February 2011. In July 2013, he became Chairman of the Board of Directors of Zürich Beteiligungs-Aktiengesellschaft (Deutschland) as well as a member of the Board of Directors of Zurich Insurance plc (Ireland).

External appointments
Since 2009, Mr. Hausmann has been a member of the legal committee of the Swiss-American Chamber of Commerce. In 2011, he joined the board of trustees of the foundation supporting the Museum Haus Konstruktiv in Zurich. In May 2013, Mr. Hausmann became a member of the board of the Europe Institute of the University of Zurich. In 2015, he was appointed as an adviser to The American Law Institute. He also joined the Insurance Regulatory Committee of the Institute of International Finance as well as the executive board of economiesuisse.

Educational background
Mr. Hausmann received a doctorate in law from the University of Basel in 1995 and was admitted to the bar in Switzerland (Canton of Basel) in 1997. He earned a Master of Laws (LL.M.) from the New York University School of Law in 2003 and attended the Advanced Management Program at Harvard Business School in 2012.

George Quinn
Chief Financial Officer and
Regional Chairman of Europe, Middle East and Africa
Nationality: British
Born: 1966

Skills and experience
George Quinn started his career at KPMG 1988 in London, where he held several positions working with the insurance and reinsurance industry. He joined Swiss Re in 1999 as Chief Accounting Officer based in Zurich and later served as Chief Financial Officer (CFO) for Swiss Re Group's Financial Services. Mr. Quinn became the Regional CFO for Swiss Re Americas based in New York in 2003. In March 2007 he became Swiss Re Group's CFO. Mr. Quinn joined Zurich in May 2014 as Group CFO and member of the Group Executive Committee. He was appointed Regional Chairman of Europe, Middle East and Africa effective October 2015. He also became Chairman of Zurich Insurance plc (Ireland) in October 2015.

External appointments
Mr. Quinn is a member of the Board of Trustees of the Zurich International School and a member of the Finance Chapter of the Swiss-American Chamber of Commerce.

Educational background
Mr. Quinn holds a degree in engineering from the University of Strathclyde. Mr. Quinn is a member of the Institute of Chartered Accountants in England and Wales.

Cecilia Reyes
Chief Risk Officer and
Regional Chairman of Asia Pacific
Nationality: Swiss and Philippine
Born: 1959

Skills and experience
Cecilia Reyes has over 20 years experience in the international financial markets. Ms. Reyes worked from 1990 until 1995 for Credit Suisse in Zurich in various roles in Credit Suisse Asset Management, global treasury and securities trading. In 1995, she started working with ING Barings in London and in 1997 she became a director and head of trading risk analytics. She moved to Amsterdam in 2000 as head of risk analytics for ING Asset Management to develop risk management methods for the asset management operation. Ms. Reyes joined Zurich in 2001 as regional manager for Group Investments with responsibility for North America, and became regional manager for Europe and International Businesses in 2004. From April 2006 until March 2010 she was Head of Investment Strategy Implementation. Ms. Reyes was appointed Chief Investment Officer and member of the GEC effective April 2010. In April 2015 she took on the additional responsibility of Regional Chairman of Asia Pacific and in July 2015 she assumed her current role as Chief Risk Officer.

External appointments
Ms. Reyes has been a member of the advisory board of the Department of Banking and Finance at the University of Zurich since 2011. In 2014 she became a member of the Board of Governors of the Asian Institute of Management.

Educational background
Cecilia Reyes holds a Ph.D. in finance from London Business School and an MBA from the University of Hawaii.

Corporate governance report *continued*

Kristof Terryn
CEO General Insurance and
CEO Global Life (ad interim)
Nationality: Belgian
Born: 1967

Skills and experience
Kristof Terryn began his career in 1993 in the banking industry, where he worked in capital markets. In 1997, he joined McKinsey & Company where he held various positions within the financial services practice in Brussels and Chicago. He joined Zurich in 2004 as Head of Planning and Performance Management. In 2007, he became COO for the Global Corporate business division and in 2009 was named COO for General Insurance. Mr. Terryn became a member of the Group Executive Committee in 2010 upon his appointment as Group Head of Operations. In August 2013 he was appointed CEO Global Life and remains in that role ad interim after being appointed CEO General Insurance in October 2015.

External appointments
None

Educational background
Mr. Terryn holds a law degree and a degree in economics from the University of Leuven, Belgium, as well as an MBA from the University of Michigan.

Isabelle Welton
Chief Human Resources Officer and
Regional Chairman of Latin America
Nationality: Swiss
Born: 1963

Skills and experience
Isabelle Welton started her career at Citibank in New York, and in Tokyo as product manager for custody and securities lending. She then moved to Simko Communication & Marketing in Geneva in 1992 where she was responsible for several financial services clients as advertising and communications consultant. In 1994, she moved to Interbrand, Zintzmeyer & Lux in Zurich, where she was responsible for the agency's financial services clients. In 1996, she joined Zurich, leading external communications. In this position, she was responsible for branding, corporate identity, advertising, sponsoring and community marketing globally. She joined EFG Private Bank in 2001 as senior vice president and Head of Corporate Communications. In 2003 Ms. Welton joined IBM where she held several management positions in the marketing and communications function. From 2010 to 2012 she was Country General Manager for IBM Switzerland. In January 2013 she joined Zurich as Chief Marketing Officer and was appointed Chief of Staff in September 2013. In this position, she was responsible for overseeing the operational delivery of Group Communications, Group Human Resources, Group Marketing and Group Strategy. In July 2014 she was appointed Chief Human Resources Officer and became a member of the Group Executive Committee. She was appointed Regional Chairman of Latin America effective October 2015.

External appointments
Ms. Welton is a member of the board of AG für die Neue Zürcher Zeitung, a member of the Regional Economic Advisory Council of the Swiss National Bank and a member of the board of trustees of the Lucerne Festival.

Educational background
Ms. Welton holds a law degree from the University of Zurich.

Changes to the GEC since January 1, 2016
Mr. Gary Shaughnessy was appointed CEO Global Life and member of the Group Executive Committee as of 1 January 2016. He succeeds Mr. Kristof Terryn, CEO General Insurance, who held the position ad interim. In January 2016, Mario Greco was appointed Chief Executive Officer, effective March 7, 2016.

Management contracts
Zurich Insurance Group Ltd has not transferred key parts of management by contract to other companies (or individuals) not belonging to (or employed by) the Group.

Shareholders' participation rights
Voting rights restrictions and representation
Each share entered into the share register entitles the holder to one vote. There are no voting rights restrictions.

A shareholder with voting rights can attend shareholders' meetings of Zurich Insurance Group Ltd in person. He or she may also authorize, in writing, another shareholder with voting rights or any person permitted under the Articles of Incorporation and a more detailed directive of the Board to represent him or her at the shareholders' meeting. Based on the Articles of Incorporation, minors or wards may be represented by their legal representatives, married persons by their spouses and a legal entity may be represented by a person authorized to bind it by his or her signature, even if such persons are not shareholders.

In accordance with the Ordinance AEC and reflected in article 13 of our Articles of Incorporation, authority of representation may also be given to the independent voting rights representative. The AGM elects the independent voting rights representative. The term of office ends with the conclusion of the next AGM. The independent voting rights representative may be re-elected. The shareholders may give voting instructions to the independent voting rights representative either in writing or via the online platform Sherpany.

Zurich Insurance Group Ltd may under certain circumstances authorize the beneficial owners of shares that are held by professional persons as nominees (such as a trust company, bank, professional asset manager, clearing organization, investment fund or another entity recognized by Zurich Insurance Group Ltd) to attend shareholders' meetings and exercise votes as proxy of the relevant nominee. For further details, see page 30 of this report.

In accordance with Swiss law and practice, Zurich Insurance Group Ltd informs all shareholders at the beginning of the shareholders' meeting of the aggregate number of shares represented by shareholders and the number of shares represented by the independent voting rights representative. Zurich Insurance Group Ltd provided electronic voting devices to its shareholders for all the resolutions taken at the AGM on April 1, 2015.

Statutory quora
Pursuant to the Articles of Incorporation, the AGM constitutes a quorum irrespective of the number of shareholders present and shares represented. Resolutions and elections generally require the approval of a simple majority of the votes cast, excluding abstentions, blank and invalid votes, unless respective provisions in the Articles of Incorporation (of which there are currently none) or mandatory legal provisions stipulate otherwise. Article 704 of the Swiss Code of Obligations provides for a two-thirds majority of votes represented and an absolute majority of the nominal value of shares represented for certain important matters, such as a change of the company's purpose or domicile, a dissolution of the company and certain matters relating to capital increases. In the event of the votes being equally divided, the Chairman of the Board has a casting vote.

Convening of shareholders' meetings
Shareholders' meetings are convened by the Board or, if necessary, by the auditors and other bodies in accordance with the provisions set out in articles 699 and 700 of the Swiss Code of Obligations. Shareholders with voting rights representing at least 10 percent of the share capital may call a shareholders' meeting, indicating the matters to be discussed and the corresponding proposals. The invitation to shareholders is mailed at least 20 calendar days before the meeting is held and, in addition, is published in the Swiss Official Gazette of Commerce and in several newspapers.

Agenda
The Board is responsible for setting the agenda and sending it to shareholders. Shareholders with voting rights who together represent shares with a nominal value of at least CHF 10,000 may request in writing, no later than 45 days before the day of the meeting, that specific items be included in the agenda.

Corporate governance report *continued*

Registrations in the share register
With a view to ensuring an orderly process, shortly before the AGM the Board determines the date on which a shareholder needs to be registered in the share register in order to exercise his or her participation rights by attending the shareholders' meeting. That date is published, together with the invitation to the shareholders' meeting, in the Swiss Official Gazette of Commerce and in several newspapers.

Information Policy

As of December 31, 2015, Zurich Insurance Group Ltd had 130,151 shareholders registered in its share register, ranging from private individuals to large institutional investors (see p. 276). Each registered shareholder receives an invitation to a shareholders' meeting. A Letter to Shareholders provides an overview of the Group's activities as the year progresses and outlines its financial performance. A more comprehensive Annual Review, the Annual Report and half-year reports are available on Zurich's website www.zurich.com (www.zurich.com/shareholder-information) and are also available in printed form on request. Information on the quarterly results reporting is also available for all shareholders on Zurich's website.

Zurich Insurance Group Ltd maintains a regular dialogue with investors through its Investor Relations department and responds to questions and issues raised by institutional and private individual shareholders. In addition, Zurich Insurance Group Ltd organizes investor days for institutional investors and analysts to provide comprehensive information on its businesses and strategic direction. Such presentations can be followed via webcast or conference call. In 2015, an Investor Day was held in Zurich on May 21. A wide range of information on the Group and its businesses, including results reporting documents and the documentation from the Investor Day are available on the Investor Relations section of Zurich's website www.zurich.com (www.zurich.com/en/investor-relations).

Zurich Insurance Group Ltd will hold its Annual General Meeting on March 30, 2016. The meeting will be conducted in the Hallenstadion in Zurich-Oerlikon. An invitation setting out the agenda for this meeting and an explanation of the proposed resolutions is issued to shareholders at least 20 days before the meeting.

For addresses and further upcoming important dates, see shareholder information starting on page 277 (Financial Calendar on page 278).

Employees

The Group is committed to providing equal opportunities when recruiting and promoting people, whereby ability, experience, skills, knowledge, integrity and diversity are guiding principles. The Group actively encourages employee involvement in its activities through printed and online publications, team briefings and regular meetings with employees' representatives. Further, the Group is party to an agreement with employee representatives of the Group's companies in Europe. For further information on the Group's people management activities, see page 17 of the Annual Report and a longer report on Zurich's website www.zurich.com/en/corporate-responsibility/doing-business-responsibly/our-people.

In some countries, the Group has established broad-based employee share compensation and incentive plans to encourage employees to become shareholders of the Group.

Changes of control and defense measures

Duty to make an offer
The Articles of Incorporation of Zurich Insurance Group Ltd do not provide for opting out or opting up in the meaning of articles 22 and 32 of the Federal Act on Stock Exchanges and Securities Trading. Therefore, mandatory offers have to be submitted when a shareholder or a group of shareholders acting in concert exceed 33⅓ percent ownership of the issued and outstanding share capital of Zurich Insurance Group Ltd.

Clauses on changes of control
Employment agreements have been entered into with members of the GEC, setting out the terms and conditions on which they are employed. The longest notice period for members of the GEC is 12 months. No other benefits are provided in the case of a change of control.

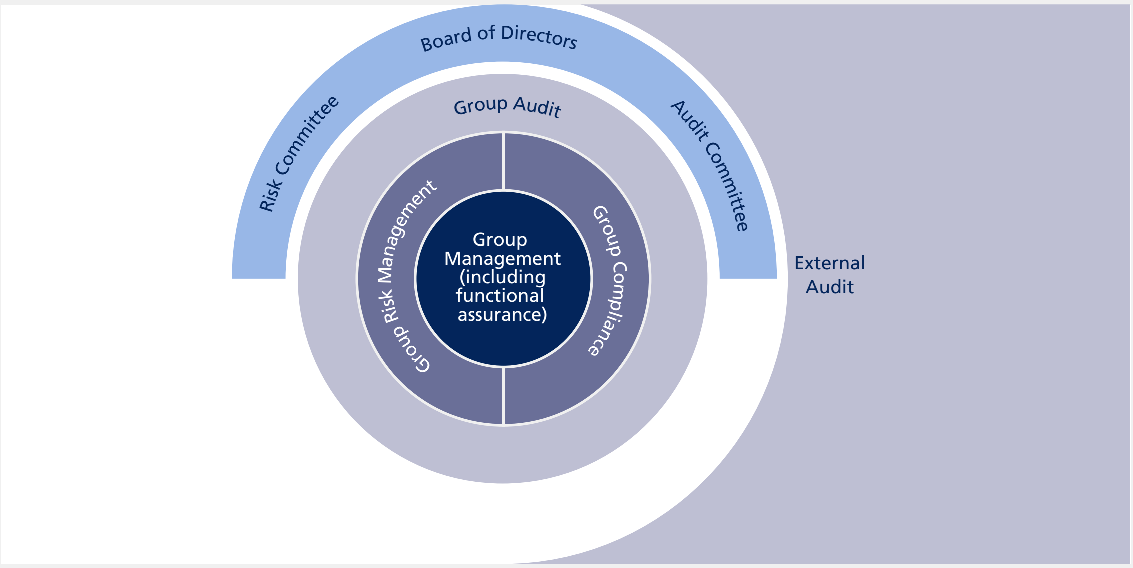
The Group's share-based compensation programs include regulations regarding the impact of a change of control. These regulations provide that in the case of a change of control, the Plan Administrator (the Remuneration Committee or the CEO, as applicable) has the right to roll over the existing share obligations into new share rights or to provide consideration for such obligations that are not rolled over. Participants who lose their employment as a result of a change of control have the right to the vesting of share obligations. No other benefits are provided to members of the Group's senior management in case of a change of control.

No benefits are provided for the members of the Board in case of a change of control.

Assurance at Zurich Insurance Group

At Zurich, various governance and control functions help to ensure that risks are identified and appropriately managed and internal controls are in place and operating effectively. This coordination is referred to as 'integrated assessment and assurance'. The Board is ultimately responsible for the supervision of these assurance activities. Although each assurance provider maintains its distinct mandate and responsibilities, the assurance providers are closely aligned and co-operate with each other through a regular exchange of information, planning and other activities. This approach supports management in its responsibilities and provides confidence that risks are appropriately addressed and that adequate mitigation actions are implemented.

Assurance at Zurich Insurance Group
as of December 31, 2015



Group Management:
Group Management owns processes, controls and technical reviews related to assurance activities. This includes and is supported by assurance work provided by the management's review functions (e.g., underwriting, actuarial, claims) and the legal and finance functions.

Oversight:
Group Risk Management is responsible for Zurich's Enterprise Risk Management framework.
The Chief Risk Officer regularly reports risk matters to the CEO, senior management committees and the Risk Committee of the Board.

Group Compliance is responsible for providing assurance to management that compliance risks within its mandate are appropriately identified and managed. The Group Compliance Officer regularly reports to the Audit Committee and has also an additional reporting line to the Chairman of the Audit Committee and appropriate access to the Chairman of the Board.

Independent Assurance:
Group Audit is responsible for auditing risk management, control and governance processes. The Head of Group Audit regularly meets with the Chairman of the Board and the Chairperson of the Audit Committee and attends each meeting of the Audit Committee.

External Audit is responsible for auditing the Group's financial statements and for auditing Zurich's compliance with specific regulatory requirements.
The Audit Committee regularly meets with the External Auditors.

Board – Audit Committee and Risk Committee:
The Board is ultimately responsible for the supervision of the assurance activities. Its Audit and Risk Committees receive regular updates from Group Risk Management, Group Audit, External Audit and Group Compliance throughout the year.

Corporate governance report *continued*

External Auditors

Duration of the mandate and term of office of the auditor-in-charge

PricewaterhouseCoopers AG (PwC), Birchstrasse 160, in 8050 Zurich, is Zurich Insurance Group Ltd's external auditor.

PwC assumes all auditing functions which are required by law and by the Articles of Incorporation of Zurich Insurance Group Ltd. The external auditors are appointed by the shareholders of Zurich Insurance Group Ltd annually. At the Annual General Meeting on April 1, 2015, PwC was re-elected by the shareholders of Zurich Insurance Group Ltd. The Board proposes that PwC be re-elected at the Annual General Meeting on March 30, 2016 as external auditors for the business year 2016. PwC fulfills all necessary requirements under the Swiss Federal Act on the Admission and Oversight of Auditors and has been admitted as a registered auditing company by the Federal Audit Oversight Authority.

PwC and its predecessor organizations, Coopers & Lybrand and Schweizerische Treuhandgesellschaft AG, have served as external auditors of Zurich Insurance Group Ltd and its predecessor organizations since May 11, 1983. In 2000 and 2007, the Group conducted tender processes, inviting all major auditing firms to submit their work program and tender offers. After a thorough review, on both occasions the Board came to the conclusion that PwC's work program and offer prevailed and therefore proposed PwC for re-election.

Mark Humphreys of PwC is the lead auditor and auditor in charge for regulatory and statutory audit work since the business year 2014. Mr. Stephen O'Hearn, the Global Relationship Partner, co-signs the auditors' report for 2015.

Audit fees

Total audit fees (including expenses and value added taxes) charged by PwC in the year 2015 amounted to USD 47.2 million (USD 50 million in 2014).

Non-audit fees

Total fees (including expenses and value added taxes) in the year 2015 for additional services, such as tax advice and services, internal control advice, transaction consulting services or special audits required by local law or regulatory bodies performed by PwC and parties associated with them for Zurich Insurance Group Ltd or a Group company amounted to USD 10.3 million (USD 9.6 million in 2014). Non-audit fees were as follows:

Audit and non-audit fee amounts

in USD millions, as of December 31	**2015**	2014
Total audit fees	**47.2**	**50.0**
Total non-audit fees	**10.3**	**9.6**
– Tax advice	1.6	1.4
– Legal advice	0.0	0.0
– Transaction consulting	0.0	0.0
– Audit-related advice, including MCEV	5.6	4.8
– Other	3.2	3.4

Supervision and control over the external audit process

The Audit Committee regularly meets with the external auditors, at least four times a year. During 2015, the Audit Committee met with the external auditors eight times. The external auditors regularly have private sessions with the Audit Committee without management present. Based on written reports, the Audit Committee and the external auditors discuss the quality of the Group's financial and accounting function and any recommendations that the external auditors may have. Topics considered during such discussions include strengthening of internal financial controls, applicable accounting principles and management reporting systems. In connection with the audit, the Audit Committee obtains from the external auditors a timely report relating to the audited financial statements of Zurich Insurance Group Ltd and the Group.

The Audit Committee oversees the work of the external auditors. It reviews, at least annually, the qualification, performance and independence of the external auditors and reviews any matters that may impair their objectivity and independence based on a written report by the external auditors describing the firm's internal quality control procedures, any material issues raised and all relationships between the external auditors and the Group and/or its employees that could be considered to bear on the external auditors' independence. The Audit Committee evaluates the performance of the external auditors during their audit examination. It elicits the comments of management regarding the auditors' performance (based on criteria such as their understanding of Zurich's business, technical knowledge and expertise, etc.) and the quality of the working relationship (responsiveness of the external auditors to the needs of Zurich Insurance Group Ltd and the Group and the clarity of communication). The Audit Committee reviews, prior to the commencement of the annual audit, the scope and general extent of the external audit and suggests areas requiring special emphasis.

The Audit Committee proposes the external auditors to the Board for appointment by the shareholders and is responsible for approving the audit fees. A proposal for fees for audit services is submitted to management by the external auditors and validated, before it is submitted to the Audit Committee for approval. The proposal is mainly based on an analysis of existing reporting units and expected changes to the legal and operational structure during the year.

The Audit Committee has approved a written policy on the use of external auditors for non-audit services, which sets out the rules for providing such services and related matters (including a list of prohibited services). Allowable non-audit services may include tax advice, comfort and consent letters, certifications and attestations, and due diligence and audit support in proposed transactions, to the extent that such work complies with applicable legal and regulatory requirements and does not compromise the independence or objectivity of the external auditors. In order to avoid conflicts of interest, all allowable non-audit services need pre-approval from the Audit Committee (Chairman), the Chief Financial Officer, the Group Controller or the local CFO, depending on the level of the expected fee. This policy further requires, among other things, an engagement letter specifying the services to be provided.

Group Audit

The Group's internal audit function (Group Audit) is tasked with providing independent and objective assurance to the Board, the Audit Committee, the CEO and management and to the boards and audit committees of subsidiary companies. This is accomplished by developing a risk-based plan, which is updated continuously as the risks faced by the business change. The plan is based on the full spectrum of business risks including concerns and issues raised by the Audit Committee, management and other stakeholders. Group Audit executes the plan in accordance with defined operating standards, which incorporate and comply with the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA). Key issues raised by Group Audit are communicated to the responsible management function, the CEO and the Audit Committee using a suite of reporting tools.

The Audit Committee, boards and audit committees of subsidiary companies and CEO are regularly informed of important audit findings, including ineffective opinions, mitigation actions and attention provided by management. Group Audit is responsible for ensuring that issues identified by Group Audit, that could have an impact on the Group's operations are brought to the attention of the Audit Committee and appropriate levels of management and that timely follow-up action occurs. This is supported by the attendance of the Head of Group Audit at each meeting of the Audit Committee.

Group Audit is authorized to review all areas of the Group and has unrestricted access to all Group activities, accounts, records, property and personnel necessary to fulfill its duties. In the course of its work, Group Audit takes into consideration the work of other assurance functions. In particular, Group Audit co-ordinates its activities with the external auditors, sharing risk assessments, work plans, audit reports and updates on audit actions. Group Audit and the external auditors meet regularly at all levels of the organization to optimize assurance provision and efficiency.

The Audit Committee assesses the independence of Group Audit and reviews its activities, plans and organization, the quality of its work and its cooperation with the external auditors. As required by professional and regulatory quality assurance regulations, the Internal Audit function has to be quality-reviewed periodically, at least every five years, by an independent qualified body. This review was conducted most recently in 2011. The results confirmed that Group Audit's practices conform with all Institute of Internal Audit standards and FINMA requirements and Group Audit was assessed as a very mature internal audit function.

Corporate governance report *continued*

The Audit Committee approves the Group Audit Plan annually, and reviews reports from the function on its activities and significant risk, control and governance issues, at least every quarter. The Head of Group Audit reports functionally to the Audit Committee and administratively to the CEO, and meets regularly with the Chairman of the Board and the Chairperson of the Audit Committee. Group Audit has no operational responsibilities over the areas it reviews and, to ensure independence, all Group Audit staff globally report (via audit managers) to the Head of Group Audit.

Group Compliance

The Group's core values are founded on the principle that it acts lawfully and seeks to do what is right. Sound compliance in everything the Group does, helps to protect Zurich's reputation and supports the achievement of the Group's ambitious goals.

The Group's compliance function provides policies and guidance, business advice, training and assurance of appropriate compliance controls within its mandate. The compliance function also supports Zurich's management in maintaining and promoting a culture of compliance and ethics consistent with Zurich Basics, the Group's code of conduct. This compliance framework relies on an ongoing global compliance risk assessment to support a risk-based monitoring regime. The results of this assessment underpin the compliance function's strategic planning which is conducted in consultation with business partners. The compliance plan is presented annually to the Audit Committee. Through a comprehensive program, the compliance function implements, embeds and monitors internal compliance policies and guidance. As part of that program, compliance officers introduce new employees to applicable rules and are involved in the integration of newly acquired companies. To help employees understand their responsibilities under Zurich Basics and internal compliance policies, all employees receive yearly ethical and compliance training, focusing on Zurich's five basic values and twelve key rules of conduct. Local business units may supplement this module with additional training courses and high-risk compliance topics, as appropriate. In addition, the Group's compliance function spearheads internal awareness campaigns on ethical and regulatory conduct. Each year all Zurich employees confirm their understanding of and compliance with Zurich Basics and internal policies. Zurich encourages its employees to speak up and report improper conduct that they believe is illegal, unethical, or violates Zurich Basics or our Group's policies. Employees are free to report their concerns to management, Human Resources, the Group's legal department, its compliance function, or through the Zurich Ethics Line (or similar service provided locally), a phone and web-based service run by an external specialized provider. Zurich does not tolerate retaliation against any employee who reports such concerns in good faith.

The Group's compliance function, which consists of compliance professionals around the world, is overseen by the Group Compliance Officer, who reports to the Group General Counsel and regularly provides reports to the Group's Audit Committee. The Group Compliance Officer has an additional reporting line to the Chairman of the Audit Committee and appropriate access to the Chairman of the Board.

Risk Management and Internal Control Statement

For information regarding the Group's risk management and internal control framework, see the Risk review of this Annual Report 2015 on pages 122 to 155. The Group no longer separately describes risk management and internal control information in this governance report.

Going concern

The Directors are satisfied that, having reviewed the performance of the Group and forecasts for the forthcoming year, the Group has adequate resources to enable it to continue in business for the foreseeable future. For this reason, the Directors have adopted the going concern basis for the preparation of the Consolidated financial statements.

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Statement of the Chairman of the Remuneration Committee

Dear Shareholders,

I am pleased to present the report of the Remuneration Committee (Remuneration Report) for the business year 2015. During the year, the Remuneration Committee was active in reviewing key aspects of the Zurich Insurance Group Ltd's (Group or Zurich) remuneration system, the remuneration rules and the remuneration structures of the Board of Directors (Board) and the Group Executive Committee (GEC). In terms of adherence to the Ordinance Against Excessive Compensation (Ordinance AEC), the employment agreements of the GEC were reviewed, adjusted to ensure alignment and a clawback framework for all members of the GEC was introduced. We also formally adopted the prohibition of the hedging of share-based remuneration for all participants in the long-term incentive plan (LTIP) and we continue to review and make amendments to the Remuneration Report with the aim of increasing transparency and enhancing understanding and readability.

The Remuneration Committee continues to ensure that the remuneration approach is aligned with our strategic objectives, allows us to attract, motivate and retain high caliber employees, rewards appropriately for the business results achieved, and as part of our risk framework, does not promote excessive risk-taking. The design of our remuneration architecture complies with regulatory requirements, embraces market practices and trends, and provides attractive and balanced rewards to our employees.

Remuneration system
In addition to market competitive base salaries, pensions and benefits, Zurich's remuneration system incorporates performance-related incentives with both short-term and long-term components.

2015 Performance
Despite the significant dedication and commitment of our employees and the fact that many of our businesses performed well in 2015, the overall financial results for the year were disappointing and we are taking the necessary steps to progress the execution of our strategy and achieve our targets. For 2015, we reported a business operating profit of USD 2.9 billion, a decrease of 37 percent compared to 2014. Net income attributable to shareholders, also impacted by large restructuring charges during the year, decreased by 53 percent to USD 1.8 billion compared with the previous year.

These financial results are fully reflected in the awards under our Group's performance related incentive plans. The overall assessment of business profitability in 2015 leads to an average payment under our Group short-term incentive plan (STIP) of 65 percent of target, relative to an average payment of 96 percent of target awarded for 2014, a reduction of approximately one-third. The funds under the STIP have been allocated to best recognize the performance achievements of the segments, countries and individuals. Under the Group LTIP, the vesting level is zero percent and no discretion has been applied. This reflects that we did not meet the minimum performance conditions on the three pre-defined criteria over the two-year period 2014 to 2015 and compares to a vesting level of 139 percent of target last year. Details on the awards under STIP and the LTIP vesting level can be found in the Remuneration Report.

The aggregate amount of variable remuneration for 2015 for the entire Group (total variable remuneration pool, see page 71) which is also assessed against the Group's long-term economic performance, resulted in an amount of USD 505 million, compared with USD 652 million in 2014. This amount includes the value of the LTIP target allocations made in 2015 which will be assessed for vesting in 2018 based on the performance achievements over the three year period 2015 to 2017. If we consider the actual LTIP vesting level of zero percent however, no shares from previous allocations will vest in 2016 and therefore the actual earned total variable remuneration for the period ending December 31, 2015 was USD 365 million.

"The variable remuneration outcomes for 2015 show the strong link with our financial performance."

Stakeholder engagement

We greatly value and appreciate our stakeholders' views on matters related to remuneration and we therefore consult with large investors and proxy advisers on these issues throughout the year.

At previous AGMs, our shareholders have been provided with the opportunity to express their views through a consultative, non-binding vote on the Remuneration Report. This resulted in 86.9 percent of votes in favor in 2015 and 87.4 percent in 2014. For the first time at the AGM in 2015, and in accordance with the Ordinance AEC, we also submitted to our shareholders two binding votes on remuneration-related matters. Our shareholders voted in favor of both the approval of the maximum total amount of remuneration for the Board for the one-year period from the AGM in 2015 to the AGM in 2016 (95.6 percent) and the approval of the maximum total amount of remuneration for the GEC for the financial year 2016 (89.9 percent).

We will continue to engage in a dialogue with our stakeholders and provide our shareholders with the opportunity to express their opinions via a consultative, non-binding vote on the Remuneration Report for 2015, as well as two binding votes on the prospective maximum total amount of remuneration for the Board and for the GEC.

Details on the remuneration votes, as well as the actual total amount of remuneration paid to the Board from the 2015 AGM to the 2016 AGM, are included in the 2016 Board of Directors Report of Zurich Insurance Group Ltd (Board of Directors Report), which is distributed with the invitation to the AGM 2016. We intend to provide a reconciliation in 2019 of the total amount of remuneration awarded to the GEC for the 2016 financial year, compared to the amount approved by shareholders at the AGM in 2015, once the final remuneration, including the LTIP vesting level for the period 2016 to 2018, is known.

The Board and I are grateful for your continuous trust in Zurich and for your valuable feedback with regard to our remuneration approach. On the following pages you will find further insights into Zurich's Remuneration framework including the remuneration philosophy, the governance and also details on the remuneration of the members of the Board, the GEC and all employees for 2015. I believe that the information disclosed in the Remuneration Report and also the details included in the Board of Directors Report provide you with a clear picture on Zurich's remuneration.

We therefore seek your support at the AGM 2016.

Finally, I will be retiring from the Board of Zurich at the AGM 2016 and as a result am presenting my final Remuneration Report as Chairman of the Remuneration Committee. I would like to take this opportunity to thank both my fellow Committee members and shareholders for their support during my tenure as member of the Board and as Chairman of the Remuneration Committee.

Thomas K. Escher
Chairman of the Remuneration Committee
of the Board of Directors

Remuneration report

The Remuneration Report describes the principles and governance framework relating to the remuneration of the members of the Board of Directors, the Group Executive Committee and all employees. It also provides details of each remuneration element, discloses important information regarding remuneration and reports on the work of the Remuneration Committee.

In 2015, the Board of Directors continued to oversee and take decisions on the design and implementation of the remuneration principles, rules and architecture, which reflect international best practices in terms of governance, plan design and disclosure. The Group's remuneration architecture is simple, transparent and market competitive, promotes a high performance culture, supports the employer brand, is aligned with our risk management principles and has an orientation toward the long-term for the most senior roles, including positions (and the respective incumbents) who have a significant influence on the risk profile of the company (considered as key risk takers).

Contents

2015 Remuneration summary

This summary provides an overview of the 2015 remuneration of Zurich Insurance Group Ltd (Group or Zurich), including details regarding the link between business performance and variable pay, developments in terms of Zurich's remuneration in 2015, and an outlook for 2016.

Zurich's remuneration

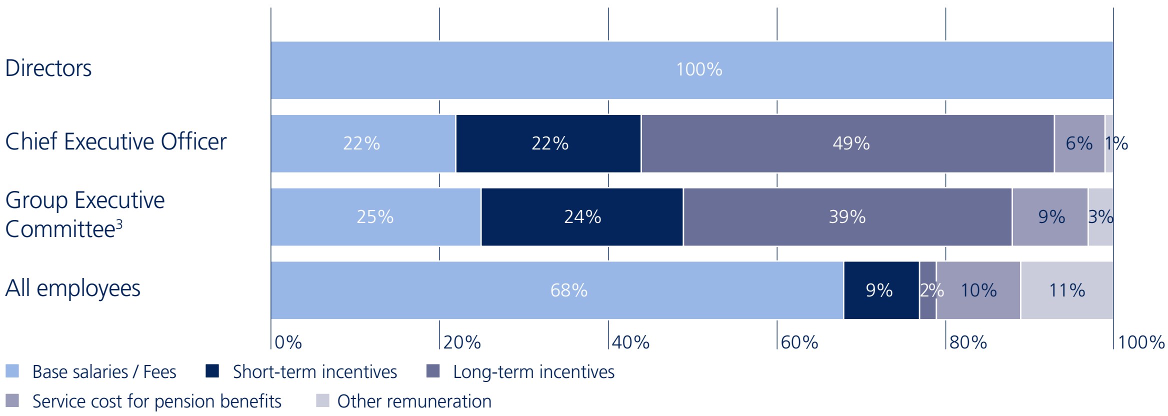
Overall, Zurich operates a balanced and effectively managed remuneration system which ensures competitive total remuneration opportunities, for which the resulting awards are adjusted depending on the results achieved. It is an important element of the Group's risk management framework and is designed to not encourage inappropriate risk-taking.

The members of the Board receive fixed remuneration as an annual fee, of which the basic fee is paid half in cash and half in five-year sales-restricted shares which are not subject to the achievement of any specific performance conditions. Total remuneration for employees including the members of the GEC comprises, as applicable, fixed remuneration consisting of base salaries, pensions and employee benefits, as well as variable remuneration consisting of short- and long-term incentive awards. The Group short- and long-term incentive plans (STIP and LTIP) aim to align the remuneration architecture with the achievement of the Group's key financial objectives, the execution of the business strategy, the risk management framework and the operational plans (see the Remuneration framework section for more information on the elements of Zurich's remuneration).

The following graph demonstrates how Zurich's remuneration architecture is structured in a way that puts more emphasis on the variable remuneration elements, with a higher weighting on average towards the long-term for our most senior employees. The variable remuneration is largely determined by the achievements against pre-defined financial measures which are aligned with the Group's strategy. For members of the GEC and for the most senior employees of the Group, including those incumbents who hold positions considered as key risk taker roles, a large proportion of their remuneration is deferred over the long term and dependent on the Group's long-term performance. For example, for members of the GEC, on average:

- 63 percent of the total remuneration is variable
- 38 percent of the variable remuneration is short-term and 62 percent is long-term

2015 Remuneration structure and weighting of elements[1,2]



[1] At target, as a percentage of total remuneration.
[2] Excluding the value of target share allocations from transition arrangements.
[3] Including the Chief Executive Officer.

Remuneration report *continued*

2015 remuneration in light of the business results

Expenditure on remuneration should be considered in the context of Zurich's overall revenues, capital base and profitability. As can be seen from the metrics in the following table relative to Zurich's overall revenues and shareholders' equity, expenditure on variable remuneration remained relatively small, also in relation to the dividends payable to shareholders. The key financial figures reflect data for 2015 and 2014 and show the decrease in the total variable remuneration pool in 2015 compared to 2014, as an outcome of the decrease in overall business profitability.

Key financial figures

in USD million, for the years ended December 31	**2015**	2014
Gross written premiums and fees[1]	53,784	57,572
Business operating profit (BOP)	2,916	4,638
Net income attributable to shareholders (NIAS)	1,842	3,949
Shareholders' equity	31,178	34,735
Return on common shareholders' equity (ROE)	6.4%	13.0%
Dividends paid to shareholders[2]	2,705	2,837
Total variable remuneration pool for all employees gross before tax[3]	505	652
– as a percentage of gross written premiums and fees	1%	1%
– as a percentage of shareholders' equity	2%	2%
– as a percentage of dividends paid to shareholders	19%	23%

[1] Consists of USD 50,998 million gross written premiums and policy fees as well as USD 2,786 million Farmers management fees and other related revenues.
[2] Dividend at transaction day exchange rate in 2015 and 2014, respectively.
[3] This excludes the value of target performance share allocations made in 2015 and 2014 from transition arrangements which amount to USD 6 million and 116 million respectively.

The following tables provide details regarding the STIP award and LTIP vesting level in relation to the business performance achievements for each respective plan. For further information on the STIP and on the LTIP see the remuneration elements later in the report on page 78.

Short-term incentive plan

	Average award as a percentage of target	
	2015	2014
Context		
The key factors driving individual awards are: • The Group's NIAS for members of the leadership team, the control functions, investment management, support functions and Group Operations and Technology. • The overall business operating profit results for General Insurance and Global Life respectively. • Specific growth and profitability measures for Farmers. In 2015 we saw mixed results, with an overall decrease in business profitability compared to 2014. As a result, the average award for the plan participants across the Group (more than 41,600) is significantly lower than the corresponding amount for 2014.	65%	96%

Long-term incentive plan

Context	Vesting level as a percentage of target in 2016	2015
The key factors driving the vesting level in 2016 were: • Group's relative total shareholder return (TSR) against an international peer group of insurance companies • NIAS ROE • BOPAT ROE Based on the performance against the pre-defined criteria over the two-year period 2014–2015, the calculated vesting level in 2016 is zero, which is significantly lower compared to last year. None of the measures, TSR, NIAS ROE nor the BOPAT ROE met the threshold levels of performance required for vesting to occur. No discretionary adjustments were made to the calculated vesting.	0%	139%

The total variable remuneration pool includes the following elements:

- The total expenditure on cash incentives to be paid for the performance year comprising the amount of the aggregated funding pools under the STIP, and the amounts to be paid under local short-term incentive plans.
- The value of the target share allocations made in 2015 on the assumption that the allocations will vest at 100 percent of the target level for performance over the three years 2015, 2016 and 2017 i.e. vesting at 100 percent of target in 2018.
- The total amount of sign-on payments[1] committed in 2015, regardless of when the payments are due, for people taking up their employment in 2015.
- The total amount of severance payments[2] committed in 2015, regardless of when the payments are due.
- It does not include commission payments made to employed sales agents.

Total variable remuneration pool

in USD million, for the years ended December 31

Context	Aggregate amount of variable remuneration for 2015 for the entire Group 2015	2014
In determining the amount of the total variable remuneration pool for all employees, the Board considers the long-term economic performance of the Group as well as other relevant factors. The average economic profit is calculated by subtracting the required return on economic capital, based on the weighted average cost of capital, from the adjusted BOP after tax. In this respect, the Group has continued to generate economic profit over the long-term which exceeds the actual expenditure on variable pay.	505	652

As mentioned above, the amount of USD 505 million includes the value of the LTIP target allocations made in 2015 which will be assessed for vesting in 2018 based on the performance achievements over the three-year period 2015 to 2017. Taking the actual LTIP vesting level of zero percent into account and therefore considering that none of the shares from previous allocations will vest in 2016, the actual earned total variable remuneration for the period ending December 31, 2015 was USD 365 million.

[1] Payments (whether paid immediately or over time) that are agreed on the execution of an employment contract. Sign-on Payments may include compensation made prior to a person joining the company and providing any services (Payments in Advance) or compensation for benefits foregone with a previous employer (Replacement Payments). Payments in Advance are prohibited to be paid to members of the Board and the GEC.

[2] Payments that are provided in connection with the termination of an employment relationship. Zurich does not include under the term Severance Payments, garden leave or similar payments for employees in jurisdictions where such payments are required by applicable law, or where they are based on contractual notice periods which conform with recognized market practice, or where they are non-contractual but in line with recognized market practice. However, Zurich does include garden leave or similar payments that go beyond recognized market practice, irrespective of whether these are provided pursuant to an agreement or are ex gratia. Severance Payments are prohibited to be paid to members of the Board and the GEC.

Remuneration report *continued*

For 2015, the remuneration amounts were as follows:

Remuneration amounts

in USD million, for the years ended December 31	Base salary/ Fees[1]	Short-term incentives[2]	Long-term incentives[3]	Other remuneration	Total remuneration 2015[5]	Total remuneration 2014[5]
Directors	4.8	–	–	–	4.8	4.0
Group Executive Committee	11.6	5.9	17.5	5.1	40.1	48.1
All employees[4]	3,922	352	140	1,210	5,624	5,864

[1] Includes the portion paid in sales-restricted shares to Directors.
[2] For all employees equals the cash incentives earned for the year.
[3] It represents the value of the target share allocations made in 2015, which assume vesting levels in 2018 at 100 percent of target. This excludes the value of target share allocations from transition arrangements which amount to USD 6 million.
[4] For all employees the Other remuneration includes Sign-on and Severance Payments committed in cash and/or in shares for comparison reasons.
[5] Actual, gross and for cash amounts based on the accrual principle. The number of employees (full time equivalents) was broadly the same year on year.

Key remuneration aspects in 2015

Further key developments in 2015 are outlined below:

Regulatory and market practice

Development	Purpose
Adjustments to the fee structure for Directors following the approval from shareholders at last year's AGM in 2015 including increasing the level of fees paid in sales-restricted shares and increasing the sales restriction period to five years.	Change applied in 2015 following the proposal made to shareholders and subsequent approval at the 2015 AGM to adjust the fee structure in light of the increasing complexity, accountability and time commitment of its members and the fee levels of other comparatively sized companies in the Swiss Market Index (SMI).
Review of existing employment contracts of members of the GEC and any relevant adjustments made.	The Board continues to oversee various activities to ensure compliance with the Ordinance AEC which came into force on January 1, 2014, as well as continued alignment with best practice corporate governance and regulatory requirements such as Solvency II.
Clawback framework introduced for the members of the GEC.	
Prohibition of hedging of share based remuneration adopted for all LTIP participants.	

Outlook summary for 2016

Zurich will continue to carefully monitor and act upon legal and regulatory requirements. Solvency II requirements are of particular focus for a number of Zurich's subsidiary boards within the European Union and any remuneration related requirements resulting from Solvency II are being reviewed and implemented.

The remuneration architecture is being reviewed to ensure continuous alignment with the latest market conditions and practices and to support the execution of the goals and objectives underlying the next strategy cycle.

At the end of 2016, we will see the completion of a full three-year performance period since the introduction of the amended LTIP effective from January 1, 2014. This means that for the 2017 LTIP vesting level decision, all three performance criteria in the vesting grid (TSR, NIAS ROE and cash remittance), will be assessed over the full three-year performance period 2014–2016.

In addition, Zurich will continue to engage in a dialogue with key stakeholders on remuneration related matters to exchange views and to better understand and respond to any particular areas of concern regarding the Group's remuneration architecture.

Further information can be found in the Outlook section later in the Report on page 101.

Remuneration report *continued*

Remuneration framework

Legal and regulatory requirements

This Remuneration Report provides all the information that is outlined in chapter 5 of the Directive on Information Relating to Corporate Governance of the SIX Exchange Regulation as amended with effect from September 1, 2014 (SIX Directive), the Swiss Code of Best Practice for Corporate Governance (Swiss Code of Best Practice), issued in 2002 by economiesuisse, as amended in October 2007 and in August 2014, and Articles 14–16 of the Ordinance AEC (replacing the information in the notes to the consolidated financial statements according to Article 663b^{bis} of the Swiss Code of Obligations). The information according to Articles 14–16 of the Ordinance AEC subject to audit is marked in the respective sections of the Remuneration Report. The Remuneration Report also includes all the information as required by Article 663c para 3 of the Swiss Code of Obligations and the requirements of the Circular 2010/1 on minimum standards for remuneration schemes of financial institutions, issued by the Swiss Financial Market Supervisory Authority (FINMA) on October 21, 2009 and amended with effect as of December 3, 2015, as well as further guidance issued on January 19, 2011 (FINMA Circular on Remuneration Schemes).

Zurich's approach to implementing the requirements of the Ordinance AEC

The Ordinance AEC came into effect on January 1, 2014 with a two year transition period. During this time Zurich has amended its Articles of Incorporation as approved by shareholders at the AGM in 2014, adjusted Zurich's Remuneration Rules (see Governance framework) and in 2015, reviewed and amended the existing employment agreements of members of the GEC. At the AGM in 2015, shareholders also voted on and approved the maximum total amount of remuneration for the Board for the one year period from the AGM in 2015 to the AGM in 2016 (95.6 percent) and the maximum total amount of remuneration for the GEC for the financial year 2016 (89.9 percent). The Group's shareholders also approved the 2014 Remuneration Report through a consultative non-binding vote (86.9 percent). The shareholders will be invited to vote on similar resolutions at the AGM in 2016.

According to the Ordinance AEC and Article 18 para 4 Articles of Incorporation, the Group and/or its subsidiaries are authorized to make payments to any member who joins the GEC during a period for which the AGM has already approved the remuneration of the GEC, of a supplementary amount for the period(s) in question, where the total amount already approved for such remuneration is not sufficient. The sum of all supplementary amounts may not exceed, during any one remuneration period, 30 percent of the respective total amount of approved maximum remuneration of the GEC. Details on the vote on pay, on performance related remuneration for the GEC, allocation of shares as well as the approach regarding loans and credits can be found in Articles 18, 28 and 34 of the Articles of Incorporation.

Further, the information provided according to Articles 14–16 of the Ordinance AEC contained in the Remuneration Report has been externally audited following the audit requirements of the Ordinance AEC (Article 13 para 1 and Article 17 of the Ordinance AEC). The information disclosed according to Articles 14–16 of the Ordinance AEC and audited in the Remuneration Report, consists of:

- An indication of the total remuneration paid to current and former members of the GEC and the Board, specifying the highest amount paid to a member of the GEC mentioning the name and function and the potential supplementary amount paid to a new member of the GEC according to Article 18 para 4 Articles of Incorporation.
- Loans and credits granted to current and former members of the GEC and the Board which are still outstanding.
- Compensation paid to related persons of members of the Board and the GEC, which is not at arm's length and loans and credits granted to related persons at non-market conditions.

Remuneration philosophy

The remuneration philosophy is an integral part of the overall employment offering to employees. Zurich operates a balanced and effectively managed remuneration system, which is aligned with risk considerations and provides for competitive total remuneration opportunities that attract, retain, motivate and reward employees to deliver outstanding performance.

Total remuneration for an individual employee is influenced by factors including the scope and complexity of the role, business performance and affordability, individual performance, internal relativities, external competitiveness, geographic location and legal requirements. Target opportunities are benchmarked to median levels in clearly defined markets and take into account the internal remuneration structures. Depending on the role, the relevant market can be global, regional or local and reflecting practices in either insurance, financial services or general industry. Remuneration is delivered through an overall framework overseen by the GEC, the Remuneration Committee and the Board itself.

In addition, Zurich has a clearly defined global performance management process which supports the achievement of the overall business strategy and operating plans, and links individual pay with business and individual performance. Actions of Zurich employees with regard to customers, people, shareholders and communities continue to be guided by the Zurich Basics and the Zurich Commitment. In order to support this undertaking, all Zurich employees have an objective with respect to what they do to actively care for and add value to the stakeholder groups. Moreover, performance management objectives are also assessed in terms of how they are achieved according to the values and behaviors underlying the Zurich Basics.

Guiding principles of the remuneration philosophy

The guiding principles of the remuneration philosophy as set out in Zurich's Remuneration Rules are as follows:

- The Group's remuneration architecture is simple, transparent and implementable. For those individuals having a material impact on the Group's risk profile, it is oriented towards the long-term.
- The structure and level of total remuneration are aligned with the Group's risk policies and risk-taking capacity.
- The Group promotes a high performance culture by differentiating total remuneration based on the relative performance of businesses and individuals.
- The Group clearly defines the expected performance through a structured system of performance management and uses this as the basis for remuneration decisions.
- The Group links variable remuneration awards to key performance factors which include the performance of the Group, the business segments, business units, functions as well as individual achievements.
- The Group's STIP and LTIP used for variable remuneration are linked to appropriate performance criteria and the overall expenditure on variable pay is considered in connection with the Group's long-term economic performance.
- The structure of the LTIP links remuneration with the future development of performance and risk by including features for deferred remuneration.
- The Group provides its employees with a range of benefits based on local market practices, taking into account the Group's risk capacity on pension funding and investments.

Governance framework

Remuneration governance framework

The Board is responsible for the design and implementation of Zurich's remuneration principles and remuneration rules (together Zurich's Remuneration Rules). To support the Board in performing these duties, the Board has established a Remuneration Committee. Under the Ordinance AEC and as reflected in the Articles of Incorporation, the AGM elects the members of the Remuneration Committee individually. Their term of office ends with the conclusion of the next AGM with re-election being possible. The Remuneration Committee consists of at least three members of the Board, all of whom are experienced in the area of remuneration. As of the AGM in 2015 there are five members in the Committee. On an annual basis the Remuneration Committee evaluates the remuneration architecture and Zurich's Remuneration Rules, and if appropriate, proposes amendments to the Board.

In reviewing remuneration structures and practices on a regular basis, the Remuneration Committee and the Board receive independent advice from the executive compensation practices at Meridian Compensation Partners LLC (Meridian) and New Bridge Street, part of Aon Corporation (Aon Hewitt). The Remuneration Committee reviews the mandates and fees, and evaluates ongoing performance. Both Meridian and New Bridge Street provide advice to the Board, with the lead consultant employed by Meridian. Meridian does not provide any other services to the Group. Although certain practice areas within Aon Hewitt – a large, international brokerage and human resources firm – undertake work for the Group from time to time, the Remuneration Committee does not consider the independence and integrity of the advice it receives from New Bridge Street to be compromised by these separate assignments.

Remuneration report *continued*

The remuneration approval framework is set out as follows:

Approval framework

Subject	Recommendation from	Final approval from
Overall remuneration architecture	Remuneration Committee and Risk Committee based on proposal by the CEO	Board
Remuneration Committee Charter	Remuneration Committee	Board
Zurich's Remuneration Rules	Remuneration Committee	Board
Remuneration Report	Remuneration Committee	Board and consultative, non-binding vote by the shareholders
Remuneration payable to Directors (including Chairman and Vice Chairman)	Remuneration Committee	Board and ultimately from shareholders via a vote as an aggregate maximum amount
Remuneration to the CEO	Remuneration Committee	Board and ultimately from shareholders via a vote as an aggregate maximum amount
Remuneration to the GEC	CEO	
Total variable remuneration pool	Remuneration Committee	Board
Short-Term Incentive Plan (STIP) funding pools	Remuneration Committee based on proposals by the CEO taking into account a risk assessment by Risk Management	Board
Vesting levels under the Long-Term Incentive Plan (LTIP)	Remuneration Committee based on proposals by the CEO taking into account a risk assessment by Risk Management	Board

The STIP and the LTIP designs are regularly reviewed by the Remuneration Committee and the Board. Moreover, the Board reviews the implementation of the plans on a regular basis. The incentive plans are discretionary and can be terminated, modified, changed or revised at any time.

The results of benchmarking studies are taken into account in setting the fee levels for Directors and the remuneration structure and levels for the CEO and the other members of the GEC. In analyzing the results of the benchmarking studies, market practices in the various countries and internal relativities between positions are taken into account. Overall positioning of target remuneration packages is toward the median levels. Management is supported in these activities by a variety of firms operating in the field of international executive compensation.

At Remuneration Committee and Board meetings where decisions are made on the individual remuneration of the Chairman, the Chairman is not present. In making decisions on the individual remuneration of the CEO, the CEO is not present. Where decisions are made on the individual remuneration of other members of the GEC, those members are also not present at the meetings. See page 45 in the Corporate Governance Report for further details on the Remuneration Committee's responsibilities.

Remuneration and risk

The Remuneration and Risk Committees meet jointly once a year to discuss a risk review of the remuneration architecture and the remuneration governance framework. Risk Management evaluated the remuneration architecture in 2015 and reported that the remuneration architecture is consistent with effective risk management and does not encourage inappropriate risk-taking that exceeds the Group's level of tolerated risk.

To help align remuneration with the Group's risk-taking capacity, Risk Management consulted with other control, governance and assurance functions to provide the CEO with a review of risk factors to consider when assessing overall performance for the annual funding of incentives awards. The Chief Risk Officer (CRO) is available to discuss these findings with the Remuneration Committee and the Board. The CEO takes into account Risk Management's assessment, among other factors, when proposing the STIP awards to the Remuneration Committee, which in turn makes its recommendation to the Board for final approval.

Annually, Risk Management reviews the processes and criteria for identifying the key risk taker roles. The criteria are based on factors that materially affect risk-taking within the Group, such as overall governance, capital consumption for each risk type as determined by the internal model, strategy and reputation. The criteria are then applied to those who take, and those who control, the specific risks at the level of the Group where the risks are most material. All key risk taker roles for the Group were reviewed and in 2015 the number of key risk taker roles remained stable. Risk Management, together with other control and assurance functions, provides risk and compliance information about each key risk taker as part of the annual individual performance assessment. The remuneration for key risk taker positions includes STIP and LTIP with a greater emphasis toward long-term, and therefore deferred, remuneration.

The variable remuneration of employees in control functions is structured to avoid conflicts of interest, by referring to Group profitability rather than the profitability of the business controlled by such functions.

Group Audit regularly assesses the operational implementation of Zurich's Remuneration Rules, to verify that the remuneration architecture is implemented across the Group. During 2015, management further documented key processes and controls in the remuneration area.

Share ownership guidelines

To align the interests of the Board and the GEC with those of shareholders, Directors and members of the GEC are required to meet certain levels of share ownership as follows:

- Members of the Board: at the level of one times the basic annual fee.
- CEO: vested awards at the level of five times base salary.
- Other members of the GEC: vested awards at 2.5 times base salary.

Directors achieve this requirement through part of their fee being made in five year sales restricted shares and market purchases. Members of the GEC achieve this through their participation in the LTIP and market purchases. Directors, the CEO and other members of the GEC have a period of five years to meet their ownership requirements and the Remuneration Committee monitors compliance with these guidelines on an annual basis.

As of December 31, 2015, Directors held 44,642 shares and members of the GEC held 135,361 vested shares and 158,785 vested options. At the end of 2015, all Directors and members of the GEC who have served at least five years on the Board or the Group Executive Committee respectively, have met the required share ownership level.

Remuneration report *continued*

Share dilution

Zurich meets the share obligations arising from compensation plans either by issuing new shares from the contingent capital that has been authorized by shareholders or by using Zurich shares purchased in the market. The share dilution impact is considered moderate and is in line with market practice.

In 2015, the company issued 768,128 shares (0.51 percent of share capital based on 149,636,836 registered shares eligible for dividends as of December 31, 2014) to meet the share obligations arising from the vesting of shares, the exercise of share options and the funding of other local compensation plans during the year (in 2014, the corresponding number was 733,614 shares or 0.49 percent of share capital based on 148,903,222 registered shares eligible for dividends as of December 31, 2013).

As of December 31, 2015, the total number of unvested target shares under the LTIP was 1,267,179 (2014: 1,278,122) which includes 954,499 from allocations made in 2013, 2014 and 2015 (2014: 870,747 from allocations made in 2012, 2013 and 2014), 73,944 from accrued dividend equivalent target shares (2014: 30,966) and 238,736 target shares allocated under the transition allocations made in 2014 and 2015 (2014: 376,409 under the transition allocations made in 2014). Given the vesting level of zero percent for the tranches vesting in 2016 and assuming 100 percent vesting in 2017 and 2018, this would require 691,405 shares equivalent to 0.46 percent of the share capital based on 150,404,964 registered shares eligible for dividends as of December 31, 2015, in the coming years to cover our current potential LTIP obligations. As of December 31, 2015, the total number of vested but unexercised share options was 330,888 (780,763 as of December 31, 2014). The exercise prices for these options range from CHF 198.10 to CHF 259.90. If all vested options were to be exercised in the future, the number of shares required represents 0.22 percent of the share capital which is based on 150,404,964 registered shares eligible for dividends as of December 31, 2015.

Remuneration elements

Total remuneration

Target total remuneration is set around the relevant market median and includes the following elements:

Remuneration elements

	Fixed remuneration	Variable remuneration[1]		Fixed benefits
	Base salary	Short-term incentives	Long-term incentives[2]	Pensions and employee benefits
Description	Fixed pay for the role performed to attract and retain employees and is reviewed annually. Overall base salary structures are positioned to manage salaries around the relevant market medians.	Discretionary incentive awards to reward achievement of key financial and individual objectives during the year.	Annual performance based target share allocations, subject to vesting according to pre-defined performance criteria. Designed to support Zurich's longer term goals, encourage participants to operate the business in a sustainable manner and align the Group's long term interests with those of shareholders.	Employee benefits are provided to attract and retain employees, in line with market practices and positioned toward the market median. Pension plans are designed and managed in line with the Group guidelines.
Drivers and/or performance measures	May include scope and complexity of the role, level of responsibility and geographic location.	Award is driven by: – Group and/or segment and/or country profitability achievements. – Individual performance on personal objectives and behavior in line with Zurich's basic values as assessed through the performance management process.	Vesting is determined based on (i) the position of the TSR compared with an international peer group of insurance companies derived from the Dow Jones Titan Insurance Index, (ii) the NIAS ROE and (iii) cash remittance[3]	Market practice and Group guidelines.
Duration	n/a	1 year	3–6 years (target shares subject to three year cliff vesting and one-half of the vested shares are sales-restricted for an additional three years)	n/a
Range of opportunity	Generally paid within an 80–120 percent range around the relevant market median.	Award of 0–200 percent of an individual's target amount.	Vesting level of 0–200 percent of the individual target shares allocated.	n/a
Eligibility	All employees	Country specific (more than 41,600 plan participants in 2015)	Members of the GEC and a defined group of the most senior positions of the Group, including key risk takers.	Country specific
Delivery	Fixed cash	Performance-based cash	Performance-based shares	Country specific fixed benefits
Clawback, malus and hedging	n/a	Clawback framework established for members of the GEC to allow for recovery, forfeiture and/or clawback, subject to specific conditions. Malus conditions to reduce or eliminate awards applicable to all STIP participants.	Clawback framework established for members of the GEC to allow for recovery, forfeiture and/or clawback, subject to specific conditions. Malus conditions to reduce or eliminate awards applicable to all LTIP participants. Hedging of share-based remuneration prohibited.	n/a

[1] The total variable remuneration pool includes short- and long-term incentives, and Sign-on and Severance Payments provided in cash and/or shares to employees who either joined or who left Zurich in 2015. However, it excludes the value of target share allocations from transition arrangements.
[2] Includes target share allocations from transition arrangements, however note that with regard to the total variable remuneration pool, such allocations are excluded. The new performance criteria and overall vesting grid are being phased in.
[3] Due to the potential volatility in any one year, the assessment of cash remittance performance can only be assessed meaningfully over a three-year period. Therefore, the cash remittance criterion will be replaced by BOPAT ROE for the vesting decisions in 2015 and 2016, using the same vesting grid that applies to NIAS ROE.

Remuneration report *continued*

Base salary

See the Remuneration elements table for information regarding base salaries.

Variable remuneration

Incentive plans are designed to provide a range of award opportunities linked to levels of performance. Business and individual performance may result in remuneration levels above target for superior performance, and reduced levels that are below target for performance below expectations. Variable remuneration opportunities are provided in markets where this is the norm, to motivate employees to achieve key short-term and long-term business goals to increase shareholder value. Variable remuneration opportunities may include both short-term and long-term incentives.

Short-term incentives

Short-term (one-year) incentives are performance-driven based on the following design:

Short-term incentives support employees to focus their performance during the year on the achievement of key financial and individual objectives set at the beginning of the year. The final individual STIP award is determined from the STIP target award, the financial performance, the resulting STIP award structure and the individual performance as set out in the following illustration.

A detailed description of the STIP design is laid out below:

Vehicle and target award
STIP awards are paid in cash.

Each participant has a STIP target award level established for the performance year which is determined by the base salary and the STIP target percentage. The participant is allocated to one of the STIP pools. Unless otherwise approved by the Board, the maximum STIP target award level is set at 100 percent of the base salary at the end of the performance year.

Financial performance
The STIP pool architecture is reviewed and approved by the Board annually and is aligned with the organizational structure of Zurich. There are a number of STIP pools based on the NIAS result for members of the leadership team, the control functions, investment management, support functions and Group Operations and Technology. In addition, there are segment pools based on the overall BOP results of General Insurance and Global Life and based on specific growth and profitability measures for Farmers.

At year-end the key financial figures are evaluated in relation to the business plan which has been approved by the Board in the December prior to the relevant performance year. A qualitative assessment of the financial performance takes place to ensure a holistic evaluation of performance including the remuneration review by the Chief Risk Officer. The ultimate size of the STIP pools can vary between 0 percent and 175 percent of target, but typically the STIP pools vary in size in the range of 80 percent to 120 percent of target.

The CEO makes recommendations to the Remuneration Committee on the proposed size of the various STIP pools and on the aggregate amount required for STIP award payments across the Group. Following review and analysis, the Remuneration Committee discusses their final recommendations with the Board and seeks the Board's approval.

STIP award structure
The financial performance defines the funding available for each STIP pool and the resulting range of potential STIP awards for various levels of individual performance. If the financial performance meets expectations then the award structure for an individual that successfully achieves his or her individual objectives, is set at the target level. If the financial performance only partially meets expectations however, then the STIP award for an individual who successfully achieves his or her individual objectives will be set at a level lower than target and can be zero percent. Within General Insurance and Global Life, there are a number of sub-pools, for example at the country level, where the award structure is specifically defined to reflect the overall results of the segment and also the sub-pool.

Individual performance
At the beginning of the year each individual jointly with his or her line manager defines and agrees on annual objectives. The individual performance achievements are then assessed during and at the end of the year through the Group performance management process. This process utilizes a rating scale between 1 and 5, with 5 being the highest rating. There is a target distribution and payout guideline for each of the ratings. Any violations of internal or external rules or requirements by an individual are taken into account in the individual performance rating.

STIP award
The financial performance, the resulting STIP award structure together with the individual performance are then utilized to determine the final individual STIP award for the year which can vary between 0 percent and 200 percent of the target award level. In this way, STIP awards are differentiated based on the financial performance and individual performance. The funding and potential award structure of the STIP pool is based fully on financial performance. Given the resulting award structure, the final STIP award is based on individual performance.

Short-term incentives are delivered primarily through STIP although there are also local plans in some countries. The Group plan is utilized across the organization and in many countries covers all employees in the respective country who are selected to participate. In other countries, based on market practice, only the most senior individuals participate in STIP. Local country plans, following broadly the same principles as STIP, may be utilized for other employees.

In recent years, more than 13,250 employees have been transferred from local incentive plans to STIP. In 2016, there is no intention to transfer further employees from local incentive plans to STIP.

Remuneration report *continued*

Long-term incentives

Long-term (three- to six-year) incentives are performance-driven based on the following design:
To support the achievement of the Group's longer term financial goals, long-term incentives are utilized for a defined group of executives and the most senior roles whose specific focus is on the performance drivers of long-term shareholder value. This group contains the individuals with the highest levels of total remuneration, as well as those individuals whose activities have a significant influence on the risk profile of the Group. In addition, the LTIP aligns the incentives and behaviors with the interests of the Group and its shareholders. To further support this purpose and in light of recent developments in the regulatory environment, the hedging of any shares of Zurich Insurance Company Ltd is prohibited.

In alignment with the Group's risk profile and business strategy and taking into account best practice principles among insurance companies, views from proxy advisors and shareholders, long-term incentives are provided with a deferral element considering material risks and the time horizon thereof. Such deferred remuneration is structured in a way as to promote the risk awareness of participants and to encourage participants to operate the business in a sustainable manner. As set out in last year's Remuneration Report, the LTIP was amended effective January 1, 2014 to align the performance measures with the financial objectives set out for the strategic period 2014 to 2016 and to move to a three-year cliff vesting period. Certain transition arrangements were implemented. An illustrative example of the underlying plan is set out below.

Financial performance

Vesting grid

Performance criteria	0% vesting	50% vesting	100% vesting	150% vesting	200% vesting
Relative TSR position	13th – 18th	10th – 12th	7th – 9th	4th – 6th	1st – 3rd
NIAS ROE	<9.75% pa	9.75% pa	12% pa	13.125% pa	≥14.25% pa
Cash remittance	<USD 8.0 billion	USD 8.0 billion	USD 9.0 billion	USD 9.5 billion	≥USD 10.0 billion

The vesting grid is based on pre-defined performance criteria and used to assess the overall vesting level.

Vesting level

The calculated vesting level is applied to all LTIP participants and defines the percentage of target shares that will ultimately vest. Half of the vested shares are sales restricted for an additional three year period after the date of vesting.

LTIP award

Allocations are made in the form of target shares. In no circumstances can the LTIP award for an individual be more than 200 percent of the aggregate number of target shares and dividend equivalent shares.

A detailed description of the LTIP is set out below:

Vehicle and target amount
Allocations are made in the form of target shares on the third working day in April.

Each participant has an annual target amount (target amount) established for the year of allocation which is determined as a percentage of the annual base salary. The number of target shares is calculated by dividing the target amount by the closing share price on the day prior to the allocation.

From 2011 onwards, Zurich discontinued making any allocations in the form of share options and all outstanding options have vested.

Financial performance
The financial performance is determined by the assessment of the performance criteria as per the vesting grid, which are set and reviewed by the Board annually in order to ensure alignment with the strategy.

The performance criteria for the period 2015 to 2017 comprise:

(i) The position of the TSR compared with an international peer group of insurance companies derived from the Dow Jones Titan Insurance Index. The Remuneration Committee reviews the peer companies to be included in the relative TSR assessment regularly to ensure that the peer group exhibits a strong TSR correlation and reflects the Group's business profile and geographic spread. The resulting industry peer group includes the following companies: Ace, AIG, Allianz, Allstate, Aviva, AXA, Chubb, Generali, Legal & General, Manulife Financial Corp., Met Life, Munich Re, Progressive Ohio, Prudential Plc, QBE, Swiss Re and Travelers Cos. Inc.

(ii) NIAS ROE[3].

(iii) Cash remittance[4].

Each performance measure is assessed independently over a three year period starting at the beginning of the calendar year when the target shares are allocated. Each measure has a one third equal weighting. The vesting level is defined according to the vesting grid.

Vesting level
The vesting level defines the percentage of target shares that will vest. The target shares will not vest if all three performance criteria do not meet their respective minimum thresholds.

The vesting level is proposed by the CEO to the Remuneration Committee and finally approved by the Board. The Board may exercise discretion in order to take the financial and operating environment into account when assessing the final vesting level. Adjustments of +/–25 percent to the proposed vesting level may be applied and can be positive or negative depending on extraordinary market circumstances for example with regard to interest rates, exchange rates, etc.

Exceptional individual adjustments
The right to modify individual LTIP awards to reflect specific circumstances is reserved for the CEO except for modifications regarding members of the GEC where such right is reserved for the Remuneration Committee and the Board. An individual adjustment of +/–25 percent to the final vesting level may be applied before vesting.

If performance under exceptional or unusual circumstances warrants it however, exceptions to the individual adjustment of +/–25 percent may be made. In this respect Zurich reserves the right to adjust and even set the vesting level to zero percent for an individual to reflect specific circumstances (e.g. in connection with a breach of internal or external rules) during the period prior to vesting. Any such adjustment is reserved exclusively for the Remuneration Committee and the Board.

The final vesting level, which may include exceptional individual adjustments, is then used to assess the number of target shares for vesting.

LTIP award
The LTIP award is distributed to participants on the third of April three years after the target shares were allocated to the participant. In no circumstances can the LTIP award for an individual be more than 200 percent of the aggregate number of target shares and dividend equivalent target shares noted below.

One half of any vested shares are sales-restricted for a further three-year period following the date of vesting. This takes the overall vesting and sales restriction period to a six year holding period for this part of the award.

[3] In line with the methodology used to calculate the ROE with effect from January 1, 2014, the calculation of equity will exclude unrealized investment gains or losses.
[4] Due to the potential volatility in any one year, the assessment of cash remittance performance can only be meaningfully assessed over a three-year period. Therefore, the cash remittance measure is being replaced by BOPAT ROE for the vesting decision in 2016. The BOPAT ROE measure increases the focus on profitability in line with the Group strategy and it will be assessed using the same vesting grid that applies to the NIAS ROE as set out in the table.

Remuneration report *continued*

Dividend equivalent shares
To further align plan participants with the interests of shareholders, effective from January 1, 2014 onwards, the target shares are credited dividend equivalent target shares. The number of dividend equivalent target shares takes into account the actual dividends paid to shareholders prior to vesting (vesting period). Each year during the vesting period, the dividend amount is calculated on the number of target shares provided at the date of allocation and this amount is subsequently converted into dividend equivalent target shares based on the closing share price on the day prior to the dividend payment. At the vesting date, the number of target shares plus the dividend equivalent target shares will in aggregate be assessed for vesting against the performance criteria as per the LTIP vesting grid. In this way only the number of shares vesting from the target shares will be eligible for accrual of dividend equivalent target shares. Further, no dividends will accrue on the dividend equivalent target shares. The vested dividend equivalent target shares are subject to the same sales restriction periods as the vested target shares.

LTIP transition arrangements

The transition to three-year cliff vesting as of January 1, 2014 resulted in a reduction in the total target earning opportunity during the transition period compared to the previous vesting system for all LTIP participants who were members of the plan prior to 2014. Various transition arrangements are being applied to allow the possibility for relevant participants to maintain their total target earning opportunity during the transition period, these are described below:

i) Phasing in of three-year cliff vesting

The 2014 LTIP allocation will vest one third after two years (i.e. 2016), and two-thirds after three years (i.e. 2017). From the 2015 LTIP allocations onwards, three-year cliff vesting for the complete allocation will apply.

ii) Phasing in of performance criteria and performance periods

Due to the potential volatility in any one year, the cash remittance performance can only be meaningfully assessed over a three-year period. Therefore, the cash remittance measure has been replaced by the BOPAT ROE achievements for the vesting decisions taken in 2015 and in 2016 and is assessed using the same vesting grid that applies to the NIAS ROE.

The performance periods used to assess the vesting levels are also being phased in since the new LTIP came into effect from January 1, 2014 and to align with the 2014–2016 strategy. This means that for the 2016 vesting assessment, the performance in the period 2014–2015 applies. For the assessment of the vesting level in 2017, the three-year performance period 2014–2016 will be taken into account.

The approach set out here is used to assess vesting decisions in 2016 for all allocations vesting. This includes the third tranche of the 2013 former LTIP allocation, one third of the 2014 LTIP allocation as explained above and the relevant parts of the 2014 transition allocation (see below).

iii) 2014 allocation of supplementary target shares to maintain target earning opportunity

Through an allocation of supplementary target shares in 2014 (transition allocation) equal in value to the 2014 year's regular LTIP allocation value and then assessed for vesting in equal amounts in 2015, 2016 and 2017 with the same performance criteria and conditions outlined above, the cumulative target earning opportunity is maintained for plan participants during the transition period. To enhance the long-term and retentive nature of the allocation, the transition allocation is being made in a number of installments and vests over the period as set out in the following table. The holding period for performance shares under the regular LTIP will also apply to the shares of the transition allocation and no dividend equivalent target shares will accrue on the transition allocation.

Transition allocation in target shares

	Year of vesting[1]					
	2014	2015	2016	2017	2018	2019
Transition allocation LTIP participants (excl GEC)						
Allocation in 2014		1/3rd vest	1/3rd vest	1/3rd vest		
Transition allocation GEC (excl CEO)						
1/2 allocation in 2014		1/6th vest	1/6th vest	1/6th vest		
1/2 allocation in 2015			1/6th vest	1/6th vest	1/6th vest	
Transition allocation CEO						
1/3 allocation in 2014		1/9th vest	1/9th vest	1/9th vest		
1/3 allocation in 2015			1/9th vest	1/9th vest	1/9th vest	
1/3 allocation in 2016				1/9th vest	1/9th vest	1/9th vest

[1] Half of all vested shares are subject to a three-year sales restriction. For members of the GEC, this means that the last restriction on the transition allocation will lapse in 2021.

To increase transparency for the reader a table on the historical vesting levels under the previous and the current LTIP is disclosed below.

Vesting percentages for LTIP

		Vesting level as percentage of target in						
		2011	2012	2013	2014	2015	2016	Average
Year of LTIP allocation	2010	135%	110%	97%				114%
	2011		110%	97%	50%			86%
	2012			97%	50%	139%		95%
	2013				50%	139%	0%	63%
	2014					n/a	0%[2]	n/a[1]
	2015					n/a	n/a[2]	n/a[1]

[1] The average vesting level for the 2014 LTIP allocation can only be calculated once the vesting level has been assessed in 2017. For the 2015 allocation, the vesting level will be known in 2018.
[2] The calculated vesting level in 2016 of zero percent of target also applies to the relevant parts of the transition allocations made in 2014 and 2015, which are being assessed for vesting in 2016.

Pensions

The Group provides a range of pension benefits to employees which are designed by reference to local market practices with the benefit levels positioned toward the relevant market median. The Group Pensions Committee oversees the management of the Group's pension arrangements within the de-risking frameworks established for benefit design, investments, funding and accounting. On a regular basis, the Group Pensions Committee and the local countries assess the competitive environment with regard to pensions. In recent years, there has been a significant shift away from final salary defined benefit pension arrangements such that almost all new employees are enrolled in defined contribution and/or cash balance-type arrangements.

Other remuneration including employee benefits

The Group also provides a range of other relevant employee benefits in line with the local market, for example life insurance, medical coverage and flexible benefits. Further, the Group operates a number of mobility related policies to facilitate the movement of people across the organization.

Remuneration report *continued*

2015 Remuneration and Shareholdings

The following section sets out the remuneration and shareholdings of Directors and of members of the GEC, as well as the remuneration of all employees.

AUDITED

The information provided according to Articles 14–16 of the Ordinance AEC contained in the Remuneration Report needs to be externally audited following the audit requirements of the Ordinance AEC (Article 13 para 1 and Article 17 of the Ordinance AEC). In addition, the information according to Article 663c of the Swiss Code of Obligations is being audited and disclosed as such in the Remuneration Report. All audited sections have been highlighted accordingly.

The folded corner indicates that all information contained within the shaded panel is audited and forms an integral part of the consolidated financial statements.

Directors

Directors' fees

As a global insurance provider, Zurich's Directors' fees need to be established at a level which enables the Group to attract and retain high caliber individuals with diverse backgrounds. To assist in determining Board remuneration, an independent adviser carries out benchmarking studies on a regular basis. Zurich aims to set the remuneration of its members of the Board at the relevant median levels using the Swiss Market Index (SMI) as a basis. Based on the role and the fee structure, fee levels are established for each member of the Board. Fees are paid in cash and in shares, with approximately half of the basic fee provided in five-year sales-restricted Zurich shares. The fees paid to Directors (including the portion provided in sales restricted shares) are not subject to the achievement of any specific performance conditions.

As of April 1, 2015, and as approved by shareholders at the 2015 AGM, the fee structure established in 2011 was changed to recognize the increased complexity, accountability and time commitment for members of the Board, in particular for the Chairman, the Vice-Chairman and the committee chairs:

- Chairman and Vice-Chairman fees have been adjusted to a total of CHF 1,500,000 and CHF 400,000, respectively.
- Committee chair fees have been increased to recognize the additional responsibility and accountability.
- The portion of the basic fee allocated in shares has been increased to 50 percent from 33 percent to further align remuneration with shareholders' interests.
- The sales restriction period on shares has been increased to five years from three years to further align remuneration with shareholders' interests. These restrictions continue to apply upon leaving the Board.

The following table sets out the fee structure and levels for the Chairman, the Vice-Chairman and the members of the Board, as well as committee fees and chair fees for the four committees.

All Directors of Zurich are also members of the Board of Directors of Zurich Insurance Company Ltd, and the fees cover the duties and responsibilities under both boards.

For the first quarter in 2015, payments were made in accordance with the former fee structure.

Fee structure for members of the Board[1]

	Fee elements in cash (CHF 000)	Fee elements in sales restricted shares (CHF 000)	Total fees in 2015 effective April 1, 2015 (CHF 000)	Total fees in 2014 (CHF 000)
Basic fee for the Chairman of the Board[2]	750	750	1,500	1,000
Basic fee for the Vice-Chairman of the Board[2]	200	200	400	375
Basic fee for a Member of the Board	120	120	240	240
Committee fee[3]	60	–	60	50
Chair fee for the Audit Committee	80	–	80	40
Chair fee for the Remuneration Committee	60	–	60	30
Chair fee for the Risk Committee	60	–	60	30
Chair fee for the Governance and Nominations Committee[4]	60	–	60	30

[1] Table excludes other fees for board memberships of subsidiary Boards of Zurich (AGM to AGM).
[2] Neither the Chairman nor the Vice-Chairman receive any additional fees for their committee work on the Board of Zurich.
[3] Amount remains the same irrespective of the number of committees on which a member of the Board serves.
[4] For 2015 and 2014 no such fees were paid as the Chairman of the Board has been chairing the Governance and Nominations Committee.

The committees on which the Directors serve are set out in the Corporate Governance Report on page 33. Up until December 2015, the Board consisted entirely of non-executive Directors that are independent from management. As of December 2015, Tom de Swaan was appointed as Chief Executive Officer ad interim in addition to his function as Chairman of the Board. To ensure continued good governance, Fred Kindle, Vice-Chairman of the Board, has taken on certain additional responsibilities for the interim period in which the Chairman of the Board is also holding the position of Chief Executive Officer ad interim (see the Corporate Governance Report).

Where a Director is also a member of one or more subsidiary boards of Zurich, the Director is entitled to an additional fee of CHF 50,000 in 2015 (CHF 50,000 in 2014) per annum plus CHF 10,000 in 2015 (CHF 10,000 in 2014) per annum if he or she also chairs an audit committee of such a board. The fee structure for subsidiary boards can be modified if certain circumstances, for example, the additional time commitment to discharge the duties of a board member, warrant it.

Based on this structure, the total aggregate fees allocated to the Directors of Zurich and Zurich Insurance Company Ltd for the calendar year ended December 31, 2015, amounted to CHF 4,816,625. This included CHF 2,786,625 in cash and a value at the allocation date of CHF 2,030,000 in five-year sales-restricted shares. The share price at the allocation date was CHF 287.10. The corresponding amount for 2014 was CHF 3,700,807, which comprised CHF 2,702,252 in cash and a value at the allocation date of CHF 998,555 in three-year sales-restricted shares. The share price at the allocation date in 2014 was CHF 265.50. The Directors' fees are not pensionable.

The following tables set out the actual fees paid to the Directors for 2015 and 2014 in Swiss francs. In 2015, nine members served for the full year and two members served for part of the year. In 2014, eight members served for the full year and three members served for part of the year.

Remuneration report *continued*

Directors' fees 2015

in CHF	2015[1]						
	Fee elements in cash						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fees[4]	Total cash	Total sales restricted shares[5,6]	Total fees
T. de Swaan, Chairman[7,8]	729,125	n/a	n/a	–	729,125	750,000	1,479,125
F. Kindle, Vice-Chairman[7]	212,500	n/a	n/a	–	212,500	200,000	412,500
J. Amble, Member[9]	90,000	45,000	–	–	135,000	120,000	255,000
S. Bies, Member	130,000	57,500	52,500	50,000	290,000	120,000	410,000
A. Carnwath, Member	130,000	57,500	–	–	187,500	120,000	307,500
R. del Pino, Member	130,000	57,500	–	–	187,500	120,000	307,500
Th. Escher, Member	130,000	57,500	52,500	–	240,000	120,000	360,000
Ch. Franz, Member[9]	130,000	45,000	–	–	175,000	120,000	295,000
M. Mächler, Member	130,000	57,500	–	–	187,500	120,000	307,500
K. Mahbubani, Member[9]	90,000	45,000	–	–	135,000	120,000	255,000
D. Nicolaisen, Member	130,000	57,500	70,000	50,000	307,500	120,000	427,500
Total in CHF[10]	**2,031,625**	**480,000**	**175,000**	**100,000**	**2,786,625**	**2,030,000**	**4,816,625**

Directors' fees 2014

in CHF	2014[1]						
	Fee elements in cash						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fees[4]	Total cash	Total sales restricted shares[5,11]	Total fees
T. de Swaan, Chairman[7]	666,500	n/a	n/a	60,000	726,500	333,500	1,060,000
F. Kindle, Vice-Chairman[7]	250,000	n/a	n/a	–	250,000	125,000	375,000
S. Bies, Member	160,000	50,000	30,000	50,000	290,000	80,000	370,000
A. Carnwath, Member	160,000	50,000	–	–	210,000	80,000	290,000
V.L.L. Chu, Member[12]	60,493	12,603	–	–	73,096	–	73,096
R. del Pino, Member	160,000	50,000	–	–	210,000	80,000	290,000
Th. Escher, Member	160,000	50,000	30,000	–	240,000	80,000	320,000
Ch. Franz, Member[12]	119,560	–	–	–	119,560	60,055	179,615
M. Mächler, Member	160,000	50,000	–	–	210,000	80,000	290,000
D. Nicolaisen, Member	160,000	50,000	40,000	50,000	300,000	80,000	380,000
R. Watter, Member[12]	60,493	12,603	–	–	73,096	–	73,096
Total in CHF[10]	**2,117,046**	**325,206**	**100,000**	**160,000**	**2,702,252**	**998,555**	**3,700,807**

[1] The remuneration shown in the tables is gross, based on the accrual principle and does not include any business-related expenses incurred in the performance of the Directors' services.
[2] Members of a committee receive a cash fee of CHF 60,000 (CHF 50,000 in 2014) for all committees on which they serve, irrespective of the number, effective April 1, 2015. The committees on which the Directors serve are set out in the Corporate Governance Report.
[3] Committee chairs receive an annual fee of CHF 60,000 (CHF 30,000 in 2014) and the chair of the Audit Committee receives an additional CHF 20,000 (CHF 10,000 in 2014). The committees on which the Directors serve and the chairs are set out in the Corporate Governance Report.
[4] In addition to the fees received as Directors of Zurich Insurance Company Ltd, Susan Bies, Don Nicolaisen and Tom de Swaan earned fees for their board memberships of the following subsidiaries of Zurich:
– In both 2015 and 2014, Susan Bies and Don Nicolaisen earned CHF 50,000 for their membership of the board of Zurich Holding Company of America (ZHCA).
– In 2014, Tom de Swaan earned CHF 56,250 for his membership of the board of Zurich Insurance plc. He also earned a fee of CHF 3,750 for his role as chair of the Audit Committee of Zurich Insurance plc. Both amounts are pro-rated for 9 months, as Tom de Swaan gave up his membership on September 30, 2014.
[5] The shares allocated to the Directors are not dependent on the achievement of performance criteria and are sales-restricted for five years. Shares allocated in 2014 are sales-restricted for three years.
[6] As of June 16, 2015, Tom de Swaan was allocated 2,612 shares, Fred Kindle was allocated 696 shares, and the other members of the Board were allocated 417 shares. The share price (CHF 287.10) as of June 15, 2015 was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash.
[7] Neither the Chairman nor the Vice-Chairman receive any additional fees for their committee work on the Board of Zurich.
[8] Tom de Swaan was appointed Chief Executive Officer ad interim effective December 1, 2015. In 2015 no payments were made to Tom de Swaan for his role as CEO ad interim nor as a member of the GEC. The Board of Directors will decide in 2016 whether any additional remuneration will be paid to Tom de Swaan for the time he held the CEO role ad interim. Any such payments would be disclosed in the Remuneration Report for the year 2016 and paid as compensation for management in 2016, i.e. as approved by the General Meeting in 2015 or in accordance with Article 18 para. 4 of the Articles of Incorporation.
[9] At the AGM on April 1, 2015, Joan Amble and Kishore Mahbubani were elected to the Board, and Christoph Franz was elected as a member of the Remuneration Committee.
[10] In line with applicable laws, Zurich paid the company related portion of contributions to social security systems, which amounted to CHF 92,129 in 2015. The corresponding contributions amounted to CHF 81,916 in 2014. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above. Swiss-based Directors are eligible for selected employee benefits.
[11] As of June 16, 2014, Tom de Swaan was allocated 1,256 shares, Fred Kindle was allocated 470 shares, and the other Board members were allocated 301 shares. The share price (CHF 265.50) as of June 13, 2014 was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash.
[12] At the AGM on April 2, 2014, Victor L.L. Chu and Rolf Watter retired from the Board and Christoph Franz was elected to the Board.

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Special payments and termination arrangements, additional honoraria and remuneration and personal loans for Directors

Severance Payments and Payments in Advance are prohibited for members of the Board according to the Ordinance AEC. At the AGM on April 1, 2015, Joan Amble and Kishore Mahbubani, were elected as new members of the Board. No Replacement Payments or other benefits were provided. No termination payments (i.e. golden parachutes) were made and no other benefits such as waiver of lock-up periods for equities or additional contributions to occupational pension schemes were provided.

None of the Directors received additional honoraria or any remuneration or benefits-in-kind from the Group or from any of the Group's companies other than as set out above.

Remuneration and personal loans for former Directors

No benefits (or waiver of claims) have been provided to former Directors during the year 2015, nor were any provided during the year 2014. Rolf Watter continues to have a collateralized policy loan in the amount of CHF 2.5 million outstanding as of December 31, 2015. None of the other former Directors had outstanding loans, advances or credits as of December 31, 2014.

Related parties to the Directors or to former Directors

No benefits (or waiver of claims) have been provided to related parties of the Directors or related parties of former members of the Board during the years 2015 and 2014, nor had any related party of the Directors or of former members of the Board any outstanding loans, advances or credits as of December 31, 2015 and 2014.

Share plans and shareholdings of Directors

The shareholdings of the Directors, who held office at the end of 2015, in shares of Zurich Insurance Group Ltd are shown in the following table. All interests shown include the portion of shares allocated to the Directors as part of their fee, shares acquired in the market by the Directors and shares held by parties related to the Directors.

Directors' shareholdings

Number of Zurich Insurance Group Ltd shares[1], as of December 31	Ownership of shares	
	2015	2014
T. de Swaan, Chairman	6,465	3,853
F. Kindle, Vice-Chairman	18,413	17,717
J. Amble, Member	417	n/a
S. Bies, Member	2,682	2,265
A. Carnwath, Member	1,342	925
R. del Pino, Member	1,342	925
Th. Escher, Member	10,520	10,103
Ch. Franz, Member	643	226
M. Mächler, Member	965	548
K. Mahbubani, Member	417	n/a
D. Nicolaisen, Member	1,436	1,019
Total	**44,642**	**37,581**

[1] None of the Directors together with parties related to them held more than 0.5 percent of the voting rights of Zurich Insurance Group Ltd shares as of December 31, 2015 or 2014, respectively.

Governance

Remuneration report *continued*

Group Executive Committee

Remuneration of the GEC

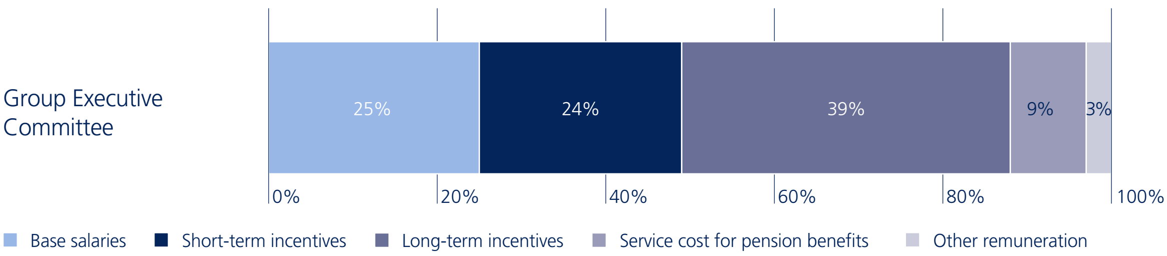
A number of key elements are in place to provide a well-balanced and effectively managed remuneration program. These elements include a Group wide remuneration philosophy, robust short-term and long-term incentive plans, effective governance, and strong links to the business planning and risk policies of the Group.

To assist decisions on the remuneration of the GEC, the Board conducts benchmarking studies on a regular basis. The remuneration structures and practices of a selected industry peer group of the largest insurance companies are analyzed, based on relevant companies in the Dow Jones Insurance Titans 30 Index. This Index comprises the largest insurance companies throughout the world, predominantly in Europe and in the U.S. The Remuneration Committee reviews this peer group regularly. This analysis is supplemented by additional benchmarking studies as appropriate, e.g. by reviewing practices of large SMI companies in Switzerland or similarly sized companies in other countries. The Remuneration Committee regularly reviews the benchmarking approach.

The remuneration structure and the mix of the individual remuneration elements for members of the GEC are determined by taking into account relevant market practices and internal relativities.

The total remuneration of the members of the GEC for 2015 comprised the value of base salaries, short-term cash incentives, the target share allocations made under the LTIP in 2015, pensions and other remuneration including employee benefits.

The distribution of the total remuneration in 2015 for the GEC between the individual remuneration elements is set out in the following chart and is based on the target values for the performance related remuneration[1].



[1] This includes the Chief Executive Officer, however excludes the value of target share allocations from transition arrangements.

As shown in the chart above, there is an appropriate balance of remuneration elements with a significant emphasis on performance related remuneration through both STIP and LTIP. The distribution of the target values between short-term (one-year) and long-term incentives (three- to six-year) shows an emphasis toward long-term incentives.

Elements and amounts of remuneration for the GEC

The individual remuneration elements and the corresponding amounts are described in more detail below (the amounts for the highest paid executive and comparative figures for 2014 are also included).

Elements and amounts of remuneration for the GEC

	Description	Amount
Base salaries paid during the year	See remuneration elements, page 78.	The total amount of base salaries for all members of the GEC paid in 2015 was USD 11.6 million compared to USD 12.0 million in 2014.
Cash incentive awards earned for the year (under STIP)	For members of the GEC the STIP target percentages for 2015 vary between 75–100 percent of the base salary. The maximum STIP award for all members of the GEC is 200 percent of the individual target amount. Further information regarding STIP is set out below.	The total amount of annual cash incentive awards to be paid in 2016 for the 2015 performance year for all members of the GEC was USD 5.9 million compared to USD 11.9 million for 2014. The annual cash incentive awards are determined individually and are performance-based.
Value of target share allocations made during the year (under LTIP)	In 2015, each member of the GEC received an annual allocation of target shares under the LTIP for the three-year performance cycle 2015–2017. For members of the GEC the LTIP target percentages in 2015 vary between 125–225 percent of base salary. As in previous years, the allocations of target shares for 2015 were made on the third working day in April, i.e. on April 7, 2015. The value of target share allocations does not include dividend equivalent target shares or transition allocations. The maximum vesting level is 200% of the target number of shares allocated.	The total number of target shares allocated on April 7, 2015 to members of the GEC for 2015 was 50,771 which reflects a value of USD 17.5 million at the date of allocation. This is based on the assumption of 100 percent vesting in 2018, a share price of CHF 330.50 (2014: CHF 274.30) on the day prior to the allocation and an exchange rate of 1 CHF = 1.04395 USD. This compares with 64,460 target shares allocated in 2014 and a respective value of USD 18.7 million at the date of allocation on April 3, 2014.
Service costs for pension benefits during the year	Members of the GEC participate in the pension plan arrangements of the entities where they are employed. The Group's philosophy is to provide pension benefits through cash balance and/or defined contribution plans where funds are accumulated throughout a career to provide retirement benefits. The majority of members of the GEC participate in such plans and over time, all future members of the GEC will participate in such plans. The remaining members of the GEC participate in defined benefit plans that provide retirement benefits based on final pensionable earnings and the number of years of service. Normal retirement ages vary from 60 to 65.	The total value of pension benefits accruing to members of the GEC during 2015, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles, was USD 3.9 million (compared to USD 3.6 million in 2014). Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans take the amount of the company contribution paid during the year
Value of other remuneration including employee benefits during the year	Members of the GEC received other remuneration in 2015 in relation to employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under each member's employment contract.	The total value of other remuneration in 2015 was USD 1.2 million (compared to USD 1.9 million in 2014). Benefits-in-kind have been valued using market rates.

Remuneration report *continued*

GEC STIP performance assessment

This section provides further insights into the assessment of the individual STIP awards of the members of the GEC.

The individual STIP award is determined in a similar way to all employees, taking into account financial performance, the resulting STIP award structure and individual performance.

For the GEC, the key financial metric is the NIAS performance during the year. In evaluating the NIAS performance, an overall qualitative assessment of the results is carried out to determine the STIP award structure. NIAS for 2015 was slightly under USD 1.85 billion reflecting a 53% percent decrease compared to 2014. With regard to individual performance, each member defines and agrees individual objectives relating to the execution of the strategy in the following key areas: positioning the business for long-term profitable growth, reducing complexity, improving profitability, investing in people, capabilities and brand, and implementing the Zurich Commitment. For competitive reasons, Zurich does not disclose more detail on the individual objectives of members of its GEC. In a rigorous process, the Remuneration Committee reviews the individual performance achievements of each member of the GEC, considering a number of factors including the performance of the business segment or function being managed, and the achievement of the strategic objectives across the defined areas. The Remuneration Committee and the Board also reviews the performance of the CEO using a similar process at the year-end. As a result of this rigorous process, individual STIP awards for each member of the GEC are determined and approved by the Board. Given the assessment of the overall financial and individual results for 2015, significantly lower overall cash incentives have been allocated to the GEC for 2015 than in the previous year reflecting the reduction in profitability.

Replacement Payments for members of the GEC appointed in 2015

In extraordinary circumstances payments may be made to new hires to replace forfeitures under the incentive plans of the previous employer. In these circumstances, the payments mirror the type and timing of the forfeited payments and can include cash payments and/or awards of restricted or performance shares. Where payments are made in cash, there is typically a clawback period if the employee leaves the company voluntarily during the first two years of employment. Restricted share allocations typically vest over three to five years following the date of allocation and are forfeited if the holder of such share allocations leaves the company voluntarily before the vesting date and the employment relationship terminates.

No Replacement Payments were made in 2015, compared to a value of USD 8.8 million in replacement payments in 2014.

Value of target share allocations from transition arrangements for the GEC

As set out on page 84, transition arrangements were put in place for all plan participants in connection with the move from annual tranche vesting to three-year cliff vesting under the LTIP. For members of the GEC, the value of the transition allocation made in 2015 was USD 5.7 million with the allocations being assessed for vesting in equal tranches in 2016, 2017 and 2018.

Summary of total remuneration (excluding Replacement Payments and allocations from transition arrangements)

The following table shows that the total remuneration of the members of the GEC, comprising base salaries, cash incentive awards earned for the year, the value of target share allocations for 2015, pensions and the value of other remuneration including employee benefits amounted to USD 40.1 million. In 2014, the corresponding figure was USD 48.1 million. In order to make a suitable comparison to 2014, the amount excludes the value of target share allocations from transition arrangements and the Replacement Payments for members of the GEC hired and appointed in 2014, as these are one-off arrangements. The amounts for these items are outlined above and also shown separately in the following table.

All members of the GEC (incl. the highest paid)

in USD million, for the years ended December 31	2015[1, 2]	2014[1, 3]
Base salaries	11.6	12.0
Cash incentive awards earned for the year	5.9	11.9
Value of target share allocations	17.5	18.7
Service costs for pension benefits	3.9	3.6
Value of other remuneration	1.2	1.9
Total in USD[4,5]	**40.1**	**48.1**
Total in CHF[4,5,6]	**38.7**	**44.4**
in USD million, for the years ended December 31	**2015[1, 2]**	2014[1, 3]
Value of target share allocations from transition arrangements[7]	5.7	7.2
Replacement Payments for members of the GEC[8]	0.0	8.8
Contractually agreed remuneration after stepping down and during notice period in the respective year[9]	4.6	0.0

[1] The remuneration shown in the table is gross, based on the accrual principle, for the time employees are members of the GEC during the year and does not include any business-related expenses incurred in the performance of the members' services.
[2] On the basis of 13 members of the GEC, of whom 9 served during the full year 2015.
[3] On the basis of 12 members of the GEC, of whom 9 served during the full year 2014. Included in the figures are the relevant compensation amounts for the 2 individuals who were acting ad interim in the positions Chief Financial Officer and Chief Operations and Technology Officer during the year.
[4] In line with applicable laws where the executives are employed, Zurich paid the company-related portion of contributions to social security systems, which amounted to USD 2.2 million in 2015 and USD 1.6 million in 2014. Since the contributions are based on full earnings, whereas benefits are capped, there is no direct correlation between the costs paid to the social security system and the benefits received by the executives.
[5] This includes twelve months of remuneration for Martin Senn and excludes the value of target share allocations from transition arrangements for all members of the GEC.
[6] The amounts have been translated from U.S. dollars to Swiss francs at the relevant exchange rates throughout the year and the cash incentive to be paid in 2016 has been translated at the year-end rate in 2015.
[7] To maintain the target earning opportunities during the transition period an allocation of supplementary performance shares was made to all current LTIP participants in 2014. To ensure that the members of the GEC further align their long-term interests with those of shareholders, the transition allocation is being provided in two installments for the members of the GEC (2014 and 2015).
[8] Replacement Payments were made in 2014 to compensate incentive plan forfeitures with previous employers.
[9] The amount relates to contractually agreed remuneration for work undertaken in 2015 after stepping down from the GEC and during the notice period. Such remuneration includes pro-rated base salaries, cash incentives and LTIP target allocations for the financial year 2015.

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Based on these figures, the value of the total remuneration for all members of the GEC comprises 42 percent (36 percent in 2014) in fixed remuneration (comprising base salaries, service costs for pension benefits and other remuneration including employee benefits) and 58 percent (64 percent in 2014) in performance related elements (comprising the cash incentive awards under the STIP and the value of the target share allocations under the LTIP). The emphasis within variable remuneration lies on the deferred part, with 75 percent represented by target performance shares under the LTIP and 25 percent as cash incentive awards under the STIP. The total amount of remuneration of USD 40.1 decreased compared to last year's amount mainly due to the significant decline in cash incentives reflecting the lower overall business performance in 2015.

With regard to the LTIP, the amount included in the total of USD 40.1 million above is the value of target share allocations of USD 17.5 million allocated in 2015 and assumed to vest at 100 percent of target in 2018. As mentioned above, the vesting level for the allocations from previous years vesting in 2016 is zero percent (compared to 139 percent last year), reflecting that the minimum performance levels under the three performance metrics were not met over the two-year performance period. Given there are no shares vesting from prior allocations the actual earned total remuneration for the period ending December 31, 2015 was USD 22.6 million compared to the total remuneration of USD 40.1 million shown above. Further there is no vesting of prior allocations made under transition arrangements based on the two year results compared to USD 5.7 million shown above.

Member of the GEC with the highest remuneration

Martin Senn's remuneration in 2015 was CHF 6.1 million including his base salary, the cash incentive awards earned for the year, the value of the target shares allocated in 2015 under the LTIP, the value of pension benefits and other remuneration including employee benefits. In addition, Martin Senn received a target performance share allocation from transition arrangements with a value of CHF 1.2 million. The difference between the total amounts of remuneration in 2015 and 2014 can be explained by the lower cash incentive earned for 2015. All of Martin Senn's remuneration is paid in Swiss francs.

Remuneration report *continued*

The amount reflects Martin Senn's remuneration for the full year 2015. With regard to the LTIP, the amount included in the total remuneration of CHF 6.1 million is the value of target share allocations of CHF 3.6 million allocated in 2015 and assumed to vest at 100 percent of target in 2018. As mentioned above, the vesting level for the allocations from previous years vesting in 2016 is zero percent (compared to 139 percent last year), reflecting that the minimum performance levels under the three performance metrics were not met over the two-year performance period. Given there are no shares vesting from prior LTIP allocations, the actual earned total remuneration for Martin Senn for the period ending December 31, 2015 was CHF 2.5 million compared to the total remuneration of CHF 6.1 million shown below. Further there is no vesting of prior allocations made under transition arrangements based on the two year results (compared to the CHF 1.2 million shown below).

In 2016, Martin Senn will receive contractually agreed remuneration during his notice period which is compliant with legal and regulatory requirements and does not include any termination payments (golden parachutes) nor other benefits, such as agreements concerning special notice periods or longer term employment contracts (exceeding 12 months in duration), waiver of lock-up periods for equities, shorter vesting periods or additional contributions to occupational pension schemes. The remuneration will be included in the Remuneration Report 2016.

Highest paid executive, Martin Senn in 2015 and comparison with his remuneration in 2014[1]

in CHF millions, for the years ended December 31	**2015[2]**	2014[2]
Base salary	1.6	1.6
Cash incentive awards earned for the year	0.4	1.6
Value of target share allocations	3.6	3.6
Service costs for pension benefits	0.4	0.3
Value of other remuneration	0.1	0.1
Total in CHF[3]	**6.1**	**7.2**
Total in USD[3,4]	**6.3**	**7.9**
in CHF millions, for the years ended December 31	**2015[2]**	2014[2]
Value of target share allocations from transition arrangements[5]	1.2	1.2

[1] Martin Senn stepped down on December 1, 2015 as CEO. The table above includes twelve months of remuneration.
[2] The remuneration shown in the table is gross, based on the accrual principle and does not include any business-related expenses incurred in the performance of the CEO's services.
[3] This excludes the value of target share allocations from transition arrangements.
[4] Martin Senn's remuneration is paid in Swiss francs. The amounts have been translated from Swiss francs to U.S. dollars at the relevant exchange rates throughout the year and the cash incentive to be paid in 2016 has been translated at the year-end rate in 2015.
[5] To maintain the target earning opportunities during the transition period an allocation of supplementary target shares was made.

Special payments and termination arrangements, additional honoraria and remuneration, and personal loans for members of the GEC

During 2015, one new member was appointed to the GEC as an internal hire. Four members of the GEC relinquished their responsibilities as members of the GEC.

Payments in Advance and Severance Payments are prohibited for members of the GEC according to the Ordinance AEC. There were no termination payments (golden parachutes) made and no other benefits, such as agreements concerning special notice periods or longer term employment contracts (exceeding 12 months in duration), waiver of lock-up periods for equities, shorter vesting periods or additional contributions to occupational pension schemes, were provided.

None of the members of the GEC received any remuneration from the Group or from any of the Group's companies in 2015 and 2014 other than as set out in the tables above.

As of December 31, 2015 and 2014, there were no loans, advances or credits outstanding for members of the GEC.

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Remuneration and personal loans for former members of the GEC

Former members of the GEC are eligible to continue their mortgage loans following retirement on similar terms to those when they were employed, in line with the terms available to employees in Switzerland. As of December 31, 2015 and 2014, no former member of the GEC had any outstanding loans, advances or credits.

No former member of the GEC received remuneration in 2015, other than disclosed in the Remuneration Report 2015.

Related parties to members or former members of the GEC

No benefits (or waiver of claims) have been provided to related parties of members of the GEC or related parties of former members of the GEC during the years 2015 and 2014. No party related to members of the GEC or of former members of the GEC had outstanding loans, advances or credits as of December 31, 2015 and 2014.

Share and share option holdings of the members of the GEC

This section provides a summary of total outstanding share commitments under the LTIP, transition arrangements and Replacement Payments and total outstanding share options for members of the GEC as at December 31, 2015.

Target share allocations under LTIP, transition arrangements and restricted share allocations for Replacement Payments

As of December 31, 2015, the total number of unvested target share allocations under LTIP was 102,196 (109,445 as of December 31, 2014). Further, the total number of unvested target share allocations under the transition arrangement was 23,625 and 18,950 shares remained unvested under the Replacement Payments granted to the newly hired members of the GEC in 2014 (27,470 in 2014).

A summary of the unvested target share allocations as at December 31, 2015 under the LTIP, the transition arrangement and the Replacement Payments is set out in the following table:

Summary of unvested target share allocations for the GEC as of December 31

		Year of vesting			
	Year of allocation	2016	2017	2018	Total
Regular LTIP[1,2]	2013	12,106			12,106
	2014	15,804	31,616		47,420
	2015			42,670	42,670
Transition arrangement[3]	2014	6,028	6,031		12,059
	2015	4,257	4,257	3,052	11,566
Replacement Payment[4]	2014	8,520	8,520	1,910	18,950

[1] With effect from January 1, 2014, the Board approved the transition to three-year cliff vesting. To transition to three-year cliff vesting, the 2014 LTIP allocation will vest one-third after two years (i.e. 2016), and two-thirds after three years (i.e. 2017). From the 2015 LTIP allocations onwards, three-year cliff vesting for 100 percent of the allocation will apply.
[2] As of 2014, dividend equivalent target shares are credited within the regular LTIP. At the vesting date, the original number of target shares plus the dividend equivalent target shares will be assessed for vesting in aggregate based on the performance achievements against the vesting grid. No dividends will accrue on the dividend equivalent target shares.
[3] To maintain the target earning opportunities during the transition period an allocation of supplementary target shares was made to all current LTIP participants. To ensure members of the GEC further align their long-term term interests with those of shareholders, the transition allocation is provided in two installments for the GEC.
[4] No performance conditions are applicable for vesting.

Within the context of the regular LTIP allocations made in 2015, these performance based share allocations are considered for vesting in 2018 and one-half of the resulting vested shares are sales-restricted for a further three year period. With regard to the transition allocation made in 2015 to the GEC including the CEO, the shares are assessed for vesting in 2016, 2017 and 2018.

The actual level of vesting is determined in accordance with the remuneration principles and vesting criteria set out in this report.

Remuneration report *continued*

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Share option allocations

Under the share option program for senior management, the Group issued share options in the past to individuals within defined rules. From 2011, share option allocations were no longer made. Prior to this, the option allocations were made each year on the third working day in April. Further, the exercise price for the options allocated in the past was set at the market price on the day prior to the date of allocation. The performance based option allocations were considered for vesting in one-third installments during the three years after the allocation.

In order to prevent executives from potentially losing the value of their options on the expiry date, the Board approved in 2011 an automatic exersale for all options being in the money at the end of the exercise period. A loss would otherwise occur if the executive was prohibited from dealing due to being in possession of price-sensitive information.

Under the share option program, the total number of shares under option for members of the GEC as at December 31, 2015, and 2014, respectively, is set out in the following tables.

Summary of unexercised options, 2015

as of December 31, 2015

Year of allocation	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2010	132,562	–	132,562	259.90	2017
2009	26,223	–	26,223	198.10	2016
Total	**158,785**	**–**	**158,785**		

Summary of unexercised options, 2014

as of December 31, 2014

Year of allocation	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2010	185,292	–	185,292	259.90	2017
2009	60,976	–	60,976	198.10	2016
2008	75,266	–	75,266	336.50	2015
Total	**321,534**	**–**	**321,534**		

All options mentioned above entitle the holder to purchase one share of Zurich at the exercise price stated with normal voting and dividend rights.

Share and share option holdings of members of the GEC

The following table sets out the actual share and share option holdings of each member of the GEC as of December 31, 2015 and 2014. In addition to any shares acquired in the market, the numbers include vested shares, whether sales restricted or not, and vested share options received under the LTIP. However, the table does not include the share interests of the members of the GEC through their participation in the currently unvested target shares or unvested restricted shares.

All interests include shares or share options held by related parties to members of the GEC.

Share and vested share option holdings of the members of the GEC[1]

Number of vested shares and vested share options, as of December 31	2015		2014	
	Shares	Vested options[2]	Shares	Vested options[2]
M. Senn, former Chief Executive Officer	64,407	70,918	48,756	88,012
U. Angehrn, Chief Investment Officer	4,211	6,272	n/a	n/a
J. Dailey, CEO of Farmers Group, Inc.	7,216	12,515	4,520	17,605
R. Dickie, Chief Operations and Technology Officer[3]	1,909	n/a	–	n/a
M. Foley, Chief Executive Officer North America Commercial	12,188	23,601	9,762	40,412
Y. Hausmann, Group General Counsel	10,712	10,193	6,900	10,193
M. Kerner, former CEO General Insurance[4]	n/a	n/a	9,759	13,067
A. Lehmann, former Chief Risk Officer[4]	n/a	n/a	30,861	62,531
G. Quinn, Chief Financial Officer[3]	6,623	n/a	12	n/a
C. Reyes, Chief Risk Officer[4]	15,401	21,716	10,127	23,972
G. Riddell, former Regional Chairman of Asia-Pacific & Middle East[4]	n/a	n/a	19,845	48,548
K. Terryn, CEO General Insurance and CEO Global Life a.i.[4]	8,778	13,570	4,427	17,194
I. Welton, Chief Human Resources Officer[3]	3,916	n/a	2,062	n/a
Total	**135,361**	**158,785**	**147,031**	**321,534**

[1] None of the members of the GEC, together with parties related to them, held more than 0.5 percent of the voting rights as at December 31, 2015 or 2014, either directly or through share options.
[2] The distribution of vested options according to the allocations identified in the tables Summary of unexercised options.
[3] Robert Dickie was appointed Chief Operations and Technology Officer effective March 17, 2014, George Quinn was appointed Chief Financial Officer effective May 1, 2014 and Isabelle Welton was appointed Chief Human Resources Officer effective July 1, 2014.
[4] Geoff Riddell stepped down as member of the GEC effective March 31, 2015, Axel Lehmann stepped down as member of the GEC effective September 30, 2015, Urban Angehrn was appointed Chief Investment Officer effective July 1, 2015, Cecilia Reyes was appointed Chief Risk Officer effective July 1, 2015, Mike Kerner stepped down as member of the GEC effective September 30, 2015 and Kristof Terryn was appointed Chief Executive Officer General Insurance effective October 1, 2015.

The following tables show how the totals of the vested share options owned by members of the GEC are distributed according to the allocations identified in the tables Summary of unexercised options as of December 31, 2015 and 2014, respectively.

Distribution of vested share options of members of the GEC 2015

Number of vested share options as of December 31, 2015	Year of allocation		Total
	2010	2009	
M. Senn	54,883	16,035	70,918
U. Angehrn[1]	6,272	n/a	6,272
J. Dailey	9,231	3,284	12,515
R. Dickie	–	–	–
M. Foley	23,601	–	23,601
Y. Hausmann	10,193	–	10,193
G. Quinn	–	–	–
C. Reyes[1]	19,601	2,115	21,716
K. Terryn[1]	8,781	4,789	13,570
I. Welton	–	–	–
Total	**132,562**	**26,223**	**158,785**

[1] Urban Angehrn was appointed Chief Investment Officer effective July 1, 2015, Cecilia Reyes was appointed Chief Risk Officer effective July 1, 2015 and Kristof Terryn was appointed Chief Executive Officer General Insurance effective October 1, 2015.

AUDITED

Remuneration report *continued*

Distribution of vested share options of members of the GEC 2014

Number of vested share options as of December 31, 2014	Year of allocation			Total
	2010	2009	2008	
M. Senn	54,883	16,035	17,094	88,012
J. Dailey	9,231	3,284	5,090	17,605
R. Dickie[1]	n/a	n/a	n/a	n/a
M. Foley	23,601	5,243	11,568	40,412
Y. Hausmann	10,193	–	–	10,193
M. Kerner	7,637	1,220	4,210	13,067
A. Lehmann	29,402	16,035	17,094	62,531
G. Quinn[2]	n/a	n/a	n/a	n/a
C. Reyes	19,601	2,115	2,256	23,972
G. Riddell	21,963	12,255	14,330	48,548
K. Terryn	8,781	4,789	3,624	17,194
I. Welton[3]	n/a	n/a	n/a	n/a
Total	**185,292**	**60,976**	**75,266**	**321,534**

AUDITED

[1] Robert Dickie was appointed Chief Operations and Technology Officer effective March 17, 2014.
[2] George Quinn was appointed Chief Financial Officer effective May 1, 2014.
[3] Isabelle Welton was appointed Chief Human Resources Officer, effective July 1, 2014.

Trading plans

To facilitate the sale of shares and the exercise of options for members of the GEC, the Board approved the implementation of trading plans under a pre-defined transaction program effective as of 2008. The terms and conditions of the transactions have to be defined and they cannot be changed. All trading plans require the approval of the Chairman of the Board. The establishment of a trading plan by a GEC member is reported to the SIX Swiss Exchange according to the rules on disclosure of management transactions. As of December 31, 2015, there were no trading plans in place. Further, no trading plans were entered into in 2015 or 2014.

Remuneration of all employees

Please refer to the Remuneration framework section on page 74 for the key elements of remuneration and the benchmarking approach for all employees. Also note that the benchmarking analysis is mainly carried out and approved at the local level. The Group had 54,335 full-time equivalent employees as of December 31, 2015 (2014: 54,551).

The following section includes information regarding the total remuneration earned by employees for the financial year 2015 across the Group, including remuneration for members of the GEC.

Fixed remuneration

Fixed remuneration comprises base salaries, other remuneration including employee benefits and service costs for pension benefits.

Fixed remuneration for all employees

in USD million, for the years ended December 31	**2015**	2014
Base salaries	3,922	4,053
Value of other remuneration including employee benefits[1]	641	663
Service costs for pension benefits[2]	556	495
Total fixed remuneration	**5,119**	**5,210**

[1] Includes employee benefits like health and dental insurance and other fringe benefits.
[2] This represents the present value of the defined benefits from pension and post-retirement benefits plans, plus employers' contributions to defined contribution plans, arising from employee service over the accounting period. The amount included in this figure for defined benefit plans is calculated using actuarial factors and can vary year on year as economic conditions change. These numbers are explained in greater detail in note 21 of the Consolidated Financial Statements.

Variable remuneration

The aggregate amount of variable remuneration for 2015 (total variable remuneration pool, see page 71) resulted in an amount of USD 505 million, compared with USD 652 million in 2014. This amount includes the value of the LTIP target allocations made in 2015 which will be assessed for vesting in 2018 based on the performance achievements over the three year period 2015 to 2017. 100% of target vesting has been assumed in the calculation. However, taking the actual LTIP vesting level of zero percent into account, the actual earned total variable remuneration for the period ending December 31, 2015 was USD 365 million. Further, under the STIP, the average award for all employees across the Group is 65 percent of target for 2015, compared to 96 percent of target for 2014.

The figures do not include any charges or credits that originate from remuneration paid out during the financial year 2015 that derive from previous financial years.

Variable remuneration for all employees

in USD million, for the years ended December 31	2015	2014
Cash incentive awards earned for the year[1]	363	499
Value of target share allocations made in the year[2,3]	142	153
Total variable remuneration pool[4]	**505**	**652**
Value of target share allocations from transition arrangements[3]	6	116

[1] Includes Sign-on and Severance Payments in cash.
[2] Includes Sign-on Payments in shares.
[3] The value of the target share allocations reflects the allocations made in 2015 and assumes that the allocation will vest in the future at 100 percent of the target level. The valuation of the target share allocations is based on the share price on the day prior to the allocations (CHF 330.50 in 2015 and CHF 274.30 for 2014). The charges in the financial statements may be calculated using a different vesting basis.
[4] This excludes the value of target share allocations from transition arrangements which amount to USD 6 million in 2015.

Total remuneration

Combining the fixed and variable remuneration, the total remuneration for all employees is as follows:

Total remuneration for all employees

in USD million, for the years ended December 31	2015	2014
Cash – fixed	3,922	4,053
Cash – variable[1]	363	499
Shares[2]	142	153
Other[3]	1,197	1,157
Total remuneration[4]	**5,624**	**5,862**
Value of target share allocations from transition arrangements	6	116

[1] Includes cash incentive awards, Sign-on and Severance Payments in cash.
[2] Includes target share allocations under LTIP and Sign-on Payments in shares.
[3] Includes other remuneration and pension benefits.
[4] This excludes the value of target share allocations from transition arrangements which amount to USD 6 million.

Value of outstanding deferred remuneration

The Group's remuneration system includes instruments for the deferral of remuneration, and the following table provides an overview of the overall value of the outstanding deferred remuneration as of December 31, 2015 and 2014:

Remuneration report *continued*

Value of outstanding deferred remuneration for all employees

in USD million, for the years ended December 31	2015	2014
Unvested target share allocations[1]	307	254
Unvested restricted share allocations	14	17
Vested but sales-restricted allocations	167	125
Value of overall outstanding deferred remuneration	**488**	**396**

[1] This excludes the value of target share allocations made in 2014 and 2015 from transition arrangements which amounts to USD 75 million.

The value of the deferred remuneration has been determined by multiplying the number of outstanding shares by the relevant share price at the original date of allocation and reflects the assumption of a 100 percent future vesting level.

Impact on net income in 2015 and 2014 from remuneration made in prior years

Under the LTIP, the vesting level is used to determine the actual number of shares to be awarded to participants relative to the target shares initially allocated. Differences in value between the target shares allocated and the actual shares vesting is reflected in the consolidated income statement in the year of vesting in line with the accounting principles. For shares vesting in 2015 and 2016 a USD 65 million reduction in expense was recognized in the 2015 income statement to reflect actual performance compared to original estimated. In 2014, there was no material difference in the actual estimated amounts.

Key risk takers

With regard to the disclosure of Sign-on and Severance Payments for individuals considered to be key risk takers for the Group, the following definition and principles for Sign-on and Severance Payments apply.

- Sign-on Payments are payments that are agreed on the execution of an employment contract (whether paid immediately or over time). Sign-on Payments may include compensation made prior to a person joining the company and providing any services (Payments in Advance) or compensation for benefits foregone with a previous employer (Replacement Payments). According to the Ordinance AEC, Payments in Advance are prohibited to be paid to members of the Board and the GEC. Any Replacement Payments for members of the GEC including the CEO have to be approved by the Board based on a proposal by the Remuneration Committee.
- Severance Payments are provided in connection with the termination of an employment relationship. Zurich does not include under the term Severance Payments garden leave or similar payments for employees in jurisdictions where such payments are required by applicable law, or where they are based on contractual notice periods which conform with recognized market practice, or where they are non-contractual but in line with recognized market practice. Zurich does include garden leave or similar payments however, that go beyond recognized market practice, irrespective of whether these are provided pursuant to an agreement or are ex gratia. Severance Payments are prohibited to be paid to members of the Board and the GEC.

The Group as a principle does not make any Sign-on or Severance Payments, however if circumstances in the Group's interest warrant such payments, these can be approved through a clear governance process. Any such payment with a value of CHF 1 million or more is approved by the Chair of the Remuneration Committee prior to the time the employment offer is made or prior to the time the Severance Payment is committed to.

The following table discloses Sign-on and Severance Payments committed to key risk takers. For the key risk taker roles where the incumbent is a member of the GEC, no Payments in Advance and/or Severance payments have been made. Replacement Payments for the GEC in 2014 are included; however there were no Replacement Payments for the GEC in 2015.

Sign-on and Severance Payments for key risk takers

in USD million, for the years ended December 31	2015		2014	
	Amount (USD m)	**Number of beneficiaries**	Amount (USD m)	Number of beneficiaries
Sign-on Payments/number of beneficiaries[1]	2.7	6	11.1	10
Severance Payments/number of beneficiaries[2]	0.4	3	0.8	4

[1] Payments (whether paid immediately or over time) that are agreed on the execution of an employment contract. Sign-on Payments may include compensation made prior to a person joining the company and providing any services (Payments in Advance) or compensation for benefits foregone with a previous employer (Replacement Payments). Payments in Advance are prohibited to be paid to members of the Board and the GEC.

[2] Payments that are provided in connection with the termination of an employment relationship. Zurich does not include under the term Severance Payments garden leave or similar payments for employees in jurisdictions where such payments are required by applicable law, or where they are based on contractual notice periods which conform with recognized market practice, or where they are non-contractual but in line with recognized market practice. However, Zurich does include garden leave or similar payments that go beyond recognized market practice, irrespective of whether these are provided pursuant to an agreement or are ex gratia. Severance Payments are prohibited to be paid to members of the Board and the GEC.

Outlook

As we move into 2016, Zurich will continue to carefully monitor and act upon legal and regulatory requirements. One aspect of this, which is of particular focus for a number of Zurich's subsidiary boards within the European Union are the requirements under Solvency II. Any remuneration-related requirements resulting from Solvency II are being reviewed and implemented with ongoing dialogue between the Group and the affected countries.

During the year, the remuneration architecture is being reviewed to ensure alignment with the latest market conditions and practices and to support the execution of the goals and objectives underlying the next strategy cycle.

We will also see the full implementation of the transition to three-year cliff vesting under the LTIP at the end of this year. All three performance criteria, TSR, NIAS ROE and cash remittance will be assessed over the full three-year performance period 2014–2016 to determine the vesting level for the LTIP allocations vesting in April 2017. As a result, a major part of the transition of the LTIP framework, which was amended effective from January 1, 2014, will be complete. The assessment of the vesting level for the first three-year cliff vesting performance period (2015–2017), will take place in April, 2018.

In addition, Zurich will continue to engage in a dialogue with key stakeholders on remuneration related matters to exchange views and to better understand and respond to any particular areas of concern regarding the Group's remuneration architecture. As in 2015, shareholders will receive the Board of Directors Report 2016. This includes information regarding the two remuneration votes on the total maximum amounts of remuneration for the Board and for the GEC, which will take place at the AGM on March 30, 2016. The votes allow shareholders to have a say on the prospective remuneration for the Board and for the GEC arising from Zurich's remuneration policies. Shareholders will also be given the opportunity to express their opinion on our Remuneration Report, through a consultative, non-binding vote at the AGM on the Remuneration Report 2015.

The Remuneration Committee will continue to ensure that the remuneration framework is aligned with the strategy, is embedded in the risk framework and complies with legal and regulatory requirements. As in previous years, the Committee enforces the governance framework and carefully monitors the link between key performance factors and variable remuneration awards.

Report of the Statutory Auditor

Report of the Statutory Auditor

To the Annual General Meeting 2016 of Zurich Insurance Group Ltd

Report of the statutory auditor on the audit of the Remuneration Report

We have audited the sections on page 86, pages 88 to 89 and pages 93 to 98 of the accompanying Remuneration Report of Zurich Insurance Group Ltd for the year ended December 31, 2015.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the Remuneration Report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance AEC). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility
Our responsibility is to express an opinion on the accompanying Remuneration Report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Remuneration Report complies with Swiss law and articles 14–16 of the Ordinance AEC.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the Remuneration Report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance AEC. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Remuneration Report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the Remuneration Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the Remuneration Report of Zurich Insurance Group Ltd for the year ended December 31, 2015 complies with Swiss law and articles 14–16 of the Ordinance AEC.

PricewaterhouseCoopers AG

Mark Humphreys Audit expert Auditor in charge	Peter Bieri Audit expert

Zurich, February 10, 2016

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Group performance review

In this section

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 year ended December 31, 2015, compared with 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 years ended December 31, 2015 and 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 results 2015 of the Group and, in particular, with its Consolidated financial statements for the year ended December 31, 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 28.2 in note 28 of the 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, was 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 years ended December 31, unless otherwise stated	2015	2014	Change[1]
Business operating profit	**2,916**	4,638	(37%)
Net income attributable to shareholders	**1,842**	3,949	(53%)
General Insurance gross written premiums and policy fees	**34,020**	36,333	(6%)
Global Life gross written premiums, policy fees and insurance deposits	**29,037**	31,883	(9%)
Farmers Management Services management fees and other related revenues	**2,786**	2,791	–
Farmers Re gross written premiums and policy fees	**2,145**	3,428	(37%)
General Insurance business operating profit	**864**	2,979	(71%)
General Insurance combined ratio	**103.6%**	96.8%	(6.7 pts)
Global Life business operating profit	**1,300**	1,273	2%
Global Life new business annual premium equivalent (APE)[2]	**4,772**	5,203	(8%)
Global Life new business margin, after tax (as % of APE)[2]	**21.6%**	20.8%	0.8 pts
Global Life new business value, after tax[2]	**912**	965	(5%)
Farmers business operating profit	**1,421**	1,573	(10%)
Farmers Management Services gross management result	**1,338**	1,335	–
Farmers Management Services managed gross earned premium margin	**7.1%**	7.2%	(0.1 pts)
Average Group investments	**198,049**	206,070	(4%)
Net investment result on Group investments	**7,462**	9,211	(19%)
Net investment return on Group investments[3]	**3.8%**	4.5%	(0.7 pts)
Total return on Group investments[3]	**1.7%**	8.6%	(6.9 pts)
Shareholders' equity[4]	**31,178**	34,735	(10%)
Swiss Solvency Test capitalization ratio[5]	**203%**	196%	7.0 pts
Diluted earnings per share (in USD)	**12.33**	26.44	(53%)
Diluted earnings per share (in CHF)	**11.86**	24.17	(51%)
Book value per share (in CHF)[4]	**209.27**	232.65	(10%)
Return on common shareholders' equity (ROE)[6]	**6.4%**	13.0%	(6.6 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[6]	**6.4%**	11.2%	(4.7 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 results 2015. 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 December 31, 2015 and December 31, 2014, respectively.
5 Ratios as of July 1, 2015 and January 1, 2015, respectively. The Swiss Solvency Test (SST) ratio is calculated based on the Group's internal model, which is subject to the approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The ratio is filed with FINMA annually. The July 1, 2015 ratio was calculated excluding a macro equity hedge, for more details please refer to the Risk review in the Annual results 2015.
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 2.9 billion, a decrease of USD 1.7 billion or 37 percent in U.S. dollar terms and 34 percent on a local currency basis. The General Insurance result decreased by USD 2.1 billion to USD 864 million due to a substantial increase in the costs of large and catastrophe losses, particularly in the second half of the year. 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 from premium growth, though Farmers Re incurred higher losses. The overall lower profit from the core businesses was partly offset by lower Group borrowing costs, currency exchange gains and a positive contribution from Non-Core Businesses.

Net income attributable to shareholders of USD 1.8 billion decreased by USD 2.1 billion, or 53 percent in U.S dollar terms and 54 percent on a local currency basis, primarily due to the decrease of USD 1.7 billion in business operating profit and lower net gains on investments of USD 508 million. Higher restructuring provisions and impairments of goodwill were more than offset by the absence of a loss on the divestment of a business in 2014 and the lower consequential tax expense attributable to shareholders.

The Group's capital and solvency positions remain strong. Solvency measured on an economic basis as determined under the Swiss Solvency Test was 203 percent as of July 1, 2015, an increase of 7 percentage points since January 1, 2015, mainly as a result of changes in investment markets and business growth assumptions. Shareholders' equity decreased by USD 3.6 billion during the year to December 31, 2015 to USD 31.2 billion. This decrease resulted from the cost of the dividend paid in April 2015, unrealized losses on investments and negative currency translation adjustments, partly offset by net income attributable to shareholders and positive actuarial effects on pension plans.

On the basis of the Group's capital position and the expectation of strong sustainable earnings, the Board of Directors proposes a dividend of CHF 17 per share.

Business operating profit decreased by USD 1.7 billion to USD 2.9 billion, or by 37 percent in U.S. dollar terms and 34 percent on a local currency basis.

- **General Insurance** business operating profit decreased by USD 2.1 billion to USD 864 million, or 71 percent in U.S. dollar terms and 70 percent on a local currency basis. This was primarily due to a deterioration in the net underwriting result of USD 1.9 billion. The deterioration in the net underwriting result arose mainly in Global Corporate and EMEA and resulted from an increase in large and catastrophe losses, as well as an absence of favorable loss development of reserves established in prior years. The expense ratio was negatively impacted by the costs of ongoing growth initiatives and changes in product and geographic mix.
- **Global Life** business operating profit increased by USD 27 million to USD 1.3 billion, or 2 percent in U.S. dollar terms and 16 percent on a local currency basis. The weakening of Latin American and European currencies against the U.S. dollar compared with 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 with the largest increases occurring in loadings and fees and the technical margin, as a result of the ongoing focus on fee-based and protection business.
- **Farmers** business operating profit decreased by USD 152 million to USD 1.4 billion, or by 10 percent. **Farmers Re** business operating profit decreased by USD 129 million to USD 61 million due to underwriting losses, as well as lower net investment income. **Farmers Management Services** business operating profit decreased by USD 23 million to USD 1.4 billion with the gross management result at the same level as in 2014, but with a reduction in other income.
- **Other Operating Businesses** reported a business operating loss of USD 720 million, compared with a loss of USD 960 million in 2014. This improvement was primarily driven by lower interest expense on debt, favorable foreign exchange impacts and several one-off items in both 2015 and 2014.
- **Non-Core Businesses** reported a business operating profit of USD 51 million compared with a loss of USD 227 million in 2014. The improvement arose from the impact of both lower adverse development of reserves established in prior years and lower loan losses compared with 2014 and from the release of long-term reserves as a consequence of a buy-back program for a variable annuity product.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, decreased by USD 6.4 billion to USD 68.0 billion, or by 9 percent in U.S. dollar terms, but increased 2 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees decreased by USD 2.3 billion to USD 34.0 billion, or 6 percent in U.S. dollar terms, but increased by 3 percent on a local currency basis with growth in the U.S. and Latin America.
- **Global Life** gross written premiums, policy fees and insurance deposits decreased by USD 2.8 billion to USD 29.0 billion, or 9 percent in U.S. dollar terms, but increased 6 percent on a local currency basis. The increase on a local currency basis occurred predominantly in EMEA, driven by growth in individual savings business in some continental European countries, partly offset by a reduction in corporate business in the UK, where a small number of large cases boosted volumes in 2014.
- **Farmers Management Services** management fees and other related revenues remained broadly flat at USD 2.8 billion. **Farmers Re** gross written premiums and policy fees decreased by USD 1.3 billion to USD 2.1 billion, or by 37 percent, due to reductions in reinsurance assumed from the Farmers Exchanges.

The **net investment result on Group investments**, before allocations to policyholders, of USD 7.5 billion decreased by USD 1.8 billion, or 19 percent in U.S. dollar terms and by 10 percent on a local currency basis, resulting in a **net investment return on average Group investments** of 3.8 percent compared with 4.5 percent in 2014. **Net investment income**, predominantly included in the core business results, of USD 5.6 billion decreased by USD 635 million, or by 10 percent in U.S. dollar terms, but remained flat on a local currency basis. **Net capital gains on investments and impairments** included in the net investment result decreased by USD 1.1 billion to USD 1.9 billion, mainly due to the decrease in value of the equities and debt securities booked at fair value through profit and loss reflecting the downturn in global equity markets and rising yields, respectively. **Total return on average Group investments** was 1.7 percent, compared with 8.6 percent in 2014. Total return includes the net investment return, as well as lower return from net unrealized investment gains before allocations to policyholders, of USD 4.1 billion compared with USD 8.5 billion in 2014, which do not flow through net income. The changes arose mainly as a result of rising bond yields, widening credit spreads, as well as the overall decline in equity markets during 2015, compared with falling yields and rising equity markets in 2014.

The U.S. dollar, on average, strengthened significantly against all of the Group's major trading currencies during the year compared with 2014. The translation effect of the strengthening of the U.S. dollar during the year affected many line items in both the consolidated income and cash flow statements, as well as reducing business operating profit by USD 147 million. The U.S. dollar also strengthened as of December 31, 2015 compared with December 31, 2014 with many line items in the balance sheet affected. The net effect of these currency translation adjustments was a reduction of USD 3.0 billion in shareholders' equity since December 31, 2014, which includes the difference of USD 1.0 billion between the dividend at transaction day exchange rates and the dividend at historical exchange rates.

The **shareholders' effective tax rate** increased to 36.6 percent for the year ended December 31, 2015 compared with 27.0 percent for 2014. The increase of 9.6 percentage points reflects changes in the profit mix, restructuring costs, write-down of deferred tax assets and the effects of several non-recurring charges in 2015, as well as the impairment of goodwill for the German Life business, which did not attract tax benefits.

ROE decreased by 6.6 percentage points to 6.4 percent, largely due to the reduction in net income attributable to shareholders partly offset by the reduction in average shareholders' equity. **BOPAT ROE** decreased by 4.7 percentage points to 6.4 percent, as a result of the decrease in business operating profit partly offset by the reduction in average shareholders' equity. **Diluted earnings per share** in Swiss francs decreased by 51 percent to CHF 11.86 compared with CHF 24.17 in 2014. Diluted earnings per share in U.S. dollars decreased by 53 percent to USD 12.33 compared with USD 26.44 in 2014.

Operating and financial review *continued*

General Insurance

in USD millions, for the years ended December 31	2015	2014	Change
Gross written premiums and policy fees	34,020	36,333	(6%)
Net earned premiums and policy fees	28,051	30,023	(7%)
Insurance benefits and losses, net of reinsurance	20,152	19,920	(1%)
Net underwriting result	(1,002)	947	nm
Net investment result	2,002	2,239	(11%)
Net non-technical result (excl. items not included in BOP)	(29)	(112)	74%
Non-controlling interests	108	95	(14%)
Business operating profit	**864**	**2,979**	**(71%)**
Loss ratio	71.8%	66.4%	(5.5 pts)
Expense ratio	31.7%	30.5%	(1.2 pts)
Combined ratio	**103.6%**	**96.8%**	**(6.7 pts)**

in USD millions, for the years ended December 31	Business operating profit (BOP)		Combined ratio	
	2015	2014	2015	2014
Global Corporate	(345)	783	113.9%	95.7%
North America Commercial	768	923	98.2%	96.5%
Europe, Middle East & Africa (EMEA)	403	1,223	101.3%	95.1%
International Markets	82	40	103.3%	104.6%
GI Global Functions including Group Reinsurance	(45)	8	nm	nm
Total	**864**	**2,979**	**103.6%**	**96.8%**

Business operating profit deteriorated by USD 2.1 billion to USD 864 million, or 71 percent in U.S. dollar terms and 70 percent on a local currency basis. This resulted from a deterioration in the net underwriting result of USD 1.9 billion to a loss of USD 1.0 billion, principally in Global Corporate and EMEA, as well as a lower net investment result mainly due to lower yields in EMEA and lower hedge fund gains in North America.

Gross written premiums and policy fees decreased by USD 2.3 billion to USD 34.0 billion. On a local currency basis, gross written premiums increased by 3 percent, driven by growth in North America Commercial and International Markets. In North America Commercial, this resulted from organic growth including an increase in new business through captives. In International Markets, gross written premiums increased on a local currency basis mainly in Latin America, partly due to inflation, but also from a new distribution agreement in Brazil. Global Corporate is in line with 2014 on a local currency basis. EMEA is slightly lower in local currency terms, but adjusting for the sale of the retail market business in Russia in 2014 and the exit from the personal lines business in the Netherlands owned by the Swiss business, premium volumes increased. Rate increases were lower by around 1.0 percent across all regions with the exception of International Markets, when compared with 2014. Overall rates increased by around 2 percent.

The **net underwriting result** deteriorated by USD 1.9 billion to a loss of USD 1.0 billion, reflected in the 6.7 percentage points deterioration in the combined ratio to 103.6 percent. The loss ratio increased 5.5 percentage points reflecting higher large losses in Global Corporate and certain European countries, the Tianjin port explosion and higher natural catastrophe losses resulting from severe flooding in the UK and Ireland in December. The result also reflects the absence of favorable development of loss reserves established in prior years. The expense ratio increased by 1.2 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 years ended December 31	2015	2014	Change
Gross written premiums and policy fees	8,670	9,434	(8%)
Net underwriting result	(835)	273	nm
Business operating profit	**(345)**	**783**	**nm**
Loss ratio	91.2%	73.9%	(17.2 pts)
Expense ratio	22.7%	21.8%	(0.9 pts)
Combined ratio	**113.9%**	**95.7%**	**(18.2 pts)**

Business operating profit deteriorated by USD 1.1 billion to a loss of USD 345 million. The decrease resulted mainly from the deterioration in the net underwriting result, but also from a relatively small decrease in the net investment result due to the absence of hedge fund gains, slightly offset by minor improvements in the non-technical result from foreign exchange gains.

Gross written premiums and policy fees of USD 8.7 billion decreased by USD 764 million, or 8 percent in U.S. dollar terms, but remained flat on a local currency basis. The rate environment continues to be under pressure, particularly in the U.S. Overall, rates increased slightly in 2015.

The **net underwriting result** deteriorated by USD 1.1 billion to an underwriting loss of USD 835 million, reflected in the deterioration of 18.2 percentage points in the combined ratio to 113.9 percent. The deterioration in the loss ratio of 17.2 percentage points was mainly attributable to higher catastrophe losses, a higher number and increased severity of large losses, particularly in the property line of business in North America and Europe, and the Tianjin port explosion. The development of loss reserves established in prior years also deteriorated compared with 2014. The expense ratio deteriorated by 0.9 percentage points as a result of investments in growth initiatives.

Operating and financial review *continued*

North America Commercial

in USD millions, for the years ended December 31	**2015**	2014	Change
Gross written premiums and policy fees	10,742	10,056	7%
Net underwriting result	146	270	(46%)
Business operating profit	**768**	**923**	**(17%)**
Loss ratio	67.0%	66.4%	(0.6 pts)
Expense ratio	31.2%	30.1%	(1.0 pts)
Combined ratio	**98.2%**	**96.5%**	**(1.7 pts)**

Business operating profit decreased by USD 155 million to USD 768 million, with a deterioration in the net underwriting result, with a reduction in the net investment result driven by lower hedge fund gains, partly offset by an improvement in the non-technical result driven by foreign exchange gains.

Gross written premiums and policy fees increased by USD 686 million to USD 10.7 billion, or by 7 percent. This increase was driven by organic growth including increased levels of business from captives, particularly in the workers compensation and liability lines of business. The rate environment remained positive in liability, motor and specialty lines of business with overall rates increasing by 1 percent despite market pressures.

The **net underwriting result** decreased by USD 124 million to USD 146 million, reflected in the 1.7 percentage points deterioration in the combined ratio to 98.2 percent. The loss ratio deteriorated by 0.6 percentage points resulting from an increase in the current accident year loss ratio and less favorable development of loss reserves established in prior years. This was partly offset by lower catastrophe and weather-related losses. The expense ratio increased by 1.0 percentage points, mainly as a result of an increase in commissions due to growth in products for which higher levels of commission apply. Premium taxes normalized in 2015 after a non-recurring benefit in 2014.

Europe, Middle East & Africa

in USD millions, for the years ended December 31	2015	2014	Change
Gross written premiums and policy fees	10,955	12,626	(13%)
Net underwriting result	(138)	592	nm
Business operating profit	**403**	**1,223**	**(67%)**
Loss ratio	69.1%	64.1%	(5.1 pts)
Expense ratio	32.1%	31.1%	(1.1 pts)
Combined ratio	**101.3%**	**95.1%**	**(6.1 pts)**

Business operating profit decreased by USD 820 million to USD 403 million, or 67 percent in U.S. dollar terms and 64 percent on a local currency basis, primarily as a result of a deterioration in the net underwriting result. The net investment result also reduced by USD 129 million in U.S. dollar terms, mainly as a result of foreign currency translation and lower yields, which was partly offset by a small improvement in the non-technical result.

Gross written premiums and policy fees decreased by USD 1.7 billion to USD 11.0 billion, or by 13 percent in U.S. dollar terms and 1 percent on a local currency basis. Adjusting for the sale of the retail market business in Russia in October 2014 and the exit from the personal lines business in the Netherlands owned by the Swiss business, premium volumes grew by 1 percent on a local currency basis. On a local currency basis, there was growth in Spain and in the commercial lines business in Switzerland. These positive impacts were partly 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. There were positive developments in retention levels, and overall rates have increased by 2 percent.

The **net underwriting result** deteriorated by USD 730 million to a loss of USD 138 million, reflected in the deterioration in the combined ratio of 6.1 percentage points to 101.3 percent. The deterioration in the loss ratio of 5.1 percentage points reflected higher catastrophe related losses mainly from flooding in the UK in December and higher large losses, also mainly in the UK, as well as less favorable development of reserves established in prior years. The expense ratio deteriorated by 1.1 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 years ended December 31	2015	2014	Change
Gross written premiums and policy fees	3,894	4,460	(13%)
Net underwriting result	(112)	(175)	36%
Business operating profit	**82**	**40**	**nm**
Loss ratio	56.5%	61.7%	5.2 pts
Expense ratio	46.8%	42.9%	(3.9 pts)
Combined ratio	**103.3%**	**104.6%**	**1.3 pts**

Business operating profit increased by USD 42 million to USD 82 million. The increase resulted from an improvement in the net underwriting result and lower non-technical expenses in Latin America, partly offset by a lower net investment result, mainly in Australia.

Gross written premiums and policy fees decreased by USD 566 million to USD 3.9 billion, or by 13 percent in U.S. dollar terms, but increased by 9 percent on a local currency basis. On a local currency basis, gross written premiums grew by 19 percent in Latin America due to new distribution agreements in Brazil and the impact of inflation in the region. Despite growth in some areas of Asia Pacific, premiums decreased by 3 percent on a local currency basis due to the impact of underwriting actions taken in Australia. Overall, International Markets achieved average rate increases of 5 percent, mainly in Latin America.

The **net underwriting result** improved by USD 62 million, reflected in the 1.3 percentage points improvement in the combined ratio to 103.3 percent. The loss ratio improved by 5.2 percentage points, mainly as a result of an improvement in the underlying loss ratio, as well as lower catastrophe and weather-related losses and higher levels of favorable development of loss reserves established in prior years compared with 2014. The expense ratio deteriorated by 3.9 percentage points due to an increase in commissions and higher expenses, including costs related to the implementation of new distribution agreements in Brazil and several one-off costs in 2015.

Global Life

in USD millions, for the years ended December 31	2015	2014	Change
Insurance deposits	14,591	17,289	(16%)
Gross written premiums and policy fees	14,446	14,594	(1%)
Net investment income on Group investments	3,320	3,815	(13%)
Insurance benefits and losses, net of reinsurance	(8,612)	(10,685)	19%
Business operating profit	**1,300**	**1,273**	**2%**
Net policyholder flows[1]	7,200	5,470	32%
Assets under management[2, 3]	254,210	265,507	(4%)
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[3]	207,542	221,926	(6%)

1 Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.
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 As of December 31, 2015 and December 31, 2014, respectively.

New business – highlights

in USD millions, for the years ended December 31	2015	2014	Change
New business annual premium equivalent (APE)[1]	**4,772**	**5,203**	**(8%)**
New business margin, after tax[2, 4]	**21.6%**	**20.8%**	**0.8 pts**
New business value, after tax[3, 4]	**912**	**965**	**(5%)**

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 and new business margin 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 and new business margin figures for 2014 have been restated to reflect this change.

Source of earnings[1]

in USD millions, for the years ended December 31	2015	2014	Change
Loadings and fees	3,943	4,300	(8%)
Investment margin	480	544	(12%)
Technical margin	1,334	1,212	10%
Operating and funding costs	(1,847)	(1,895)	3%
Acquisition costs	(2,988)	(3,335)	10%
Impact of deferrals	376	447	(16%)
Business operating profit	**1,300**	**1,273**	**2%**

1 Each line represents the Group's interest after deducting non-controlling interests, amounting in total to USD 223 million (in 2014 USD 239 million) in business operating profit.

Operating and financial review *continued*

Business operating profit increased by USD 27 million to USD 1.3 billion, or 2 percent in U.S. dollar terms and 16 percent on a local currency basis, with local currency improvements across all regions and all sources of earnings. The majority of these improvements arose in North America and EMEA with both benefitting from improvements in loadings and fees and in technical margin. 2014 was impacted by 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.

Loadings and fees decreased by USD 357 million, or by 8 percent in U.S dollar terms, but increased by 5 percent on a local currency basis. The increase in local currency was driven by higher volumes in Zurich Santander and higher fees in North America and EMEA, with the largest contribution from an increase in unit-linked fund based fees.

Investment margin decreased by USD 64 million, or 12 percent in U.S. dollar terms, but increased 4 percent on a local currency basis. The improvement in local currency largely resulted from increased investment returns in Latin America, while the investment margin in EMEA remained flat.

Technical margin improved by USD 123 million, or by 10 percent in U.S dollar terms and by 22 percent on a local currency basis, with the largest improvements arising in EMEA and North America. In EMEA, the improvement was driven by favorable claims experience, as well as by positive impacts associated with management actions to drive value from in-force business. It also includes the partial recognition of a significant gain on the transfer of risk through reinsurance in a legacy in-force annuity portfolio in the UK to be recognized in total over the lifetime of the reinsurance contract. In North America, the improvement in technical margin largely resulted from the effect of non-recurring costs incurred in 2014 relating to the transfer of an annuity portfolio to Non-Core Businesses.

Operating and funding costs decreased by USD 48 million, or by 3 percent in U.S dollar terms, but increased by 10 percent on a local currency basis. In local currency, the positive impact of disciplined central expense management in 2015 was more than offset by the effect of positive non-recurring items in 2014, including a favorable impact from policyholders' tax expense in the UK and a reduction in pension liabilities in Switzerland.

Acquisition costs decreased by USD 347 million, or by 10 percent in U.S dollar terms, but increased by 4 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 contribution from the impact of deferrals reduced by USD 70 million, or by 16 percent in U.S. dollar terms and 5 percent on a local currency basis. The positive effect of higher volumes in Asia Pacific and Zurich Santander was more than offset by North America due to decreasing volumes and EMEA, where in spite of higher volumes of business the impact of deferrals reduced due to business mix and higher policy surrenders.

Insurance deposits decreased by USD 2.7 billion to USD 14.6 billion, or 16 percent in U.S. dollar terms and 2 percent on a local currency basis. EMEA experienced a decrease predominantly driven by lower sales of Corporate Life and Pensions products in the UK, where a small number of large cases had boosted volumes in 2014, with a partial offset from higher sales of individual savings business in Ireland and Italy.

Gross written premiums and policy fees decreased by USD 147 million to USD 14.4 billion, or 1 percent in U.S. dollar terms, but increased 15 percent on a local currency basis. The increase on a local currency basis predominantly arose from increased sales in EMEA, particularly in individual savings business in Spain, and in protection products in Zurich Santander, partly offset by a reduction related to the non-renewal of a large corporate contract in Chile.

Net policyholder flows were positive at USD 7.2 billion, with EMEA and Zurich Santander experiencing improved net inflows. The lower net inflow of USD 5.5 billion in 2014 was mainly due to higher surrenders linked to the discontinuation of certain private banking products in the UK. **Assets under management** decreased by 4 percent in U.S. dollar terms, but increased by 4 percent on a local currency basis compared with December 31, 2014 driven by favorable market movements and positive net policyholder flows. **Net reserves** decreased by 6 percent in U.S. dollar terms, but increased by 3 percent on a local currency basis compared with December 31, 2014, substantially reflecting similar movements as those in the related assets.

NBV, APE, NBM and BOP by region

in USD millions, for the years ended December 31	New business value, after tax (NBV)[1,2]		New business annual premium equivalent (APE)[3]		New business margin, after tax (as % of APE) (NBM)[2,4]		Business operating profit (BOP)	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
North America	100	111	179	208	56.1%	53.3%	178	141
Latin America	125	164	957	1,160	21.1%	22.2%	195	222
of which:								
Zurich Santander	*99*	*110*	*726*	*846*	*26.8%*	*25.4%*	*184*	*203*
Europe, Middle East & Africa	526	546	3,422	3,651	16.3%	15.6%	892	917
United Kingdom	*200*	*199*	*1,242*	*1,510*	*16.1%*	*13.2%*	*173*	*189*
Germany	*19*	*30*	*406*	*428*	*4.9%*	*7.0%*	*220*	*210*
Switzerland	*70*	*68*	*335*	*253*	*21.0%*	*26.8%*	*229*	*241*
Ireland	*57*	*47*	*443*	*452*	*13.0%*	*10.5%*	*58*	*61*
Spain	*90*	*88*	*378*	*325*	*44.4%*	*49.2%*	*50*	*53*
Italy	*–*	*13*	*234*	*190*	*0.2%*	*6.9%*	*41*	*46*
Zurich International Life	*84*	*93*	*349*	*439*	*23.9%*	*21.1%*	*70*	*67*
Rest of Europe, Middle East & Africa	*5*	*8*	*34*	*53*	*13.6%*	*15.1%*	*50*	*48*
Asia Pacific	112	88	157	127	72.1%	70.4%	43	52
Other	49	56	57	57	85.1%	97.4%	(8)	(59)
Total	**912**	**965**	**4,772**	**5,203**	**21.6%**	**20.8%**	**1,300**	**1,273**

NBV, APE and NBM by pillar

in USD millions, for the years ended December 31	New business value, after tax (NBV)[1,2]		New business annual premium equivalent (APE)[3]		New business margin, after tax (as % of APE) (NBM)[2,4]	
	2015	2014	**2015**	2014	**2015**	2014
Bank Distribution	241	269	1,599	1,741	22.7%	22.9%
Other Retail	353	405	1,472	1,554	24.0%	26.1%
Corporate Life and Pensions	318	291	1,701	1,908	18.8%	15.3%
Total	**912**	**965**	**4,772**	**5,203**	**21.6%**	**20.8%**

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 and new business margin 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 and new business margin figures for 2014 have been restated to reflect this change.
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.

The weakening of Latin American and European currencies against the U.S. dollar compared with 2014 had a significant impact on the reported results. Global Life continued to benefit on a local currency basis 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 53 million to USD 912 million, or by 5 percent in U.S. dollar terms, but increased 7 percent on a local currency basis. The increase on a local currency basis was primarily driven by EMEA, where improved profitability of corporate business more than offset the negative impact of low interest rates on individual savings business. Higher sales in Zurich Santander and Asia Pacific, particularly in Japan, also contributed to the overall improvement on a local currency basis.

APE decreased by USD 432 million to USD 4.8 billion, or 8 percent in U.S. dollar terms, but increased 7 percent on a local currency basis. The increase in local currency was driven by growth in Bank Distribution and Other Retail partly offset by Corporate Life and Pensions, for which there were significantly higher levels of business in 2014. On a geographical basis, the local currency growth mainly arose in EMEA, which experienced increased sales of individual savings business in some continental European countries, and protection business in Zurich Santander and Asia Pacific. These increases were partly offset by decreased volumes of corporate business in the UK and IFA business in North America.

Operating and financial review *continued*

New business margin increased by 0.8 percentage points to 21.6 percent, with increases occurring in North America, Zurich Santander and Asia Pacific. New business margin in EMEA slightly increased, despite the continued reduction in interest rates negatively affecting new business margin in continental European countries, supported by improved profitability in corporate business. 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 seen in 2014, when IFA and Brokers achieved an exceptionally high volume of sales, was not repeated in 2015 and resulted in an overall decrease in APE of 14 percent and NBV of 10 percent. The less than proportional decrease in NBV was primarily due to changes in product mix, overall resulting in a strong NBM of 56 percent.

In Latin America, APE decreased by 18 percent in U.S. dollar terms, but increased by 9 percent on a local currency basis. The increase in local currency mainly arose from increased sales in Zurich Santander. This increase was partly offset by decreased sales in the Zurich operations, primarily in Chile and Brazil, resulting in an overall flat NBV on a local currency basis.

In EMEA, APE decreased by 6 percent in U.S. dollar terms, but increased by 6 percent on a local currency basis. In local currency, APE increased in Spain and Italy as a result of increased sales of individual savings business, and in Switzerland, driven by higher sales of corporate products, partly offset by a decrease in APE in the UK driven by lower volumes of corporate business and unit-linked business in Zurich International Life. NBV also increased in local currency, with the improved profitability of corporate business only partly offset by the negative impact of low interest rates on individual savings business.

In Asia Pacific, APE increased by 23 percent in U.S. dollar terms and 44 percent on a local currency basis. The increase in local currency was primarily driven by increased volumes in Japan, resulting in an increase in NBV. This positive effect was partly offset as NBV reduced in Australia, as a result of both lower sales and assumption changes.

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

In Bank Distribution, NBV decreased by USD 28 million to USD 241 million, or 10 percent in U.S. dollar terms, but increased 12 percent on a local currency basis. The increase in local currency resulted from higher volumes in Zurich Santander and Spain and improved margins in Germany.

In Other Retail, NBV decreased by USD 52 million to USD 353 million, or 13 percent in U.S. dollar terms and 6 percent on a local currency basis. The decrease in local currency arose in most regions; North America was impacted by lower volumes, EMEA experienced lower margins mainly due to the negative impact of low interest rates in continental European countries, and in Latin America both volumes and margins decreased. These negative effects were partly offset by Asia Pacific, primarily from increased volumes in Japan.

In Corporate Life and Pensions, NBV increased by USD 27 million to USD 318 million, or 9 percent in U.S. dollar terms, and 18 percent on a local currency basis, largely benefiting from higher margins in EMEA, partly offset by the effects of changes in product mix in Other.

Farmers

Farmers business operating profit decreased by USD 152 million to USD 1.4 billion. This was due to a reduction in business operating profit of USD 129 million in Farmers Re and USD 23 million in Farmers Management Services.

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 years ended December 31	**2015**	2014	Change
Management fees and other related revenues	2,786	2,791	–
Management and other related expenses	(1,448)	(1,455)	1%
Gross management result	1,338	1,335	–
Other net income	22	48	(54%)
Business operating profit	**1,360**	**1,383**	**(2%)**
Managed gross earned premium margin	7.1%	7.2%	(0.1 pts)

Business operating profit decreased by USD 23 million to USD 1.4 billion with the gross management result at the same level as in 2014, but with a reduction in other net income.

Management fees and other related revenues of USD 2.8 billion remained broadly flat reflecting increased revenues due to the growth in gross earned premiums of the Farmers Exchanges offset by a reduction in average management fee rates. **Management and other related expenses** of USD 1.4 billion were slightly lower compared with 2014. **Other net income** of USD 22 million decreased by USD 26 million primarily due to unrealized losses recognized in 2015 compared with gains in 2014 from a mark-to-market valuation of securities supporting employee benefit liabilities, as well as a non-recurring gain in 2014 from the sale of a property.

The **managed gross earned premium margin** decreased to 7.1 percent compared with 7.2 percent for 2014.

Operating and financial review *continued*

Farmers Re

in USD millions, for the years ended December 31	**2015**	2014	Change
Gross written premiums and policy fees	2,145	3,428	(37%)
Net underwriting result	(26)	66	nm
Business operating profit	**61**	**190**	**(68%)**
Loss ratio	70.1%	67.0%	(3.1 pts)
Expense ratio	31.1%	31.3%	0.3 pts
Combined ratio	**101.2%**	**98.3%**	**(2.8 pts)**

Business operating profit decreased by USD 129 million to USD 61 million due to underwriting losses, as well as lower net investment income resulting from reduced participation in the reinsurance agreements with the Farmers Exchanges.

Gross written premiums and policy fees decreased by USD 1.3 billion to USD 2.1 billion, or 37 percent, 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, and further reduced from 10 percent to 8 percent, effective December 31, 2015, subject to the approval of the California Department of Insurance. Participation in the Auto Physical Damage (APD) quota share reinsurance agreement was reduced from USD 900 million in 2014 to USD 500 million in 2015.

The **net underwriting result** deteriorated by USD 92 million to a loss of USD 26 million driven by higher losses assumed from the Farmers Exchanges, including increased underlying losses, prior year reserve strengthening, primarily in the auto book of business, and an increase in catastrophe losses in 2015 compared with 2014 which together are reflected in the 3.1 percentage points increase in the **loss ratio**. The **expense ratio**, based on ceded reinsurance commission rates payable to Farmers Exchanges, was slightly lower due to a reduction 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 years ended December 31	**2015**	2014	Change
Gross written premiums	19,077	18,635	2%
Gross earned premiums	18,885	18,545	2%

Gross written premiums in the Farmers Exchanges increased by USD 442 million to USD 19.1 billion, or by 2 percent. Growth in most books of business was partly offset by decreases in premiums from the decision in September 2015 to discontinue 21st Century operations in all U.S. states except California and Hawaii, and Business Insurance sold through independent agents.

Gross earned premiums in the Farmers Exchanges increased by USD 340 million to USD 18.9 billion, or by 2 percent.

Other Operating Businesses

in USD millions, for the years ended December 31	2015	2014	Change
Business operating profit:			
Holding and Financing	(520)	(678)	23%
Headquarters	(200)	(282)	29%
Total business operating profit	**(720)**	**(960)**	**25%**

Holding and Financing business operating loss of USD 520 million decreased by USD 159 million, or by 23 percent in U.S. dollar terms and 19 percent on a local currency basis. This 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 to discontinue the link of the Swiss franc to the euro.

Headquarters business operating loss of USD 200 million decreased by USD 82 million, or by 29 percent in U.S. dollar terms and 25 percent on a local currency basis. The result is driven by several one-off items in both 2015 and 2014, including a reduction in performance related remuneration costs in 2015.

Non-Core Businesses

in USD millions, for the years ended December 31	2015	2014	Change
Business operating profit:			
Zurich Legacy Solutions	(50)	(209)	76%
Other run-off	101	(18)	nm
Total business operating profit	**51**	**(227)**	**nm**

Zurich Legacy Solutions, which comprise run-off portfolios managed with the intention of proactively reducing risk and releasing capital, reported a business operating loss of USD 50 million. The result was primarily driven by changes to reserves in the run-off portfolios. The improvement of USD 159 million arose primarily from the impact of both lower adverse development of loss reserves established in prior years and lower loan losses compared with 2014.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 101 million, an improvement of USD 119 million compared with 2014. This arose primarily from the release of long-term reserves as a consequence of a buy-back program for a variable annuity product in the U.S.

Risk review

Zurich's approach to risk management aims to protect the Group's capital, enhance value creation, optimize its risk-return profile, support decision making and protect Zurich's reputation and brand. The risk review describes the Group's risk management framework and risk governance, reports on capital management and capital adequacy, and presents an analysis of its main risks.

Contents

The risk review is an integral part of the consolidated financial statements (only the information marked 'audited').

AUDITED

The folded corner indicates that the information contained within the shaded panel is audited and forms an integral part of the consolidated financial statements.

Executive summary

Enterprise risk management

Zurich reinforced its mission for risk management

The Group reinforced its mission for risk management to emphasize embedding disciplined risk taking in Zurich's culture, in which risk-reward trade-offs are transparent, understood, and risks are appropriately rewarded.

In 2015, the Group delivered its first own risk and solvency assessment report (ORSA) to FINMA, the Swiss supervisor. The ORSA reflects the Group's robust enterprise risk management and capital management framework.

Zurich's Total Risk Profiling™ (TRP) assesses risks strategically. The Group TRP identified and assessed risks in executing the Group's transformation program, customer strategy, information security and cyber risks.

Financial condition

The Group is well within its target capital level, which is calibrated to a 'AA' financial strength

As of July 1, 2015, the Group had a Zurich Economic Capital Model (Z-ECM) ratio of 123%, and was well above the Swiss Solvency Test requirements with a ratio of 203%.

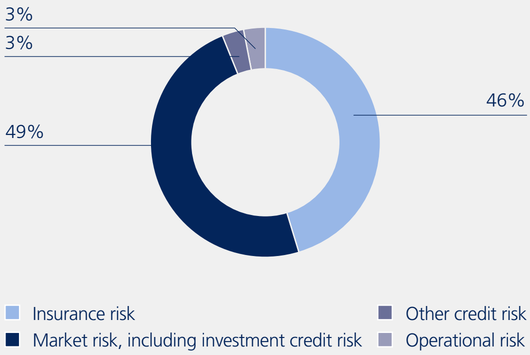
123%
Z-ECM ratio (as of July 1, 2015)

AA–/stable
Standard & Poor's financial strength rating of Zurich Insurance Company Ltd (as of December 31, 2015)

Economic risk profile

Market risk and insurance risk are the main drivers of the Group's required capital

Total Z-ECM capital required: USD 33 billion
(as of July 1, 2015)



As of July 1, 2015, market risk, including investment credit risk, contributes 49% of the Z-ECM capital required, and insurance risk contributes 46%. Other credit risk and operational risk each contribute 3%.

Financial condition under stressed perspective

Stress scenarios demonstrate the capital resilience of the Group

Zurich uses scenario analyses to assess the potential impact of conditions under stress.

The Group identifies plausible threat scenarios, and quantifies their potential impact on financial resources. Depending on the outcome, the Group then develops, implements and monitors appropriate actions.

In this report, we present a Z-ECM ratio sensitivity analysis to three market- and credit-risk scenarios, three natural catastrophe scenarios, and one life insurance-specific scenario. The Z-ECM ratio would remain within the 'AA' range for most scenarios. One market-risk scenario would cause the Z-ECM ratio to exceed – and another to drop below – the Group's risk tolerance under a capital perspective.

Risk review *continued*

AUDITED

Risk and capital management

Mission and objectives of risk management

The mission of risk management at Zurich Insurance Group (Zurich, or the Group) is to enhance the value of the Group by embedding disciplined risk taking in its culture, in which risk-reward trade-offs are transparent, understood and risks are appropriately rewarded.

The Group's major risk management objectives are to:

- Protect the capital base by monitoring that risks are not taken beyond the Group's risk tolerance
- Enhance value creation and contribute to an optimal risk-return profile by providing the basis for an efficient capital deployment
- Support decision-making processes by providing consistent, reliable and timely risk information
- Protect Zurich's reputation and brand by promoting a sound culture of risk awareness and disciplined and informed risk taking

Risk management framework

The risk management framework is based on a governance process that sets forth clear responsibilities for taking, managing, monitoring and reporting risks.

The Zurich Risk Policy is the Group's main risk governance document; it specifies the Group's risk tolerance, risk limits and authorities, reporting requirements, procedures to approve any exceptions and procedures for referring risk issues to senior management and the Board of Directors. Limits are specified per risk type. In 2015 the Zurich Risk Policy was updated in several areas, including general insurance claims and actuarial reserving, reinsurance, investment risk, capital management, model risk, and internal controls. Ongoing assessments verify that requirements are met.

The Group regularly reports on its risk profile at local and Group levels. The Group has procedures to refer risk issues to senior management and the Board of Directors in a timely way. To foster transparency about risk, the Board receives quarterly risk reports and additional updates. In 2015 reporting was enhanced with in-depth risk insights into the potential effects on Zurich of such topical issues as cyber resilience, the Swiss National Bank's decision to abandon the minimum exchange rate for the Swiss franc against the euro, the Brazil Petrobras scandal, and the VW emissions scandal.

The Group assesses risks systematically and from a strategic perspective through its proprietary Total Risk Profiling™ (TRP) process, which allows Zurich to identify and evaluate the probability and severity of a risk scenario. The Group then develops, implements and monitors improvements. The TRP process is integral to how Zurich deals with change, and is particularly suited to evaluating strategic risks as well as risks to Zurich's reputation. At Group level this process is conducted annually, reviewed regularly and tied to the planning process.

Group's Overall Risk Tolerance and Appetite

Z-ECM ratio		
140%	>140%	Z-ECM ratio indicating over capitalization, requiring implementation of mitigation actions
120%	120-140%	Consider increased risk taking or remedial actions
100%	**100-120% "AA" target range**	**No action required as within stated objective and equivalent to "AA" rating**
90%	90-100%	Position may be tolerated for a certain length of time depending on the risk environment
0%	<90%	Z-ECM ratio below Group risk tolerance level, requiring appropriate remedial actions and implementation of de-risking measures

In addition to this qualitative approach, the Group regularly measures and quantifies material risks to which it is exposed. Zurich's policy is to maintain capital consistent with an 'AA' financial strength rating for the Group. The Group translates that goal into a quantified risk tolerance. The Zurich Economic Capital Model (Z-ECM) provides a key input into the Group's strategic planning process as it allows an assessment as to whether the Group's risk profile is in line with the Group's risk tolerance. Z-ECM forms the basis for optimizing the Group's risk-return profile by providing consistent risk measurement across the Group.

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Based on the Group's remuneration rules, the Board of Directors designs and structures remuneration arrangements to ensure they do not encourage inappropriate risk taking. The Chief Risk Officer (CRO) consults with the other assurance, control and governance functions to provide the CEO with a review of risk factors to consider in the annual variable-compensation process. In consultation with these functions, the CRO provides an individual assessment of Group key risk takers as part of their annual individual performance assessment. For more information on Zurich's remuneration system, see the 'remuneration report.'

Risk governance and risk management organization

For information on the Group's overall governance, including the Board of Directors and Group executive level, see the 'corporate governance report (unaudited).'

Risk management organization

The Chief Risk Officer leads the Risk Management function, which develops frameworks and processes for identifying, measuring, managing, monitoring and reporting risks throughout the Group. The Chief Risk Officer is responsible for oversight of risks across the Group, regularly reporting risk matters to the Chief Executive Officer, senior management committees and the Risk Committee of the Board.

The Risk Management function consists of central teams at Group level and a decentralized risk management network at segment, regional, business unit and functional levels. Staff at Group level focus on model validation; quantitative assessments of insurance, market, credit and operational risks; operational risk management frameworks and tools; risk reporting; risk governance, and tools and methodologies. The risk management network consists of the Chief Risk Officers (CROs) of the Group's regions and segments, and the Local Risk Officers (LROs) of the business units and functions and their staff. The risk officers are part of the management teams in their respective businesses and are thus embedded in the business. The LROs also report to the regional or segment CROs, who in turn report to the Group's Chief Risk Officer.

The Group also has audit or oversight committees at the major business level. The committees are responsible for overseeing risk management and control functions including monitoring adherence to policies and periodic risk reporting. At the local level, these oversight activities are conducted through risk and control committees.

Objectives of capital management

The Group manages its capital to maximize long term shareholder value while maintaining financial strength within its 'AA' target range and meeting regulatory, solvency and rating agency requirements. In particular, the Group endeavors to manage its shareholders' equity under IFRS to balance maximization of shareholder value and constraints from its economic framework, rating agencies and regulators. Shareholders' equity of USD 31.2 billion and subordinated liabilities of USD 5.6 billion as of December 31, 2015 are part of the capital available in the Group's economic framework. Further adjustments usually include such items as intangible assets, deferred tax assets and liabilities, or allowing for discounting of liabilities and the value of in-force business. For more information, see `analysis of the Group's Z-ECM available financial resources (unaudited).'

Zurich strives to simplify the Group's legal entity structure to reduce complexity and increase fungibility of capital. The Group pools risk, capital and liquidity centrally as much as possible.

Risk review *continued*

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Capital management framework

The Group's capital management framework forms the basis for actively managing capital within Zurich. The Group uses a number of different capital models, taking into account economic, regulatory, and rating agency constraints. The Group's capital and solvency position is monitored and regularly reported.

Zurich's policy is to allocate capital to businesses earning the highest risk-adjusted returns and pools risks and capital as much as possible to operationalize its risk diversification.

The Group's executive management determines the capital management strategy and sets the principles, standards and policies to execute the strategy. Group Treasury and Capital Management executes the strategy.

Capital management program

The Group's capital management program comprises various actions to optimize shareholders' total return and to meet capital needs, while enabling Zurich to take advantage of growth opportunities. Such actions include dividends, capital repayments, share buy-backs, issuance of shares, issuance of senior and hybrid debt, securitization and purchase of reinsurance.

The Group seeks to maintain a balance between higher returns for shareholders on equity held, and the security a sound capital position provides. Dividends, share buy-backs, and issuances and redemption of debt have a significant influence on capital levels. In 2015 the Group paid a dividend out of the capital contribution reserve, and refinanced parts of maturing senior debt and callable hybrid debt with new senior and hybrid debt.

The Swiss Code of Obligations stipulates that dividends may only be paid out of freely distributable reserves or retained earnings. Apart from what is specified by the Swiss Code of Obligations, Zurich Insurance Group Ltd faces no legal restrictions on dividends it may pay to its shareholders. As of December 31, 2015, the amount of the general legal reserve exceeded 20 percent of the paid-in share capital.

The ability of the Group's subsidiaries to pay dividends may be restricted or indirectly influenced by minimum capital and solvency requirements imposed by insurance and other regulators in the countries in which the subsidiaries operate. Other limitations or considerations include foreign exchange control restrictions in some countries, and rating agencies' methodologies.

For details on issuances and redemptions of debt, see note 19 of the consolidated financial statements.

Own risk and solvency assessment

Economic capital adequacy

Internally, the Group uses its Zurich Economic Capital Model (Z-ECM), which also forms the basis of the Swiss Solvency Test model. The Z-ECM targets a total capital level that is calibrated to an 'AA' financial strength. Zurich defines the Z-ECM capital required as being the capital required to protect the Group's policyholders in order to meet all of their claims with a confidence level of 99.95 percent over a one-year time horizon.

The Group uses Z-ECM to assess the economic capital consumption of its business on a one-balance-sheet approach. Z-ECM is an integral part of how the Group is managed. It is embedded in the Group's organization and decision-making processes, and is used in capital allocation, business performance management, pricing, reinsurance purchasing, transaction evaluation, risk optimization, and regulatory, investor, and rating agency communication. Z-ECM quantifies the capital required for insurance-related risk (including premium and reserve, natural catastrophe, business and life insurance), market risk, reinsurance credit and operational risks. In 2015, Zurich enhanced its market risk model; market risk and investment credit risk are now quantified in an integrated way.

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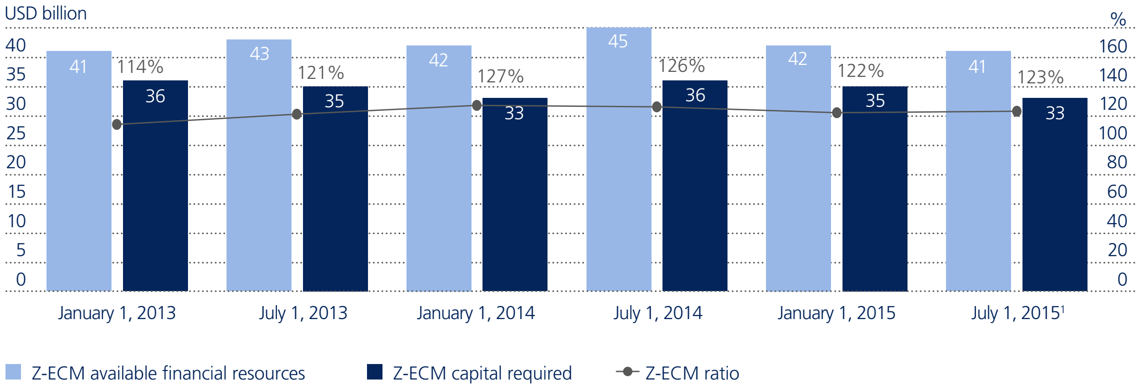
At the Group level, Zurich compares Z-ECM capital required to the Z-ECM available financial resources (Z-ECM AFR) to derive an Economic Solvency Ratio (Z-ECM ratio). Z-ECM AFR reflects financial resources available to cover policyholder liabilities in excess of their expected value. It is derived by adjusting the IFRS shareholders' equity to reflect the full economic capital base available to absorb any unexpected volatility in the Group's business activities.

The chart below shows the development of the Group's Z-ECM available financial resources, Z-ECM capital required and Z-ECM ratio over time. As of October 1, 2015, the Z-ECM ratio was 114 percent.

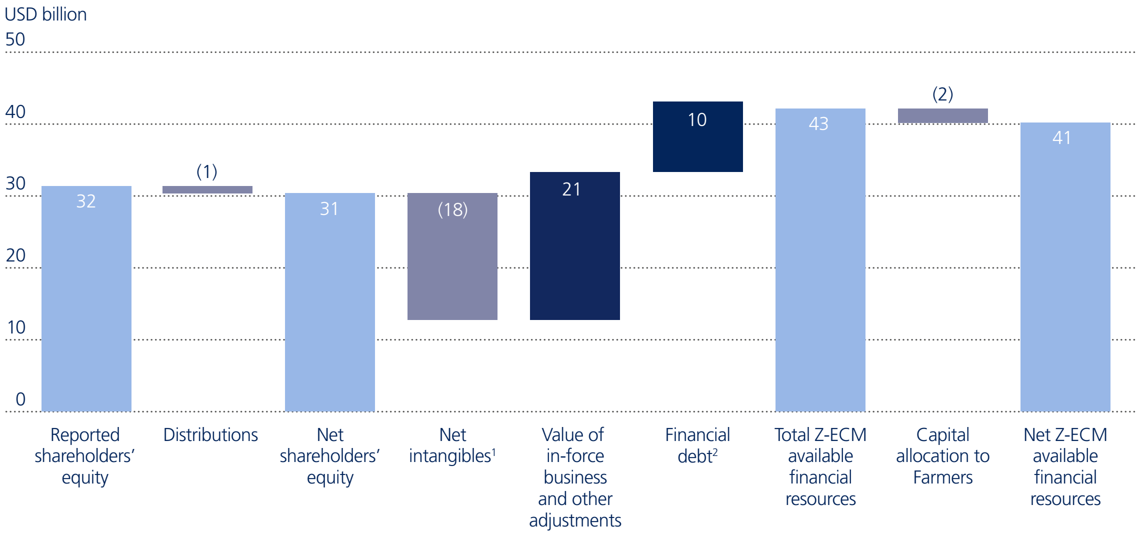
Analysis of the Group's Z-ECM available financial resources and Z-ECM capital required
(in USD billions)



[1] Excludes macro equity hedge (for more information, see 'market risk including investment credit risk')

The chart below shows an analysis of the composition of the Group's Z-ECM available financial resources as of July 1, 2015.

Analysis of the Group's Z-ECM available financial resources
(in USD billions as of July 1, 2015)

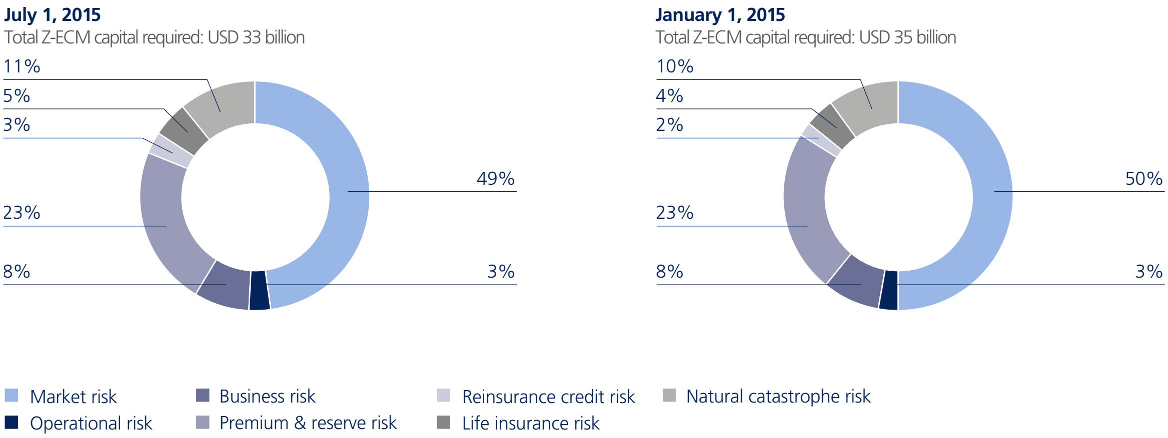


[1] Shareholders' intangible assets adjusted for taxes less deferred front-end fees and deferred tax liabilities
[2] All debt issues (senior and subordinated) excluding those classified as operational debt or maturing within one year

Risk review *continued*

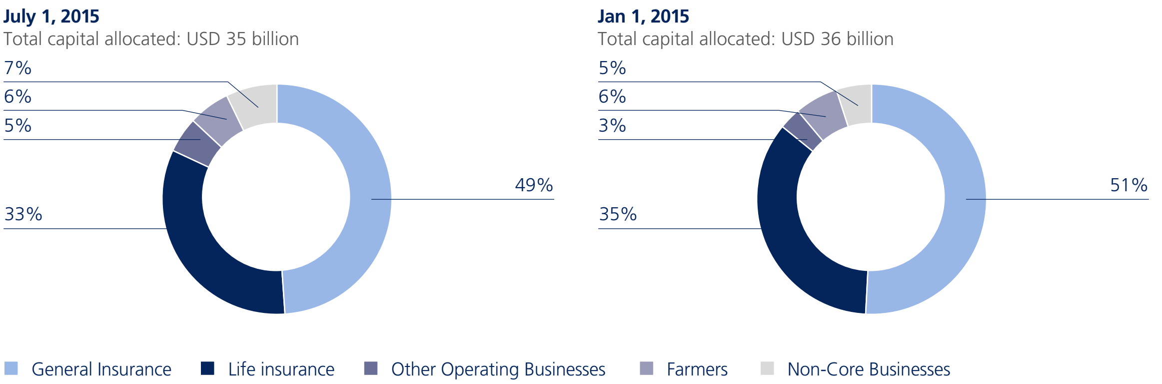
The chart below shows the Z-ECM capital required split by risk type as of July 1, 2015 and as of January 1, 2015 respectively. As of July 1, 2015, the largest proportion of Z-ECM capital required arose from market risk which comprised 49 percent of the total. Premium & reserve risk was the second-largest, comprising 23 percent.

Z-ECM capital required split by risk type
(%)



The following chart shows the Z-ECM capital required allocated to the segments as of July 1, 2015 and as of January 1, 2015. As of July 1, 2015 the largest proportion of Z-ECM capital required was allocated to General Insurance, which comprised 49 percent of the total, followed by Global Life with 33 percent of the total. Total allocated capital as of July 1, 2015 equaled USD 33 billion Z-ECM capital required plus USD 2 billion direct allocation to Farmers.

Total capital allocated, by segment
(%)



Throughout the risk review, Z-ECM results, SST results and corresponding sensitivities and scenarios as of Q2 2015 are shown excluding macro equity hedge; for more information, see 'market risk including investment credit risk.'

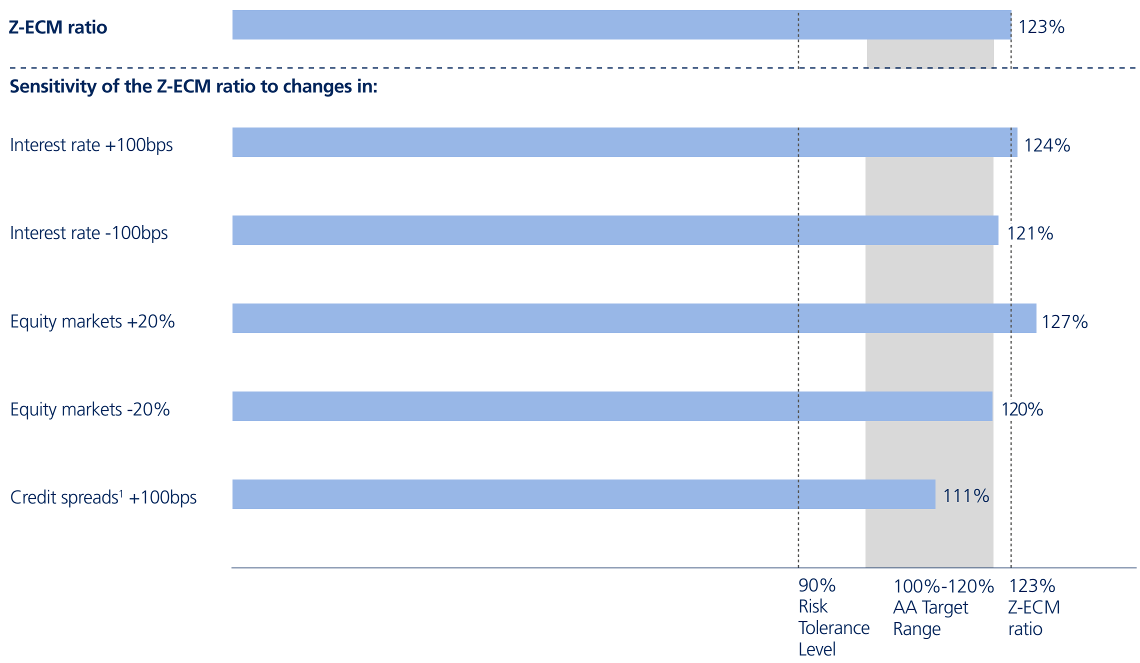
The chart below shows the estimated impact on the Group's Z-ECM ratio of:

- A one percentage point increase/decrease in yield curves
- A 20 percent rise/decline in all stock markets, after consideration of hedges in place
- A one percentage point change in credit spreads

The sensitivities are considered as separate but instantaneous scenarios. They are shown excluding the macro equity hedge (for more information, see 'market risk including investment credit risk'). They are best estimate and non-linear, i.e., will vary depending on prevailing market conditions at the time. The impact of the changes to the required capital is approximated and only taken into account for market risk.

Sensitivities for the Z-ECM ratio

(as of July 1, 2015)



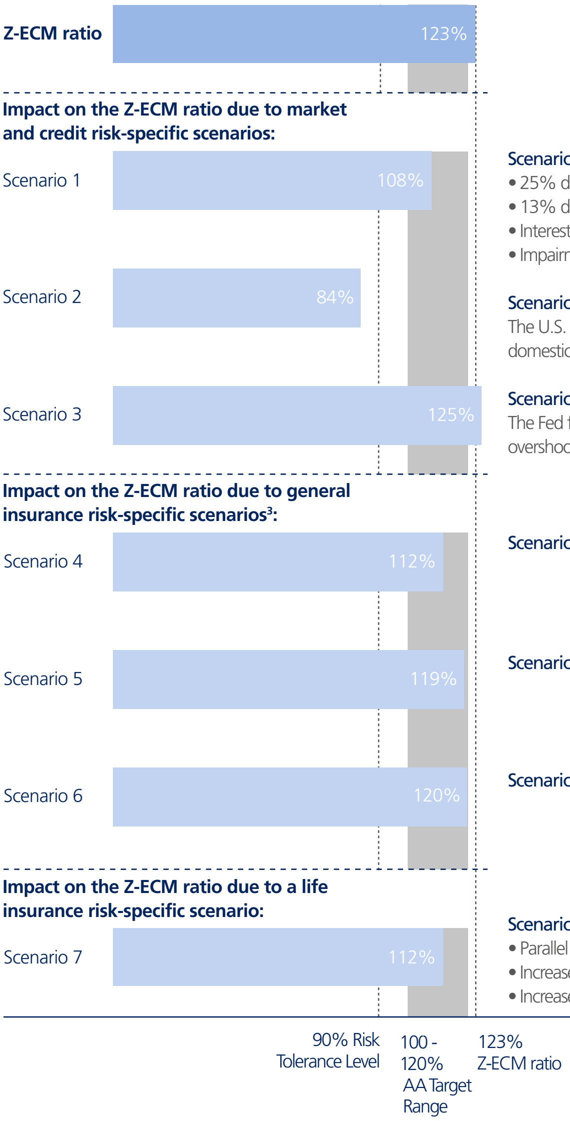
[1] The credit spread sensitivity is applied to corporate debt, mortgages and euro currency government debt (excluding Germany), and takes into account the buffering effect of policyholder participation.

In addition to the sensitivities shown in the preceding section, the Group also evaluates certain stress scenarios on the Z-ECM ratio. Scenarios are defined as events that have a very small probability of occurring but that could, if realized, negatively affect the Group's Z-ECM available financial resources. The chart below shows three groups of scenarios: market and credit risk-specific, general insurance risk-specific and life insurance risk-specific. In the 2015 market environment, two categories of threat scenarios were identified: a euro crisis, and monetary policy errors by the U.S. Federal Reserve (triggering market corrections). The general insurance risk-specific scenarios present the three largest natural catastrophe events to which the Group is exposed. Lapse risk represents the Group's largest life insurance risk-specific exposure.

Risk review *continued*

Impact of market, credit, and insurance risk scenarios on Z-ECM[1]

as of July 1, 2015



Scenario 1: Euro crisis
- 25% decrease in value of equities
- 13% decrease in value of real estate
- Interest rate shifts: CHF -15bps, EUR +50bps, USD -25bps
- Impairment of sovereign credit spread by 1 USD billion

Scenario 2: Policy error 1[2]
The U.S. Federal Reserve (Fed) withdraws stimulus too early, which chokes off growth domestically and globally, and leads to a sharp correction in equity and credit markets.

Scenario 3: Policy error 2[2]
The Fed fails to tighten policy as the money multiplier picks up, leading to inflation overshooting target for a period of time, and a sharp correction in bond markets.

Scenario 4: United States and Caribbean tropical cyclone

Scenario 5: California earthquake

Scenario 6: Europe windstorm

Scenario 7: Lapse risk[4]
- Parallel upward shift of 100 basis points to the risk-free yield curves
- Increase in base lapse rates of 50% for all future years
- Increase in policyholder option take-up rates of 25% for all future years

[1] The impact of scenarios on changes to the Z-ECM capital required is not included in the sensitivities for the Z-ECM ratio as the impact is expected to be small and positive. Scenario 1 and Scenario 2 do not take into account the buffering effect of policyholder participation.
[2] Scenarios 2 and 3 focus on potential monetary policy errors. For scenario 2, parameters include a 30 percent decrease in value of equities, a 10 percent decrease in value of real estate, interest rate shifts (CHF –70bps, EUR –70bps, USD –100bps, GBP –100bps), and a 200–220bps increase in corporate credit spreads. For scenario 3, parameters include a 10 percent increase in value of equities, a 3 percent increase in value of real estate, interest rate shifts (CHF +100bps, EUR +100bps, USD +160bps, GBP +140 bps), and a 10bps decrease in corporate credit spreads.
[3] The general insurance risk-specific scenarios relate to natural catastrophe events that are estimated on a modeled 250-year net aggregate loss (equivalent to a 99.6% probability of non-exceedance).
[4] The second assumption under the lapse risk scenario, 'increase in base lapse rates of 50 percent for all future years,' is applied in a similar manner as the embedded value sensitivity; however the former is pre-tax while the latter is post-tax. (For more details, see the 'embedded value report 2015' at www.zurich.com/investor-relations/results-and-reports.) Also, combining the assumptions in the lapse risk scenario introduces potential non-linear effects, which makes it difficult to directly compare the scenario with the embedded value sensitivity.

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Insurance financial strength rating

The Group has interactive relationships with three global rating agencies: Standard & Poor's, Moody's and A.M. Best. The Insurance Financial Strength Rating (IFSR) of the Group's main operating entity is an important element of Zurich's competitive position. The Group's credit ratings derived from the financial strength ratings also affect the cost of capital.

The Group maintained its strong rating level in 2015. As of December 31, 2015, the IFSR of Zurich Insurance Company Ltd (ZIC), the main operating entity of the Group, was 'AA–' by Standard and Poor's, 'Aa3' by Moody's and 'A+ (superior)' by A.M. Best.

Moody's left its stable outlook unchanged in 2015. Standard & Poor's revised its outlook for Zurich from 'positive' to 'stable,' while reaffirming Zurich's 'AA–' financial strength, on August 28, 2015. A.M. Best revised its outlook for Zurich Insurance Group and its core entities from 'stable' to 'negative' on October 2, 2015, following the preliminary update on third quarter results on September 21, 2015.

Regulatory capital adequacy

The Group endeavors to manage its capital so that all of its regulated entities meet local regulatory capital requirements at all times.

In each country in which the Group operates, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in addition to their liabilities. Besides the minimum capital required to comply with the solvency requirements, the Group aims to hold an adequate buffer to ensure regulated subsidiaries meet local capital requirements. The Group is subject to different capital requirements depending on the countries in which it operates.

Zurich pools risk and capital as much as possible at a Group level, realizing diversification benefits for the Group. This also allows the Group to take into account the benefits that arise in regions where these benefits are recognized under the capital adequacy regime, e.g., in the U.S., Ireland and Switzerland.

Regulatory requirements in Switzerland

Under the Swiss Solvency Test (SST), groups, conglomerates and reinsurers are required to use company-specific internal models to calculate risk-bearing and target capital. Internal models must be approved by the Swiss Financial Market Supervisory Authority (FINMA). FINMA approved the use of Zurich's internal model for 2015 on a provisional basis, without prejudicing the final approval. Zurich has filed an SST ratio with FINMA as of January 1, 2015, which is subject to FINMA approval.

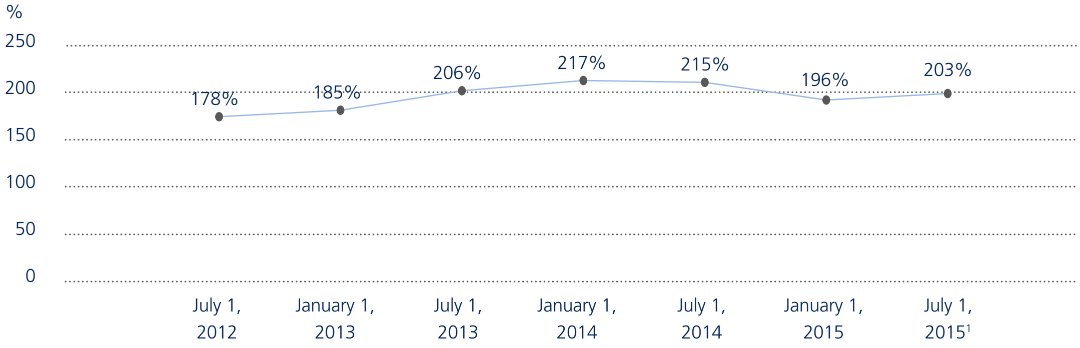
As of July 1, 2015, a revised version of the Swiss Insurance Supervision Ordinance entered into force. Related FINMA circulars were adapted and became effective January 1, 2016. The revision includes a new requirement for insurance companies to produce an own risk and solvency assessment report (ORSA report), with the first Group report to be filed at the latest by January 31, 2016. The revision also eliminated, for insurance groups, the Solvency I requirement under Swiss law, which until then had remained in force after the introduction of SST. In December 2015, Zurich filed its first Group ORSA report with FINMA.

Swiss Solvency Test requirements

The Group uses an adaptation of its internal Zurich Economic Capital Model (Z-ECM) to comply with the Swiss Solvency Test (SST) requirements and runs a full SST calculation twice a year and files results with FINMA annually. The most recent results filed with FINMA are as of January 1, 2015.

Risk review *continued*

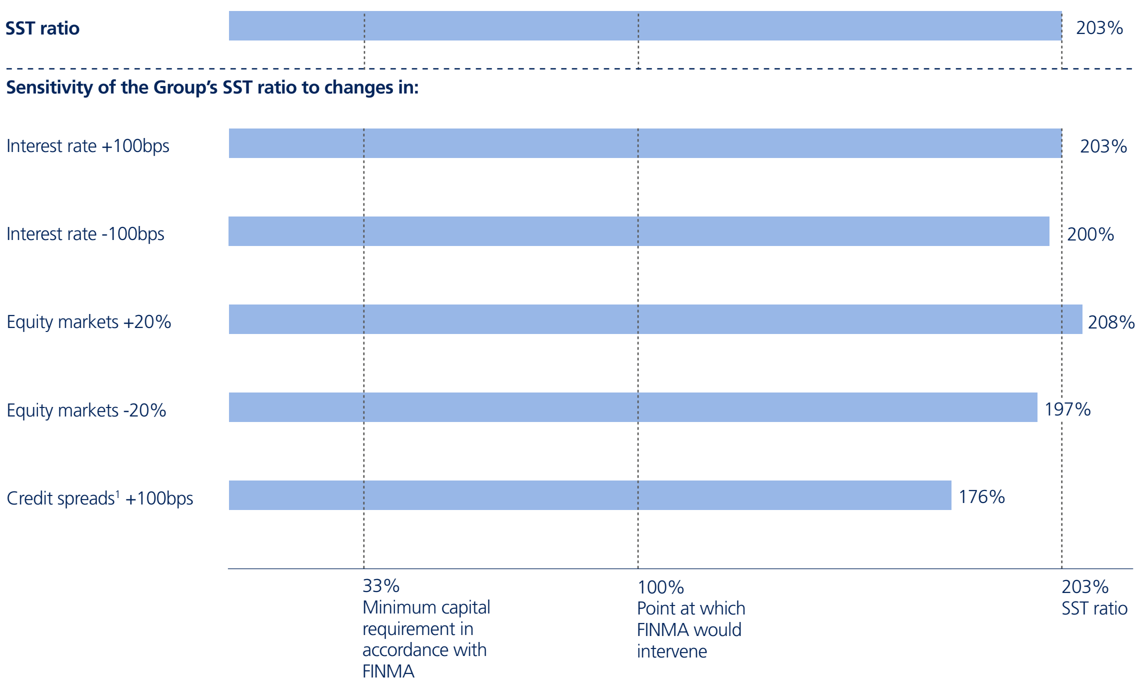
Development of the Group's Swiss Solvency Test ratio
(in %)



[1] Excludes macro equity hedge (for more information, see 'market risk including investment credit risk')

The following chart shows the estimated impact on the Group's SST ratio of a one percentage point increase/decrease in yield curves, a separate 20 percent rise/decline in all stock markets, after consideration of hedges in place and a separate one percentage point change in credit spreads, as of July 1, 2015. The sensitivities are considered separate but instantaneous scenarios. They are shown excluding the macro equity hedge (for more information, see 'market risk including investment credit risk'). They are best estimate and non-linear, i.e., will vary depending on prevailing market conditions at the time. The impact of the changes to the required capital is approximated and only taken into account for market risk.

Sensitivities for the Group's Swiss Solvency Test ratio
(as of July 1, 2015)



[1] The credit spread sensitivity is applied to corporate debt, mortgages and Euro currency government debt (excluding Germany). The credit spread sensitivity does not take into account the buffering effect of policyholder participation.

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Regulatory requirements in other countries

Regulatory requirements in the European Economic Area
In countries of the European Economic Area (EEA), insurance entities are required to maintain minimum solvency margins according to the existing Solvency I legislation. Solvency I capital is calculated as a fixed percentage of premiums, claims, reserves and net amounts at risk. In certain European countries, both EU and non-EU, further requirements have been imposed by regulators.

The directive on Solvency II was adopted on November 25, 2009. The complete framework was introduced on January 1, 2016. Solvency II is designed to be more risk-sensitive and sophisticated in its approach than Solvency I. Solvency II capital requirements also take into account all material risks and how these interact. Under Solvency II, every insurance and reinsurance entity will be required to conduct its own risk and solvency assessment, including taking into account specific risk profiles. Under disclosure provisions, companies will have to publicly report their solvency and financial condition for the first time in 2017, based on 2016 figures.

Zurich is fully engaged in order to meet Solvency II requirements. Zurich Insurance plc (Ireland) will use its internal model, which aligns the Solvency II approach with that used for Z-ECM, and has received approval from the Central Bank of Ireland accordingly. Other EEA subsidiaries will use the Solvency II standard formula.

Regulatory requirements in the U.S.
In the U.S., required capital is determined to be ‘company action level risk-based capital’ calculated using the National Association of Insurance Commissioners’ risk-based capital model. This method, which builds on regulatory accounts, measures the minimum amount of capital for an insurance company to support its overall business operations by taking into account its size and risk profile.

Regulatory requirements in Asia-Pacific, Latin America, and Middle East and Africa
Every country has a capital standard for insurance companies. Some jurisdictions, including Japan, Mexico and South Africa, are reviewing their economic capital requirements, considering similar approaches to Solvency II.

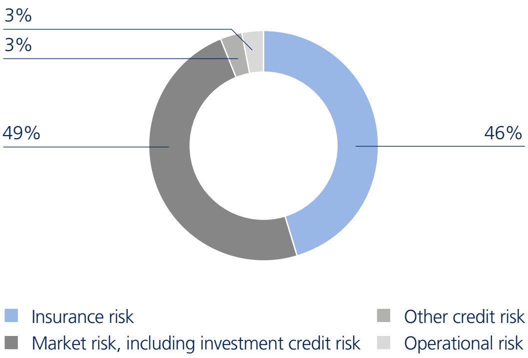
Risk review *continued*

Analysis by risk type

Insurance risk

Section highlights

Total Z-ECM capital required: USD 33 billion
(as of July 1, 2015)



Key risk and capital indicators
(Z-ECM, in USD billions)

	Q2 2013	Q2 2014	Q2 2015
Business risk	3.7	3.0	2.6
Life insurance risk	1.0	0.7	1.6
Premium & reserve risk	7.4	6.9	7.6
Natural catastrophe risk	4.8	5.4	3.5

- The Group diversifies its sources of revenues by geographies, lines of business, products and customers. Therefore, Zurich is not exposed to concentrations of insurance risk beyond its risk appetite.

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Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. The exposure is transferred to Zurich through the underwriting process. Zurich actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. Zurich manages the customer risks it assumes, and minimizes unintended underwriting risks, through such means as:

- Establishing limits for underwriting authority
- Requiring specific approvals for transactions above established limits or new products
- Using a variety of reserving and modeling methods
- Ceding insurance risk through external proportional or non-proportional reinsurance treaties and facultative single-risk placement. The Group centrally manages reinsurance treaties.

General insurance risk

General insurance risk includes the reasonable possibility of significant loss due to uncertainty in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. The following provides an overview of the Group’s main lines of business:

- Motor includes automobile physical damage, loss of the insured vehicle and automobile third-party liability insurance.
- Property includes fire risks (for example fire, explosion and business interruption), natural perils (for example earthquake, windstorm and flood), engineering lines (for example boiler explosion, machinery breakdown and construction) and marine (cargo and hull).
- Liability includes general/public and product liability, excess and umbrella liability, professional liability including medical malpractice, and errors and omissions liability.
- Special lines include directors and officers, credit and surety, crime and fidelity, accident and health, and crop.
- Worker injury includes workers compensation and employers liability.

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The Group's underwriting strategy takes advantage of the diversification of general insurance risks across lines of business and geographic regions. The Group seeks to optimize shareholder value by achieving its mid-term return on equity target. Zurich's underwriting governance is applicable throughout the Group.

Underwriting discipline is a fundamental part of managing insurance risk. The Group sets limits on underwriting capacity, and delegates authority to individuals based on their specific expertise. The Group sets appropriate underwriting guidelines. These guidelines generally include a technical price set in line with common standards to allow a return on risk-based capital in line with the Group's target. The ratio of actual premium to technical price is a key performance metric, which is monitored regularly. Technical reviews confirm whether underwriters perform within authorities and adhere to underwriting philosophies and policies. The Group has governance procedures to review and approve potential new products to evaluate whether the risks are well understood and justified by the potential rewards.

Actual losses on claims provisions may be higher or lower than anticipated. General insurance reserves are therefore regularly estimated, reviewed and monitored. The total loss and loss adjustment expense reserves are based on work performed by qualified and experienced actuaries at local, regional and Group levels.

To arrive at their reserve estimates, the actuaries take into consideration, among other things, the latest available facts, historical trends and patterns of loss payments, exposure growth, court decisions, economic conditions, inflation, and public attitudes that may affect the ultimate cost of claim settlement. Inflation is monitored on a country basis; the monitoring process relies on both Zurich's economic view on inflation and specific claims activity, and feeds into actuarial models and Zurich's underwriting processes such as technical price reviews.

In most cases, these actuarial analyses are conducted at least twice a year for on-going business according to agreed timetables. Analyses are performed by product line, type and extent of coverage and year of occurrence. As with any projection, claim reserve estimates are inherently uncertain due to the fact that the ultimate liability for claims will be affected by trends as yet unknown, including future changes in the likelihood of claimants bringing suit, the size of court awards, and claimants' attitudes toward settlement of their claims.

The Group monitors potential new emerging risk exposures. Zurich has an Emerging Risk Group, with cross-functional expertise from core insurance functions such as underwriting, claims and risk to identify, assess and recommend actions for such risks.

In addition to the specific risks insured, each line of business could expose the Group to losses that could arise from natural and man-made catastrophes. The main concentrations of risks arising from such potential catastrophes are regularly reported to senior management. The most important peril regions and risks are U.S. and Caribbean tropical cyclone, Europe windstorm and California earthquake, as well as potential terrorism exposures.

Tables 1.a and 1.b show the Group's concentration of risk within the General Insurance business by region and line of business based on direct written premiums before reinsurance. General Insurance premiums ceded to reinsurers (including retrocessions) amounted to USD 5.6 billion and USD 5.5 billion for the years ended December 31, 2015 and 2014, respectively. Reinsurance programs are managed on a global basis, and therefore, net premium after reinsurance is monitored on an aggregated basis.

Table 1.a

General Insurance – Direct written premiums and policy fees by line of business – current period

in USD millions, for the year ended December 31, 2015	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,618	3,214	3,740	1,912	2,918	13,402
Europe, Middle East & Africa	5,176	4,491	2,231	1,953	461	14,312
Other regions	1,640	1,272	370	1,142	137	4,561
Total	**8,434**	**8,977**	**6,341**	**5,007**	**3,515**	**32,274**

Risk review *continued*

General Insurance – Direct written premiums and policy fees by line of business – prior period

Table 1.b

in USD millions, for the year ended December 31, 2014	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,492	3,310	3,529	1,790	2,613	12,734
Europe, Middle East & Africa	6,077	5,026	2,554	2,208	522	16,387
Other regions	2,018	1,477	431	1,148	157	5,230
Total	**9,587**	**9,813**	**6,515**	**5,146**	**3,291**	**34,351**

Analysis of sensitivities for general insurance risk

Tables 2.a and 2.b show the sensitivity of net income before tax and the sensitivity of net assets, using the Group effective income tax rate, as a result of adverse development in the net loss ratio by one percentage point. Such an increase could develop either due to the insured events happening more frequently or due to resulting claims becoming more severe, or from a combination of frequency and severity. The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the sensitivity analysis in tables 2.a and 2.b, each additional percentage point increase in the loss ratio would have a linear impact on net income before tax and net assets. The Group also monitors insurance risk by evaluating extreme scenarios, taking into account non-linear effects of reinsurance contracts.

Insurance risk sensitivity for the General Insurance business – current period

Table 2.a

in USD millions, for the year ended December 31, 2015	**Global Corporate**	**North America Commercial**	**Europe, Middle East & Africa**	**International Markets**
+1% in net loss ratio				
Net income before tax	(60)	(80)	(107)	(34)
Net assets	(38)	(50)	(68)	(21)

Insurance risk sensitivity for the General Insurance business – prior period

Table 2.b

in USD millions, for the year ended December 31, 2014	Global Corporate	North America Commercial	Europe, Middle East & Africa	International Markets
+1% in net loss ratio				
Net income before tax	(63)	(77)	(122)	(38)
Net assets	(46)	(56)	(89)	(28)

Life insurance risk

The risks associated with life insurance include:

- Mortality risk – when on average, the death incidence among the policyholders is higher than expected
- Longevity risk – when on average, annuitants live longer than expected
- Morbidity risk – when on average, the incidence of sickness or disability among the policyholders is higher or recovery rates from disability are lower than expected
- Policyholder behavior risk – on average, the policyholders discontinue or reduce contributions or withdraw benefits prior to the maturity of contracts at a rate that is different from expected
- Expense risk – expenses incurred in acquiring and administering policies are higher than expected
- New business risk – volumes of new business are lower than sufficient to cover fixed acquisition expenses
- Market risk – the risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets, which is analyzed in the 'market risk, including investment credit risk' section
- Credit risk – the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations, which is analyzed in the 'market risk, including investment credit risk' and 'other credit risk' sections

A more diversified portfolio of risks is less likely than an undiversified portfolio to be affected across the board by a change in any subset of the risks. As a result, the offsetting effects between unit-linked and traditional business reduce some of the risk associated with the Global Life business.

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The Group has local product development committees and a Group-level product approval committee to analyze potential new life products that could significantly increase or change the nature of its risks. The Group regularly reviews the continued suitability and the potential risks of existing life products.

The Group uses market-consistent embedded value reporting principles, which allow Zurich to increase its understanding, and report on, the risk profile of its life products, and how these risks would change under different market conditions. Embedded value is a measure that markets use to value life businesses. For more information, see the 'embedded value report 2015' at www.zurich.com/investor-relations/results-and-reports.

From a risk-management perspective, unit-linked products are designed to reduce much of the market and credit risk associated with the Group's traditional business. Risks that are inherent in these products are largely passed on to the policyholder, although a portion of the Group's management fees are linked to the value of funds under management, and hence are at risk if fund values decrease. To the extent that there are guarantees built into the product design, unit-linked products carry mortality/morbidity risk and market risk. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are mitigated by mortality and morbidity charges.

Other life insurance liabilities include traditional life insurance products, such as protection and life annuity products. Protection products carry mortality, longevity and morbidity risk, as well as market and credit risk. Epidemics and lifestyle changes are among the most significant factors that could result in earlier or more claims than expected. Disability, defined in terms of the ability to perform an occupation, could be affected by economic conditions. To reduce pricing cross-subsidies, where permitted, premiums are adjusted for factors such as age, gender and smoker status. Policy terms and conditions and disclosure requirements in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that could result in severe financial loss.

In the life annuity business, medical advances and improved social conditions that lead to increased longevity are the most significant insurance risk. Annuitant (beneficiary) mortality assumptions include allowance for future mortality improvements.

The Group is also exposed to risks posed by policyholder behavior, and fluctuating expenses. Policyholder behavior risk is mitigated by designing products that, as closely as possible, match revenue and expenses associated with the contract. Expense risk is reduced by carefully controlling expenses, and through regular expense analysis and allocation exercises.

The subsidiary Zurich American Life Insurance Company (ZALICO) wrote variable annuity contracts that provide policyholders with certain guarantees related to minimum death and income benefits. After 2001, ZALICO stopped issuing new policies with such features. The Group has a dynamic hedging strategy to manage its economic exposure and reduce the volatility associated with its closed book of variable annuities products within its U.S. life business. These exposures have been substantially reduced as a result of a policy buy back program begun in 2015. The Group is also exposed to risks arising out of bank-owned life insurance contracts sold in the U.S. See heading 'other contracts' in note 7 of the consolidated financial statements for additional information.

Interest rate guarantees (with concentration in traditional, guaranteed business in Germany and Switzerland or variable annuity business in the U.S. containing minimum guaranteed death benefits) expose Zurich to financial losses that may arise as a result of adverse movements in interest rates. The management of these guarantees is through a combination of asset-liability matching and hedging.

The Group defines concentration risk in the Global Life business as the risk of exposure to increased losses associated with inadequately diversified portfolios of assets or obligations. Concentration risk for a life insurer may arise with respect to investments in a geographical area, economic sector, or individual issuers, or due to a concentration of business written within a geographical area, of a policy type, or of underlying risks covered.

Observing best estimate assumptions on cash flows related to benefits of insurance contracts gives some indication of the size of the exposure to risks and the extent of risk concentration. Table 3 shows the Group's concentration of risk within the life business by region and line of business based on reserves for life insurance on a net basis. The Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time. See note 8 of the consolidated financial statements for additional information on reserves for insurance contracts.

Risk review *continued*

Reserves, net of reinsurance, by region

Table 3

in USD millions, as of December 31	Unit-linked insurance contracts		Other life insurance liabilities		Total reserves	
	2015	2014	**2015**	2014	**2015**	2014
Global Life						
North America	1,263	1,024	5,577	5,469	6,840	6,492
Latin America	8,036	9,897	3,863	4,917	11,899	14,814
Europe, Middle East & Africa	43,522	48,052	71,711	78,421	115,233	126,472
of which						
United Kingdom	20,778	23,367	3,054	5,119	23,832	28,485
Germany	13,530	13,818	36,418	41,237	49,948	55,055
Switzerland	726	737	18,015	18,427	18,741	19,164
Ireland	2,944	2,897	1,979	2,123	4,923	5,020
Spain	1,062	2,729	7,450	6,418	8,512	9,147
Italy	223	279	3,013	3,138	3,237	3,416
Rest of Europe	4,258	4,226	1,782	1,960	6,040	6,185
Asia-Pacific	403	458	2,489	2,782	2,892	3,240
Other	–	–	272	327	272	328
Subtotal	**53,224**	**59,431**	**83,912**	**91,914**	**137,136**	**151,345**
Other segments	11,169	11,970	4,144	4,718	15,313	16,688
Total	**64,393**	**71,400**	**88,056**	**96,632**	**152,449**	**168,033**

Modeling natural catastrophes

While specific catastrophes are unpredictable, modeling helps to determine potential losses and the likelihood of such losses. The Group uses adjusted third-party models to manage its underwriting and accumulations to stay within intended exposure limits and to guide how much reinsurance Zurich buys.

To have a consistent approach and form a global perspective on accumulations, the Group models general insurance exposures in a center of excellence, which works with local businesses to help improve the overall quality of data. The Group models potential losses from property policies in hazard-prone areas with material exposure and from workers' compensation policies covering earthquakes in California, Pacific Northwest and New Madrid (U.S. states of Arkansas, Illinois, Indiana, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Ohio, Tennessee, Wisconsin). Other non-property-related losses are estimated based on adjustments. Risk modeling mainly addresses climate-induced perils such as windstorms, river floods, tornadoes, hail storms, downburst and straight line winds, and geologically induced perils such as earthquakes. The Group constantly seeks to improve its modeling, fill in gaps in models with additional assessments, and increase the granularity of data collection. It uses internal and external knowledge in modeling accumulations. One such source of external knowledge is the Natural Catastrophe Advisory Council, a group of scientists associated with leading research organizations such as the U.S. National Center for Atmospheric Research, the U.S. Geological Survey and the Intergovernmental Panel on Climate Change. Zurich further validates modeling results by comparing them with claims experience. In 2015 Zurich joined the Risk Prediction Initiative (RPI), which is a membership organization funding academic research relevant to the reinsurance and insurance industry.

Risks from man-made catastrophes

Man-made catastrophes include such risks as industrial accidents and terrorism attacks. Zurich's experience in monitoring potential exposures to natural catastrophes is also applicable to threats posed by man-made catastrophes, particularly terrorism.

The Group reviews and aggregates worker injury, property and life risk exposures to identify areas of significant concentration and assesses other lines of business, such as liability and auto, although the potential exposure is not as significant. The data allows underwriters to evaluate how insuring a particular customer's risk might affect Zurich's overall exposure. Zurich uses a vendor-provided catastrophe model to evaluate potential exposures in every major U.S. city and selected cities in Europe. The Group undertakes more detailed and frequent analyses for cities in which Zurich has greater exposure.

The Group's analysis for general insurance business has shown that its exposures outside North America are lower, in large part due to government-provided pools; even so, the Group assesses the risk for countries with the next-greatest potential net exposure. The Group periodically monitors accumulation limits for these and other areas.

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Reinsurance for general insurance and life insurance

The Group's objective in purchasing reinsurance is to provide market-leading capacity for customers while protecting the balance sheet and achieving capital efficiency. The Group follows a centralized reinsurance treaty purchasing strategy for both General Insurance and Global Life, and bundles programs, where appropriate, to benefit from diversification and economies of scale.

Zurich structures and aligns its reinsurance programs to achieve an optimum risk-return ratio. Zurich manages its central reinsurance purchasing according to these principles. The Group is thus able to manage its risks to retain a significant and stable portion of its risk exposure. The cession rate for General Insurance was 16.6 percent and 15.1 percent as of December 31, 2015 and December 31, 2014, respectively. The cession rate for Global Life was 17.2 percent and 4.6 percent as of December 31, 2015 and December 31, 2014, respectively. The increase in ceded premiums for Global Life is due to the temporary reinsurance of a run-off portfolio, pending regulatory approval of the portfolio transfer to a third party.

The Group continues to use traditional reinsurance markets and other alternatives, such as catastrophe bonds, to protect against extreme single events and increased frequency of events. In particular the Group is able to use its global reach for catastrophe protection. It has a combination of 'per event' and annual aggregate covers. This protects the Group's business by event and region, and also if multiple events occur across regions.

The Group uses reinsurance to manage risk related to unusually severe or frequent events, through the main in-force reinsurance covers. The chart below shows the covers for catastrophe events as of December 31, 2015.

The Group participates in the underlying risks through its retention and through its co-participation in the excess layers. The contracts are on a loss-occurrence basis except the aggregate catastrophe cover Lakeside Re III Cat bond and the Global Aggregate Catastrophe cover which operate on an annual aggregate basis. In addition to these covers, the Group has per risk programs, some local catastrophe covers and a bilateral risk swap in place. These covers are reviewed continuously and are subject to change going forward. The current catastrophe covers are placed annually: January 1 for the U.S. program and the Global Aggregate Catastrophe cover; April 1 for the European program and the Global Catastrophe treaty, and July 1 for the rest of the world program.

Risk review *continued*

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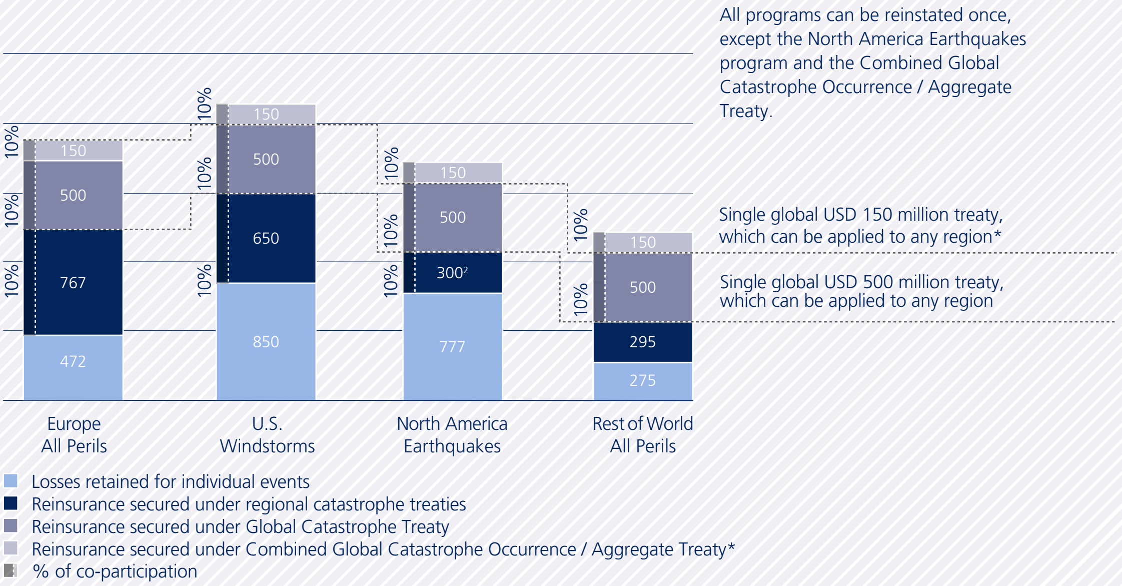
The treaty structures of most catastrophe covers, including the regional retentions, remained stable in 2015. Zurich increased the attachment point of the Global Aggregate Catastrophe treaty, but included line of businesses-specific (marine and property) additional exposure to maintain a superior earnings protection for higher frequency scenarios within the retention of the regional covers.

Reinsurance for natural catastrophes by region – unusually severe catastrophe events[1]
(in USD millions, as of December 31, 2015)



*This USD 150 million cover is the same combined global occurrence / aggregate treaty presiding over the global catastrophe treaty. This cover can be used only once, either for aggregated losses or for an individual event.

[1] US Cat Treaty and Global Aggregate Cat Treaty renewed on January 1, 2015; Europe Cat Treaty and Global Cat Treaty renewed on April 1, 2015; and International Cat Treaty renewed on July 1, 2015.
[2] Lakeside Re III - Cat Bond

Reinsurance for natural catastrophes, aggregated – unusually frequent catastrophe events
(in USD millions, as of December 31, 2015)

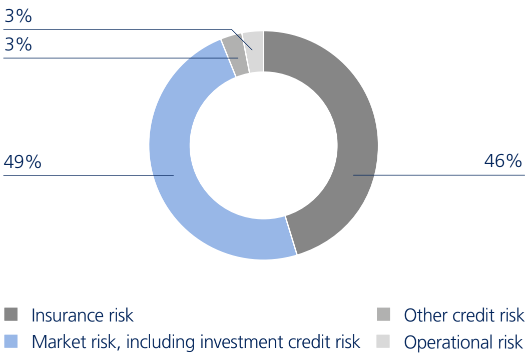
* This USD 150 million cover is the same Combined Global Catastrophe Occurrence / Aggregate Treaty presiding over the Global Catastrophe Treaty. This cover can be used only once, either for aggregated losses or for an individual event.

To complement existing treaties, the Group purchases catastrophe reinsurance specific to life insurance for its exposure to natural and man-made catastrophes.

Market risk including investment credit risk

Section highlights

Total Z-ECM capital required: USD 33 billion
(as of July 1, 2015)



Key risk and capital indicators
(Z-ECM, in USD billions)

	Q2 2013	Q2 2014	Q2 2015
Market risk	15.9	17.7	16.3

- In 2015 Zurich enhanced its market risk model; market risk and investment credit risk are now quantified in an integrated way.
- In 2015 the Group protected its capital from the potential exit of Greece from the Eurozone with a hedge, unwound in August 2015.

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Market risk is the risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets. Risk factors include:

- Equity market prices
- Property market prices
- Interest rate risk
- Credit and swap spread changes
- Defaults of issuers
- Currency exchange rates

The Group manages the market risk of assets relative to liabilities on an economic total balance sheet basis. This is done to achieve the maximum risk-adjusted excess return on assets relative to the liability benchmark, while taking into account the Group's risk tolerance and local regulatory constraints.

The Group has policies and limits to manage market risk and keep its strategic asset allocation in line with its risk capacity. To control risk aggregation and ensure a consistent approach to constructing portfolios and choosing external asset managers, Zurich centrally manages certain asset classes to control aggregation of risk, and provides a consistent approach to constructing portfolios and selecting external asset managers. It diversifies portfolios, investments and asset managers, and regularly measures and manages market risk exposure. The Group has set limits on concentration in investments in single issuers and certain asset classes as well by how much asset interest rate sensitivities can deviate from liability interest-rate sensitivities. The Group also limits illiquid investments.

The Asset/Liability Management Investment Committee reviews and monitors Group strategic asset allocation and tactical boundaries, and monitors Group asset/liability exposure. The Group oversees the activities of local asset/liability management investment committees and regularly assesses market risks at both Group and local business levels. The economic effect of potential extreme market moves is regularly examined and considered when setting the asset allocation.

Risk assessment reviews include the analysis of the management of interest rate risk for each major maturity bucket and adherence to the aggregate positions with risk limits. The Group applies processes to manage market risks and to analyze market risk hotspots. Actions to mitigate risk are taken if necessary to manage fluctuations affecting asset/liability mismatch and risk-based capital.

Risk review *continued*

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The Group uses derivative financial instruments to limit market risks arising from changes in currency exchange rates, interest rates and equity prices, from credit quality of assets and liabilities and commitments to third parties. The Group enters into derivative financial instruments mostly for economic hedging purposes and, in limited circumstances, the instruments may also meet the definition of an effective hedge for accounting purposes. The latter include cross-currency interest rate swaps in fair value hedges and cross-currency swaps in cash flow hedges of Zurich's borrowings, in order to mitigate exposure to foreign currency and interest rate risk. In compliance with Swiss insurance regulation, the Group's policy prohibits speculative trading in derivatives, meaning a pattern of 'in and out' activity without reference to an underlying position. The Group addresses the risks arising from derivatives through a stringent policy that requires approval of a derivative program before transactions are initiated, and by subsequent regular monitoring by Risk Management of open positions and annual reviews of derivative programs.

During 2015, the Group gradually increased market risk, in particular with equities and corporate bonds. However, due to uncertainties about the potential exit of Greece from the Eurozone, the Group implemented a macro equity hedge in April 2015 to protect against a drop of European equity assets. As of the end of August 2015, the Group unwound the hedge because the European bailout plan reduced the probability of such a tail event.

For more information on the Group's investment result, including impairments and the treatment of selected financial instruments, see note 6 of the consolidated financial statements. For more information on derivative financial instruments and hedge accounting, see note 7 of the consolidated financial statements.

Risk from equity securities and property

The Group is exposed to risks from price fluctuations on equity securities and property which could affect the Group's liquidity, reported income, surplus and regulatory capital position. Equity risk exposure includes common stocks, including equity unit trusts, private equity, common stock portfolios backing participating-with-profit policyholder contracts, and equities held for employee benefit plans. Exposure to property risk includes direct holdings in property, listed property company shares and funds, as well as property debt securities such as commercial and residential mortgages, commercial and residential mortgage-backed securities and mezzanine debt. Returns on unit-linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and property, but these risks are borne by policyholders. However, the Group is indirectly exposed to market movements from unit-linked contracts with respect to both earnings and economic capital. Market movements affect the amount of fee income earned when the fee income level is dependent on the valuation of the asset base. Therefore, the value of in-force business for unit-linked business can be negatively affected by adverse movements in equity and property markets.

The Group manages its risks from equity securities and property as part of the overall investment risk management process, and applies limits as expressed in policies and guidelines. Specifically, Zurich limits holdings in equities, real estate and alternative investments. In order to realize an optimal level of risk diversification, the strategy for equities is defined through a composite of market benchmark indices. The Group has the capability and processes in place to change the exposure to the key equity markets within a short time frame through the use of derivatives.

For additional information on equity securities and investment property, see note 6 of the consolidated financial statements.

Risk from interest rates and credit spreads

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Group is exposed to interest rate risk including from debt securities, reserves for insurance contracts, liabilities for investment contracts, employee benefit plans, and loans and receivables.

Zurich has limits on holdings in real assets and limits on deviations of asset interest rate sensitivities from liability interest rate sensitivities. The Group also manages credit spread risk, which describes the sensitivity of the values of assets and liabilities due to changes in the level or the volatility of credit spreads over the risk-free interest rate yield curves. Movements of credit spreads are driven by expected probability of default, expected losses in cases of defaults of issuers, the uncertainty of default probabilities and losses, as well as actual defaults of issuers.

Returns on unit-linked contracts, whether classified as insurance or investment contracts, are at the risk of the policyholder; however, the Group is exposed to fluctuations in interest rates in so far as they affect the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

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Analysis of market risk sensitivities for interest rate, equity and credit spread risks

Basis of presentation – General Insurance and rest of the business
The basis of the presentation for tables 4, 5, and 6 is an economic valuation represented by the fair value for Group investments, IFRS insurance liabilities discounted at risk-free market rates (the Group describes risk-free market rates as swap rates) to reflect the present value of insurance liability cash flows and other liabilities, for example own debt. In the sensitivities, own debt does not include subordinated debt, which Zurich considers available to protect policyholders in a worst-case scenario.

Tables 4, 5 and 6 show the estimated economic market risk sensitivities of Group investments, including investment property, liabilities, including insurance and financial liabilities, and the net impact for General Insurance and the rest of the business. Positive values represent an increase in the balance, and values in parentheses represent a decrease. Mismatches in changes in value of assets relative to liabilities represent an economic risk to the Group. The net impact – the difference between the impact on Group investments and liabilities – represents the economic risk related to changes in market risk factors that the Group faces.

In determining the sensitivities, investments and liabilities are fully re-valued in the given scenarios. Each instrument is re-valued separately taking the relevant product features into account. Non-linear effects, where they exist, are reflected in the model. The sensitivities are shown after tax. They do not include the impact of transactions within the Group.

The impact of a 100 basis point decrease in interest rate yield curves in table 4 was restated for 2014 for General Insurance and rest of the business to allow for negative rates.

Sensitivities for the rest of the business include Farmers, Other Operating Businesses and Non-Core Businesses.

Basis of presentation – Global Life
Tables 4, 5 and 6 show the estimated economic sensitivity of the embedded value of the Global Life business to financial market movements. Actions that would be taken by management or policyholders are considered. For contracts with financial options and guarantees, such as some participating business, movements in financial markets can change the nature and value of these benefits. The dynamics of these liabilities are captured so that this exposure is quantified, monitored, managed and where appropriate, mitigated.

For more information, see the 'embedded value report 2015' at www.zurich.com/investor-relations/results-and-reports.

Risk review *continued*

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Analysis of economic sensitivities for interest rate risk

Table 4 shows the estimated impacts of a 100 basis point increase/decrease in yield curves after consideration of hedges in place, as of December 31, 2015 and 2014, respectively.

Table 4

Economic interest rate sensitivities

In USD millions, as of December 31	**2015**	2014
100 basis points increase in the interest rate yield curves		
General Insurance business		
Net impact after tax	(288)	(221)
Global Life business		
Total impact on Embedded Value	(276)	(65)
Rest of the business		
Net impact after tax	67	(47)
100 basis points decrease in the interest rate yield curves		
General Insurance business		
Net impact after tax	247	72
Global Life business		
Total impact on Embedded Value	29	(222)
Rest of the business		
Net impact after tax	(157)	(11)

Analysis of economic sensitivities for equity risk

Table 5 shows the estimated impacts from a 10 percent decline in stock markets, after consideration of hedges in place, as of December 31, 2015 and 2014, respectively.

Table 5

Economic equity price sensitivities

In USD millions, as of December 31	**2015**	2014
10% decline in stock markets		
General Insurance business		
Net impact after tax	(459)	(543)
Global Life business		
Total impact on Embedded Value	(289)	(301)
Rest of the business		
Net impact after tax	(31)	(61)

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Analysis of economic sensitivities for credit spread risk

Table 6 shows the estimated impacts from a 100 basis points increase in corporate credit spreads, as of December 31, 2015 and 2014, respectively. The sensitivities apply to all fixed income instruments, excluding government, supranational and similar debt securities.

Table 6

Economic credit spread sensitivities

In USD millions, as of December 31	**2015**	2014
100 basis points increase in credit spreads		
General Insurance business		
Net impact after tax	(1,004)	(1,342)
Global Life business		
Total impact on Embedded Value	(1,056)	(884)
Rest of the business		
Net impact after tax	(220)	(423)

Limitations of the analysis for General Insurance and rest of the business:
- The sensitivities show the effects of a change of certain risk factors, while other assumptions remain unchanged.
- The interest rate scenarios assume a parallel shift of all interest rates in the respective currencies. They do not take into account the possibility that interest rate changes might differ by rating class; these are disclosed separately as credit spread risk sensitivities.
- The sensitivity analysis is based on economic net assets, and not on shareholders' equity or net income as set out in the consolidated financial statements.
- The sensitivity analysis is calculated after tax; the Group effective tax rate is 36.6 percent for 2015 and 27.0 percent for 2014.
- The equity market scenarios assume a concurrent movement of all stock markets.
- The sensitivity analysis does not take into account actions that might be taken to mitigate losses. Actions may involve changing the asset allocation, for example through selling and buying assets.
- The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent the Group's view of expected future market changes. In addition to the sensitivities, management uses stress scenarios to assess the impact of more severe market movements on the Group's financial condition. For more information on stress scenarios, see 'impact of market, credit, and insurance scenarios on Z-ECM (unaudited).'

Limitations of the analysis for Global Life:
- The sensitivities show the effects of a change in certain risk factors, while other assumptions remain unchanged, except where they are directly affected by the revised conditions.
- The market risk scenarios assume a concurrent movement of all stock markets and an unrelated parallel shift of all interest rates in different currencies.
- The assumptions on policyholder behavior, such as lapsing of policies, included in the sensitivity analysis for Global Life may be different from actual behavior. Therefore, the actual impact may deviate from the analysis.

Risks from defaults of counterparties

Debt securities

The Group is exposed to credit risk from third-party counterparties where the Group holds securities issued by those entities.

Table 7

Debt securities by rating of issuer

as of December 31	**2015**		2014	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	29,228	21.2%	30,298	19.7%
AA	47,332	34.4%	58,011	37.8%
A	24,165	17.5%	27,513	17.9%
BBB	32,728	23.8%	33,962	22.1%
BB and below	4,235	3.1%	2,356	1.5%
Unrated	42	0.0%	1,508	1.0%
Total	**137,730**	**100.0%**	**153,648**	**100.0%**

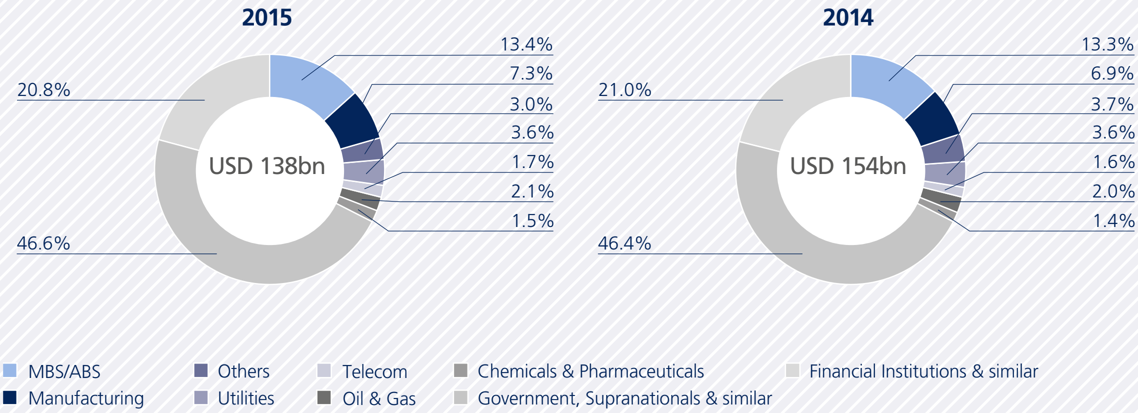
Table 7 shows the credit risk exposure of debt securities, by issuer credit rating. As of December 31, 2015, 96.9 percent of the Group's debt securities is investment grade and 21.2 percent is rated 'AAA.' Downgrades of several Eurozone governments and related entities caused breaches of internal rating category limits; the breaches were approved. As of December 31, 2014, 97.5 percent of debt securities was investment grade and 19.7 percent was rated 'AAA.' The Group's investment policy prohibits non-investment-grade investments, unless specifically authorized. Where the Group identifies investments expected to be downgraded, it implements appropriate actions.

Risk review *continued*

AUDITED

The risk-weighted average issuer credit rating of the Group's debt securities portfolio was 'BBB' in 2015 and 'BBB+' in 2014.

Debt securities – credit risk concentration by industry
(%, as of December 31)



As of December 31, 2015, the largest concentration in the Group's debt securities portfolio was in governments, supranationals and similar at 46.6 percent. In all other categories, a total of USD 24.5 billion or 33.3 percent was secured. As of December 31, 2014, 46.4 percent of the Group's debt portfolio was invested in governments, supranationals and similar. In all other categories, a total of USD 35.9 billion or 44 percent was secured.

Table 8

The Group's debt exposure to Eurozone governments and supranationals & similar

in USD millions, as of December 31	**2015**	2014
Germany	3,261	5,665
France	5,670	6,239
Austria	1,910	2,657
Belgium	2,015	2,184
Netherlands	1,355	2,041
Peripheral countries	15,344	14,847
Greece	–	–
Ireland	529	573
Italy	9,330	9,286
Portugal	515	532
Spain	4,970	4,456
Rest of Eurozone	794	1,128
Eurozone supranationals and similar	665	1,094
Total	**31,014**	**35,853**

In addition to debt exposure, the Group had sovereign loan exposure of USD 4.7 billion and USD 3.6 billion to Germany as of December 31, 2015 and 2014, respectively. For more information, see the 'other loans' section.

The second-largest concentration in the Group's debt securities portfolio is in financial institutions (including banks), at 20.8 percent, of which 38.4 percent is secured.

The third-largest concentration in the Group's debt securities portfolio is in structured finance securities (mortgage-backed securities (MBS)/asset-backed securities (ABS) and similar). Although credit risks of the underlying securities are diverse in nature, the Group also considers macro impacts that may affect structured finance sub-categories (e.g., auto or credit card ABS) in its credit assessments. Structured finance exposures are assessed on a look-through basis prior to acquisition and not merely on the strength of prevailing credit ratings or credit profiles.

AUDITED

Cash and cash equivalents

To reduce concentration, settlement and operational risks, the Group limits the amount of cash that can be deposited with a single counterparty. The Group also maintains an authorized list of acceptable cash counterparties.

Cash and cash equivalents amounted to USD 8.2 billion as of December 31, 2015 and USD 7.6 billion as of December 31, 2014. The risk-weighted average rating of the overall cash portfolio increased from 'BBB+' as of December 31, 2014 to 'A–' as of December 31, 2015. 60 percent of the total was with the ten largest global banks, whose risk-weighted average rating declined from 'A' as of December 31, 2014 to 'A–' as of December 31, 2015.

Mortgage loans

The mortgage business is affected by local property market conditions and local legislation. Investment portfolio allocations made to mortgages take these factors into consideration, and are in line with the framework of the strategic asset allocation defined by the Group, and adapted and approved by local investment committees. Conservative lending criteria (i.e., maximum mortgage-loan to property-value ratios) and diversification of loans across many single borrowers, particularly in Germany and in Switzerland, help reduce potential loss. Furthermore, business units are required to clearly state criteria for determining borrower and collateral quality in their local mortgage policies. The Group sets requirements for local policies, and monitoring and reporting standards. The Group closely monitors performance of portfolios with respect to impairments and losses.

The Group's largest mortgage loan portfolios are in Germany (USD 2.6 billion) and in Switzerland (USD 3.6 billion); these are predominantly secured against residential property. In Switzerland, the underlying properties backing individual loans are revalued every 10 years. In Germany, the property valuation is not generally reassessed after the mortgage loan is granted. A less-frequent, or no revaluation of the underlying property means that reported loan-to-value (LTV) ratios will be higher (lower) than they would be if property prices had risen (fallen) since their valuation. For more details, see note 25 in the consolidated financial statements.

Other loans

The credit risk arising from other loans is assessed and monitored together with the fixed income securities portfolio. 51.8 percent of the reported loans are to governments, supranationals and similar, of which 94.4 percent are to the German Central Government or the German Federal States. Table 9 shows the composition of the loan portfolio by rating class. As of December 31, 2015, a total of USD 5.0 billion or 52.6 percent of loans are secured. As of December 31, 2014, a total of USD 6.0 billion or 55.5 percent of loans were secured.

Table 9

Other loans by rating of issuer

as of December 31	**2015**		2014	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	4,243	44.3%	4,998	46.1%
AA	696	7.3%	843	7.8%
A	1,702	17.8%	2,261	20.9%
BBB and below	1,624	17.0%	1,577	14.6%
Unrated	1,303	13.6%	1,155	10.7%
Total	**9,569**	**100.0%**	**10,834**	**100.0%**

Risk review *continued*

AUDITED

Derivatives

The positive replacement value of outstanding derivatives represents a credit risk to the Group. These instruments include interest-rate, currency, total-return and equity swaps, forward contracts and purchased options. A potential exposure also arises from possible changes in replacement values. The Group regularly monitors credit risk exposures arising from derivative transactions. Outstanding positions with external counterparties are managed through an approval process embedded in derivative programs.

To limit credit risk, derivative financial instruments are typically executed with counterparties rated 'A–' or better by an external rating agency, unless collateral is provided as per Zurich Risk Policy. The Group's standard practice is to only transact derivatives with those counterparties for which the Group has in place an ISDA Master Agreement, with a Credit Support Annex. This mitigates credit exposures from over-the-counter transactions due to close-out netting and requires the counterparty to post collateral when the derivative position is beyond an agreed threshold. The Group further mitigates credit exposures from derivative transactions by using exchange-traded instruments whenever possible.

Risk from currency exchange rates

Currency risk is the risk of loss resulting from changes in exchange rates. The Group operates internationally and therefore is exposed to the financial impact arising from changes in the exchange rates of various currencies. The Group's presentation currency is the U.S. dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in the euro, Swiss franc and British pound, as well as the U.S. dollar. On local balance sheets a currency mismatch may cause a balance sheet's net asset value to fluctuate, through either income or directly through equity. The Group manages this risk by matching foreign currency positions on local balance sheets within prescribed limits. Residual local mismatches are reported centrally to make use of the netting effect across the Group. Zurich hedges these residual local mismatches within an established limit through a central balance sheet. For information on net gains/losses on foreign currency transactions included in the consolidated income statements, see note 1 of the consolidated financial statements. The monetary currency risk exposure on local balance sheets is considered immaterial.

Differences arise when functional currencies are translated into the Group's presentation currency, the U.S. dollar. The Group applies net investment hedge accounting to protect against the impact that changes in certain exchange rates might have on selected net investments.

Table 10 shows the total IFRS equity's sensitivity to changes in exchange rates for the main functional currencies to which the Group is exposed. Positive values represent an increase in the value of the Group's total equity. See notes 1, 3 and 7 of the consolidated financial statements for additional information on foreign currency translation and transactions.

Table 10

Sensitivity of the Group's total IFRS equity to exchange rate fluctuations

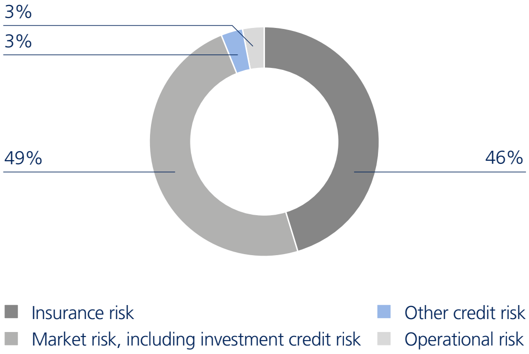
in USD millions, as of December 31	**2015**	2014
10% increase in		
EUR/USD rate	584	825
GBP/USD rate	220	302
CHF/USD rate	153	(176)
BRL/USD rate	97	157
Other currencies/USD rates	525	573

The sensitivities show the effects of a change of the exchange rates only, while other assumptions remain unchanged. The sensitivity analysis does not take into account management actions that might be taken to mitigate such changes. The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent Zurich's view of expected future market changes. While table 10 shows the effect of a 10 percent increase in currency exchange rates, a decrease of 10 percent would have the converse effect.

Other credit risk

Section highlights

Total Z-ECM capital required: USD 33 billion
(as of July 1, 2015)



Key risk and capital indicators
(Z-ECM, in USD billions)

	Q2 2013	Q2 2014	Q2 2015
Reinsurance credit risk	1.1	1.4	1.0

- The high and stable credit quality of the reinsurance assets portfolio and declining concentration risk allowed for a reduction in Z-ECM capital required.

AUDITED

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. See section 'risks from defaults of counterparties' for market-risk-related asset categories. The Group's exposure to other credit risk is derived from the following main categories of assets:

- Reinsurance assets
- Receivables

The Group's objective in managing credit risk exposures is to maintain them within parameters that reflect the Group's strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Group has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Group uses the ratings assigned by external rating agencies, qualified third parties, such as asset managers, and internal rating assessments. If external rating agencies' ratings differ, the Group generally applies the lowest, unless other indicators justify an alternative, which may be an internal credit rating.

The Group regularly tests and analyzes credit risk scenarios and prepares possible contingency measures that may be implemented, if the credit risk environment worsens.

The Group actively uses collateral to mitigate credit risks. Nevertheless, underlying credit risks are managed independently from the collateral. The Group has limits and quality criteria to identify acceptable letter-of-credit providers. Letters of credit enable Zurich to limit the risks embedded in reinsurance captives, deductibles, trade credit and surety.

Credit risk concentration

The Group limits and regularly monitors credit exposures to individual and related counterparties. The Group's exposure to counterparties' parent companies and subsidiaries is aggregated to include reinsurance assets, investments, certain insurance products and derivatives. There is no unapproved material exposure in excess of the Group's limits for counterparty aggregation as of December 31, 2015 or December 31, 2014.

On-balance sheet exposures are the main source of credit risk. Off-balance sheet exposures are related primarily to collateral used to protect underlying credit exposures on the balance sheet. The Group also has off-balance sheet exposures related to undrawn loan commitments of USD 8 million and USD 3 million as of December 31, 2015 and 2014, respectively. See note 23 of the consolidated financial statements for undrawn loan commitments.

Risk review *continued*

AUDITED

Credit risk related to reinsurance assets

The Group's Corporate Reinsurance Security Committee manages the credit quality of cessions and reinsurance assets. The Group typically cedes new business to authorized reinsurers with a minimum rating of 'A–' 73 percent and 67 percent of the business ceded to reinsurers that fall below 'A–' or are not rated is collateralized, as of December 31, 2015 and 2014 respectively. Of the business ceded to reinsurers that fall below 'A–' or are not rated, 32 percent and 50 percent were ceded to captive insurance companies, in 2015 and 2014, respectively.

Reinsurance assets include reinsurance recoverables (the reinsurers' share of reserves for insurance contracts) of USD 17.9 billion and USD 16.6 billion as of December 31, 2015 and 2014, respectively, and receivables arising from ceded reinsurance, gross of allowances for impairment, of USD 0.9 billion as of December 31, 2015 and 2014. Reserves for potentially uncollectible reinsurance assets amounted to USD 149 million as of December 31, 2015 and USD 135 million as of December 31, 2014. The Group's policy on impairment charges takes into account both specific charges for known situations (e.g., financial distress or litigation) and a general, prudent provision for unanticipated impairments.

Reinsurance assets in table 11 are shown before taking into account collateral such as cash or bank letters of credit and deposits received under ceded reinsurance contracts. Except for an immaterial amount, letters of credit are from banks rated 'A–' and better. Compared with December 31, 2014, collateral increased by USD 1.4 billion to USD 9.0 billion. The increase in collateral is due to the temporary reinsurance of a run-off portfolio, pending regulatory approval of the portfolio transfer to a third party.

Table 11 shows reinsurance premiums ceded and reinsurance assets split by rating.

Table 11

Reinsurance premiums ceded and reinsurance assets by rating of reinsurer and captive

as of December 31	2015				2014			
	Premiums ceded		Reinsurance assets		Premiums ceded		Reinsurance assets	
	USD millions	% of total	USD millions	% of total	USD millions	% of total	USD millions	% of total
Rating								
AAA	72	0.9%	36	0.2%	63	1.0%	36	0.2%
AA	1,188	14.7%	4,770	25.6%	1,435	23.5%	5,314	30.6%
A	2,284	28.3%	8,271	44.3%	1,813	29.7%	7,264	41.8%
BBB	861	10.7%	1,244	6.7%	1,132	18.6%	1,968	11.3%
BB	325	4.0%	530	2.8%	375	6.1%	671	3.9%
B	258	3.2%	194	1.0%	55	0.9%	117	0.7%
Unrated	3,090	38.3%	3,617	19.4%	1,228	20.1%	2,017	11.6%
Total[1]	**8,078**	**100.0%**	**18,662**	**100.0%**	**6,101**	**100%**	**17,387**	**100.0%**

[1] The value of the collateral received amounts to USD 9.0 billion and USD 7.6 billion as of December 31, 2015 and 2014, respectively. In 2014 collateral was under-reported by USD 1.9 billion.

AUDITED

Credit risk related to receivables

The Group's largest credit-risk exposure to receivables is related to third-party agents, brokers and other intermediaries, and arises where premiums are collected from customers to be paid to the Group, or to pay claims to customers on behalf of the Group. The Group has policies and standards to manage and monitor credit risk related to intermediaries. The Group requires intermediaries to maintain segregated cash accounts for policyholder money. The Group also requires that intermediaries satisfy minimum requirements of capitalization, reputation and experience, and provide short-dated business credit terms.

Receivables that are past due but not impaired should be regarded as unsecured, but some of these receivable positions may be offset by collateral. The Group reports internally on Group past-due receivable balances and strives to keep the balance of past-due positions as low as possible, while taking into account customer satisfaction.

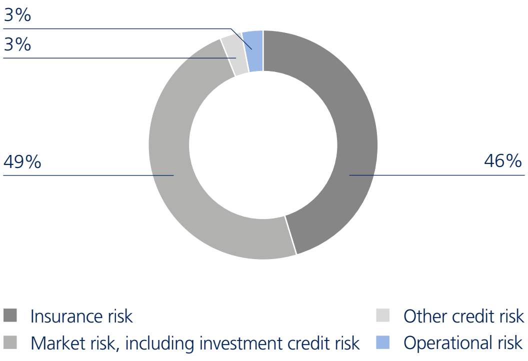
Receivables from ceded reinsurance are part of reinsurance assets and are managed accordingly. See notes 16 and 25 of the consolidated financial statements for additional information on receivables.

Risk review *continued*

Operational risk

Section highlights

Total Z-ECM capital required: USD 33 billion
(as of July 1, 2015)



Key risk and capital indicators
(Z-ECM, in USD billions)

	Q2 2013	Q2 2014	Q2 2015
Operational risk	1.1	1.1	0.9

- Mitigating and responding to cyber risks and threats to data security strengthen Zurich's ability to handle and protect data and information in anticipation of a rapidly evolving external environment.
- In 2015 the Group enhanced the internal control framework for operations and investment management.

AUDITED

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events such as outsourcing, catastrophes, legislation, or external fraud.

Zurich has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk within the Group. Within this framework, the Group:

- Uses a scenario-based approach to assess, model and quantify the capital required for operational risk for business units under extreme circumstances. This approach allows information to be compared across the Group and highlights the main scenarios contributing to the Z-ECM capital required. See chart 'Z-ECM capital required for operational risk split by risk scenarios (unaudited)' for more information.
- Documents and reviews loss events exceeding a threshold determined by the Zurich Risk Policy. Remedial action is taken to avoid a recurrence of such operational loss events.
- Conducts risk assessments where operational risks are identified for key business areas. Risks identified and assessed above a certain threshold must be mitigated. Risk mitigation plans are documented and tracked on an ongoing basis. In the assessments, the Group uses such sources of information as the Total Risk Profiling™ process, internal control assessments, and audit findings, as well as scenario modeling and loss event data.

The Group has specific processes and systems in place to focus on high priority operational matters such as managing information security and third party suppliers, as well as combating fraud.

Zurich mitigates and responds to cyber risks and threats to data security. Data held by Zurich's business partners is protected through contractual arrangements and controls that are built into 'cloud governance' procedures designed to secure Zurich's data in accordance with regulatory requirements and the Group's information security policies.

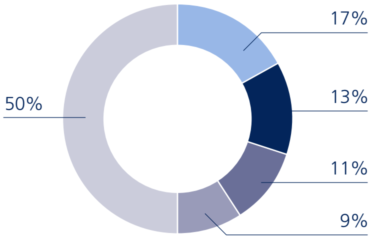
The Group regularly assesses risks associated with strategic suppliers to verify that suppliers remain financially viable and able to deliver services, and that the Group is not exposed to geographic and supplier concentration risks.

Preventing, detecting and responding to fraud is embedded in Zurich's business. Both claims and non-claims fraud are included in the common framework for assessing and managing operational risks. For Z-ECM calculations, claims fraud is part of insurance risk and non-claims fraud is part of operational risk.

As part of Z-ECM, the Group uses a scenario-based approach to assess, model and quantify the capital required for operational risk under extreme circumstances and a very slight probability of occurrence. The chart below shows the operational risk scenarios that have the highest impact on Z-ECM capital required.

Z-ECM capital required for operational risk, split by risk scenario clusters
(as of July 1, 2015)

Risk scenario clusters contributing to the Z-ECM capital required for operational risk



- **Regulatory and Tax Compliance:** This risk cluster relates to possible non-compliance with applicable laws and regulations, leading to a range of consequences. It includes fines and penalties, litigation, compensation to policyholders, increased regulatory scrutiny, financial losses and increased cost of compliance, as well as consequences from a possible failure to comply with tax requirements.
- **Market Abuse, Mis-selling and Conduct of Business:** This risk cluster relates to the possibility that staff, processes or systems may operate in ways that lead to inappropriate conduct of business in relation to the customer. It includes the possibility of investigations, sanctions and fines imposed on Zurich as a company or any member of staff as a result of market abuse, mis-selling practices leading to regulatory breach or increased compensation.
- **M&A – Due Diligence and Integration:** This risk cluster relates to poor execution of both the due diligence and the post-M&A integration processes. It includes the understatement of liabilities and required investments, operational or legal risks in the acquired business, inadequate transaction decisions, loss of key staff, inability to realize synergies or deliver benefits.
- **Outsourcing:** This risk cluster relates to the need to exit a strategic supplier arrangement for (i) poor service quality; or (ii) a foreseeable disruption in services to financial distress of the ultimate parent company.
- **Other scenarios,** e.g. project management, employment malpractice, record retention, licensing.

Risk management and internal controls

The Group considers controls to be key instruments for monitoring and managing operational risk. The Board has overall responsibility for the Group's risk management and internal controls, in particular for their adequacy and integrity. The Group's internal control system increases the reliability of Zurich's financial reporting, makes operations more effective, and aims to ensure legal and regulatory compliance. The internal controls system is designed to manage rather than eliminate the material risk that business objectives might not be achieved. It can provide only reasonable, not absolute, assurance against material financial misstatement or loss.

The Group encourages risk awareness and understanding of controls with communication and training. Primary risk management and internal control systems are established at Group level and implemented Group-wide.

Management is responsible for identifying, evaluating and addressing significant risks, and designing and maintaining internal controls. Key processes and controls in the organization are subject to reviews by management, Risk Management, Group Audit and Group Compliance. Significant risks and the mitigation actions are reported regularly to the Risk and Audit Committees of the Board.

In 2015 the Group further enhanced specific areas of the internal control framework, focusing on significant financial reporting controls as well as operational key controls in the areas of investment management, operations, underwriting and claims. An internal control certification process is conducted regularly by local business units throughout the Group.

Significant controls are assessed for their design and operating effectiveness. Significant control issues or issues affecting more than one business unit may be categorized as having Group-level significance. The Board's Risk and Audit Committees monitor resolution of such issues.

The Group's Disclosure Committee, led by the Group Controller, assesses the content, accuracy and integrity of the disclosures and the effectiveness of the internal controls over financial reporting. The conclusions are reported to the Group Executive Committee and the Board Audit Committee, which may provide further challenge. The Board reviews and approves results announcements and the annual report. This ensures that both the Board and management have sufficient opportunity to review and challenge the Group's financial statements and other significant disclosures before they are made public.

Risk review *continued*

The Board Risk Committee has reviewed the effectiveness of the Group's risk management system, including the Group's risk tolerance and the enterprise-wide risk governance framework, and the Board Audit Committee has reviewed the effectiveness of the system of control over financial reporting for the calendar year 2015 and have reported to the Board accordingly. Issues identified have been communicated to the Board and either have been or are being addressed by the Group.

The internal and external auditors also regularly report conclusions, observations and recommendations that arise as a result of their independent reviews and testing of internal controls over financial reporting and operations.

AUDITED

Liquidity risk

Liquidity risk is the risk that the Group may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. Zurich's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under normal conditions and in times of stress. To achieve this, the Group assesses, monitors and manages its liquidity needs on an ongoing basis.

Group-wide liquidity management policies and specific guidelines govern how local businesses plan, manage and report their local liquidity and include regular stress tests for all major carriers within the Group. The stress tests use a standardized set of internally defined stress events, and are designed to provide an overview of the potential drain on liquidity if the Group had to recapitalize local balance sheets.

Similar guidelines apply at the Group level, and detailed liquidity forecasts are regularly conducted, based on local businesses' input and the Group's forecasts. As part of its liquidity management, the Group maintains sufficient cash and cash equivalents and high-quality, liquid investment portfolios to meet outflows under expected and stressed conditions. The Group also maintains internal liquidity sources that cover the Group's potential liquidity needs, including those that might arise in times of stress. The Group takes into account the amount, availability and speed at which these sources can be accessed. The Group has access to diverse funding sources to cover contingencies, including asset sales, external debt issuance and making use of committed borrowing facilities or letters of credit. The Group maintains a range of maturities for external debt securities. A potential source of liquidity risk is the effect of a downgrade of the Group's credit rating. This could affect the Group's commitments and guarantees, potentially increasing liquidity needs. This risk, and mitigating actions that might be employed, are assessed on an ongoing basis within the Group's liquidity framework.

The Group limits the percentage of the investment portfolio that is not readily realizable and regularly monitors exposures to take action if necessary to maintain an appropriate level of asset liquidity. During 2015, the Group was within its limits for asset liquidity. The fair value hierarchy tables in note 24 of the consolidated financial statements segregate financial assets into three levels, reflecting the basis for how fair value was determined. These tables indicate the high degree of liquidity of the Group's investments.

See note 19 of the consolidated financial statements for more information on debt obligation maturities and credit facilities and note 23 of the consolidated financial statements for information on commitments and guarantees. The Group's on-going liquidity monitoring includes regular reporting to the executive management and quarterly reporting to the Risk Committee of the Board, covering aspects such as the Group's actual and forecast liquidity, possible adverse scenarios that could affect the Group's liquidity and possible liquidity needs from the Group's main subsidiaries, including under conditions of stress.

For more information on the Group's other financial liabilities, see note 17 of the consolidated financial statements. See note 6 of the consolidated financial statements for information on the maturity of debt securities for total investments.

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis. See note 23 of the consolidated financial statements.

AUDITED

Strategic risk and risks to the Group's reputation

Strategic risk

Strategic risk corresponds to the risk that Zurich is unable to achieve its strategic targets.

Strategic risks can arise from:

- Inadequate assessment of strategic plans
- Ineffective implementation of strategic plans
- Unexpected changes to assumptions underlying strategic plans

Zurich defines the strategy as the long term plan of action designed to allow the Group to achieve its goals and aspirations.

The Group works to reduce unintended risks of strategic business decisions through its risk assessment processes and tools, including the Total Risk Profiling™ (TRP) process. As part of the regular TRP process, the Group Executive Committee assessed in 2015 the key strategic risk scenarios, looking at 2016 and beyond. The Group TRP identified and assessed risks in executing the Group's transformation program, delivering on its customer strategy, information security and cyber risks. We have put mitigating actions in place to manage and carry out the Group's transformation; to meet the challenge of evolving customer needs and changes in the distribution model affected by digitalization; and to strengthen Zurich's ability to handle and protect data and information in anticipation of a rapidly evolving external environment.

The Group evaluates the risks of M&A transactions both from a quantitative and a qualitative perspective. The Group conducts risk assessments of M&A transactions to evaluate risks specifically related to integrating acquired businesses.

Risks to the Group's reputation

Risks include acts or omissions by the Group or any of its employees that could damage the Group's reputation or lead to a loss of trust among its stakeholders. Every risk type has potential consequences for Zurich's reputation. Effectively managing each type of risk helps reduce threats to Zurich's reputation.

The Group aims to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of Zurich Basics, the Group's code of conduct, which promotes integrity and good business practice. The Group centrally manages certain aspects of reputation risk, for example, communications, through functions with the appropriate expertise.

Financial information

In this section

Consolidated financial statements

Contents

Consolidated income statements

in USD millions, for the years ended December 31	Notes	2015	Restated 2014
Revenues			
Gross written premiums		48,490	52,069
Policy fees		2,508	2,712
Gross written premiums and policy fees		50,998	54,781
Less premiums ceded to reinsurers[1]		(8,078)	(6,101)
Net written premiums and policy fees		42,920	48,680
Net change in reserves for unearned premiums	11	(296)	(359)
Net earned premiums and policy fees		42,624	48,321
Farmers management fees and other related revenues	27	2,786	2,791
Net investment result on Group investments	6	7,462	9,211
Net investment income on Group investments		5,572	6,206
Net capital gains/(losses) and impairments on Group investments		1,891	3,004
Net investment result on unit-linked investments		6,238	10,784
Net gain/(loss) on divestments of businesses		10	(259)
Other income		1,448	1,723
Total revenues		60,568	72,571
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	11	36,076	37,452
Less ceded insurance benefits and losses[1]	11	(5,330)	(3,088)
Insurance benefits and losses, net of reinsurance	11	30,746	34,364
Policyholder dividends and participation in profits, net of reinsurance	11	7,863	12,568
Underwriting and policy acquisition costs, net of reinsurance	11	9,061	9,835
Administrative and other operating expense	13	8,659	8,858
Interest expense on debt		431	525
Interest credited to policyholders and other interest		467	523
Total benefits, losses and expenses		57,227	66,672
Net income before income taxes		3,340	5,898
Income tax (expense)/benefit	18	(1,294)	(1,670)
attributable to policyholders	18	(110)	(106)
attributable to shareholders	18	(1,183)	(1,564)
Net income after taxes		**2,047**	**4,228**
attributable to non-controlling interests		205	280
attributable to shareholders		1,842	3,949
in USD			
Basic earnings per share	20	12.36	26.68
Diluted earnings per share	20	12.33	26.44
in CHF			
Basic earnings per share	20	11.89	24.39
Diluted earnings per share	20	11.86	24.17

[1] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of April 1, 2015 and an additional tranche as of October 1,2015. The combined initial impact of these transactions was an increase of USD 1.8 billion in premiums ceded to reinsurers and an increase of USD 1.8 billion in ceded insurance benefits and losses in the Global Life business.

The notes to the Consolidated financial statements are an integral part of these Consolidated financial statements.

Consolidated financial statements *continued*

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31

	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges
2014			
Comprehensive income for the period, as restated	3,949	2,338	200
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		5,297	132
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(1,950)	163
Deferred income tax (before foreign currency translation effects)		(704)	(65)
Foreign currency translation effects		(305)	(30)
2015			
Comprehensive income for the period	1,842	(1,512)	(12)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		17	23
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(1,777)	(16)
Deferred income tax (before foreign currency translation effects)		397	(15)
Foreign currency translation effects		(149)	(4)

The notes to the Consolidated financial statements are an integral part of these Consolidated financial statements.

Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
(2,305)	233	24	(407)	(383)	(150)	3,799	43	3,842
(2,305)	3,124	32	(855)	(823)	2,301			
	(1,787)	–	–	–	(1,787)			
–	(769)	(8)	190	183	(586)			
–	(335)	–	257	257	(78)			
(3,034)	(4,558)	9	629	639	(3,919)	(2,078)	(173)	(2,251)
(3,034)	(2,994)	12	649	661	(2,333)			
–	(1,793)	–	–	–	(1,793)			
–	382	(2)	(162)	(164)	218			
–	(153)	–	142	142	(11)			

Consolidated financial statements *continued*

Consolidated balance sheets

Assets

in USD millions, as of	Notes	12/31/15	Restated 12/31/14	01/01/14
Investments				
Total Group investments	6	191,238	204,860	207,280
Cash and cash equivalents		8,159	7,600	7,181
Equity securities		18,873	16,099	13,183
Debt securities		137,730	153,648	156,456
Investment property		9,865	8,784	8,745
Mortgage loans		7,024	7,826	9,798
Other loans		9,569	10,834	11,789
Investments in associates and joint ventures		18	70	129
Investments for unit-linked contracts		126,728	134,416	134,267
Total investments[1]		317,966	339,276	341,547
Reinsurers' share of reserves for insurance contracts[1]	8	17,774	16,550	17,978
Deposits made under assumed reinsurance contracts		1,708	2,203	2,645
Deferred policy acquisition costs	12	17,677	17,750	18,724
Deferred origination costs	12	506	595	724
Accrued investment income[2]		1,727	1,912	2,321
Receivables and other assets	16	14,930	16,946	18,499
Deferred tax assets	18	1,455	1,561	2,020
Assets held for sale[3]		10	48	223
Property and equipment	14	1,140	1,273	1,494
Attorney-in-fact contracts	15	1,025	1,025	1,025
Goodwill	15	1,289	1,661	1,852
Other intangible assets	15	4,766	5,729	6,003
Total assets		**381,972**	**406,529**	**415,053**

[1] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of April 1, 2015 and an additional tranche as of October 1, 2015. The combined initial impact of these transations was a decrease of USD 1.7 billion in total investments and an increase of USD 1.8 billion in Reinsurers' share of reserves for insurance contracts in the Global Life business.
[2] Accrued investment income on unit-linked investments amounted to USD 106 million and USD 133 million as of December 31, 2015 and 2014, respectively.
[3] December 31, 2015 included land and buildings previously classified as investment property amounting to USD 10 million. December 31, 2014 included land and buildings formerly classified as investment property amounting to USD 48 million.

The notes to the Consolidated financial statements are an integral part of these Consolidated financial statements.

Liabilities and equity

in USD millions, as of	Notes	12/31/15	Restated 12/31/14	01/01/14
Liabilities				
Reserve for premium refunds		537	606	571
Liabilities for investment contracts	9	70,627	70,813	67,113
Deposits received under ceded reinsurance contracts		903	1,022	1,245
Deferred front-end fees		5,299	5,539	5,791
Reserves for insurance contracts	8	237,622	253,719	265,440
Obligations to repurchase securities		1,596	1,451	1,685
Accrued liabilities		2,849	3,065	3,023
Other liabilities	17	15,051	17,230	17,904
Deferred tax liabilities	18	4,498	5,020	5,110
Liabilities held for sale		–	–	49
Senior debt	19	4,471	5,379	6,044
Subordinated debt	19	5,614	5,857	6,342
Total liabilities		**349,069**	**369,700**	**380,319**
Equity				
Share capital	20	11	11	11
Additional paid-in capital	20	3,245	4,843	6,395
Net unrealized gains/(losses) on available-for-sale investments		2,556	4,068	1,730
Cash flow hedges		294	306	106
Cumulative foreign currency translation adjustment		(9,347)	(6,313)	(4,008)
Revaluation reserve		228	218	195
Retained earnings		34,192	31,602	28,075
Shareholders' equity		31,178	34,735	32,503
Non-controlling interests		1,725	2,095	2,231
Total equity		**32,904**	**36,830**	**34,734**
Total liabilities and equity		**381,972**	**406,529**	**415,053**

The notes to the Consolidated financial statements are an integral part of these Consolidated financial statements.

Consolidated financial statements *continued*

Consolidated statements of cash flows

in USD millions, for the years ended December 31	2015	Restated 2014
Cash flows from operating activities		
Net income attributable to shareholders	1,842	3,949
Adjustments for:		
Net (gain)/loss on divestments of businesses	(10)	259
(Income)/expense from equity method accounted investments	(8)	(12)
Depreciation, amortization and impairments of fixed and intangible assets	1,200	1,012
Other non-cash items	325	9
Underwriting activities:	6,868	14,532
Reserves for insurance contracts, gross	*4,528*	*4,759*
Reinsurers' share of reserves for insurance contracts[1]	*(1,981)*	*691*
Liabilities for investment contracts	*4,806*	*9,746*
Deferred policy acquisition costs	*(981)*	*(1,014)*
Deferred origination costs	*47*	*55*
Deposits made under assumed reinsurance contracts	*526*	*429*
Deposits received under ceded reinsurance contracts	*(77)*	*(134)*
Investments:	(4,703)	(15,267)
Net capital (gains)/losses on total investments and impairments	*(6,261)*	*(12,017)*
Net change in derivatives	*200*	*38*
Net change in money market investments	*1,415*	*1,939*
Sales and maturities		
Debt securities[1]	*85,797*	*108,774*
Equity securities	*60,722*	*57,048*
Other	*7,444*	*7,869*
Purchases		
Debt securities	*(83,237)*	*(104,376)*
Equity securities	*(62,423)*	*(67,124)*
Other	*(8,361)*	*(7,418)*
Net changes in sale and repurchase agreements	237	(139)
Movements in receivables and payables	(69)	913
Net changes in other operational assets and liabilities	(485)	425
Deferred income tax, net	24	178
Net cash provided by/(used in) operating activities	5,222	5,860

[1] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of April 1, 2015 and an additional tranche as of October 1, 2015. The combined initial impact of these transactions was an increase of USD 1.8 billion in reinsurers' share of reserves for insurance contracts and a transfer of USD 1.7 million of debt securities in the Global Life business.

in USD millions, for the years ended December 31	2015	Restated 2014
Cash flows from investing activities		
Disposals of tangible and intangible assets	60	86
Additions to tangible and intangible assets	(678)	(1,381)
(Acquisitions)/disposals of equity method accounted investments, net	88	95
Acquisitions of companies, net of cash acquired	(8)	(100)
Divestments of companies, net of cash divested	4	67
Dividends from equity method accounted investments	8	1
Net cash provided by/(used in) investing activities	(526)	(1,233)
Cash flows from financing activities		
Dividends paid	(2,869)	(2,958)
Issuance of share capital	44	129
Net movement in treasury shares	21	25
Other acquisitions and divestments related cash flows	(34)	(403)
Issuance of debt	298	1,526
Repayment of debt	(1,023)	(1,560)
Net cash provided by/(used in) financing activities	(3,564)	(3,241)
Foreign currency translation effects on cash and cash equivalents	(714)	(773)
Change in cash and cash equivalents	417	614
Cash and cash equivalents as of January 1	8,776	8,162
Cash and cash equivalents as of December 31	**9,193**	**8,776**
of which:		
– Group investments	8,159	7,600
– Unit-linked	1,034	1,176
Other supplementary cash flow disclosures		
Other interest income received	5,150	6,261
Dividend income received	1,999	1,968
Other interest expense paid	(997)	(1,124)
Income taxes paid	(1,400)	(1,379)

Cash and cash equivalents

in USD millions, as of December 31	2015	2014
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	7,037	6,592
Cash equivalents	2,156	2,184
Total[1]	**9,193**	**8,776**

[1] Includes cash and cash equivalents for unit-linked contracts of USD 1,034 million and USD 1,176 million as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, cash and cash equivalents held to meet local regulatory requirements were USD 710 million and USD 817 million, respectively.

Consolidated financial statements *continued*

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2013, as previously reported	11	6,395
Issuance of share capital[1]	–	200
Dividends to shareholders[2]	–	(1,815)
Share-based payment transactions	–	61
Treasury share transactions[4]	–	2
Change in ownership interests with no loss of control	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of December 31, 2014, as restated	11	4,843
Balance as of December 31, 2014, as previously reported	11	4,843
Total adjustments due to restatement	–	–
Balance as of December 31, 2014, as restated	11	4,843
Issuance of share capital[1]	–	205
Dividends to shareholders[3]	–	(1,683)
Share-based payment transactions	–	(124)
Treasury share transactions[4]	–	4
Change in ownership interests with no loss of control	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of December 31, 2015	**11**	**3,245**

[1] The number of common shares issued as of December 31, 2015 was 150,404,964 (December 31, 2014: 149,636,836, December 31, 2013: 148,903,222).
[2] As approved by the Annual General Meeting on April 2, 2014, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 1,022 million between the dividend at transaction day exchange rates amounting to USD 2,837 million and the dividend at historical exchange rates amounting to USD 1,815 million is reflected in the cumulative foreign currency translation adjustment.
[3] As approved by the Annual General Meeting on April 1, 2015, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 1,022 million between the dividend at transaction day exchange rates amounting to USD 2,705 million and the dividend at historical exchange rates amounting to USD 1,683 million is reflected in the cumulative foreign currency translation adjustment.
[4] The number of treasury shares deducted from equity as of December 31, 2015 amounted to 1,243,931 (December 31, 2014: 1,292,220, December 31, 2013: 1,320,652).

The notes to the Consolidated financial statements are an integral part of these Consolidated financial statements.

Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
1,730	106	(4,008)	195	28,075	32,503	2,231	34,734
–	–	–	–	–	200	–	200
–	–	–	–	–	(1,815)	(121)	(1,936)
–	–	–	–	–	61	–	61
–	–	–	–	23	25	–	25
–	–	–	–	(38)	(38)	–	(38)
2,338	200	(2,305)	24	3,542	3,799	43	3,842
–	–	–	–	*3,949*	*3,949*		
2,338	–	–	–	–	*2,338*		
–	*200*	–	–	–	*200*		
–	–	*(2,305)*	–	–	*(2,305)*		
–	–	–	*24*	–	*24*		
–	–	–	–	*(407)*	*(407)*		
–	–	–	–	–	–	(59)	(59)
4,068	306	(6,313)	218	31,602	34,735	2,095	36,830
4,068	306	(6,259)	218	31,548	34,735	2,095	36,830
–	–	(54)	–	54	–	–	–
4,068	306	(6,313)	218	31,602	34,735	2,095	36,830
–	–	–	–	–	205	–	205
–	–	–	–	–	(1,683)	(162)	(1,846)
–	–	–	–	113	(11)	–	(11)
–	–	–	–	18	21	–	21
–	–	–	–	(12)	(12)	–	(12)
(1,512)	(12)	(3,034)	9	2,471	(2,078)	(173)	(2,251)
–	–	–	–	*1,842*	*1,842*		
(1,512)	–	–	–	–	*(1,512)*		
–	*(12)*	–	–	–	*(12)*		
–	–	*(3,034)*	–	–	*(3,034)*		
–	–	–	*9*	–	*9*		
–	–	–	–	*629*	*629*		
–	–	–	–	–	–	(34)	(34)
2,556	**294**	**(9,347)**	**228**	**34,192**	**31,178**	**1,725**	**32,904**

Consolidated financial statements *continued*

Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) is a provider of insurance products and related services. The Group mainly operates in Europe, North America, Latin America and Asia Pacific through subsidiaries, as well as branch and representative offices.

Zurich Insurance Group Ltd, a Swiss corporation, is the holding company of the Group and its shares are listed on the SIX Swiss Exchange. Zurich Insurance Group Ltd was incorporated on April 26, 2000, in Zurich, Switzerland. It is recorded in the Commercial Register of the Canton of Zurich under its registered address at Mythenquai 2, 8002 Zurich.

On February 10, 2016 the Board of Directors of Zurich Insurance Group Ltd authorized these Consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on March 30, 2016.

1. Basis of presentation

General information

The Consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. Where IFRS does not contain clear guidance governing the accounting treatment of certain transactions, including those that are specific to insurance and reinsurance products, IFRS permits reference to another comprehensive body of accounting principles that uses a similar conceptual framework. The Group's accounting policies for insurance and reinsurance contracts are therefore based on those developed by the Group before the adoption of IFRS 4 in areas where IFRS 4 did not include specific requirements. Before this adoption, the Group typically applied U.S. GAAP pronouncements issued by the Financial Accounting Standards Board (FASB) on insurance and reinsurance contracts. Any changes to such pronouncements subsequent to this adoption are not reflected in the Group's accounting policies. In case of business combinations, the Group may decide to maintain the local statutory treatment if this does not distort the fair presentation of the financial position of the Group. If significant, the impact of such cases would be described elsewhere in the notes to these Consolidated financial statements.

The accounting policies applied by the reportable segments are the same as those applied by the Group. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices. Dividends, realized capital gains and losses as well as gains and losses on the transfer of net assets, are eliminated within the segment, whereas all other intercompany gains and losses are eliminated at Group level. In the Consolidated financial statements, inter-segment revenues and transfers are eliminated.

Disclosures under IFRS 4 "Insurance Contracts" and IFRS 7 "Financial Instruments: Disclosures" relating to the nature and extent of risks, and capital disclosures under IAS 1 "Presentation of Financial Statements" have been included in the audited sections of the Risk review on pages 123 to 155, and they form an integral part of the Consolidated financial statements.

The Group's consolidated balance sheets are not presented using a current/non-current classification. The following balances are generally considered to be current: cash and cash equivalents, deferred policy acquisition costs on general insurance contracts, accrued investment income, receivables, reserve for premium refunds, obligations to repurchase securities and accrued liabilities.

The following balances are generally considered to be non-current: equity securities, investment property, investments in associates and joint ventures, deferred policy acquisition costs on life insurance contracts, deferred tax assets, property and equipment, goodwill, other intangible assets and deferred tax liabilities.

The following balances are mixed in nature (including both current and non-current portions): debt securities, mortgage loans, other loans, reinsurers' share of reserves for insurance contracts, deposits made under assumed reinsurance contracts, deferred origination costs, other assets, reserves and investments for unit-linked contracts, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees, reserves for losses and loss adjustment expenses, reserves for unearned premiums, future life policyholder benefits, policyholder contract deposits and other funds, other liabilities, senior and subordinated debt, and assets and liabilities held for sale.

Maturity tables have been provided for the following balances: reserves for insurance contracts (tables 8.9a and 8.9b), liabilities for investment contracts (tables 9.3a and 9.3b), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), other financial liabilities (table 17.2) and outstanding debt (table 19.2).

All amounts in the Consolidated financial statements, unless otherwise stated, are shown in U.S. dollars, rounded to the nearest million with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Table 1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 245 million and USD 82 million for the years ended December 31, 2015 and 2014, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (126) million and USD 138 million for the years ended December 31, 2015 and 2014, respectively.

Principal exchange rates

Table 1

USD per foreign currency unit	Consolidated balance sheets at end-of-period exchange rates		Consolidated income statements and cash flows at average exchange rates	
	12/31/15	12/31/14	**2015**	2014
Euro	1.0862	1.2101	1.1109	1.3288
Swiss franc	0.9988	1.0064	1.0399	1.0939
British pound	1.4749	1.5577	1.5288	1.6473
Brazilian real	0.2525	0.3763	0.3053	0.4260

Restatements and reclassifications

Effective January 1, 2015, the Group changed its accounting policy relating to recognition of cumulative foreign currency translation adjustment (CTA), moving from an absolute to a proportionate ownership interest method, as a CTA release method based on proportionate ownership interest will lead to more relevant financial information. The impact was a reclassification of USD 54 million from retained earnings to CTA as of December 31, 2014. It also positively impacted the net investment result on Group investments and administrative and other operating expense in 2014 by USD 54 million, as well as basic earnings per share by USD 0.37 and diluted earnings per share by USD 0.36.

The Group transferred USD 381 million from future life policyholder benefits to policyholder contract deposits and other funds. The reclassification, set out in note 8, was prospectively recognized in 2015 as the reclassification has no impact on the Group's consolidated balance sheet or income statement.

Other adjustments

During the year ended December 31, 2015, the Group recorded out-of-period charges before tax of USD 68 million related to reinsurance recoverables, USD 47 million related to net assets in its Brazil operation and USD 24 million relating to annuities in its German General Insurance operation. These adjustments are not considered material to the Group's results.

Consolidated financial statements *continued*

2. New accounting standards and amendments to published accounting standards

Implementation of new accounting standards

Neither new accounting standards nor amendments to and interpretations of standards have been implemented for the financial year beginning January 1, 2015.

Standards, amendments and interpretations issued that are not yet effective or adopted by the Group

Table 2 shows new accounting standards or amendments to and interpretations of standards relevant to the Group, which are not yet effective and are not expected to have a material impact on the Group's financial position or performance, unless stated otherwise. In addition to the standards and amendments listed in table 2 the Group will also have to incorporate amendments resulting from the IASB annual improvements project, which relate primarily to disclosure enhancements.

Table 2

Standard/ Interpretation

		Effective date
New Standards		
IFRS 9	Financial Instruments[1]	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
Amended Standards		
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
IAS 16/IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	January 1, 2016

[1] Expected to result in a significant portion of financial assets currently classified as available-for-sale being re-classified as at fair value through profit or loss. Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in other comprehensive income (OCI), are expected to increase due to the introduction of the expected credit loss methodology. Upon implementation of the revised standard IFRS 4 'Insurance Contracts', more assets may be classified as at fair value through profit or loss under the fair value option.

The Group has not early-adopted any of the standards shown in table 2.

3. Summary of significant accounting policies

Significant accounting policies applied in these Consolidated financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated. Other accounting policies are presented as part of the respective note disclosures.

a) Consolidation principles

The Group's Consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Group Ltd and its subsidiaries. A subsidiary is an entity that Zurich Insurance Group Ltd either directly or indirectly controls. The results of subsidiaries acquired are included in the Consolidated financial statements from the date of acquisition. The results of subsidiaries that have been divested during the year are included up to the date control ceased. All significant intercompany balances, profits and transactions are eliminated in full.

Changes in ownership interests in a subsidiary that do not result in a change in control are recorded within equity.

The Consolidated financial statements are prepared as of December 31 based on individual company financial statements at the same date. In some cases information is included with a time lag of up to three months. The consequent effect on the Group's Consolidated financial statements is not material.

b) Foreign currency translation and transactions

Foreign currency translation

Due to the Group's economic exposure to the U.S. dollar (USD), the presentation currency of the Group's Consolidated financial statements is USD. Many Group companies use a different functional currency, being that of the respective primary economic environment in which these companies operate. Assets and liabilities are translated into the presentation currency at end-of-period exchange rates, while income statements and statements of cash flows are translated at average exchange rates for the period. The resulting foreign currency translation differences are recorded directly in other comprehensive income (OCI) as CTA.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rate at the date of the transaction or, for practical reasons, a weighted average rate, if exchange rates do not fluctuate significantly. Foreign currency monetary items and foreign currency non-monetary items that are carried at fair value, are translated at end-of-period exchange rates. The resulting foreign currency translation differences are recorded in income, except for the following:

- Foreign currency translation differences that are recognized in OCI in conjunction with the recognition of unrealized gains or losses on available-for-sale investments; and
- Foreign currency translation differences arising on monetary items that form part of net investments in foreign operations as well as foreign currency translation differences arising from monetary items that are designated as hedging instruments in a qualifying net investment hedge relationship are included directly in OCI as CTA.

c) Insurance contracts and investment contracts with discretionary participating features (DPF)

Classification

Contracts issued under which the Group accepts significant insurance risk and obligations arising from investment contracts with DPF are accounted for as insurance contracts.

The Group also issues products containing embedded options that entitle the policyholder to switch all or part of the current and future invested funds into another product issued by the Group. Where this results in the reclassification of an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are also reclassified and are accounted for in accordance with the accounting policy to be applied to the new product on a prospective basis. As a consequence, no gain or loss is recognized as a result of the reclassification of a contract from investment to insurance.

Once a contract has been classified as an insurance contract, no reclassification can subsequently be made.

Consolidated financial statements *continued*

Premiums

General insurance

Premiums from the sale of short-duration general insurance products are generally recorded when written and are normally recognized as revenue in relation to the insurance coverage provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired coverage period.

Life insurance

Premiums from traditional life insurance contracts, including participating contracts and annuity policies with life contingencies, are recognized as revenue when due from the policyholder. For single premium and limited pay contracts, premiums are recognized as revenue when due, with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from investment type insurance contracts such as universal life, unit-linked and unitized with-profits contracts are reported as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration and surrenders during the period. Front-end fees charged to the customer at inception, particularly for single premium contracts, are deferred and recognized over the estimated life of the contracts on a straight-line basis. Regular fees charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds are billed in advance and recognized on a straight-line basis over the period in which the service is rendered. Fees charged at the end of the period are accrued over the service period as a receivable and are offset against the financial liability when charged to the customer.

Cash flows from certain universal life-type contracts in the Group's Spanish operations are recognized as gross written premiums and insurance benefits and losses and not as deposits.

Reserves for losses and loss adjustment expenses

Losses and loss adjustment expenses are charged to income as incurred. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed. The Group does not discount its loss reserves, other than for settled claims with fixed payment terms.

Reserves for life benefits

Future life policyholders' benefits represent the estimated future benefit liability for traditional life insurance policies and include the value of accumulated declared bonuses or dividends that have vested to policyholders.

The reserves for life benefits for participating traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions taking into account guaranteed mortality benefits and interest rates.

The reserves for life benefits for other traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions including mortality, persistency, expenses and investment return, plus a margin for adverse deviations. These assumptions are locked-in at inception and are regularly assessed as part of the liability adequacy testing over the period of the contract.

Policyholder contract deposits represent the estimated policy benefits for investment type insurance contracts invested in non unit-linked funds. This liability comprises the accumulation of premiums received, less charges, plus declared policyholder dividends.

Unrealized gains or losses arising on the revaluation of available-for-sale assets are recorded directly in OCI in accordance with the Group's accounting policy for such assets. Where these assets are related to life insurance, corresponding adjustments to the reserves for life benefits and related assets are also recognized directly in OCI.

Reserves for unit-linked contracts are based on the fair value of the financial instruments backing those contracts less any fees and assessments charged to the policyholders. The related assets for unit-linked insurance contracts are designated at fair value through profit or loss in order to reduce measurement inconsistencies.

For products containing guarantees in respect of minimum death benefits (GMDB), retirement income benefits (GRIB) and/or annuitization options (GAO), additional liabilities are recorded in proportion to the receipt of the contracted revenues which are subject to a loss adequacy test taking into account policyholder behavior and current market conditions.

For products managed on a dynamic basis, an option in IFRS 4 is used to measure the insurance liabilities using current financial and non-financial assumptions, to better reflect the way that these products are managed. Financial assets relating to these liabilities are designated at fair value through profit or loss.

Deferred acquisition costs (DAC)

Costs that vary with and are directly related to the acquisition of new and renewal business, including for example commissions and certain underwriting and policy issue expenses, are deferred and subsequently amortized over a defined period.

General insurance

DAC for general insurance contracts is amortized over the period in which the related premiums are earned.

Life insurance

DAC for traditional participating life insurance contracts is amortized based on estimated gross margins expected to be realized over the life of the contract. Estimated gross margins are updated for actual and anticipated future experience and discounted using the latest revised interest rate for the remaining benefit period. Resultant deviations are reflected in income.

DAC for other traditional life insurance and annuity contracts is amortized over the life of the contracts based on expected premiums. Expected premiums are estimated at the date of policy issue for application throughout the life of the contract, unless a premium deficiency subsequently occurs.

DAC for investment type insurance contracts such as universal life, unit-linked and unitized with-profits contracts is amortized based on estimated gross profits expected to be realized over the life of the contract. Estimated gross profits are updated for actual and anticipated future experience and discounted using either the interest rate in effect at the inception of the contracts or the latest revised interest rate for the remaining benefit period, depending on whether crediting is based on the policyholder's or on the reporting entity's investment performance. Resultant deviations are reflected in income.

Unamortized DAC for life insurance contracts accrues interest at a rate consistent with the related assumptions for reserves.

For traditional participating and investment type life insurance contracts, DAC is adjusted for the impact of unrealized gains/(losses) on allocated investments that are recorded in OCI.

Liability adequacy tests

Liability adequacy tests are performed annually for groupings of contracts determined in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

General insurance

For general insurance contracts, unearned premiums are tested to determine whether they are sufficient to cover related expected losses, loss adjustment expenses, policyholder dividends, unamortized DAC and maintenance expenses, using current assumptions and considering anticipated investment returns. If a premium deficiency is identified, the DAC asset for the respective grouping of contracts is written down by the amount of the deficiency. If, after writing down the DAC asset to nil, a premium deficiency still exists for the respective grouping of contracts, then a premium deficiency reserve is established for the amount of the remaining deficiency.

Life insurance

For life insurance contracts, the carrying amount of the existing reserve for life benefits, including any deferred front-end fees, reduced by the unamortized balance of DAC or present value of future profits of acquired insurance contracts (PVFP), is compared with the reserve for life benefits, calculated using revised assumptions for actual and anticipated experience as of the valuation date. If a deficiency is identified, the DAC or PVFP for the respective grouping of contracts is written down by the amount of the deficiency. If, after writing down the DAC or PVFP to nil, a deficiency still exists for the respective grouping of contracts, the reserve for life benefits is increased by the amount of the remaining deficiency.

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Reinsurance

The Group's insurance subsidiaries cede risk in the normal course of business in order to limit the potential for losses arising from certain exposures. Reinsurance does not relieve the originating insurer of its liability. Certain Group insurance companies assume reinsurance business incidental to their normal business.

Reinsurance contracts that do not transfer significant insurance risk are accounted for using the deposit method.

A deposit asset or liability is recognized based on the premium paid or received less any explicitly identified premiums or fees to be retained by the ceding company. Interest on deposits is accounted for using the effective interest rate method. Future cash flows are estimated to calculate the effective yield, and revenue and expense are recorded as interest income or expense. Reinsurance deposit assets or liabilities also include funds deposited or held by the Group, under assumed or ceded reinsurance contracts, respectively, when funds are retained by the reinsured under the terms of the contract.

Reinsurance is recorded gross in the consolidated balance sheet. Reinsurance assets include balances expected to be recovered from reinsurance companies for ceded paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the liability associated with the reinsured policy.

Reinsurance assets are assessed for impairment on a regular basis and impairment losses, if any, are recorded in the same manner as for loans and receivables.

d) Liabilities for investment contracts (without DPF)

Investment contracts are those contracts that do not transfer significant insurance risk. The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

Unit-linked investment contracts

These represent portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks related to the investments. The liabilities are carried at fair value, which is determined by reference to the underlying financial assets. Changes in fair value are recorded in income. The related assets for unit-linked investment contracts are designated at fair value through profit or loss in order to reduce measurement inconsistencies.

The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against the policyholders' account balances are included in policy fee revenue.

Investment contracts at amortized cost

Liabilities for investment contracts with fixed and guaranteed terms are measured at amortized cost, using the effective interest rate method. Transaction costs are included in the calculation of the effective yield. As of each reporting date, the Group re-estimates the expected future cash flows and re-calculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the original effective interest rate for the financial liability. Any adjustment is immediately recognized in income.

Deferred origination costs (DOC)

The costs of acquiring new investment contracts with investment management services, such as commissions and other incremental expenses directly related to the issuance of each new contract, are capitalized and amortized in line with the revenue generated by providing investment management services. DOC is tested for recoverability annually.

e) Group investments excluding derivative financial instruments

Group investments are accounted for at either (a) fair value through OCI; (b) fair value through profit or loss; or (c) amortized cost.

The majority of Group investments are accounted for at fair value through OCI (available-for-sale financial assets) and include debt and equity securities as well as fund investments. Such assets are carried at fair value, with changes in fair value recognized in OCI, until the securities are either sold or impaired. Interest income determined using the effective interest method and dividend income from financial assets at fair value through OCI is included in net investment income. The cumulative unrealized gains or losses recorded in OCI are net of cumulative deferred income taxes, certain related life policyholder liabilities and deferred acquisition costs. When available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains or losses are reclassified from OCI to income as net capital gains/(losses) on investments and impairments.

Group investments at fair value through profit or loss include debt and equity securities backing certain life insurance contracts with participation features, and financial assets evaluated on fair value basis. The designation of these assets at fair value through profit or loss eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or recognizing the gains and losses on these assets on a different basis to the liabilities.

Group investments at amortized cost include debt securities for which the Group has the positive intention and ability to hold to maturity (held-to-maturity financial assets) as well as mortgage and other loans (loans and receivables). Such investments are carried at amortized cost using the effective interest rate method, less any charges for impairment. When impairment is determined to have occurred, the carrying amount of held-to-maturity investments and loans and receivables is reduced through the use of an allowance account, and the movement in the impairment allowance is recognized in income as an impairment loss.

The Group recognizes regular purchases and sales of financial assets on the trade date, which is the date on which the Group commits to purchase or sell the asset.

Realized and unrealized gains and losses arising from changes in the fair value are recognized in income, within net capital gains/(losses) on investments and impairments, in the period in which they arise. Interest income determined using the effective interest method and dividend income from financial assets at fair value through profit or loss is included in net investment income.

Group investments include investment property accounted for at fair value through profit or loss. Rental income from investment property is recognized on a straight-line basis over the lease term and included in net investment income along with rental operating expenses for investment property recognized on an accrual basis.

Group investments include the following in cash and cash equivalents: cash on hand, deposits held at call with banks, cash collateral received and other highly liquid investments with maturities of three months or less from the date of acquisition that are readily convertible into cash and are subject to an insignificant risk of change in fair value. Cash and cash equivalents are stated at current redemption value.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that loss events have occurred that negatively affect the estimated future cash flows of a financial asset or a group of financial assets. The evaluation of whether a financial asset is impaired requires significant judgment (see note 4).

f) Derivative financial instruments and hedge accounting

Derivative financial instruments, except those designated under a qualifying hedge relationship, are classified as held for trading assets or liabilities and carried at fair value on the balance sheet with changes in fair value recognized in income.

Derivative financial instruments that qualify for hedge accounting

Derivative financial instruments are used by the Group to economically hedge risks. In limited circumstances derivative financial instruments are designated as hedging instruments for accounting purposes in:

- Fair value hedges which are hedges of the exposure to changes in the fair value of a recognized asset or liability;
- Cash flow hedges, which are hedges of the exposure to variability in cash flows attributable to a particular risk as associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss; or
- Net investment hedges, which are hedges of a net investment in a foreign operation.

Consolidated financial statements *continued*

All hedge relationships are formally documented, including the risk management objectives and strategy for undertaking the hedge. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed in order to determine whether the hedging instruments are expected (prospective assessment) and have been (retrospective assessment) highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. If the qualifying criteria for the application of hedge accounting are no longer met, the hedge relationship is discontinued prospectively, in which case the hedging instrument and the hedged item are reported independently in accordance with the respective accounting policy.

The accounting treatment of a qualifying hedge relationship is further described in note 7.

g) Attorney-in-fact relationships (AIF)

The AIF reflects the ability of the Group to generate future revenues based on the Group's relationship with the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. (FGI), a wholly owned subsidiary of the Group. In determining that these relationships have an indefinite useful life, the Group considered the organizational structure of inter-insurance exchanges, under which subscribers exchange contracts with each other and appoint an attorney-in-fact to provide non-claims management services, and the historical AIF between FGI and the Farmers Exchanges. The AIF is tested for impairment at least annually.

h) Goodwill

Goodwill on the acquisition of subsidiaries is capitalized and tested for impairment annually, or more frequently if impairment indicators are observed. For the purpose of impairment testing, goodwill is allocated to cash generating units (CGUs) based on the level at which management monitors operations and makes decisions relating to the continuation or disposal of assets and operations. If goodwill has been allocated to a CGU and an operation within that unit is disposed of, the carrying amount of the operation includes attributable goodwill when determining the gain or loss on disposal.

i) Intangible assets

All intangible assets have finite lives and are carried at cost less accumulated amortization and impairments. Such assets are generally amortized using the straight-line method over their useful lives and reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Present value of future profits from acquired insurance contracts (PVFP)

An intangible asset representing the PVFP arises from the acquisition of life insurance businesses. Such an asset is amortized over the expected life of the acquired contracts, following the same rules as for DAC. The carrying value of the PVFP asset is tested periodically for impairment as part of the liability adequacy test for insurance contracts.

Distribution agreements

Distribution agreements may have useful lives extending up to 30 years which are estimated based on the period of time over which they are expected to provide economic benefits, but for no longer than the contractual term, after taking into account all economic and legal factors such as stability of the industry, competitive position and the period of control over the assets.

Software

Costs associated with research and maintenance of internally developed computer software are expensed as incurred. Costs incurred during the development phase are capitalized. Software under development is tested for impairment annually.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into use.

The useful lives of computer software licenses and capitalized internal software development costs generally do not exceed five years. In limited circumstances, capitalized software development costs may be amortized over a period of up to ten years, taking into account the effects of obsolescence, technology, competition and other economic and legal factors.

j) Other fees and commission income

Revenues from investment management and distribution fees are based on contractual fee arrangements applied to assets under management and recognized as earned when the service has been provided. For practical purposes, the Group recognizes these fees on a straight-line basis over the estimated life of the contract.

k) Employee benefits

Share-based compensation and cash incentive plans

The Group operates long-term incentive plans that are accounted for as equity-settled share-based compensation plans. The fair value of these incentive plans is determined at the grant date and is recognized as an expense in income over the vesting period, with a corresponding increase recorded in additional paid-in capital.

Subsequently, depending on the underlying performance metrics, the Group revises its estimates of the number of shares that are expected to be issued and recognizes the impact of the revision, if any, in income with a corresponding adjustment to additional paid-in capital. However, no subsequent adjustment to additional paid-in capital is made after the vesting date.

Retirement benefits

Contributions to defined contribution plans are recorded as an expense in the period in which the economic benefit from the employees' service was received.

Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Group's expense relating to these plans is accrued over the employees' service periods based on the actuarially determined cost for the period. Actuarial gains and losses are recognized, in full in the period in which they occur, in OCI. Past service costs, which result from plan amendments and curtailments, are recognized in income on the earlier of the date on which the plan amendment or curtailment occurs (which is the date from which the plan change is effective) and the date on which a constructive obligation arises. Settlement gains or losses are recognized in income when the settlement occurs.

Other post-employment benefits

Other post-employment benefits, such as medical care and life insurance, are also provided for certain employees and are primarily funded internally. Similar to retirement benefits, the cost of such benefits is accrued over the service period of the employees based on the actuarially determined cost for the period.

Financial information

Consolidated financial statements *continued*

4. Critical accounting judgments and estimates

The application of certain accounting policies necessitates critical accounting estimates that involve discretionary judgments and the use of assumptions which are susceptible to change due to inherent uncertainties. Because of the uncertainties involved, actual results could differ significantly from the assumptions and estimates made by management. Such critical accounting estimates are of significance to insurance reserves and deferred acquisition costs, the determination of fair value for financial assets and liabilities, impairment charges, deferred taxes and employee benefits.

a) Reserves for insurance contracts and deferred acquisition costs

General Insurance

The Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the Group's general insurance products and the run-off of its former third party reinsurance operations. These reserves represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the balance sheet date. The Group establishes its reserves by product line, type and extent of coverage and year of occurrence. There are two categories of loss reserve: reserves for reported losses and reserves for incurred but not reported (IBNR) losses. Additionally, reserves are held for loss adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

The Group's reserves for reported losses and loss adjustment expenses are based on estimates of future payments to settle reported claims. The Group bases such estimates on the facts available at the time the reserves are established. These reserves are generally established on an undiscounted basis to recognize the estimated costs of bringing pending claims to final settlement. The reserve calculation takes into account inflation, as well as other factors that can influence the amount of reserves required, some of which are subjective and some of which are dependent on future events. In determining the level of reserves, the Group considers historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions, economic conditions and public attitudes may affect the ultimate cost of settlement and, as a result, the Group's estimation of reserves. Between the reporting and final settlement of a claim circumstances may change, which may result in changes to established reserves. Items such as changes in law and interpretations of relevant case law, results of litigation, changes in medical costs, as well as costs of vehicle and home repair materials and labor rates can substantially impact ultimate settlement costs. Accordingly, the Group reviews and re-evaluates claims and reserves on a regular basis. Amounts ultimately paid for losses and loss adjustment expenses can vary significantly from the level of reserves originally set.

The Group establishes IBNR reserves, to recognize the estimated cost of losses for events which have already occurred but which have not yet been notified. These reserves are established to recognize the estimated costs required to bring such claims to final settlement. As these losses have not yet been reported, the Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The Group also uses reported claim trends, claim severities, exposure growth, and other factors in estimating its IBNR reserves. These reserves are revised as additional information becomes available and as claims are actually reported.

The time required to learn of and settle claims is an important consideration in establishing the Group's reserves. Short-tail claims, such as those for automobile and property damage, are normally reported soon after the incident and are generally settled within months of the incident. Long-tail claims, such as bodily injury, pollution, asbestos and product liability, can take years to develop and additional time to settle. For these claims, information concerning the event, such as the required medical treatment for bodily injury claims and the required measures to clean up pollution, may not be readily available. Accordingly, the reserving analysis of long-tail lines of business is generally more difficult and subject to greater uncertainties than for short-tail claims.

Since the Group does not establish reserves for catastrophes in advance of the occurrence of such events, these events may cause volatility in the levels of its incurred losses and reserves, subject to the effects of reinsurance recoveries. This volatility may also be contingent upon political and legal developments after the occurrence of the event.

The Group uses a number of accepted actuarial methods to estimate and evaluate the amount of reserves recorded. The nature of the claim being reserved for and the geographic location of the claim influence the techniques used by the Group's actuaries. Additionally, the Group's Corporate Center actuaries perform periodic reserve reviews of the Group's businesses throughout the world. Management considers the results of these reviews and adjusts its reserves for losses and loss adjustment expenses, where necessary.

Life insurance

The reserves for future life policyholder benefits and policyholder contract deposits and other funds contain a number of assumptions regarding mortality or longevity, lapses, surrenders, expenses, discount rates and investment returns. These assumptions can vary by country, year of policy issuance and product type and are determined with reference to past experience adjusted for new trends, current market conditions and future expectations. As such the liabilities for future life policyholder benefits and policyholder contract deposits may not represent the ultimate amounts paid out to policyholders. For example:

- The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty arises because of the potential for pandemics and wide-ranging lifestyle changes, such as changes in eating, smoking and exercise habits, which could result in earlier deaths for age groups in which the Group has significant exposure to mortality risk.
- For contracts that insure the risk of longevity, such as annuity contracts, an appropriate allowance is made for people living longer. Continuing improvements in medical care and social conditions could result in further improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.
- Under certain contracts, the Group has offered product guarantees (or options to take up product guarantees), including fixed minimum interest rate or mortality rate returns. In determining the value of these options and/or benefits, estimates have been made as to the percentage of contract holders that may exercise them. Changes in investment conditions could result in significantly more contract holders exercising their options and/or benefits than has been assumed.
- Estimates are made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.
- Assumptions are determined with reference to current and historical client data, as well as industry data. Interest rate assumptions reflect expected earnings on the assets supporting the future policyholder benefits. The information used by the Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions, available experience studies and profitability analysis.

Deferred policy acquisition costs and PVFP are deferred only to the extent that they are recoverable from future policy income which also depends on the above assumptions. Recoverability is tested at contract inception and subsequently on a regular basis with reference to current expectations of future profits or margins.

See note 8 for further information on reserves for insurance contracts and note 12 for deferred policy acquisition costs. Also refer to the insurance risk section of the Risk review.

b) Fair value measurement

In determining the fair values of financial debt instruments and equity instruments traded in exchange and OTC markets, the Group makes extensive use of independent, reliable and reputable third party pricing providers and only in rare cases places reliance on prices that are derived from internal models.

In addition, the Group's policy is to ensure that independently sourced prices are developed by making maximum use of current observable market inputs derived from orderly transactions and by employing widely accepted valuation techniques and models. When third party pricing providers are unable to obtain adequate observable information for a particular financial instrument, the fair value is determined either by requesting selective non-binding broker quotes or by using internal valuation models.

Valuations can be subject to significant judgment especially when the fair value is determined based on at least one significant unobservable input parameter; such items are classified within level 3 of the fair value hierarchy. See notes 6, 7 and 24 for further information regarding the estimate of fair value.

Consolidated financial statements *continued*

c) Impairment of assets

Financial assets

A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more occurred loss events that have an impact on the estimated future cash flows of the financial asset.

The evaluation of whether an available-for-sale debt security is impaired requires analysis of the credit standing of a particular issuer and involves management judgment. When assessing impairment of available-for-sale debt securities, the Group places emphasis on issuer specific factors, such as significant financial difficulty, default or delinquency on interest or principal payments. A credit rating downgrade, worsened liquidity or decline in fair value below the weighted-average cost is not by itself considered a loss event, but rather incorporated in the impairment analysis along with other available information.

The Group determines that there is objective evidence of impairment of an available-for-sale equity security, if at the reporting date:

- Its fair value is below the weighted-average cost by an amount significantly exceeding the volatility threshold determined quarterly for the respective equity market (such as North America, Asia Pacific, UK, Switzerland and other European countries), or
- Its fair value has been below the weighted-average cost for a prolonged period of 24 consecutive months or longer.

Goodwill and attorney-in-fact relationships (AIF)

Goodwill is allocated to a cash generating unit (CGU) as outlined in note 3. For General Insurance and Farmers, CGUs are aggregated at the segment level. Within Global Life, CGUs are identified at either business unit level or individual reporting entity level.

For goodwill impairment testing, the recoverable amount is the higher of its fair value less costs to sell and its value-in-use.

Fair value is determined, considering quoted market prices, current share values in the market place for similar publicly traded entities, and recent sale transactions of similar businesses.

Value-in-use is determined using the present value of estimated future cash flows expected to be generated from the CGU. Cash flow projections are based on financial budgets, which are approved by management, typically covering a three-year period or, if appropriate and adequately justified, a longer period, which may be necessary to more accurately represent the nature of the cash flows used to test the goodwill. Cash flows beyond this period are extrapolated using, amongst others, estimated perpetual growth rates, which reflect the expected inflation of the geographical areas in which the cash flows supporting the goodwill are generated. If cash flows are generated in different geographical areas with different expected inflation rates, weighted averages are used. The discount rates applied reflect the respective risk free interest rate adjusted for the relevant risk factors to the extent they have not already been considered in the underlying cash flows.

The discount rates used in the recoverable amount calculations for developed markets are based on the capital asset pricing model and consider government bond rates which are further adjusted for equity risk premium, appropriate beta and leverage ratio. In emerging markets, discount rates are based on the U.S. dollar discount rate taking into account inflation differential expectations and country risks. All input factors to the discount rates are based on observable market data.

The recoverable amounts of AIF relationships and goodwill are determined on the basis of value-in-use calculations. These calculations use cash flow projections based on business plans which are approved by management and typically cover a three-year period. The basis for determining the values assigned to the key assumptions are current market trends and earnings projections.

Table 4.1 sets out, as of the date of valuation, the value of goodwill and AIF for the major CGUs, applied discount rates and the perpetual nominal growth rates beyond the projection period which are dependent on country specific growth rate and inflation expectations. As outlined in note 15, the goodwill of the Global Life Germany CGU was fully impaired in 2015.

Table 4.1

Discount and perpetual growth rates for goodwill and AIF for major CGUs

as of the date of valuation	Segment	in USD millions	Discount rates in % 2015	Discount rates in % 2014	Perpetual nominal growth rate in % 2015	Perpetual nominal growth rate in % 2014
Farmers	Farmers	1,845	10.9	11.2	–	–
General Insurance	General Insurance	495	9.5	10.8	1.0	1.0

Sensitivity tests have been performed on goodwill and AIF, and typically comprised of an analysis for either a decrease in cash flows of up to 30 percent, a decrease in the perpetual growth rate of up to 1.0 percentage point or an increase in the discount rate of up to 3.5 percentage points in order to capture potential future variations in market conditions No reasonably possible changes of key assumptions were identified which would result in the recoverable amount being close to the carrying amount for the remaining CGUs.

Distribution agreements

The recoverable amount for General Insurance intangible assets relating to distribution agreements is determined on the basis of value-in-use calculations. These calculations use cash flow projections in line with the terms and conditions of the underlying distribution agreements. For Global Life, the recoverable amount of intangible assets relating to distribution agreements is determined based on projected cash flows derived from the new business calculation and discount rates consistent with the data used for actuarial valuations, or based on business operating profit (BOP).

The discount rates used in the recoverable amount calculations for developed markets are based on a capital asset pricing model and consider government bond rates, which are further adjusted for equity risk premium, appropriate beta and leverage ratios. In emerging markets, discount rates are based on the U.S. dollar discount rate taking into account inflation differential expectations and country risks. All input factors to the discount rates are based on observable market data.

Table 4.2 sets out, as of the date of valuation, the applied discount rates and the perpetual growth rates beyond the projection period which are dependent on country specific growth rate and inflation expectations used for the major distribution agreements. For the distribution agreement with Banco Santander S.A. entities in Latin America there was no indication that the asset may be impaired, therefore no impairment test was performed. Impairment indicators reviewed comprised of interest rates, inflation rates, actual and expected economic performance and other factors.

Table 4.2

Discount and perpetual growth rates

as of the date of valuation	in USD millions	Range of discount rates in % 2015	Range of discount rates in % 2014	Perpetual nominal growth rate in % 2015	Perpetual nominal growth rate in % 2014
Banco Sabadell S.A. entities in Spain	1,569	8.6	9.3	2.0	2.0

For impairment testing purposes, distribution agreements are assessed as single assets.

Sensitivity tests have been performed on distribution agreements and typically comprised of an analysis for either a decrease in cash flows, a decrease in the perpetual growth rate or an increase in the discount rate, applying reasonably possible changes. No reasonably possible changes of key assumptions were identified which would result in the recoverable amount being close to the carrying value.

See notes 3, 6, 14, 15 and 16 for further information on impairment of assets.

Consolidated financial statements *continued*

d) Deferred taxes

Deferred tax assets are recognized if sufficient future taxable income, including income from the reversal of existing taxable temporary differences and available tax planning strategies, is available for realization. The utilization of deferred tax assets arising from temporary differences depends on the generation of sufficient taxable profits in the period in which the underlying asset or liability is recovered or settled. The utilization of deferred tax assets arising from unused tax losses or tax credits depends on the generation of sufficient taxable profits before the unused tax losses or tax credits expire. As of each balance sheet date, management evaluates the recoverability of deferred tax assets and, if it is considered probable that all or a portion of the deferred tax asset will not be utilized, then a valuation allowance is recognized.

See note 18 for further information on deferred taxes.

e) Employee benefits

The Group provides defined benefit plans and other post-employment plans. In assessing the Group's liability for these plans, critical judgments include estimates of mortality rates, rates of employment turnover, disability, early retirement, discount rates, future salary and pension increases and increases in long-term healthcare costs. Discount rates for significant plans are based on a yield curve approach. The Group sets the discount rate by creating a hypothetical portfolio of high quality corporate bonds for which the timing and amount of cash outflows approximate the estimated payouts of the defined benefit plan. These assumptions may differ from actual results due to changing economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in variability of pension income or expense recorded in future years.

See note 21 for further information on employee benefits.

5. Acquisitions and divestments

Transactions in 2015

On December 17, 2015, the Group entered into an agreement with Wells Fargo & Company (Wells Fargo) to acquire 100 percent of Rural Community Insurance Agency, Inc. (RCIA) and its fully owned subsidiary Rural Community Insurance Company (RCIC). The two entities are collectively known as Rural Community Insurance Services (RCIS), a provider of agricultural insurance in the United States. The purchase price will amount to approximately USD 675 million plus the amount of excess capital in RCIS at the date of closing, estimated to be up to approximately USD 375 million. The transaction is expected to close in the first half of 2016 and is subject to applicable anti-trust and insurance regulatory approvals, as well as other customary closing conditions.

On October 27, 2015, the Group signed an agreement to purchase a 100 percent stake in Kono Insurance Limited, a general insurance company incorporated in Hong Kong, for approximately USD 27 million subject to a purchase price adjustment post closing. The transaction was closed on January 29, 2016.

In September 2015, the Group increased its shareholding in Zurich Insurance Company South Africa Limited (ZICSA) from 84.05 percent to 100 percent for a total consideration of approximately USD 34 million. Subsequently the ZICSA shares were delisted from the Johannesburg Stock Exchange.

Transactions in 2014

Acquisitions

On October 31, 2014, the Group completed the acquisition of an effective 50.0 percent stake in Mediterráneo Seguros Diversos, S.A. (MSD), a general insurance company incorporated in Spain and thus extended the existing cooperation with Banco Sabadell S.A. (Banco Sabadell) entered into during 2008. The Group obtained control over MSD by virtue of the existing shareholders' agreement between the Group and Banco Sabadell.

The initial consideration on a 50.0 percent basis amounted to USD 50 million, including an immaterial purchase price adjustment. In addition to the initial consideration, an uncapped contingent liability based on the future profitability over the term of the distribution agreement was agreed, for which the fair value was estimated to amount to USD 4 million on a 50.0 percent basis. Based on the final purchase accounting, the fair value of net tangible assets acquired amounted to USD 30 million, identifiable intangible assets relating to the distribution agreement amounted to USD 79 million, net of deferred tax and the non-controlling interest amounted to USD 54 million as reflected in the Consolidated financial statements as of the acquisition date.

On May 28, 2014, the Group increased its shareholding in Deutscher Herold AG to 100 percent. This increase was the result of the non-controlling shareholder exercising its put option right over 15.17 percent of the shares and the Group exercising its call option right over 5.0 percent. The total consideration amounted to USD 366 million, of which USD 275 million for 15.17 percent was previously recorded on the balance sheet as a put option liability.

Divestments

On October 30, 2014, the Group closed the sale of its General Insurance retail business in Russia to OLMA Group. The contractually agreed sales price amounted to RUB 1 billion (approximately USD 23 million) and was subject to a purchase price adjustment with no material impact. A pre-tax loss of total USD 247 million has been recorded within net gain/(loss) on divestments of businesses.

Consolidated financial statements *continued*

6. Group investments

Group investments are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features.

Net investment result on Group investments

Table 6.1

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) and impairments		Net investment result		of which impairments	
	2015	2014	2015	2014	2015	2014	2015	2014
Cash and cash equivalents	32	56	(1)	1	31	56	–	–
Equity securities	467	317	646	825	1,113	1,142	(162)	(37)
Debt securities	4,095	4,696	1,011	1,842	5,106	6,538	(4)	1
Investment property	512	501	131	168	642	668	–	–
Mortgage loans	266	319	(56)	(48)	210	270	(56)	(48)
Other loans	447	562	2	82	449	645	(2)	–
Investments in associates and joint ventures	8	12	31	38	39	49	–	(2)
Derivative financial instruments[1]	–	–	127	97	127	97	–	–
Investment result, gross, for Group investments	5,827	6,462	1,891	3,004	7,718	9,467	(224)	(86)
Investment expenses for Group investments[2]	(256)	(256)	–	–	(256)	(256)	–	–
Investment result, net, for Group investments	5,572	6,206	1,891	3,004	7,462	9,211	(224)	(86)

[1] Net capital gains/(losses) on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD 10 million and USD (29) million for the years ended December 31, 2015 and 2014, respectively.
[2] Rental operating expenses for investment property included in investment expenses for Group investments amounted to USD 81 million and USD 85 million for the years ended December 31, 2015 and 2014, respectively.

Details of Group investments by category

Table 6.2

as of December 31	2015		2014	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	8,159	4.3	7,600	3.7
Equity securities:				
Fair value through profit or loss	3,519	1.8	3,619	1.8
Available-for-sale[1]	15,354	8.0	12,480	6.1
Total equity securities	18,873	9.9	16,099	7.9
Debt securities:				
Fair value through profit or loss	6,180	3.2	7,121	3.5
Available-for-sale[1]	128,181	67.0	142,557	69.6
Held-to-maturity	3,369	1.8	3,971	1.9
Total debt securities	137,730	72.0	153,648	75.0
Investment property	9,865	5.2	8,784	4.3
Mortgage loans	7,024	3.7	7,826	3.8
Other loans	9,569	5.0	10,834	5.3
Investments in associates and joint ventures	18	0.0	70	0.0
Total Group investments	**191,238**	**100.0**	**204,860**	**100.0**

[1] As of January 1, 2015, USD 1.5 billion of hybrid instruments were classified as available-for-sale equity securities. These were previously classified as available-for-sale debt securities.

Investments (including cash and cash equivalents) with a carrying value of USD 6,492 million and USD 6,214 million were held to meet local regulatory requirements as of December 31, 2015 and 2014, respectively.

Details of debt securities by category

Table 6.3

in USD millions, as of December 31

	Held-to-maturity		Available-for-sale		Fair value through profit or loss		Total	Total
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Debt securities:								
Government and supra-national bonds	3,146	3,665	56,458	60,937	3,373	3,751	62,976	68,354
Corporate securities	223	306	54,021	62,744	2,246	2,663	56,491	65,712
Mortgage and asset-backed securities	–	–	17,695	18,868	561	706	18,256	19,574
Redeemable preferred stock	–	–	6	8	–	–	6	8
Total debt securities	**3,369**	**3,971**	**128,181**	**142,557**	**6,180**	**7,121**	**137,730**	**153,648**

Debt securities maturity schedule

Table 6.4

in USD millions, as of December 31

	Held-to-maturity		Available-for-sale		Fair value through profit or loss		Total	Total
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Debt securities:								
< 1 year	788	502	6,831	10,636	501	942	8,120	12,079
1 to 5 years	544	1,338	37,986	40,325	1,621	1,699	40,150	43,362
5 to 10 years	819	836	31,145	34,829	1,064	1,148	33,028	36,813
> 10 years	1,218	1,295	34,523	37,900	2,434	2,625	38,175	41,820
Subtotal	3,369	3,971	110,485	123,689	5,619	6,414	119,473	134,074
Mortgage and asset-backed securities:								
< 1 year	–	–	351	562	–	1	351	562
1 to 5 years	–	–	2,995	3,719	132	198	3,127	3,917
5 to 10 years	–	–	3,809	3,559	46	55	3,855	3,615
> 10 years	–	–	10,540	11,028	383	452	10,923	11,480
Subtotal	–	–	17,695	18,868	561	706	18,256	19,574
Total	**3,369**	**3,971**	**128,181**	**142,557**	**6,180**	**7,121**	**137,730**	**153,648**

The analysis in table 6.4 is provided by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Investment property

Table 6.5

in USD millions

	Total	
	2015	2014
As of January 1	8,784	8,745
Additions and improvements	1,460	1,049
Disposals	(87)	(210)
Market value revaluation	132	189
Transfer from assets held for own use	28	70
Transfer to assets held for sale	(16)	(28)
Foreign currency translation effects	(436)	(1,032)
As of December 31	**9,865**	**8,784**

Investment property consists of investments in commercial, residential and mixed-use properties primarily located in Switzerland, Germany and the UK.

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Net unrealized gains/(losses) on Group investments included in equity

Table 6.6

in USD millions, as of December 31	Total 2015	Total 2014
Equity securities: available-for-sale	1,219	1,575
Debt securities: available-for-sale	8,724	12,510
Other	366	371
Gross unrealized gains/(losses) on Group investments	10,309	14,456
Less amount of unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(5,814)	(7,628)
Life deferred acquisition costs and present value of future profits	(654)	(995)
Deferred income taxes	(968)	(1,421)
Non-controlling interests	(23)	(38)
Total[1]	**2,850**	**4,374**

[1] Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 294 million and USD 306 million as of December 31, 2015 and 2014, respectively.

Securities lending, repurchase and reverse repurchase agreements

Table 6.7

in USD millions, as of December 31	2015	2014
Securities lending agreements		
Securities lent under securities lending agreements[1]	4,527	7,668
Collateral received for securities lending	4,909	8,266
of which: Cash collateral	93	229
of which: Non cash collateral[2]	4,815	8,036
Liabilities for cash collateral received for securities lending	93	229
Repurchase agreements		
Securities sold under repurchase agreements[3]	1,596	1,455
Obligations to repurchase securities	1,596	1,451
Reverse repurchase agreements		
Securities purchased under reverse repurchase agreements[4]	194	294
Receivables under reverse repurchase agreements	193	290

[1] The Group’s counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 4,527 million and USD 7,668 million as of December 31, 2015 and 2014, respectively. The majority of these assets were debt securities.
[2] The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 4,672 million and USD 7,344 million as of December 31, 2015 and 2014, respectively.
[3] The Group’s counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 997 million and USD 1,307 million as of December 31, 2015 and 2014, respectively. The majority of these assets were debt securities.
[4] The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 99 million and nil as of December 31, 2015 and December 31, 2014, repectively.

Under the terms of securities lending or repurchase agreements, the Group retains substantially all the risks and rewards of ownership of the transferred securities, and also retains contractual rights to the cash flows therefrom. These securities are therefore not derecognized from the Group’s balance sheet. Cash received as collateral is recorded as an asset, and a corresponding liability is established. Interest expense is charged to income using the effective interest rate method over the life of the agreement.

Under a reverse repurchase agreement, the securities received are not recognized on the balance sheet, as long as the risk and rewards of ownership have not been transferred to the Group. The cash delivered by the Group is derecognized and a corresponding receivable is recorded within receivables and other assets. Interest income is recognized in income using the effective interest rate method over the life of the agreement.

7. Group derivative financial instruments and hedge accounting

The Group uses derivative financial instruments mainly for economic hedging purposes in order to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates. Derivative financial instruments with a positive fair value are reported in other assets (see note 16) and those with a negative fair value are reported in other liabilities (see note 17).

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2015 and 2014. Whilst these notional amounts express the extent of the Group's involvement in derivative transactions, they do not, however, represent the amounts at risk.

Maturity profile of notional amounts and fair values of Group derivative financial instruments

Table 7.1

in USD millions, as of December 31						2015			2014
	Maturity by notional amount			Notional amounts	Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Interest rate contracts:									
OTC									
Swaps	65	863	2,772	3,700	124	(18)	4,297	212	(55)
Swaptions	415	1,063	1,014	2,491	81	(26)	3,071	104	(35)
Exchange traded									
Futures	631	70	–	701	–	–	824	–	(1)
Total interest rate contracts	**1,110**	**1,996**	**3,785**	**6,892**	**206**	**(44)**	**8,191**	**316**	**(91)**
Equity contracts:									
OTC									
Swaps	48	–	–	48	–	–	49	1	–
Options	1,823	2,603	206	4,632	128	(80)	4,651	132	(93)
Exchange traded									
Options	27	–	–	27	–	–	16	1	–
Futures	397	–	–	397	–	(5)	535	–	(17)
Total equity contracts	**2,295**	**2,603**	**206**	**5,104**	**128**	**(84)**	**5,251**	**134**	**(109)**
Foreign exchange contracts:									
OTC									
Swaps and forwards	18,982	–	–	18,982	84	(115)	15,098	111	(98)
Total foreign exchange contracts	**18,982**	**–**	**–**	**18,982**	**84**	**(115)**	**15,098**	**111**	**(98)**
Other contracts:									
OTC									
Swaps	–	–	56	56	–	(5)	60	–	(8)
Total other contracts	**–**	**–**	**56**	**56**	**–**	**(5)**	**60**	**–**	**(8)**
Total Group derivative financial instruments	**22,387**	**4,599**	**4,047**	**31,034**	**417**	**(249)**	**28,600**	**561**	**(307)**

Interest rate contracts

Interest rate contracts are used to hedge risks from changes in interest rates and to manage asset liability mismatches. Whenever possible the Group enters into exchange traded contracts, which are standardized and regulated. Furthermore, because of the structure of the exchanges, exchange traded contracts are not considered to carry counterparty risk. Over-the-counter (OTC) contracts are otherwise entered into and comprised of swaps and swaptions.

Equity contracts

Equity contracts are entered into, either on a portfolio or on a macro level to protect equity investments against a decline in equity market prices or to manage the risk return profile of equity exposures. The majority of positions are for economic hedging purposes. Short positions are always covered and sometimes used to mitigate hedging costs.

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Foreign exchange contracts

Swaps and forward contracts are used to hedge the Group's foreign currency exposures and to manage balance sheet mismatches.

Other contracts

Other contracts predominantly include stable value products (SVPs) issued to insurance company separate accounts in connection with certain life insurance policies (Bank Owned Life Insurance (BOLI) and Company Owned Life Insurance (COLI)) with an account value of USD 9.2 billion and USD 9.0 billion as of December 31, 2015 and 2014, respectively and with a market value of the underlying investments of USD 9.2 billion as of both December 31, 2015 and 2014, respectively. The Group closely monitors the risk of surrender of these life insurance policies and includes the likelihood of surrender as one of the input parameters to determine the fair value of the SVPs which was nil as of December 31, 2015 and 2014.

In certain circumstances derivative financial instruments may meet the requirements of an effective hedge for accounting purposes. Where this is the case, hedge accounting may be applied. Financial information for these instruments is set out in table 7.2.

Maturity profile of notional amounts and fair values of Group derivative financial instruments

Table 7.2

in USD millions, as of December 31				**2015**					2014
	Maturity by notional amount			**Notional**	**Positive**	**Negative**	Notional	Positive	Negative
		1 to 5		**principal**	**fair**	**fair**	principal	fair	fair
	< 1 year	years	> 5 years	**amounts**	**values**	**values**	amounts	values	values
Fair value hedges:									
Cross currency interest rate swaps	–	–	–	–	–	–	330	8	–
Cross currency swaps	–	8	62	70	–	(56)	71	–	(49)
Interest rate swaps	–	1,049	721	1,770	99	–	2,417	143	–
Forex swaps and forwards	393	–	–	393	–	(3)	–	–	–
Total fair value hedges	**393**	**1,057**	**783**	**2,233**	**99**	**(59)**	**2,818**	**151**	**(49)**
Cash flow hedges:									
Interest rate swaptions	844	–	2,087	2,931	586	–	2,954	499	–
Cross currency swaps	–	–	43	43	–	–	793	–	(70)
Interest rate swaps	32	29	35	96	12	–	96	18	–
Forwards bonds	–	272	–	272	–	(54)	–	–	–
Total cash flow hedges	**876**	**301**	**2,165**	**3,342**	**598**	**(54)**	**3,842**	**518**	**(70)**
Net investment hedges:									
Swaps and forwards	1,352	–	–	1,352	6	(1)	168	–	(4)
Total net investment hedges	**1,352**	**–**	**–**	**1,352**	**6**	**(1)**	**168**	**–**	**(4)**

Fair value hedges

Designated fair value hedges consist of interest rate swaps used to protect the Group against changes in interest rate exposure and foreign currency exposure of debt issued by the Group.

Information on debt issuances designated as hedged items in fair value hedge relationships is set out in note 19.

The Group also has fair value hedge relationships consisting of cross currency swaps and forwards to protect the Group from foreign currency fluctuation certain fixed income securities and hybrid equity securities denominated in a currency other than the functional currency of the reporting entity.

Changes in the fair value of the derivative financial instruments designated as fair value hedges and changes in the fair value of the hedged item in relation to the risk being hedged are both recognized in income.

Table 7.3 sets out gains and losses arising from fair value hedges:

Gains/(losses) arising from fair value hedges

Table 7.3

in USD millions, for the years ended December 31	2015	2014
Gains/(losses)		
on hedging instruments[1]	*(21)*	*48*
on hedged items attributable to the hedged risk	*21*	*(35)*

[1] Excluding current interest income, which is recognized as an offset on the same line as the interest expense of the hedged debt.

Cash flow hedges

Designated cash flow hedges, such as interest rate swaptions and forwards are used to protect the Group against variability of future cash flows due to changes in interest rates associated with expected future purchases of debt securities (during the years 2016, 2021 and 2026) required for certain life insurance policies. The effective portion of the gains and losses on these swaptions are initially recognized in other comprehensive income. Subsequently the gains or losses will be recycled to income within net investment income on Group investments over the period to December 31, 2036. The gains and losses relating to the ineffective portion of these hedges are recognized immediately in income within net capital gains/(losses) on investments and impairments.

The Group also uses interest rate swaps and cross currency swaps for cash flow hedging to protect against the exposure to variability of cash flows attributable to interest rate and currency risk. The hedging instrument is measured at fair value, with the effective portion of changes in its fair value recognized in other comprehensive income. The effective portion, related to spot rate changes in the fair value of the hedging instrument, is reclassified to income within administrative and other operating expense as an offset to foreign currency revaluation on the underlying hedged debt. The ineffective portion of the change in fair value is recognized directly in income within administrative and other operating expense.

Information on debt issuances designated as hedged items in cash flow hedge relationships is set out in note 19.

The net gains/(losses) deferred in other comprehensive income on derivative financial instruments designated as cash flow hedges were USD (22) million and USD 109 million before tax for the years ended December 31, 2015 and 2014, respectively.

The Group recognized gains of USD 12 million and USD 13 million in the consolidated income statement within net investment income on Group investments for the years ended December 31, 2015 and 2014, respectively. The Group also recognized net gains/(losses) of USD (40) million and USD (176) million within administrative and other operating expense for the years ended December 31, 2015 and 2014, respectively, as an offset to the foreign currency revaluation on the underlying hedged items.

A gain of USD 10 million and a loss of USD 29 million for the years ended December 31, 2015 and 2014, respectively, was recognized in net capital gains/(losses) and impairments due to hedge ineffectiveness.

Net investment hedges

The Group applies net investment hedge accounting in order to protect itself against the effects of changes in exchange rates in its net investments in foreign operations.

Measurement of hedge effectiveness is based on changes in forward rates. Gains and losses on the designated hedging derivative and non-derivative financial instruments relating to the effective portion of the hedge are recognized in OCI together with the translation gains and losses on the hedged net investment. The accumulated gains and losses in OCI are reclassified to income on disposal or partial disposal of the foreign operation.

Net losses deferred in other comprehensive income were USD 21 million and USD 13 million before tax for the years ended December 31, 2015 and 2014, respectively.

The Group has also designated certain debt issuances as hedging instruments on a non-derivative net investment hedge relationship. The notional amount of these financial instruments was USD 3.3 billion and 1.5 billion for the years ended December 31, 2015 and 2014, respectively. The net gains/(losses) deferred in other comprehensive income were USD (68) and USD (35) million before tax for the years ended December 31, 2015 and 2014, respectively.

Information on debt issuances designated as hedging instruments in a net investment hedge relationship is set out in note 19.

Consolidated financial statements *continued*

No ineffectiveness of net investment hedges was recognized in net capital gains/(losses) and impairments for the years ended December 31, 2015 and 2014.

Derivative financial instruments: offsetting of financial assets and liabilities

Table 7.4 shows the net asset and liability position of Group derivative financial instruments subject to enforceable master netting arrangements and collateral agreements. Master netting arrangements are used by the Group to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. These arrangements commonly create a right of offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or other circumstances which would not be expected to arise in the normal course of business.

Table 7.4

Group derivative financial instruments subject to enforceable master netting arrangements and collateral agreements

in USD millions, as of December 31	Derivative assets		Derivative liabilities	
	2015	2014	**2015**	2014
Fair value	1,120	1,230	(362)	(429)
Related amounts not offset	(109)	(186)	110	186
Cash collateral (received)/pledged	(919)	(896)	55	82
Non cash collateral (received)/pledged	(25)	(27)	62	8
Net amount	**67**	**120**	**(134)**	**(153)**

8. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts

Reserves for insurance contracts

Table 8.1

in USD millions, as of December 31	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
Reserves for losses and loss adjustment expenses[1]	62,971	64,472	(9,231)	(9,770)	53,739	54,703
Reserves for unearned premiums	16,230	16,779	(2,681)	(2,446)	13,549	14,333
Future life policyholder benefits[2]	71,952	77,652	(4,016)	(2,441)	67,935	75,211
Policyholder contract deposits and other funds	22,076	23,415	(1,956)	(1,994)	20,121	21,421
Reserves for unit-linked contracts	64,393	71,400	–	–	64,393	71,400
Total reserves for insurance contracts[3]	**237,622**	**253,719**	**(17,885)**	**(16,650)**	**219,737**	**237,069**

[1] The net 2015 includes USD 2.5 billion reserves for losses and loss adjustment expenses discounted at an average rate of 2.3% with a corresponding undiscounted amount of USD 3.7 billion. The net 2014 includes USD 2.4 billion reserves for losses and loss adjustment expenses discounted at an average rate of 2.6% with a corresponding undiscounted amount of USD 3.7 billion.
[2] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of April 1, 2015 and an additional tranche as of October 1, 2015. The combined initial impact of these transactions was an increase of USD 1.8 billion in reinsurers' share of reserves for insurance contracts in the Global Life business.
[3] Total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 111 million and USD 100 million as of December 31, 2015 and 2014, respectively.

Development of reserves for losses and loss adjustment expenses

Table 8.2

in USD millions	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
As of January 1	64,472	68,312	(9,770)	(10,993)	54,703	57,319
Losses and loss adjustment expenses incurred:						
Current year	24,969	26,033	(3,256)	(3,102)	21,713	22,931
Prior years[1]	(198)	(673)	347	614	149	(59)
Total incurred	24,771	25,360	(2,909)	(2,488)	21,862	22,871
Losses and loss adjustment expenses paid:						
Current year	(8,450)	(9,983)	654	748	(7,796)	(9,235)
Prior years	(15,028)	(15,894)	2,452	2,593	(12,576)	(13,301)
Total paid	(23,478)	(25,877)	3,107	3,341	(20,372)	(22,536)
Acquisitions/(divestments) and transfers[2]	(61)	73	(44)	(11)	(106)	62
Foreign currency translation effects	(2,733)	(3,395)	385	381	(2,349)	(3,013)
As of December 31	**62,971**	**64,472**	**(9,231)**	**(9,770)**	**53,739**	**54,703**

[1] The net prior year incurred losses includes unwind of discount of USD 31 million and USD 32 million as of December 31, 2015 and December 31, 2014 respectively.
[2] The 2015 net movement includes USD (44) million relating to a reinsurance agreement which transferred the benefits and risks of some of the Group's general insurance portfolio to a third party and USD (61) million relating to the sale of the Group's Dutch general insurance portfolio to a third party. The 2014 net movement relates to USD 47 million reclassified from future life policyholders' benefits (see note 1 of the Consolidated financial statements 2014), USD 49 million due to the reclassification of a subsidiary of Centre Group Holdings Limited from held for sale (see note 5), USD 6 million due to the acquisition of MSD (see note 5) and USD (40) million due to the reclassification of the Group's General Insurance retail business in Russia to held for sale (see note 2).

The Group establishes loss reserves, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates or judgments are reflected in the results of operations in the period in which estimates and judgments are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The reserves for losses and loss adjustment expenses are determined on the basis of information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Consolidated financial statements *continued*

For the year ended December 31, 2015, the decrease of USD 964 million in net reserves for losses and loss adjustment expenses was mostly driven by the effect of foreign currency translation of USD 2,349 million. Excluding this effect, reserves for losses and loss adjustment expenses increased by USD 1,385 million. Underlying unfavorable reserve development arising from reserves established in prior years amounted to USD 149 million during the year ended December 31, 2015, and mainly related to the following:

- In North America, adverse prior year development of USD 264 million was driven by auto liability and certain lines of business;
- Favorable prior year development of USD 121 million driven by Swiss motor third party liability;
- Adverse prior year development of USD 110 million from Non-core business from latent diseases and other discontinued portfolios.

For the year ended December 31, 2014, the decrease of USD 2,616 million in net reserves for losses and loss adjustment expenses was mostly driven by the effect of foreign currency translation of USD 3,013 million. Excluding this effect, reserves for losses and loss adjustment expenses increased by USD 397 million. Underlying favorable reserve development arising from reserves established in prior years amounted to USD 59 million during the year ended December 31, 2014, and mainly relates to the following:

- The personal and commercial business in Europe reported favorable prior year development of USD 296 million, mostly driven by USD 96 million in motor third party liability in Switzerland and USD 75 million in property in the UK;
- In Global Corporate, adverse prior year development of USD 26 million arising in North America, partially offset by favorable development in Europe;
- Adverse prior year development of USD 93 million relating to asbestos.

Development of insurance losses, net

Table 8.3

in USD millions, as of December 31	2006	2007	2008	2009	2010	2011	2012	2013	2014	**2015**
Gross reserves for losses and loss adjustment expenses	64,535	67,890	65,218	68,126	68,274	67,762	69,986	68,312	64,472	62,971
Reinsurance recoverable	(13,722)	(13,179)	(12,232)	(12,182)	(12,093)	(12,421)	(12,601)	(10,993)	(9,770)	(9,231)
Initial net reserves for losses and loss adjustment expenses	50,814	54,712	52,986	55,944	56,180	55,341	57,385	57,319	54,703	53,739
Cumulative paid as of December 31:										
One year later	*(11,237)*	*(12,551)*	*(13,047)*	*(12,716)*	*(13,092)*	*(13,525)*	*(13,799)*	*(13,301)*	*(12,576)*	
Two years later	*(18,362)*	*(19,660)*	*(19,909)*	*(19,821)*	*(21,073)*	*(21,245)*	*(21,465)*	*(21,002)*		
Three years later	*(23,421)*	*(24,428)*	*(24,693)*	*(25,623)*	*(27,137)*	*(26,871)*	*(27,064)*			
Four years later	*(26,839)*	*(27,735)*	*(28,808)*	*(30,127)*	*(31,375)*	*(31,129)*				
Five years later	*(29,224)*	*(30,690)*	*(32,170)*	*(33,325)*	*(34,478)*					
Six years later	*(31,483)*	*(33,310)*	*(34,596)*	*(35,678)*						
Seven years later	*(33,665)*	*(35,188)*	*(36,480)*							
Eight years later	*(35,215)*	*(36,717)*								
Nine years later	*(36,511)*									
Cumulative incurred as of December 31:										
One year later	*(1,219)*	*(1,271)*	*(1,059)*	*(1,378)*	*(1,302)*	*(571)*	*(757)*	*(59)*	*149*	
Two years later	*(2,171)*	*(2,152)*	*(2,350)*	*(2,565)*	*(1,819)*	*(891)*	*(652)*	*(139)*		
Three years later	*(2,686)*	*(2,844)*	*(3,048)*	*(2,700)*	*(2,028)*	*(677)*	*(777)*			
Four years later	*(3,003)*	*(3,533)*	*(3,176)*	*(2,770)*	*(1,891)*	*(804)*				
Five years later	*(3,438)*	*(3,580)*	*(3,235)*	*(2,587)*	*(2,020)*					
Six years later	*(3,279)*	*(3,478)*	*(2,958)*	*(2,677)*						
Seven years later	*(3,146)*	*(3,215)*	*(2,973)*							
Eight years later	*(2,845)*	*(3,271)*								
Nine years later	*(2,808)*									
Net reserves re-estimated as of December 31:										
One year later	*49,594*	*53,441*	*51,927*	*54,565*	*54,878*	*54,770*	*56,628*	*57,259*	*54,852*	
Two years later	*48,642*	*52,559*	*50,637*	*53,379*	*54,361*	*54,450*	*56,734*	*57,180*		
Three years later	*48,127*	*51,868*	*49,939*	*53,243*	*54,152*	*54,664*	*56,609*			
Four years later	*47,811*	*51,179*	*49,810*	*53,173*	*54,289*	*54,537*				
Five years later	*47,376*	*51,131*	*49,752*	*53,357*	*54,160*					
Six years later	*47,535*	*51,234*	*50,028*	*53,267*						
Seven years later	*47,668*	*51,497*	*50,014*							
Eight years later	*47,969*	*51,441*								
Nine years later	*48,006*									
Cumulative (deficiency)/ redundancy of net reserves	2,808	3,271	2,973	2,677	2,020	804	777	139	(149)	
Cumulative (deficiency)/ redundancy as a percentage of initial net reserves	5.5%	6.0%	5.6%	4.8%	3.6%	1.5%	1.4%	0.2%	(0.3%)	
Gross reserves re-estimated as of December 31, 2015	60,888	63,240	60,809	63,575	64,767	65,650	67,620	67,229	64,275	
Cumulative (deficiency)/ redundancy of gross reserves	3,647	4,650	4,409	4,552	3,506	2,112	2,366	1,083	198	
Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves	5.7%	6.8%	6.8%	6.7%	5.1%	3.1%	3.4%	1.6%	0.3%	

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Table 8.3 presents changes in the historical reserves for losses and loss adjustment expenses, net of reinsurance, that the Group established in 2006 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. Similarly, the cumulative incurred losses section details the sum of the cumulative paid amounts shown in the triangle above and the changes in loss reserves since the end of each financial year. The net reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2015. It is the difference between the initial net reserve estimate and the last entry of the diagonal. Conditions and trends that have affected the development of reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.3.

Development of reserves for losses and loss adjustment expenses for asbestos

Table 8.4

in USD millions	**2015**		2014	
	Gross	**Net**	Gross	Net
Asbestos				
As of January 1	2,882	2,540	3,154	2,768
Losses and loss adjustment expenses incurred	16	5	93	93
Losses and loss adjustment expenses paid	(162)	(143)	(199)	(175)
Foreign currency translation effects	(23)	(7)	(167)	(146)
As of December 31	**2,712**	**2,395**	**2,882**	**2,540**

The Group has considered asbestos, including latent injury, claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Group continues to be advised of indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, together with increased medical diagnostic capabilities and awareness have often caused actual loss development to exhibit more variation than in other lines of business. Such claims require specialized reserving techniques and the uncertainty of the ultimate cost of these types of claims has tended to be greater than the uncertainty relating to standard lines of business.

For the year ended December 31, 2015, reserves for asbestos claims decreased by USD 170 million gross and USD 145 million net. The decrease in the gross reserve primarily arose from payments of USD 162 million mainly in the UK and North America, foreign currency translation effects of USD 23 million and an adverse prior year development of USD 16 million due to adverse development in UK and North America. Reserve adequacy improved during 2015 following a commutation settlement in Centre Group Holdings Limited related to asbestos claims.

For the year ended December 31, 2014, reserves for asbestos claims decreased by USD 272 million gross and USD 228 million net. The decrease in the gross reserve primarily relates to foreign currency translation effects of USD 167 million and USD 199 million due to payments, partially offset by adverse prior year development of USD 93 million in the UK and North America.

Development of future life policyholder benefits

Table 8.5

in USD millions	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
As of January 1	77,652	84,476	(2,441)	(2,501)	75,211	81,975
Premiums[1]	12,270	12,179	(2,449)	(600)	9,821	11,579
Claims	(9,797)	(10,575)	629	437	(9,169)	(10,138)
Fee income and other expenses	(3,652)	(3,901)	180	217	(3,472)	(3,683)
Interest and bonuses credited to policyholders	2,239	3,259	(115)	(132)	2,125	3,127
Changes in assumptions[1]	153	14	4	–	158	14
Acquisitions/(divestments) and transfers[2]	(668)	(97)	–	–	(668)	(97)
Increase/(decrease) recorded in other comprehensive income	(335)	1,060	–	–	(335)	1,060
Foreign currency translation effects	(5,910)	(8,763)	174	139	(5,736)	(8,625)
As of December 31	**71,952**	**77,652**	**(4,016)**	**(2,441)**	**67,935**	**75,211**

[1] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of April 1, 2015 and an additional tranche as of October 1, 2015. The combined initial impact of these transactions was an increase of USD 1.8 billion in ceded premiums. In addition, USD 220 million changes in assumptions were recognized due to the recycling of balances previously recorded in other comprehensive income relating to the underlying asset portfolio.
[2] The 2015 net movement relates to USD (425) million transferred to Banco Santander S.A., which was previously managed on a fiduciary and ring-fenced basis, and USD (381) million reclassified to policyholder contract deposits and other funds (see note 1), partially offset by USD 90 million reclassified from other liabilities and USD 48 million reclassified from reserves for unit-linked insurance contracts and liabilities for investment contracts. The 2014 net movement relates to USD (50) million reclassified to reserves for unit-linked contracts and USD (47) million reclassified to reserves for losses and loss adjustment expenses (see note 1 of the Consolidated financial statements 2014).

Long-duration contract liabilities included in future life policyholder benefits result primarily from traditional participating and non-participating life insurance products. Short-duration contract liabilities are primarily accident and health insurance products.

Future life policyholder benefits are generally calculated by a net premium valuation. In terms of USD, the weighted average discount rate used in the calculation of future life policyholder benefits is 2.7 percent and 3.0 percent as of December 31, 2015 and 2014, respectively.

The amount of policyholder dividends to be paid is determined annually by each life insurance subsidiary. Policyholder dividends include life policyholder share of net income and unrealized appreciation of investments that are required to be allocated by the insurance contract or by local insurance regulations. Experience adjustments relating to future policyholder benefits and policyholder contract deposits vary according to the type of contract and the country. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

The net impact of changes in assumptions on future life policyholder benefits by type of assumption is shown in table 8.6.

Effect of changes in assumptions for future life policyholder benefits

Table 8.6

in USD millions, for the years ended December 31	**2015**	2014
Interest rates	276	111
Investment return	(96)	19
Changes in modeling	(2)	6
Expense	10	(2)
Morbidity	(1)	1
Longevity	(28)	(4)
Lapses	1	3
Complaints rates	(1)	–
Other[1]	(1)	(119)
Net impact of changes in assumptions	**158**	**14**

[1] 2014 includes USD (105) million relating to changes in assumptions for terminal bonus reserves in Germany.

Consolidated financial statements *continued*

Policyholder contract deposits and other funds gross

Table 8.7

in USD millions, as of December 31	2015	2014
Universal life and other contracts	12,120	12,626
Policyholder dividends	9,957	10,789
Total	**22,076**	**23,415**

Development of policyholder contract deposits and other funds

Table 8.8

in USD millions	Gross		Ceded		Net	
	2015	2014	2015	2014	2015	2014
As of January 1	23,415	20,162	(1,994)	(2,036)	21,421	18,126
Premiums	1,118	1,363	(53)	(55)	1,065	1,308
Claims	(1,419)	(1,403)	172	181	(1,247)	(1,222)
Fee income and other expenses	(474)	(318)	(5)	(7)	(479)	(325)
Interest and bonuses credited to policyholders	1,561	1,593	(76)	(76)	1,485	1,517
Acquisitions/(divestments) and transfers[1]	381	–	–	–	381	–
Increase/(decrease) recorded in other comprehensive income	(987)	3,925	–	–	(987)	3,925
Foreign currency translation effects	(1,520)	(1,907)	–	–	(1,520)	(1,907)
As of December 31	**22,076**	**23,415**	**(1,956)**	**(1,994)**	**20,121**	**21,421**

[1] The 2015 net movement relates to USD 381 million reclassified from future life policyholder benefits (see note 1).

Tables 8.9a and 8.9b provide an analysis of the expected maturity profile of reserves for insurance contracts, net of reinsurance, based on expected cash flows without considering the surrender values as of December 31, 2015 and 2014. Reserves for unit-linked insurance contracts amounting to USD 64.4 billion and USD 71.4 billion as of December 31, 2015 and 2014, respectively, are not included, as policyholders can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are largely borne by the policyholders of unit-linked contracts.

Expected maturity profile for reserves for insurance contracts, net of reinsurance – current period

Table 8.9a

in USD millions, as of December 31, 2015	Reserves for losses and loss adjustment expenses	Future life policyholder benefits	Policyholder contract deposits and other funds	Total
< 1 year	14,842	8,364	1,702	24,908
1 to 5 years	22,392	16,529	1,706	40,627
5 to 10 years	8,289	12,581	1,884	22,754
10 to 20 years	5,793	14,442	2,406	22,641
> 20 years	2,424	16,018	12,422	30,865
Total	**53,739**	**67,935**	**20,121**	**141,795**

Table 8.9b

Expected maturity profile for reserves for insurance contracts, net of reinsurance – prior period

in USD millions, as of December 31, 2014	Reserves for losses and loss adjustment expenses	Future life policyholder benefits	Policyholder contract deposits and other funds	Total
< 1 year	15,976	8,670	1,661	26,308
1 to 5 years	22,430	19,919	2,045	44,395
5 to 10 years	8,179	14,499	1,963	24,640
10 to 20 years	5,653	14,376	2,679	22,708
> 20 years	2,465	17,747	13,073	33,285
Total	**54,703**	**75,211**	**21,421**	**151,335**

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9. Liabilities for investment contracts

Liabilities for investment contracts

Table 9.1

in USD millions, as of December 31	2015	2014
Unit-linked investment contracts	62,245	62,964
Investment contracts (amortized cost)	754	843
Investment contracts with DPF	7,629	7,006
Total	**70,627**	**70,813**

Unit-linked investment contracts issued by the Group are recorded at a value reflecting the returns on investment funds which include selected equities, debt securities and derivative financial instruments. Policyholders bear the full risk of the returns on these investments.

The value of financial liabilities at amortized cost is based on a discounted cash flow valuation technique. The initial valuation of the discount rate is determined by the current market assessment of the time value of money and risk specific to the liability.

Development of liabilities for investment contracts

Table 9.2

in USD millions	2015	2014
As of January 1	70,813	67,113
Premiums	9,791	11,488
Claims	(7,798)	(6,649)
Fee income and other expenses	(465)	(647)
Interest and bonuses credited to policyholders	3,277	5,554
Acquisitions/(divestments) and transfers[1]	(29)	(425)
Increase/(decrease) recorded in other comprehensive income	152	500
Foreign currency translation effects	(5,115)	(6,120)
As of December 31	**70,627**	**70,813**

[1] The 2015 movement relates to USD (29) million reclassified to future life policyholder benefits. The 2014 movement relates to USD (425) million reclassified to reserves for unit-linked contracts (see note 1 of the Consolidated financial statements 2014).

Tables 9.3a and 9.3b provide an analysis of investment contract liabilities according to maturity, based on expected cash flows as of December 31, 2015 and 2014. The undiscounted contractual cash flows for investment contract liabilities are USD 70.8 billion and USD 71.1 billion as of December 31, 2015 and 2014, respectively. Liabilities for unit-linked investment contracts amounted to USD 62.2 billion and USD 63.0 billion as of December 31, 2015 and 2014, respectively. Policyholders of unit-linked investment contracts can generally surrender their contracts at any time, leading the underlying assets to be liquidated, risks arising from liquidation of unit-linked assets are borne by the policyholders. Certain non-unit-linked contracts also allow for surrender of the contract by the policyholder at any time. Liabilities for such contracts amounted to USD 767 million and USD 851 million as of December 31, 2015 and 2014, respectively. The Group actively manages the Global Life in-force business to improve persistency and retention.

Expected maturity profile for liabilities for investment contracts – current period

Table 9.3a

in USD millions, as of December 31, 2015	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	2,785	178	333	3,296
1 to 5 years	7,177	387	1,242	8,806
5 to 10 years	8,201	98	1,353	9,653
10 to 20 years	9,127	64	1,083	10,274
> 20 years	34,955	26	3,617	38,598
Total	**62,245**	**754**	**7,629**	**70,627**

Expected maturity profile for liabilities for investment contracts – prior period

Table 9.3b

in USD millions, as of December 31, 2014	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	6,842	168	454	7,465
1 to 5 years	6,045	449	1,299	7,792
5 to 10 years	6,561	114	1,309	7,984
10 to 20 years	8,650	101	1,044	9,795
> 20 years	34,867	10	2,899	37,776
Total	**62,964**	**843**	**7,006**	**70,813**

10. Equity component relating to contracts with DPF

Certain investment and insurance contracts sold by the Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the Group. Where that discretion has not been exercised, the total amount of undeclared funds surplus is included in equity. Mandated allocations related to unrealized results and earnings are included in policyholder liabilities and, upon declaration, discretionary bonuses are allocated to policyholders. The changes in table 10 represent the increase or decrease in unallocated gains and retained earnings after charging discretionary bonuses to policyholder liabilities.

Development of the equity component relating to contracts with DPF

Table 10

in USD millions	**2015**	2014
As of January 1	2,840	2,338
Net unrealized gains/(losses) on investments	(9)	675
Current period profit/(loss)	207	71
Foreign currency translation effects	(73)	(243)
As of December 31	**2,965**	**2,840**

Consolidated financial statements *continued*

11. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 11.1

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
Losses and loss adjustment expenses	24,771	25,360	(2,909)	(2,488)	21,862	22,871
Life insurance death and other benefits	11,305	12,093	(2,422)	(600)	8,884	11,492
Total insurance benefits and losses	**36,076**	**37,452**	**(5,330)**	**(3,088)**	**30,746**	**34,364**

Policyholder dividends and participation in profits

Table 11.2

in USD millions, for the years ended December 31	**2015**	2014
Change in policyholder contract deposits and other funds	1,439	1,624
Change in reserves for unit-linked products	3,241	5,537
Change in liabilities for investment contracts – unit-linked	3,092	5,325
Change in liabilities for investment contracts – other	191	238
Change in unit-linked liabilities related to UK capital gains tax	(101)	(157)
Total policyholder dividends and participation in profits	**7,863**	**12,568**

Underwriting and policy acquisition costs

Table 11.3

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
Amortization of deferred acquisition costs	6,145	5,991	(529)	(473)	5,617	5,518
Amortization of deferred origination costs	98	113	–	–	98	113
Commissions and other underwriting and acquisition expenses[1]	3,553	4,453	(207)	(249)	3,346	4,204
Total underwriting and policy acquisition costs	**9,796**	**10,557**	**(735)**	**(721)**	**9,061**	**9,835**

[1] Net of additions related to deferred acquisition and origination costs.

Table 11.4

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
Change in reserves for unearned premiums	**648**	**351**	**(352)**	**8**	**296**	**359**

12. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 12.1

in USD millions	General Insurance		Global Life		Farmers		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
As of January 1	3,984	3,794	13,584	14,606	182	323	17,750	18,724
Acquisition costs deferred	4,286	3,623	1,862	2,235	450	675	6,598	6,532
Amortization	(3,817)	(3,192)	(1,314)	(1,506)	(483)	(816)	(5,614)	(5,514)
Impairments	(3)	–	–	(4)	–	–	(3)	(4)
Amortization (charged)/credited to other comprehensive income	–	–	240	(579)	–	–	240	(579)
Acquisitions/(divestments) and transfers[1]	–	(7)	–	19	–	–	–	12
Foreign currency translation effects	(224)	(234)	(1,070)	(1,186)	–	–	(1,295)	(1,420)
As of December 31	**4,226**	**3,984**	**13,298**	**13,584**	**153**	**182**	**17,677**	**17,750**

[1] The 2014 General Insurance movement includes USD (11) million due to the sale of the Group's General Insurance retail business in Russia (see note 5) and USD 4 million due to the acquisition of MSD (see note 5). The 2014 Global Life movement relates to USD 19 million transferred from deferred origination costs (see note 1 of the Consolidated financial statements 2014).

As of December 31, 2015 and 2014, deferred policy acquisition costs relating to non-controlling interests were USD 326 million, USD 422 million, respectively.

Development of deferred origination costs

Table 12.2

in USD millions	**2015**	2014
As of January 1	595	724
Origination costs deferred	51	57
Amortization	(98)	(112)
Acquisitions/(divestments) and transfers[1]	–	(19)
Foreign currency translation effects	(41)	(55)
As of December 31	**506**	**595**

[1] The 2014 movement relates to USD (19) million transferred to deferred policy acquisition costs (see note 1 of the Consolidated financial statements 2014).

Consolidated financial statements *continued*

13. Expenses

Table 13 shows expenses by functional area and by type of expense.

Table 13

Expenses

in USD millions, for the years ended December 31	2015	2014
Administrative and other operating expense	8,659	8,858
Other underwriting and policy acquisition expenses[1]	2,406	2,439
Unallocated loss adjustment expenses[2]	1,425	1,690
Other investment expenses for Group investments[3]	145	160
Total	**12,637**	**13,146**
of which:		
Personnel and other related costs	5,715	6,132
Amortization and impairments of intangible assets	1,004	840
Depreciation and impairments of property and equipment	198	173
Building and infrastructure	582	577
Brand and marketing expenses	439	523
Life recurring commission	400	415
Asset and other non-income taxes	81	95
IT expenses	1,391	1,487
Restructuring costs	457	97
External professional services	1,078	1,109
Foreign currency translation	(245)	(82)
Other	1,537	1,779
Total	**12,637**	**13,146**

1 Included within commissions and other underwriting and acquisition expenses (see table 11.3).
2 Included within losses and loss adjustment expenses (see table 11.1).
3 Excludes expenses arising from investment property within investment expenses for Group investments (see table 6.1).

14. Property and equipment

Buildings held for own use and equipment are carried at cost less accumulated depreciation and any accumulated impairment loss. These assets are depreciated usually on a straight-line basis to income over the following estimated useful lives:

- Buildings 25 to 50 years;
- Furniture and fixtures five to ten years; and
- Computer equipment three to six years.

Land held for own use is carried at cost less any accumulated impairment loss.

Property and equipment – current period

Table 14.1

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2015	**239**	**823**	**385**	**426**	**769**	**2,643**
Less: accumulated depreciation/impairments	(6)	(352)	(238)	(357)	(416)	(1,369)
Net carrying value as of January 1, 2015	**233**	**471**	**148**	**69**	**353**	**1,273**
Additions and improvements	–	10	31	30	113	184
Disposals	(1)	(8)	(1)	–	(20)	(31)
Transfers	(11)	(18)	(2)	(1)	2	(29)
Depreciation and impairments[1]	–	(57)	(29)	(28)	(83)	(198)
Foreign currency translation effects	(11)	(23)	(8)	(5)	(13)	(60)
Net carrying value as of December 31, 2015	**211**	**374**	**138**	**65**	**352**	**1,140**
Plus: accumulated depreciation/impairments	6	363	228	300	407	1,304
Gross carrying value as of December 31, 2015	**217**	**737**	**366**	**365**	**759**	**2,444**

[1] Following restructuring decisions in General Insurance, certain own use properties will no longer be required, resulting in an impairment of USD 32 million.

Property and equipment – prior period

Table 14.2

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value January 1, 2014	**354**	**1,020**	**407**	**465**	**739**	**2,986**
Less: accumulated depreciation/impairments	(7)	(407)	(258)	(394)	(426)	(1,492)
Net carrying value January 1, 2014	**347**	**614**	**149**	**71**	**314**	**1,494**
Additions and improvements	–	19	56	40	174	290
Disposals	(3)	(18)	(19)	–	(28)	(69)
Transfers	(83)	(58)	3	(4)	–	(142)
Depreciation and impairments	–	(28)	(31)	(33)	(80)	(173)
Foreign currency translation effects	(29)	(58)	(10)	(4)	(26)	(127)
Net carrying value as of December 31, 2014	**233**	**471**	**148**	**69**	**353**	**1,273**
Plus: accumulated depreciation/impairments	6	352	238	357	416	1,369
Gross carrying value as of December 31, 2014	**239**	**823**	**385**	**426**	**769**	**2,643**

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15. Attorney-in-fact contracts, goodwill and other intangible assets

Table 15.1

Intangible assets – current period

in USD millions	Attorney-in-fact relationships	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2015	**1,025**	**1,778**	**2,701**	**4,480**	**4,588**	**186**	**14,760**
Less: accumulated amortization/impairments	–	(117)	(2,145)	(903)	(3,046)	(133)	(6,344)
Net carrying value as of January 1, 2015	**1,025**	**1,661**	**556**	**3,577**	**1,543**	**53**	**8,415**
Additions and transfers	–	8	–	9	480	4	501
Divestments and transfers	–	–	–	(11)	–	–	(11)
Amortization	–	–	(69)	(206)	(342)	(8)	(625)
Amortization charged to other comprehensive income	–	–	28	–	–	–	28
Impairments	–	(281)	–	(1)	(96)	–	(378)
Foreign currency translation effects	–	(99)	(48)	(618)	(79)	(5)	(849)
Net carrying value as of December 31, 2015	**1,025**	**1,289**	**466**	**2,752**	**1,505**	**43**	**7,080**
Plus: accumulated amortization/impairments	–	378	2,035	963	3,167	130	6,673
Gross carrying value as of December 31, 2015	**1,025**	**1,667**	**2,501**	**3,715**	**4,672**	**173**	**13,753**

As of December 31, 2015, intangible assets relating to non-controlling interests were USD 89 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,221 million for distribution agreements and USD 14 million for software.

Additions to goodwill of USD 8 million relate to the acquisition of Tennyson Insurance Limited which is a general insurance company based in the UK.

Following a review of subsidiaries in Global Life, the Group reassessed the recoverability of the goodwill and concluded that USD 281 million was fully impaired of which USD 232 million related to the goodwill of the Global Life Germany cash generating unit (CGU) as a result of the continued low interest rate environment in Germany.

Following restructuring decisions, mainly in Global Life, certain software will no longer be required, which resulted in an impairment of USD 67 million. In addition, software was identified, which was not utilized as originally expected, resulting in USD 30 million of impairments.

Table 15.2

Intangible assets by segment – current period

in USD millions, as of December 31, 2015	Attorney-in-fact relationship	Goodwill	PVFP	Distribution agreements	Software	Other	Total
General Insurance	–	465	–	713	629	42	1,849
Global Life	–	5	466	2,039	394	1	2,905
Farmers	1,025	819	–	–	353	–	2,197
Other Operating Businesses	–	–	–	–	129	–	129
Net carrying value as of December 31, 2015	**1,025**	**1,289**	**466**	**2,752**	**1,505**	**43**	**7,080**

Intangible assets – prior period

Table 15.3

in USD millions	Attorney-in-fact relationships	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2014	**1,025**	**2,190**	**2,918**	**4,364**	**4,720**	**226**	**15,443**
Less: accumulated amortization/impairments	–	(338)	(2,189)	(811)	(3,080)	(145)	(6,563)
Net carrying value as of January 1, 2014	**1,025**	**1,852**	**729**	**3,553**	**1,640**	**81**	**8,880**
Additions and transfers	–	–	–	722	472	1	1,196
Divestments and transfers	–	–	–	(12)	–	(8)	(20)
Amortization	–	–	(67)	(208)	(387)	(11)	(672)
Amortization charged to other comprehensive income	–	–	(50)	–	–	–	(50)
Impairments	–	(98)	–	(1)	(69)	–	(167)
Foreign currency translation effects	–	(92)	(56)	(477)	(114)	(11)	(750)
Net carrying value as of December 31, 2014	**1,025**	**1,661**	**556**	**3,577**	**1,543**	**53**	**8,415**
Plus: accumulated amortization/impairments	–	117	2,145	903	3,046	133	6,344
Gross carrying value as of December 31, 2014	**1,025**	**1,778**	**2,701**	**4,480**	**4,588**	**186**	**14,760**

As of December 31, 2014, intangible assets relating to non-controlling interests were USD 121 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,531 million for distribution agreements and USD 16 million for software.

The Group extended the long-term distribution agreements with Banco de Sabadell S.A. (Banco Sabadell) in Spain to sell life, pension and general insurance products across Banco Sabadell's extended network, resulting in an addition to distribution agreements of USD 314 million, of which 50 percent was funded by Banco Sabadell. There was a further addition to distribution agreements of USD 408 million, which mainly related to new distribution agreements entered into by General Insurance operations in Brazil, which includes USD 362 million relating to a distribution agreement with Via Varejo S.A. for the exclusive sale of extended warranty insurance.

Following a review of subsidiaries in Global Life, the Group reassessed the recoverability of goodwill resulting in USD 98 million of impairments, mainly in the UK, Brazil and Malaysia.

Following a review, software was identified, primarily in Global Life and General Insurance, which was not utilized as originally expected, resulting in USD 69 million of impairments.

Intangible assets by segment – prior period

Table 15.4

in USD millions, as of December 31, 2014	Attorney-in-fact relationships	Goodwill	PVFP	Distribution agreements	Software	Other	Total
General Insurance	–	533	–	989	613	47	2,182
Global Life	–	309	556	2,588	406	6	3,865
Farmers	1,025	819	–	–	328	–	2,173
Other Operating Businesses	–	–	–	–	195	–	195
Net carrying value as of December 31, 2014	**1,025**	**1,661**	**556**	**3,577**	**1,543**	**53**	**8,415**

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16. Receivables and other assets

Receivables and other assets

Table 16

in USD millions, as of December 31	**2015**	2014
Financial assets		
Group derivative assets	1,120	1,230
Unit-linked derivative assets	7	19
Receivables from policyholders	3,035	3,561
Receivables from insurance companies, agents and intermediaries	4,877	5,227
Receivables arising from ceded reinsurance	926	872
Reverse repurchase agreements	193	290
Amounts due from investment brokers	328	604
Other receivables	1,918	2,211
Allowance for impairments[1]	(249)	(266)
Other assets[2]	140	696
Non-financial assets		
Current tax receivables	742	737
Accrued premiums	953	720
Prepaid expenses	276	317
Prepaid insurance benefits	327	327
Other assets	337	401
Total receivables and other assets	**14,930**	**16,946**

[1] December 31, 2015 and 2014 includes USD 38 million and USD 35 million, respectively, for receivables arising from ceded reinsurance.
[2] December 31, 2014 includes USD 552 million of investments managed on a fiduciary and ring-fenced basis transferred to Banco Santander S.A. in 2015.

Receivables are carried at notional amounts, and are generally settled within one year. The notional and fair value amounts do not vary significantly.

17. Other liabilities

Other liabilities

Table 17.1

in USD millions, as of December 31	2015	2014
Other financial liabilities		
Group derivative liabilities	362	429
Unit-linked derivative liabilities	7	15
Amounts due to policyholders	730	714
Amounts due to insurance companies, agents and intermediaries	1,022	1,322
Amounts due to reinsurers	1,285	1,118
Liabilities for cash collateral received for securities lending	93	229
Amounts due to investment brokers	1,185	1,547
Deposits from banking activities	141	250
Collateralized bank financing for structured lease vehicles	736	766
Liabilities for defined benefit plans[1]	3,248	4,046
Other liabilities for employee benefit plans	127	130
Other liabilities	3,662	3,970
Other non-financial liabilities		
Current tax payables	629	925
Restructuring provisions	386	125
Premium prepayments and other advances	864	1,022
Other liabilities	572	623
Total other liabilities	**15,051**	**17,230**

[1] See note 21

Table 17.2 shows the maturity schedule of other financial liabilities as of December 31, 2015 and 2014.

Maturity schedule – other financial liabilities[1]

Table 17.2

in USD millions, as of December 31	2015		2014	
	Carrying value[2]	**Undiscounted cash flows[3]**	Carrying value[2]	Undiscounted cash flows[3]
< 1 year	8,406	8,460	8,982	9,051
1 to 2 years	146	198	227	256
2 to 3 years	48	92	150	204
3 to 4 years	347	388	42	82
4 to 5 years	89	161	401	440
> 5 years	315	631	687	1,230
Total	**9,351**	**9,931**	**10,489**	**11,261**

[1] Excluding liabilities for defined benefit plans.
[2] Allocation to the time bands is based on the expected maturity date.
[3] Allocation to the time bands is based on the earliest contractual maturity.

Consolidated financial statements *continued*

Restructuring provisions

Table 17.3

in USD millions	2015	2014
As of January 1	125	188
Provisions made during the period	467	104
Increase of provisions set up in prior years	11	17
Provisions used during the period	(181)	(150)
Provisions reversed during the period	(20)	(24)
Foreign currency translation effects	(15)	(10)
As of December 31	**386**	**125**

During the year ended December 31, 2015, restructuring programs with estimated costs of USD 467 million were announced and impacted mainly Europe, for both General Insurance and Global Life. USD 9 million related to net decreases of provisions for restructuring which were initiated in prior years. In addition, the Group recorded USD 67 million of software impairments (note 15) and USD 32 million of impairments of own use properties (note 14), resulting from restructuring decisions.

During the year ended December 31, 2014, restructuring programs with estimated costs of USD 104 million were announced and impacted mainly Other Operating Businesses, Global Life in the UK as well as General Insurance in Ireland and the UK. This included USD 63 million relating to the Group's strategic initiative for organizational alignment to reduce complexity and cost while enhancing agility. USD (6) million related to net decreases of provisions for restructuring which were initiated in prior years.

18. Income taxes

Income tax expense – current/deferred split

Table 18.1

in USD millions, for the years ended December 31	2015	2014
Current	1,270	1,473
Deferred	24	196
Total income tax expense/(benefit)	**1,294**	**1,670**

Expected and actual income tax expense

Table 18.2

in USD millions, for the years ended December 31	Rate	2015	Rate	2014
Net income before income taxes		3,340		5,898
less: income tax (expense)/benefit attributable to policyholders		(110)		(106)
Net income before income taxes attributable to shareholders		3,230		5,792
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	711	22.0%	1,274
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*287*		*237*
Tax exempt and lower taxed income		*(92)*		*(109)*
Non-deductible expenses		*41*		*148*
Tax losses not recognized		*165*		*85*
Prior year adjustments and other		*72*		*(73)*
Actual income tax expense attributable to shareholders	**36.6%**	**1,183**	**27.0%**	**1,564**
plus: income tax expense/(benefit) attributable to policyholders		110		106
Actual income tax expense	38.7%	1,294	28.3%	1,670

Table 18.2 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

The Group is required to record taxes on policyholder earnings for life insurance policyholders in certain jurisdictions. Accordingly, the income tax expense or benefit attributable to these life insurance policyholder earnings is included in income tax expense. In certain jurisdictions an accrual for future policy fees that will cover the tax charge is included in insurance benefits and losses.

Taxes paid by certain of the Group's life insurance businesses are based on the investment result less allowable expenses. To the extent these taxes exceed the amount that would have been payable in relation to the shareholders' share of taxable profits, it is normal practice for certain of the Group's businesses to recover this portion from policyholders. While the relevant company has the contractual right to charge policyholders for the taxes attributable to their share of the investment result less expenses, the obligation to pay the tax authority rests with the company and therefore, the full amount of tax including the portion attributable to policyholders is accounted for as income tax. Income tax expense therefore includes an element attributable to policyholders. In addition, deferred tax on unrealized gains related to certain investment contracts with DPF is included as income tax expense recognized in OCI and an accrual for future policy fees to recover the tax charge is included in policy fee revenue.

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Deferred tax assets/(liabilities) analysis by source

Table 18.3

in USD millions, as of December 31	2015		2014	
	Assets	**Liabilities**	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	35	(846)	20	(765)
Depreciable and amortizable assets	31	(51)	33	(48)
Life policyholders' benefits and deposits[1]	2	(1)	4	–
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	178	(383)	176	(467)
Accruals and deferred income	158	(2)	168	(1)
Reserves for losses and loss adjustment expenses	508	(178)	477	(196)
Reserves for unearned premiums	879	(1)	801	–
Pensions and other employee benefits	514	(58)	632	(6)
Other assets/liabilities	430	(44)	357	(37)
Tax loss carryforwards	617	–	615	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,352	(1,562)	3,282	(1,521)
Valuation allowance	(334)	–	(200)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,017	(1,562)	3,083	(1,521)
Deferred tax assets	**1,455**		**1,561**	
Gross deferred tax				
Deferred acquisition and origination costs	42	(2,282)	28	(2,447)
Depreciable and amortizable assets	129	(1,980)	236	(2,215)
Life policyholders' benefits and deposits[1]	1,286	(840)	1,392	(855)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	210	(1,029)	190	(1,367)
Accruals and deferred income	133	(119)	118	(203)
Reserves for losses and loss adjustment expenses	87	(87)	105	(95)
Reserves for unearned premiums	33	(90)	40	(104)
Deferred front-end fees	468	–	528	–
Pensions and other employee benefits	594	(269)	498	(94)
Other assets/liabilities	637	(1,504)	721	(1,544)
Tax loss carryforwards	107	–	69	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,725	(8,200)	3,926	(8,924)
Valuation allowance	(23)	–	(22)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,702	(8,200)	3,904	(8,924)
Deferred tax liabilities		**(4,498)**		**(5,020)**
Net deferred tax liabilities		**(3,042)**		**(3,458)**

[1] Includes reserves for unit-linked contracts

The Group's deferred tax assets and liabilities are recorded by its tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate. The first part of table 18.3 includes single taxpayers with a net deferred tax asset position and the second part includes single taxpayers with a net deferred tax liability position.

As of December 31, 2015 and 2014, the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized amount to approximately USD 20 billion and USD 24 billion, respectively. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

Development of net deferred tax liabilities

Table 18.4

in USD millions	2015	2014
As of January 1	(3,458)	(3,090)
Net change recognized in the income statement	(24)	(196)
Net change recognized in equity	217	(586)
Net changes due to acquisitions/(divestments)	(1)	(26)
Foreign currency translation effects	223	440
As of December 31	**(3,042)**	**(3,458)**
attributable to policyholders	(562)	(589)
attributable to shareholders	(2,481)	(2,869)

The net deferred tax liabilities relating to non-controlling interests amounted to USD 347 million and USD 431 million as of December 31, 2015 and 2014, respectively.

Development of deferred income taxes included in equity

Table 18.5

in USD millions	2015	2014
As of January 1	(98)	456
Net unrealized gains/(losses) on available-for-sale investments	397	(704)
Cash flow hedges	(15)	(65)
Revaluation reserve	(2)	(8)
Net actuarial gains/(losses) on pension plans	(162)	190
Foreign currency translation effects	29	33
As of December 31	**149**	**(98)**

Tax loss carryforwards and tax credits

Table 18.6

in USD millions, as of December 31	2015	2014
For which deferred tax assets have been recognized, expiring		
< 5 years	57	72
5 to 20 years	408	264
> 20 years or with no time limitation	814	1,230
Subtotal	1,280	1,566
For which deferred tax assets have not been recognized, expiring		
< 5 years	64	36
5 to 20 years	89	112
> 20 years or with no time limitation	1,310	976
Subtotal	1,464	1,124
Total	**2,744**	**2,689**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 23.0 percent and 19.2 percent as of December 31, 2015 and 2014, respectively.

The recoverability of the deferred tax asset for each taxpayer is based on the taxpayer's ability to utilize the deferred tax asset. This analysis considers the projected taxable income to be generated by the taxpayer, as well as its ability to offset the deferred tax asset against deferred tax liabilities.

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income projections and considers that the carrying values of the deferred tax assets as of December 31, 2015, are recoverable.

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19. Senior and subordinated debt

Senior and subordinated debt

Table 19.1

in USD millions, as of December 31		2015	2014
Senior debt			
Zurich Insurance Company Ltd	Floating rate CHF 200 million notes, due June 2016[4]	200	201
	2.25% CHF 500 million notes, due July 2017[4]	498	501
	2.375% CHF 525 million notes, due November 2018[4]	522	525
	1.50% CHF 400 million notes, due June 2019[3,4]	415	414
	1.125% CHF 400 million notes, due September 2019[3,4]	420	419
	0.625% CHF 250 million notes, due July 2020[3,4]	259	256
	2.875% CHF 250 million notes, due July 2021[4]	247	249
	3.375% EUR 500 million notes, due June 2022[3,4,5]	587	656
	1.875% CHF 100 million notes, due September 2023[3,4]	111	110
	1.750% EUR 500 million notes, due September 2024[3,4,5]	545	609
	1.500% CHF 150 million notes, due July 2026[3,4]	164	161
Zurich Finance (USA), Inc.	Euro Commercial Paper Notes, due in less than 3 months	400	400
	6.50% EUR 600 million notes, due October 2015[1,4]	–	726
Zurich Santander Insurance America S.L.	7.5% EUR 77 million loan, due December 2035	74	113
Other	Various debt instruments	29	40
Senior debt		4,471	5,379
Subordinated debt			
Zurich Insurance Company Ltd	4.25% CHF 700 million perpetual notes, first callable May 2016[4]	698	702
	8.25% USD 500 million perpetual capital notes, first callable January 2018[4,5]	498	497
	4.625% CHF 500 million perpetual notes, first callable May 2018[4]	496	499
	7.5% EUR 425 million notes, due July 2039, first callable July 2019[4,5]	460	512
	2.75% CHF 200 million perpetual capital notes, first callable September 2021[3,4]	209	206
	4.25% EUR 1 billion notes, due October 2043, first callable October 2023[4,5]	1,075	1,196
	4.25% USD 300 million notes, due October 2045, first callable October 2025[4,5]	298	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes, first callable October 2022[4]	658	694
Zurich Finance (USA), Inc.	4.5% EUR 269 million notes, due June 2025, first callable June 2015[4,6]	–	330
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065, first callable June 2016	680	680
ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067, first callable May 2017[2]	501	501
Other	Various debt instruments	41	41
Subordinated debt		5,614	5,857
Total senior and subordinated debt		**10,086**	**11,236**

[1] The Group applied the cash flow hedge methodology to hedge the interest rate and foreign currency exposure.
[2] The holders of these notes benefit from the Replacement Capital Covenant which states that if Series V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trust V, are called before 2047, the Group will issue a replacement debt instrument with terms and provisions that will be as or more equity-like than the replaced notes.
[3] The Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.
[4] Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).
[5] These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.
[6] The Group applied the fair value hedge methodology to hedge the interest rate and foreign currency exposure.

None of the debt instruments listed in table 19.1 were in default as of December 31, 2015 or 2014.

To facilitate the issuance of debt, the Group has in place a Euro Medium Term Note Programme (EMTN Programme) allowing for the issuance of senior and subordinated notes up to a maximum of USD 18 billion. All issuances under this programme are either issued or guaranteed by Zurich Insurance Company Ltd. The Group has also issued debt instruments outside this programme.

Debt issued is recognized initially at fair value of the consideration received, net of transaction costs incurred, and subsequently carried at amortized cost using the effective interest rate method.

Maturity schedule of outstanding debt

Table 19.2

in USD millions, as of December 31

	2015		2014	
	Carrying value	**Undiscounted cash flows**	Carrying value	Undiscounted cash flows
< 1 year	1,984	2,360	1,467	1,929
1 to 2 years	999	1,305	1,582	1,966
2 to 3 years	1,516	1,771	1,017	1,331
3 to 4 years	1,340	1,506	1,521	1,785
4 to 5 years	259	405	1,378	1,569
5 to 10 years	3,751	4,129	3,997	4,503
> 10 years	238	281	274	379
Total	**10,086**	**11,757**	**11,236**	**13,462**

Debt maturities reflect original contractual dates taking early redemption options into account. For call/redemption dates, see table 19.1. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 19.2. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2015 and 2014. All debt is assumed to mature within 20 years of the balance sheet date without refinancing. Floating interest rates are assumed to remain constant as of December 31, 2015 and 2014. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Credit facilities

The Group has access to a multi-currency revolving credit facility of USD 3.2 billion that terminates in 2018. It is guaranteed by Zurich Insurance Company Ltd.

The Group also has access to three other revolving credit facilities totaling USD 425 million, which will expire in 2019 at the latest.

No borrowings were outstanding under any of these facilities as of December 31, 2015 or 2014.

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20. Shareholders' equity

Share capital

Table 20.1

	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2013	14,890,322	148,903,222	0.10
New shares issued from contingent capital in 2014	73,361	733,614	0.10
As of December 31, 2014	14,963,684	149,636,836	0.10
New shares issued from contingent capital in 2015	76,813	768,128	0.10
As of December 31, 2015	15,040,496	150,404,964	0.10
Authorized, contingent and issued share capital			
As of December 31, 2014	17,129,526	171,295,259	0.10
As of December 31, 2015	17,129,526	171,295,259	0.10

a) Authorized share capital

Until April 2, 2016, the Board of Zurich Insurance Group Ltd is authorized to increase the share capital by an amount not exceeding CHF 1,000,000 by issuing up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the commencement of entitlement to dividends.

The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with a subsequent offer of those shares to current shareholders. The Board may allow the expiry of pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or withdraw the pre-emptive rights of shareholders and to allocate them to third parties if the shares are to be used for the take-over of an enterprise, or parts of an enterprise or of participations or if issuing shares for the financing including re-financing of such transactions, or for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges.

b) Contingent share capital

Capital market instruments and option rights to shareholders

The share capital of Zurich Insurance Group Ltd may be increased by an amount not exceeding CHF 1,000,000 by the issuance of up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each (i) by exercising conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Insurance Group Ltd or one of its subsidiaries in national or international capital markets; and/or (ii) by exercising option rights which are granted to current shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at the then current convertible bond or warrant issue conditions.

The conversion rights are exercisable during a maximum period of ten years and option rights for a maximum period of seven years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions whereby, for shares of Zurich Insurance Group Ltd, the quoted share price is to be used as a basis.

Employee participation

During 2015 and 2014, 768,128 shares and 733,614 shares, respectively, were issued to employees from contingent share capital. As a result, on December 31, 2015 and 2014, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 89,030 and CHF 165,842 or 890,295 and 1,658,423 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each. Pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board and takes into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

c) Additional paid-in capital

This reserve is not ordinarily available for distribution. However, as of January 1, 2011 a Swiss tax regulation based on the Swiss Corporate Tax reform II became effective, allowing for payments free of Swiss withholding tax to shareholders out of the capital contribution reserve, created out of additional paid-in capital. Therefore, amounts qualifying under this regulation can be paid out of additional paid-in capital.

d) Treasury shares

Table 20.2

Treasury shares

number of shares, as of December 31	**2015**	2014
Treasury shares	1,243,931	1,292,220

Treasury shares comprise shares acquired in the market, primarily held to cover employee share and share option plans.

e) Earnings per share

Table 20.3

Earnings per share

for the years ended December 31	**Net income attributable to common shareholders (in USD millions)**	**Weighted average number of shares**	**Per share (USD)**	**Per share (CHF)[1]**
2015				
Basic earnings per share	**1,842**	**148,957,967**	**12.36**	**11.89**
Effect of potentially dilutive shares related to share-based compensation plans		362,170	(0.03)	(0.03)
Diluted earnings per share	**1,842**	**149,320,137**	**12.33**	**11.86**
2014				
Basic earnings per share	**3,949**	**148,032,821**	**26.68**	**24.39**
Effect of potentially dilutive shares related to share-based compensation plans		1,317,728	(0.24)	(0.22)
Diluted earnings per share	**3,949**	**149,350,549**	**26.44**	**24.17**

[1] The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2015 and 2014.

Basic earnings per share is computed by dividing net income attributable to shareholders by the weighted average number of shares outstanding for the year, excluding the weighted average number of shares held as treasury shares. Diluted earnings per share reflects the effect of potentially dilutive shares.

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21. Employee benefits

The Group had 54,335 and 54,551 employees (full-time equivalents) as of December 31, 2015 and 2014, respectively. Personnel and other related costs incurred for the years ended December 31, 2015 and 2014, were USD 5,986 million and USD 6,241 million, including wages and salaries of USD 4,790 million and USD 5,096 million, respectively.

The Group operates a number of retirement benefit arrangements for employees, with the majority of employees belonging to defined benefit pension plans. Other employees participate in defined contribution plans, which provide benefits equal to the amounts contributed by both the employer and the employee plus investment returns.

Certain of the Group's operating companies also provide post-employment benefit plans covering medical care and life insurance, mainly in the U.S. Eligibility for these plans is generally based on completion of a specified period of eligible service and reaching a specified age. The plans typically pay a stated percentage of medical expenses subject to deductibles and other factors. The cost of post-employment benefits is accrued during the employees' service periods.

Governance of the Group's pension and post-employment benefit plans is the responsibility of the Group Pensions Committee. This committee is responsible for developing, reviewing and advising on the Group governance framework for matters relating to pension and benefit plans, including the relevant policies and processes. The committee provides oversight and guidance over the Group's principal pension and post-retirement benefit plans for benefit design, funding, investment purposes and accounting. This includes, but is not limited to:

- Oversight of the impact of the Group's principal defined benefit pension and post-retirement benefit plans in terms of cash, expense, and balance sheet accounting impact and capital implications
- Development and maintenance of policies on funding, asset allocation and assumption setting.

The Group Pensions Committee provides a point of focus and co-ordination on the topic of pensions and benefits at Group level for the supervision and exercise of company powers and obligations in relation to pension and benefit plans.

The Group's policy on funding and asset allocation is subject to local legal and regulatory requirements and tax efficiency.

a) Defined benefit pension plans
Employees of the Group's companies are covered by various pension plans, the largest of which are in Switzerland, the UK, the U.S. and Germany, which together comprise over 90 percent of the Group's total defined benefit obligation. The remaining plans in other countries are not individually significant, therefore no separate disclosure is provided.

Certain Group companies provide defined benefit pension plans, some of which provide benefits on retirement, death or disability related to employees' service periods and pensionable earnings. Others provide cash balance plans where the participants receive the benefit of the accumulated employer and employee contributions (where paid) together with additional cash credits in line with the rules of the plan. Eligibility for participation in the various plans is either immediate on commencement of employment or based on completion of a specified period of continuous service.

Most of the Group's defined benefit pension plans are funded through contributions by the Group and, in some cases also by employees, to investment vehicles managed by trusts or foundations independent of the Group's finances, or by management committees with fiduciary responsibilities. Where a trust or foundation exists, it is required by law or by articles of association to act in the interests of the fund and of all relevant beneficiaries to the plan, which can also include the sponsoring company, and is responsible for the investment policy with regard to the assets of the fund. The trust/foundation board or committee is usually composed of representatives from both employers and plan members. In these cases, the annual funding requirements are determined in accordance with the Group's overall funding policy and local regulation. Independent actuarial valuations for the plans are performed as required. It is the Group's general principle to ensure that the plans are appropriately funded in accordance with local pension regulations in each country.

The pension plans typically expose the company to risks such as interest rate, price inflation, longevity and salary risks. To the extent that pension plans are funded, the assets held mitigate some of the liability risk but introduce investment risk.

The overall investment policy and strategy for the Group's defined benefit pension plans is to achieve an investment return which, together with contributions, targets having sufficient assets to pay pension benefits as they fall due while also mitigating the various risks in the plans. The actual asset allocation is determined by reference to current and expected economic and market conditions and in consideration of specific asset class risk in the risk profile. The Group has a governance framework to ensure the trust/foundation board or committee considers how the asset investment strategy correlates with the maturity profile of the plan liabilities and the potential impact on the funding status of the plans, including short-term liquidity requirements. The investment strategies for each pension plan are independently determined by the governance body in each country, with oversight by the Group Pensions Committee. The pension assets are invested in diversified portfolios across geographical regions and asset classes to ensure diversified returns, also taking into account local pension laws. The investment strategies aim to mitigate asset-liability mismatches in the long run.

For post-employment defined benefit plans, total contributions to funded plans and benefits paid directly by the Group were USD 540 million for 2015 compared with USD 572 million for 2014. The estimated total for 2016 is USD 425 million (actual amount may differ).

Swiss pension plans

The Group previously had two major pension plans in Switzerland in separate legal entities. As of the beginning of 2015 the two plans were merged into one plan with no change to the benefits. The plan provides benefits that exceed the minimum benefit requirements under Swiss pension law. It provides a lifetime pension to members at the normal retirement age of 65 (age 62 for Executive Staff). Participants can draw retirement benefits early from age 60 (age 58 for Executive Staff). Alternatively, the benefit can be taken as a lump sum payment at retirement. Contributions to the plan are paid by the employees and the employer, both for retirement savings and to finance risk benefits paid out in the event of death and disability. The accumulated balance on the pension account is based on the employee and employer pension contributions and interest accrued. The interest rate credited is defined annually by the plan's Board of Trustees which is responsible for the governance of the plans. The amount of pension payable on retirement is a result of the conversion rate applied on the accumulated balance of the individual participant's pension account at the retirement date. Although the Swiss plan operates like a defined contribution plan under local regulations, it is accounted for as a defined benefit pension plan under IAS 19 "Employee Benefits", because of the need to accrue interest on the pension accounts and the payment of a lifetime pension at a fixed conversion rate under the plan rules.

Actuarial valuations are completed regularly and if the plans becomes underfunded under local regulations, options for dealing with this include the Group paying additional contributions into the plan and/or reducing future benefits. At present, the plan is sufficiently funded, meaning that no additional contributions into the plans are expected to be required in the next year. The investment strategy of the Swiss plan is constrained by Swiss pension law including regulations relating to diversification of plan assets. Under IAS 19, volatility arises in the Swiss pension plan net liability because the fair value of the plan assets is not directly correlated to movements in the value of the plan's defined benefit obligation in the short-term.

UK pension plan

The major UK pension plan is a hybrid arrangement and benefits accrued to December 31, 2015 increase in line with salary increases. Normal retirement age for the plan is 60. The plan is split into distinct sections and the two defined benefit sections are closed to new entrants and, with effect from January 1, 2016, to future benefit accrual. All employees now participate in a defined contribution section within the same trust. The notes that follow consider only the defined benefit sections. The UK Pension Trustee Board is responsible for the governance of the plan. The employer contributions are determined based on regular triennial actuarial valuations which are conducted using assumptions agreed by the Trustee Board and the sponsoring company. A valuation was carried out during 2013 and the results were finalized on August 28, 2014. The local statutory valuation revealed a funding deficit and an asset-backed funding arrangement was agreed with the Trustee Board.

The ongoing funding of the plan is closely monitored by the Trustee Board and a dedicated funding committee is made up of representatives from the Trustee Board and the Group. The plan rules and UK pension legislation set out maximum levels of inflationary increases applied to plan benefits. The plan assets are invested in diversified classes of assets and a portion are invested in inflation-linked debt securities, to provide a partial hedge against inflation. The Trustees have also implemented an interest rate swap contract which will provide partial protection against volatility in interest rates.

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U.S. pension plans
There are two major pension plans in the U.S., the Zurich North America (ZNA) plan and the Farmers Group, Inc. (FGI) pension plan. These are both cash balance pension plans funded entirely by the participating employers. The ZNA plan is entirely cash balance and the FGI pension plan provides benefits on a cash balance pension formula for benefits accruing after January 1, 2009, except with respect to certain grandfathered participants. A final average pay defined benefit formula applied for benefits accrued before 2009, and for the grandfathered participants. For both cash balance plans, an amount is credited to the cash balance plan each quarter, determined by an employee's age, service and their level of earnings up to and above the social security taxable wage base. The minimum annual interest earned on the account balance is 5 percent. The retirement account is available from age 65, or age 55 with five years' service. The benefit can be taken as a monthly annuity or as a lump sum. Both the ZNA plan and the FGI pension plan have fiduciaries as required under local pension laws. The fiduciaries are responsible for the governance of the plans. Actuarial valuations are completed regularly and the Group has historically elected to make contributions to the plans to maintain a funding ratio of at least 90 percent as valued under local pension regulations. The annual employer contributions are equal to the present value of benefits accrued each year, plus a rolling amortization of any prior underfunding.

German pension plans
There are a number of legacy defined benefit plans in Germany, most of which were set up under works council agreements. In 2007, a contractual trust arrangement was set up to support all pension commitments of the employing companies in Germany. From this time, new contributions to the contractual trust arrangement relate to the pension payment refund of the employer companies. A separate arrangement was also established in 2010 to provide for retirement obligations that were in payment at that time. Consideration is given from time to time based on the fiscal efficiency of adding recent retirees to this arrangement and to adding assets to the contractual trust. There is currently no formal plan to pay any further contributions to the contractual trust arrangement. These defined benefit plans provide benefits on either a final salary, career average salary or a cash balance basis. These plans are now closed to new entrants, who instead participate in a new cash balance arrangement, which has the characteristics of a defined contribution arrangement with a capital guarantee on members' balances, which mirrors the capital guarantee given in a conventional life insurance arrangement in Germany.

Tables 21.1a and 21.1b set out the reconciliation of the defined benefit obligation and plan assets for the Group's post-employment defined benefit plans.

Movement in defined benefit obligation and fair value of assets – current period

Table 21.1a

in USD millions	Defined benefit obligation	Fair value of assets	Asset ceiling	Net defined benefit asset/ (liability)
As of January 1, 2015	**(22,507)**	**18,461**	**–**	**(4,046)**
Net post-employment benefit (expense)/income:				
Current service cost	(398)	–	–	(398)
Interest (expense)/income	(640)	520	–	(120)
Settlements gains/(losses)	9	–	–	9
Past service (cost)/credit	(9)	–	–	(9)
Net post-employment benefit (expense)/income	**(1,038)**	**520**	**–**	**(518)**
Remeasurement effects included in other comprehensive income:				
Return on plan assets excluding interest income	–	(209)	–	(209)
Experience gains/(losses)	(116)	–	–	(116)
Actuarial gains/(losses) arising from changes in demographic assumptions	172	–	–	172
Actuarial gains/(losses) arising from changes in financial assumptions	797	–	–	797
Change in asset ceiling	–	–	(17)	(17)
Remeasurement effects included in other comprehensive income	**853**	**(209)**	**(17)**	**627**
Employer contributions	–	508	–	508
Employer contributions paid to meet benefits directly	31	–	–	31
Plan participants' contributions	(54)	54	–	–
Payments from the plan (incl. settlements)	870	(870)	–	–
Foreign currency translation effects	900	(750)	–	150
As of December 31, 2015	**(20,945)**	**17,713**	**(17)**	**(3,248)**

Movement in defined benefit obligation and fair value of assets – prior period

Table 21.1b

in USD millions	Defined benefit obligation	Fair value of assets	Net defined benefit asset/ (liability)
As of January 1, 2014	**(20,685)**	**17,020**	**(3,666)**
Net post-employment benefit (expense)/income:			
Current service cost	(353)	–	(353)
Interest (expense)/income	(777)	643	(134)
Settlements gains/(losses)	9	–	9
Past service (cost)/credit	135	–	135
Net post-employment benefit (expense)/income	**(986)**	**643**	**(343)**
Remeasurement effects included in other comprehensive income:			
Return on plan assets excluding interest income	–	2,260	2,260
Experience gains/(losses)	(45)	–	(45)
Actuarial gains/(losses) arising from changes in demographic assumptions	(210)	–	(210)
Actuarial gains/(losses) arising from changes in financial assumptions	(2,875)	–	(2,875)
Remeasurement effects included in other comprehensive income	**(3,130)**	**2,260**	**(870)**
Employer contributions	–	536	536
Employer contributions paid to meet benefits directly	37	–	37
Plan participants' contributions	(56)	56	–
Payments from the plan (incl. settlements)	703	(703)	–
Foreign currency translation effects	1,611	(1,351)	260
As of December 31, 2014	**(22,507)**	**18,461**	**(4,046)**

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Net post-employment benefit (expense)/income is recognized in other employee benefits, which is included within administrative and other operating expense.

Post-employment benefits are long-term by nature. However, short-term variations between long-term actuarial assumptions and actual experience may be positive or negative, resulting in actuarial gains or losses, which are recognized in full in the period in which they occur, and are included within other comprehensive income.

Table 21.2 provides a breakdown of plan assets by asset class.

Table 21.2

Fair value of assets held in funded defined benefit pension plans

in USD millions, as of December 31	2015				2014			
	Quoted in active markets	**Other**	**Total**	**% of Total**	Quoted in active markets	Other	Total	% of Total
Cash and cash equivalents	472	–	472	3%	479	–	479	3%
Equity securities	3,726	69	3,795	21%	3,851	56	3,906	21%
Debt securities	–	11,929	11,929	67%	–	12,717	12,717	69%
Investment property	–	1,177	1,177	7%	–	994	994	5%
Mortgage loans	–	333	333	2%	–	357	357	2%
Other assets[1]	–	7	7	–	–	7	7	–
Total	**4,198**	**13,515**	**17,713**	**100%**	**4,330**	**14,131**	**18,461**	**100%**

[1] UK annuity policies

For the classification of pension assets the Group follows the same principles as outlined in note 24 Fair value measurement. Assets meeting the criteria of Level 1 are generally considered quoted in active markets, while assets meeting the criteria of Level 2 or Level 3 are generally considered other assets.

As a matter of policy, pension plan investment guidelines do not permit investment in any assets in which the Group or its subsidiaries have an interest, including shares or other financial instruments issued and own use property. Exceptions to the policy require approval by the Group Pension Committee.

Tables 21.3a and 21.3b provide a breakdown of the key information included in tables 21.1a and 21.1b for the main countries for the years ended December 31, 2015 and 2014 respectively.

Key information by main country – current period

Table 21.3a

in USD millions, as of December 31, 2015	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(5,042)	(10,160)	(3,410)	(1,173)	(1,159)	(20,945)
Fair value of plan assets	4,615	8,705	2,495	965	932	17,713
Impact of asset ceiling	–	(17)	–	–	–	(17)
Net defined benefit asset/(liability)	**(427)**	**(1,471)**	**(915)**	**(208)**	**(227)**	**(3,248)**
Net post-employment benefit (expense)/income	(130)	(180)	(137)	(38)	(33)	(518)

Key information by main country – prior period

Table 21.3b

in USD millions, as of December 31, 2014	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(5,033)	(11,139)	(3,638)	(1,336)	(1,362)	(22,507)
Fair value of plan assets	4,524	9,162	2,676	1,092	1,007	18,461
Net defined benefit asset/(liability)	**(509)**	**(1,977)**	**(962)**	**(244)**	**(355)**	**(4,046)**
Net post-employment benefit (expense)/income[1]	25	(195)	(111)	(37)	(25)	(343)

[1] Following plan amendments in Switzerland a one-off curtailment gain of USD 130 million has been reflected as a reduction in expenses.

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Table 21.4 shows the key financial assumptions used to calculate the Group's post-employment defined benefit obligations and the Group's post-employment benefit expenses.

Key financial assumptions used for major plans

Table 21.4

as of December 31	2015				2014			
	Switzerland	**United Kingdom**	**United States**	**Germany**	Switzerland	United Kingdom	United States	Germany
Discount rate	0.8%	3.8%	4.3%	2.2%	0.9%	3.7%	3.9%	2.0%
Inflation rate (CPI)[1]	1.3%	2.1%	2.0%	1.6%	1.2%	2.4%	2.0%	1.6%
Salary increase rate	1.6%	3.1%	4.4%	2.9%	2.0%	3.4%	4.1%	2.9%
Expected future pension increases	0.7%	3.4%	n/a	1.6%	0.7%	3.5%	n/a	1.6%
Interest crediting rate	0.8%	n/a	5.0%	n/a	0.9%	n/a	4.7%	n/a

[1] In the UK part of the liability is linked to the inflation measure of the Retail Price Index (RPI), which is assumed to be 1.0 percent higher than the Consumer Price Index (CPI) as of both December 31, 2015 and 2014.

Tables 21.5a and 21.5b set out the life expectancies used in the valuation of the Group's major plans. The mortality assumptions in each country have been based on mortality tables in accordance with typical practice in that country.

Mortality tables and life expectancies for major plans – current period

Table 21.5a

in years, as of December 31, 2015		**Life expectancy at age 65 for a male currently**		**Life expectancy at age 65 for a female currently**	
		aged 65	**aged 45**	**aged 65**	**aged 45**
Country	**Mortality table for major plans**				
Switzerland	BVG 2010 Generational	21.49	23.24	23.96	25.67
United Kingdom	PNXA00 with CMI_2015 projection	22.82	24.13	24.83	26.33
United States	RP 2014 with MP-2015 Generational projection with plan specific adjustments	21.36	22.02	23.82	24.50
Germany	Heubeck 2005G	18.99	21.64	23.06	25.58

Mortality tables and life expectancies for major plans – prior period

Table 21.5b

in years, as of December 31, 2014		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
		aged 65	aged 45	aged 65	aged 45
Country	**Mortality table for major plans**				
Switzerland	BVG 2010 Generational	21.39	23.16	23.86	25.59
United Kingdom	PNXA00 with CMI_2012 projection	23.21	24.59	25.31	26.79
United States	RP 2000 Generational, partially with projection	22.24	22.86	24.79	25.43
Germany	Heubeck 2005G	18.85	21.52	22.92	25.46

Table 21.6 shows the expected benefits to be paid under the Group's major plans in the future. It should be noted that actual amounts may vary from expected amounts. Therefore future benefit payments may differ from the amounts shown.

Maturity profile of future benefit payments for major plans

Table 21.6

as of December 31	2015				2014			
	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany
Duration of the defined benefit obligation (in years)	16.4	21.0	13.6	14.7	15.7	21.3	14.1	15.3
Maturity analysis of benefits expected to be paid (in USD millions):								
< 1 year	151	253	195	47	149	251	163	49
1 to 5 years	650	1,178	839	192	643	1,182	719	203
5 to 10 years	929	1,913	1,176	256	923	1,936	1,087	273

Sensitivity analysis of significant actuarial assumptions

Table 21.7

in USD millions, as of December 31	Defined benefit obligation[1] 2015	2014
Discount rate +50 bps	1,742	1,910
Discount rate –50 bps	(1,997)	(2,161)
Salary increase rate +50 bps	(155)	(172)
Salary decrease rate –50 bps	148	155
Price inflation increase rate +50 bps	(1,322)	(1,430)
Price inflation decrease rate –50 bps	1,161	1,254
Cash balance interest credit rate +50 bps	(121)	(118)
Cash balance interest credit rate –50 bps	84	81
Mortality 10% increase in life expectancy	(1,527)	(1,617)
Mortality 10% decrease in life expectancy	1,557	1,635

[1] A negative number indicates an increase and a positive number indicates a decrease in the defined benefit obligation.

Table 21.7 sets out the sensitivity of the defined benefit obligation to changes in key actuarial assumptions. The effect on the defined benefit obligation shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. Whilst this table illustrates the overall impact on the defined benefit obligation of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the overall defined benefit obligation. In particular, the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for different plans. The sensitivity analysis is intended to illustrate the inherent uncertainty in the evaluation of the defined benefit obligation under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the overall defined benefit obligation. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Group's view of expected future changes in the defined benefit obligation. Any management actions that may be taken to mitigate the inherent risks in the post-employment defined benefit plans are not reflected in this analysis.

b) Defined contribution pension plans

Certain of the Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either immediate on commencement of employment or based on completion of a specified period of continuous service. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 10 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 159 million and USD 141 million for the years ended December 31, 2015 and 2014, respectively.

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22. Share-based compensation and cash incentive plans

The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based compensation plans are based on the provision of Zurich Insurance Group Ltd shares.

a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 381 million and USD 525 million for the years ended December 31, 2015 and 2014, respectively.

b) Share-based compensation plans for employees and executives

The Group encourages employees to own shares in Zurich Insurance Group Ltd and has set up a framework based on the implementation of performance share programs. Actual plans are tailored to meet local market requirements.

The cost of share-based payments depend on various factors, including achievement of targets, and are subject to the discretion of the Remuneration Committee. Costs may therefore vary significantly from year to year. The net amounts of USD 111 million and USD 202 million for the years ended December 31, 2015 and 2014, respectively, reflect all aspects of share-based compensation, including adjustments made during the year.

The explanations below provide a more detailed overview of the main plans of the Group.

Employee share plans

Share Incentive Plan for employees in the UK

The Group established an Inland Revenue approved Share Incentive Plan and launched the Partnership Shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Insurance Group Ltd shares at the prevailing market price from their gross earnings. This plan was terminated in 2007. There were 99 and 112 participants in the plan as of December 31, 2015 and 2014, respectively.

A revised Partnership Share Scheme was launched in March 2013. Participants benefit from purchasing shares by making deductions from gross salary up to a maximum of GBP 1,800 or 10 percent of their year-to-date earnings. There were 883 and 905 active participants in the plan as of December 31, 2015 and 2014, respectively.

The Group also operates a profit-sharing element of the Share Incentive Plan (Reward Shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on business operating profit (BOP) after tax for the year achieved by the business unit of each participating employee. Individual awards are subject to a maximum of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,600. The total number of participating employees in Reward Shares as of December 31, 2015 and 2014 was 5,607 and 5,463, respectively.

A new Dividend Reinvest scheme was launched in 2014 which allows employees to reinvest their dividends from Partnership Shares and Reward Shares. The number of participants in the scheme as at 31 December 2015 is 303 and for 2014 187.

Share Incentive Plan for employees in Switzerland

Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is equivalent to CHF 3,500 per employee per annum. During 2015, 4,633 employees were eligible to participate in the share incentive plan, compared with 4,764 in 2014. For the years ended December 31, 2015 and 2014, 1,775 and 1,574 employees, respectively, purchased shares under the 2014 and 2013 share plans.

The Group Long-Term Incentive Plan (LTIP)
Participants in this plan are allocated a target number of performance shares as notional shares of Zurich Insurance Group Ltd in April each year (target shares). The number of target shares is calculated as a percentage of annual base salary of each participants.

Target shares allocated in 2015 will vest after a period of three years following the year of allocation (three year cliff vesting), with the actual level of vesting between 0 percent and 200 percent of the target shares allocated, depending on the achievement of pre-defined performance criteria. The performance criteria used to determine the level of vesting are the Group's return on shareholders' equity (ROE), the position of its relative total shareholder return (TSR) measured against an international peer group of insurance companies, and the achievement of cash remittance targets. The three pre-defined performance criteria are each assessed over a period of three consecutive financial years starting in the year of allocation. One half of the shares that actually vest are sales-restricted for a further three years. To further align the participants with the interests of the shareholders, effective from January 1, 2014, the target shares are credited with dividend equivalent shares during the vesting period to compensate participants in LTIP for dividends paid to shareholders. As of December 31, 2015 and 2014 there were 1,268 and 1,256 participants in this plan, respectively.

The transition to three-year cliff-vesting has been phased in with transitional arrangements for shares allocated in 2014 and prior. Target shares allocated in 2014 are to be assessed for vesting one-third after two years in 2016 and two-thirds after 3 years in 2017. Further, for LTIP participants who joined the plan prior to 2014, additional performance shares were allocated in 2014 to maintain the same cumulative target earning opportunity for these participants during the transition period. As the cash remittance target is potentially volatile in any one year, this target has been replaced for LTIP performance during the transition vesting years 2015 and 2016 with the former target of business operating profit after tax return on shareholders´ equity (BOPAT ROE).

LTIP in 2013 and prior years included phased annual vesting of allocations in three equal tranches at the end of the first, second and third year after allocation, based on the achievement of pre-defined performance criteria. One half of the vested shares were sales-restricted for a further three years from the respective vesting dates.

Table 22.1

Shares allocated during the period

for the years ended December 31	Number		Fair value at the allocation date (in CHF)	
	2015	2014	**2015**	2014
Shares allocated during the period	503,749	973,565	329	274

The shares allocated each year are based on target under the Group's LTIP. The level of vesting will depend on the level of achievements in the performance criteria. If the vesting level is different to target, the actual cost of the share-based payments is adjusted accordingly in the year when the level of vesting is determined.

Prior to 2011, for selected senior executives, performance shares and options in shares of Zurich Insurance Group Ltd were allocated. All share options will have expired in 2017. The number of shares allocated under option amount to 330,888 and 780,763 as of December 31, 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, 135,161 and 436,828 share options, respectively, were exercised.

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23. Commitments and contingencies, legal proceedings and regulatory investigations

The Group has provided contractual commitments and financial guarantees to external parties, associates and joint ventures as well as partnerships. These arrangements include commitments under certain conditions to make liquidity advances to cover default principal and interest payments, make capital contributions or provide equity financing.

Quantifiable commitments and contingencies

Table 23.1

in USD millions, as of December 31	**2015**	2014
Remaining commitments under investment agreements	1,431	871
Guarantees and letters of credit[1]	895	9,661
Future operating lease commitments	1,512	1,222
Undrawn loan commitments	8	3
Other commitments and contingent liabilities	574	538

[1] Guarantee features embedded in life insurance products are not included.

Commitments under investment agreements

The Group has committed to contribute capital to third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis.

Guarantees and letters of credit

In 2015 and 2014, USD 701 million and USD 740 million, respectively, relate to guarantees in the aggregate amount of GBP 475 million which were provided to the directors of a wholly owned subsidiary in connection with the repatriation of capital. These guarantees have no expiry date. In 2014, an additional USD 8,715 million of the USD 9,661 million for financial guarantees and letters of credit relate to guarantees in the aggregate amount of GBP 5,595 million provided to the directors of a wholly owned subsidiary in connection with the rationalization of the Group's top holding structure which resulted in the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009. These guarantees expired in August 2015.

The Group knows of no event of default that would require it to satisfy financial guarantees. Irrevocable letters of credit have been issued to secure certain reinsurance contracts.

The Group is active in numerous countries where insurance guarantee funds exist. The design of such funds varies from jurisdiction to jurisdiction. In some, funding is based on premiums written, in others the Group may be called upon to contribute to such funds in case of a failure of another market participant. In addition, in some jurisdictions the amount of contribution may be limited, for example, to a percentage of the net underwriting reserve net of payments already made.

The Group carries certain contingencies in the ordinary course of business in connection with the sale of its companies and businesses. These are primarily in the form of indemnification obligations provided to the acquirer in a transaction in which a Group company is the seller. They vary in scope and duration by counterparty and generally are intended to shift the potential risk of certain unquantifiable and unknown loss contingencies from the acquirer to the seller.

Commitments under lease agreements

The Group has entered into various non-cancellable operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 254 million and USD 123 million for the years ended December 31, 2015 and 2014, respectively.

Future payments under non-cancelable operating leases with terms in excess of one year

Table 23.2

in USD millions, as of December 31	2015	2014
< 1 year	277	263
1 to 2 years	216	238
2 to 3 years	180	156
3 to 4 years	155	115
4 to 5 years	122	102
> 5 years	564	348
Total	**1,512**	**1,222**

Indemnity agreements

The Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (now Scor Holding (Switzerland) AG) and its successor companies' net exposure for losses arising out of the September 11, 2001 World Trade Center event in New York. As of December 31, 2015 the Group has recorded provisions of USD 38 million, for losses in excess of USD 289 million.

Other contingent liabilities

The Group has received notices from various tax authorities asserting deficiencies in taxes for various years. The Group is of the view that the ultimate outcome of these reviews would not materially affect the Group's consolidated financial position.

The Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA– by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available amounts to nil as of December 31, 2015 and 2014.

In common with other insurance companies in Europe, the Group is faced with the continued trend towards enhanced consumer protection. Significant uncertainty exists regarding the ultimate cost of these consumer protection trends. The main areas of uncertainty concern court decisions as well as the volume of potential customer complaints related to sales activities and withdrawal rights, and their respective individual assessment.

Pledged assets

The majority of assets pledged to secure the Group's liabilities relate to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 6,208 million and USD 9,249 million as of December 31, 2015 and 2014, respectively.

Terms and conditions associated with the financial assets pledged to secure the Group's liabilities are usual and standard in the markets in which the underlying agreements were executed.

Legal, compliance and regulatory developments

In recent years there has been an increase in the number of legislative initiatives that require information gathering and tax reporting regarding the Group's customers and their contracts, including the U.S. Foreign Account Tax Compliance Act (FATCA) and the expected introduction of other automatic tax information exchange regimes based on the Common Reporting Standard (CRS). The Group's compliance activities in this area, as well as actions by local tax and law enforcement officials (including inquiries and investigations into cross-border business activities), could result in higher compliance costs, remedial actions and other related expenses for its life insurance, saving and pension business. As with the industry more generally, it is also possible that implementation of automatic tax information exchange and other developments relating to cross-border life, saving and pension business could give rise to inquiries by legal, tax and/or regulatory authorities in the future.

Legal proceedings and regulatory investigations

The Group's business is subject to extensive supervision, and the Group is in regular contact with various regulatory authorities. The Group is continuously involved in legal proceedings, claims and regulatory investigations arising, for the most part, in the ordinary course of its business operations. Specifically, certain companies within the Group are engaged in the following legal proceedings:

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An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company (Home), plead claims for, inter alia, fraudulent transfer, tortious interference, unfair competition, alter ego and agency liability relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contend that this forced Home into liquidation. The plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses (Phase 1). The Phase 1 trial commenced on November 1, 2010. Closing arguments were heard on February 22 and 23, 2012.

The court issued its Statement of Decision for Phase 1 on December 27, 2013. While the court found that the plaintiffs had established that Home transferred certain assets to one of the defendants in connection with the 1995 recapitalization transaction, it held that the plaintiffs' fraudulent transfer claims, which all related to transfers allegedly made as part of the 1995 recapitalization, were time-barred. The court further held that Home's liquidator had exclusive standing to bring fraudulent transfer claims involving Home's assets. The effect of these holdings should be the dismissal of the plaintiffs' fraudulent transfer claims. In addition, the court accepted the defendants' arguments that the findings made by the regulators in approving the recapitalization transaction are binding on the plaintiffs in the Fuller-Austin Case.

Following a hearing to consider the effect of the initial decision on the plaintiffs' remaining claims, on July 21, 2014, the court issued a Tentative Statement of Decision for Phase 1A. The court ruled that all of the plaintiffs' fraudulent transfer causes of action were barred, and asked the plaintiffs to confirm on the record their concession that their unfair competition claims were also barred (the final Statement of Decision for Phase 1A was filed on February 27, 2015). The court allowed the plaintiffs' remaining claims to proceed, but held that the plaintiffs are bound by the insurance regulators' determinations that the 1995 recapitalization was fair and in the best interests of Home's policyholders, including the plaintiffs. In early 2015, certain plaintiffs committed to voluntarily dismiss their claims with prejudice in exchange for an agreement that the defendants will not pursue them for litigation costs. Requests for dismissal with prejudice of their claims were filed with the Court by all but two plaintiffs. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously against the claims of any plaintiff that remains in the case.

While the Group believes that it is not a party to, nor are any of its subsidiaries the subject of, any unresolved current legal proceedings, claims, litigation and investigations that will have a material adverse effect on the Group's consolidated financial condition, proceedings are inherently unpredictable, and it is possible that the outcome of any proceeding could have a material impact on results of operations in the particular reporting period in which it is resolved.

24. Fair value measurement

To measure fair value, the Group gives the highest priority to quoted and unadjusted prices in active markets. In the absence of quoted prices, fair values are calculated through valuation techniques, making the maximum use of relevant observable market data inputs. Whenever observable parameters are not available, the inputs used to derive the fair value are based on common market assumptions that market participants would use when pricing assets and liabilities. Depending on the observability of prices and inputs to valuation techniques, the Group classifies instruments measured at fair value within the following three levels (the fair value hierarchy):

Level 1 – includes assets and liabilities for which fair values are determined directly from unadjusted current quoted prices resulting from orderly transactions in active markets for identical assets/liabilities.

Level 2 – includes assets and liabilities for which fair values are determined using significant inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable market inputs.

Level 3 – includes assets and liabilities for which fair values are determined using valuation techniques with at least one significant input not being based on observable market data. This approach is used only in circumstances when there is little, if any, market activity for a certain instrument, and the Group is required to develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability.

The governance framework and oversight of the Group standards and procedures regarding the valuation of financial instruments measured at fair value is the responsibility of the Valuation Forum, an independent committee composed of representatives from Risk Management, Investment Management and Group Finance. The Valuation Forum ensures the adequacy of valuation models, approves methodologies and sources to derive model input parameters, provides oversight over the selection of third party pricing providers, and on a quarterly basis reviews the classification within the fair value hierarchy of the financial instruments in scope.

The Group makes extensive use of third party pricing providers to determine the fair values of its available-for-sale and fair value through profit or loss financial instruments, and only in rare cases places reliance on prices that are derived from internal models. Investment accounting, operations and process functions, are independent from those responsible for buying and selling the assets, and are responsible for receiving, challenging and verifying values provided by third party pricing providers to ensure that fair values are reliable, as well as ensuring compliance with applicable accounting and valuation policies. The quality control procedures used depend on the nature and complexity of the invested assets. They include regular reviews of valuation techniques and inputs used by pricing providers (for example, default rates of collateral for asset-backed securities), variance and stale price analysis, and comparisons with fair values of similar instruments and with alternative values obtained from asset managers and brokers.

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Table 24.1 compares the fair value with the carrying value of financial assets and financial liabilities. Certain financial instruments are not included within this table as their carrying value is a reasonable approximation of their fair value. Such instruments include cash and cash equivalents, obligations to repurchase securities, deposits made under assumed reinsurance contracts and deposits received under ceded reinsurance contracts and other financial assets and liabilities. This table excludes financial assets and financial liabilities relating to unit-linked contracts.

Table 24.1

Fair value and carrying value of financial assets and financial liabilities

in USD millions, as of December 31	Total fair value		Total carrying value	
	2015	2014	**2015**	2014
Available-for-sale securities				
Equity securities	15,354	12,480	15,354	12,480
Debt securities	128,181	142,557	128,181	142,557
Total available-for-sale securities	143,535	155,037	143,535	155,037
Fair value through profit or loss securities				
Equity securities	3,519	3,619	3,519	3,619
Debt securities	6,180	7,121	6,180	7,121
Total fair value through profit or loss securities	9,699	10,740	9,699	10,740
Derivative assets	**1,120**	**1,230**	**1,120**	**1,230**
Held-to-maturity debt securities	**4,086**	**4,747**	**3,369**	**3,971**
Investments in associates and joint ventures	**18**	**70**	**18**	**70**
Mortgage loans	**7,603**	**8,452**	**7,024**	**7,826**
Other loans	**11,279**	**12,943**	**9,569**	**10,834**
Total financial assets	**177,341**	**193,219**	**174,335**	**189,706**
Derivative liabilities	**(362)**	**(429)**	**(362)**	**(429)**
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(913)	(977)	(754)	(843)
Liabilities related to investment contracts with DPF	(6,447)	(6,195)	(7,629)	(7,006)
Senior debt	(4,596)	(5,626)	(4,471)	(5,379)
Subordinated debt	(5,983)	(6,483)	(5,614)	(5,857)
Total financial liabilities held at amortized cost	(17,940)	(19,282)	(18,468)	(19,084)
Total financial liabilities	**(18,302)**	**(19,710)**	**(18,830)**	**(19,513)**

All of the Group's financial assets and financial liabilities are initially recorded at fair value. Subsequently, available-for-sale financial assets, fair value through profit or loss financial assets, and derivative financial instruments are carried at fair value as of the balance sheet date. All other financial instruments are carried at amortized cost and the valuation techniques used to determine their fair value measurement are described below.

Fair values of held-to-maturity debt securities and senior and subordinated debt are obtained from third party pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for identical assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. Such instruments are categorized within level 2.

Discounted cash flow models are used for mortgage loans and other loans. The discount yields in these models use interest rates that reflect the return a market participant would expect to receive on instruments with similar remaining maturities, cash flow patterns, currencies, credit risk and collateral. Such instruments are categorized within level 3.

Fair values of liabilities related to investment contracts and investment contracts with DPF are determined using discounted cash flow models. Such instruments are categorized within level 3 due to the unobservability of certain inputs used in the valuation.

Recurring fair value measurements of assets and liabilities

Fair value hierarchy – non unit-linked – current period

Table 24.2a

in USD millions, as of December 31, 2015	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	12,143	2,252	959	15,354
Debt securities	495	121,724	5,962	128,181
Total available-for-sale securities	12,638	123,977	6,921	143,535
Fair value through profit or loss securities				
Equity securities	1,017	82	2,419	3,519
Debt securities	–	6,034	146	6,180
Total fair value through profit or loss securities	1,017	6,116	2,565	9,699
Derivative assets	1	591	529	1,120
Investment property	–	2,037	7,828	9,865
Reinsurers' share of reserves for insurance contracts fair value option[1]	–	–	270	270
Total	13,656	132,720	18,113	164,489
Derivative liabilities	(5)	(258)	(99)	(362)
Reserves for insurance contracts fair value option[2]	–	–	(2,927)	(2,927)
Total	(5)	(258)	(3,027)	(3,289)

[1] Included within reinsurers' share of reserves for insurance contracts
[2] Included within reserves for insurance contracts

Fair value hierarchy – non unit-linked – prior period

Table 24.2b

in USD millions, as of December 31, 2014	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	11,291	259	929	12,480
Debt securities	362	139,431	2,764	142,557
Total available-for-sale securities	11,653	139,691	3,693	155,037
Fair value through profit or loss securities				
Equity securities	978	223	2,417	3,619
Debt securities	1	6,934	185	7,121
Total fair value through profit or loss securities	979	7,157	2,603	10,740
Derivative assets	2	853	375	1,230
Investment property	–	1,965	6,818	8,784
Reinsurers' share of reserves for insurance contracts fair value option[1]	–	–	375	375
Total	12,634	149,667	13,864	176,164
Derivative liabilities	(18)	(350)	(61)	(429)
Reserves for insurance contracts fair value option[2]	–	–	(3,594)	(3,594)
Total	(18)	(350)	(3,655)	(4,023)

[1] Included within reinsurers' share of reserves for insurance contracts
[2] Included within reserves for insurance contracts

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Fair value hierarchy – unit-linked – current period

Table 24.3a

in USD millions, as of December 31, 2015	Level 1	Level 2	Level 3	Total
Fair value through profit or loss securities				
Equity securities	89,414	22,093	336	111,844
Debt securities	951	7,198	43	8,192
Other loans	227	1,090	–	1,317
Total fair value through profit or loss securities	90,592	30,381	380	121,353
Derivative assets	–	7	–	7
Investment property	–	–	4,341	4,341
Total investments for unit-linked contracts[1]	90,592	30,388	4,721	125,701
Financial liabilities at FV through profit or loss				
Liabilities related to unit-linked investment contracts	–	(62,245)	–	(62,245)
Derivative liabilities	(1)	(6)	–	(7)
Total	(1)	(62,251)	–	(62,252)

[1] Excluding cash and cash equivalents

Fair value hierarchy – unit-linked – prior period

Table 24.3b

in USD millions, as of December 31, 2014	Level 1	Level 2	Level 3	Total
Fair value through profit or loss securities				
Equity securities	87,590	30,126	198	117,914
Debt securities	1,026	7,313	67	8,406
Other loans	392	2,427	–	2,819
Total fair value through profit or loss securities	89,008	39,866	265	129,139
Derivative assets	3	16	–	19
Investment property	–	–	4,100	4,100
Total investments for unit-linked contracts[1]	89,011	39,882	4,366	133,259
Financial liabilities at FV through profit or loss				
Liabilities related to unit-linked investment contracts	–	(62,964)	–	(62,964)
Derivative liabilities	(1)	(14)	–	(15)
Total	(1)	(62,978)	–	(62,979)

[1] Excluding cash and cash equivalents

Within level 1, the Group has classified common stocks, exchange traded derivative financial instruments, investments in unit trusts that are actively traded in an exchange market and other highly liquid financial instruments.

Within level 2, the Group has classified government and corporate bonds, investments in unit trusts, agency mortgage-backed securities (MBS) and 'AAA' rated non-agency MBS and other asset-backed securities (ABS) where valuations are obtained from independent pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for similar assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. If such quoted prices are not available, then fair values are estimated on the basis of information from external pricing providers or internal pricing models (for example, discounted cash flow models or other recognized valuation techniques).

Over the counter derivative financial instruments are valued using internal models. The fair values are determined using dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for underlying instruments, time to expiry, correlations, yield curves, prepayment rates and volatility of underlying instruments. Such instruments are classified within level 2 as the inputs used in pricing models are generally market observable or derived from market observable data.

Fair values of liabilities related to unit-linked investment contracts are usually determined by reference to the fair value of the underlying assets backing these liabilities. Such instruments are classified within level 2.

Within level 3, the Group has classified:

- Unlisted stocks, private equity funds and certain hedge funds that are not actively traded. Such instruments are obtained from net asset value information and audited financial statements provided by the issuing hedge funds and private equity funds. Performance of these investments and determination of their fair value are monitored and reviewed closely by the Group's in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments.
- Non-agency MBS and ABS rated below 'AAA' that are valued by independent pricing providers using a variety of valuation techniques which may require use of significant unobservable input parameters such as asset prepayment rate, default rates and credit curves.
- Certain options and long-dated derivative financial instruments with fair values determined using counterparty valuations or calculated using significant unobservable inputs such as historical volatilities, historical correlation, implied volatilities from the counterparty or derived using extrapolation techniques.
- Certain investment properties for which fair value is based on valuations performed annually by internal valuation specialists and generally on a rotation basis at least once every three years by an independent qualified appraiser. The valuation methods applied are income capitalization, discounted cash flow analysis, and market comparables taking into account the actual letting status and observable market data. The majority of such investments have been categorized within level 3 because the valuation techniques used include significant adjustments to observable data of similar properties. Some of these investments have been categorized within level 2, where there are active and transparent markets and no significant adjustments to the observable data are required.
- Reinsurers' share of reserves and reserves for insurance contracts fair value option. The fair values are determined using discounted cash flow models. The discount factors used are based on derived rates for LIBOR swap forwards, spreads to U.S. Treasuries and spreads to U.S. Corporate A or higher rated bond segments for Financials, Industrials and Utilities. The liability projected cash flows use contractual information for premiums, benefits and agent commissions, administrative expenses under third party administrative service agreements and best estimate parameters for policy decrements. The primary unobservable inputs are the policy decrement assumptions used in projecting cash flows. These include disability claim parameters for incidence and termination (whether for recovery or death) and lapse rates.
- The Group's private debt holdings comprise certain private placements and other CLOs which are valued by dedicated external asset managers applying a combination of expert judgment and other specific adjustments for which interest rates as well as credit spreads serve as input parameters.

The fair value hierarchy is reviewed at the end of each reporting period to determine whether significant transfers between levels have occurred. Transfers between levels mainly arise as a result of changes in market activity and observability of the inputs to the valuation techniques used to determine the fair value of certain instruments.

No material transfers between level 1 and level 2 occurred for the years ended December 31, 2015 and 2014.

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Table 24.4a

Development of assets and liabilities classified within level 3 – non unit-linked – current period

in USD millions	Available-for-sale securities		Fair value through profit or loss securities				
	Equity securities	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities	Investment property
As of January 1, 2015	929	2,764	2,417	185	375	(61)	6,818
Realized gains/(losses) recognized in income[1]	148	5	77	–	(2)	–	8
Unrealized gains/(losses) recognized in income[1,2]	(2)	(27)	(28)	(5)	(15)	13	97
Unrealized gains/(losses) recognized in other comprehensive income	(47)	(97)	–	–	59	(55)	12
Purchases	188	2,246	463	7	6	–	1,096
Settlements/sales/redemptions	(288)	(661)	(496)	(35)	(5)	1	(7)
Transfer from assets held for own use	–	–	–	–	–	–	22
Transfer to assets held for sale	–	–	–	–	–	–	(16)
Transfers into level 3	58	1,829	–	–	124	–	22
Transfers out of level 3	–	(20)	–	–	(4)	–	–
Foreign currency translation effects	(27)	(77)	(14)	(6)	(11)	3	(224)
As of December 31, 2015	**959**	**5,962**	**2,419**	**146**	**529**	**(99)**	**7,828**

[1] Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements.
[2] Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

For the year ended December 31, 2015, the Group transferred USD 1,829 million of available-for-sale debt securities out of level 2 into level 3 as a result of a review of the classification of certain collateralized loan obligations and privately placed debt securities. The fair value of these securities is obtained from third party pricing providers, who use significant unobservable inputs and expert judgment in their valuation models. The Group also transferred derivatives with a market value of USD 124 million out of level 2 into level 3. The transfers resulted from certain significant input parameters used to derive the fair value (such as volatility) becoming unobservable.

Table 24.4b

Development of assets and liabilities classified within level 3 – non unit-linked – prior period

in USD millions	Available-for-sale securities		Fair value through profit or loss securities				
	Equity securities	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities	Investment property
As of January 1, 2014	1,000	2,775	2,175	219	95	(70)	6,734
Realized gains/(losses) recognized in income[1]	64	13	4	–	–	(33)	1
Unrealized gains/(losses) recognized in income[1,2]	(6)	(29)	283	10	(5)	23	140
Unrealized gains/(losses) recognized in other comprehensive income	78	16	–	–	–	–	31
Purchases	140	805	382	4	–	(1)	732
Settlements/sales/redemptions	(301)	(649)	(382)	(43)	–	33	(157)
Transfer from assets held for own use	–	–	–	–	–	–	72
Transfer to assets held for sale	–	–	–	–	–	–	(28)
Transfers into level 3	3	9	–	5	313	(16)	–
Transfers out of level 3	–	(108)	–	–	–	–	–
Foreign currency translation effects	(48)	(67)	(44)	(9)	(27)	3	(708)
As of December 31, 2014	**929**	**2,764**	**2,417**	**185**	**375**	**(61)**	**6,818**

[1] Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements.
[2] Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

For the year ended December 31, 2014, the Group transferred derivatives with a market value of USD 297 million out of level 2 into level 3. The transfers resulted from certain significant input parameters used to derive the fair value (such as volatility) becoming unobservable.

Development of reserves for insurance contracts fair value option classified within level 3 – current period

Table 24.5a

in USD millions	Gross	Ceded	Net
As of January 1, 2015	3,594	(375)	3,219
Premiums	85	(7)	78
Claims	(618)	95	(523)
Fee income and other expenses[1]	(172)	25	(147)
Interest and bonuses credited to policyholders	78	(11)	67
Changes in assumptions	(39)	3	(36)
As of December 31, 2015	**2,927**	**(270)**	**2,657**

[1] The 2015 net movement mainly relates to buy-back transactions of certain annuity contracts in the U.S.

Development of reserves for insurance contracts fair value option classified within level 3 – prior period

Table 24.5b

in USD millions	Gross	Ceded	Net
As of January 1, 2014	3,306	(346)	2,960
Premiums	99	(8)	91
Claims	(314)	31	(283)
Fee income and other expenses	(15)	2	(12)
Interest and bonuses credited to policyholders	522	(53)	468
Changes in assumptions	(4)	–	(4)
As of December 31, 2014	**3,594**	**(375)**	**3,219**

Development assets and liabilities classified within level 3 – unit-linked – current period

Table 24.6a

in USD millions	Fair value through profit or loss securities		
	Equity securities	Debt securities	Investment property
As of January 1, 2015	198	67	4,100
Realized gains/(losses) recognized in income[1]	–	1	26
Unrealized gains/(losses) recognized in income[1]	3	–	383
Purchases	230	–	213
Sales/redemptions	(91)	(22)	(147)
Transfers into level 3	1	–	–
Transfers out of level 3	–	–	–
Foreign currency translation effects	(6)	(3)	(235)
As of December 31, 2015	**336**	**43**	**4,341**

[1] Presented as net investment result on unit-linked investments in the consolidated income statements.

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Development assets and liabilities classified within level 3 – unit-linked – prior period

Table 24.6b

in USD millions	Fair value through profit or loss securities		
	Equity securities	Debt securities	Investment property
As of January 1, 2014	64	84	3,661
Realized gains/(losses) recognized in income[1]	–	3	(46)
Unrealized gains/(losses) recognized in income[1]	2	4	634
Purchases	155	–	181
Sales/redemptions	(17)	(21)	(74)
Transfers into level 3	1	2	–
Transfers out of level 3	–	–	–
Foreign currency translation effects	(7)	(5)	(257)
As of December 31, 2014	**198**	**67**	**4,100**

[1] Presented as net investment result on unit-linked investments in the consolidated income statements.

Non-recurring fair value measurements of assets and liabilities

In particular circumstances, the Group may measure certain assets or liabilities at fair value on a non-recurring basis when an impairment charge is recognized.

The Group has valued USD 4 million and USD 477 million of mortgage loans at fair value on a non-recurring basis as of December 31, 2015 and 2014, respectively. These are classified within level 3 as the fair value measurement is based on internal pricing models, using significant unobservable inputs.

Sensitivity of fair values reported for level 3 instruments to changes to key assumptions

Within level 3, the Group classified non-agency ABS/MBS, CLOs, and private debt placements amounting to USD 6,108 million and USD 2,950 million for Group investments and USD 43 million and USD 67 million for investments for unit-linked contracts as of December 31, 2015 and 2014, respectively.

Within level 3, the Group also classified investments in private equity funds, certain hedge funds and other securities which are not quoted on an exchange amounting to USD 3,378 million and USD 3,347 million for Group investments and USD 336 million and USD 198 million for investments for unit-linked contracts as of December 31, 2015 and 2014, respectively. These investments are valued based on regular reports from the issuing funds, and their fair values are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments.

The key assumptions driving the valuation of these investments include equity levels, discount rates, credit spread rates and prepayment rates. The effect on reported fair values of using reasonably possible alternative values for each of these assumptions, while the other key assumptions remain unchanged, is disclosed in tables 24.7a and 24.7b. While these tables illustrate the overall effect of changing the values of unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different terms and circumstances. Inter-relationships between those unobservable inputs are disclosed in tables 24.8a and 24.8b. The correlation is based on the historical correlation matrix derived from the risk factors which are assigned to each of the level 3 exposures (equity and debt securities). The main market drivers are equity markets and rate indicators and the impact of such changes on the other factors. The spread scenario has been added to analyze the impact of an increase of borrowing cost for entities.

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments under current market conditions, and its results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of these investments. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Group's view of expected future changes in the fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

Sensitivity analysis of level 3 investments to changes in key assumptions – current period

Table 24.7a

as of December 31, 2015	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
Key assumptions				
Equity levels	–20%	(743)	+20%	743
Discount rates	+20%	(141)	–20%	152
Spread rates	+20%	(148)	–20%	159
Prepayment rates	–20%	(2)	+20%	2

Sensitivity analysis of level 3 investments to changes in key assumptions – prior period

Table 24.7b

as of December 31, 2014	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
Key assumptions				
Equity levels	–20%	(709)	+20%	709
Discount rates	+20%	(71)	–20%	75
Spread rates	+20%	(51)	–20%	53
Prepayment rates	–20%	(1)	+20%	3

Inter-relationship analysis of level 3 investments to changes in key assumptions – current period

Table 24.8a

as of December 31, 2015	Key assumptions				Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Scenarios					
Equity levels +10%	+10.0%	–1.4%	–1.4%	–1.4%	343
Equity levels –10%	–10.0%	+1.3%	+1.3%	+1.3%	(342)
Discount rates +10%	+0.5%	+10.0%	+7.5%	–2.0%	(109)
Discount rates –10%	–0.4%	–10.0%	–7.5%	+2.0%	114
Spread rates +10%	+0.5%	+7.0%	+10.0%	+0.2%	(110)

Inter-relationship analysis of level 3 investments to changes in key assumptions – prior period

Table 24.8b

as of December 31, 2014	Key assumptions				Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Scenarios					
Equity levels +10%	+10.0%	+1.3%	+1.3%	+1.3%	338
Equity levels –10%	–10.0%	–1.0%	–1.0%	–1.0%	(340)
Discount rates +10%	+0.2%	+10.0%	+15.0%	–2.0%	(68)
Discount rates –10%	–0.2%	–10.0%	–7.5%	+2.0%	58
Spread rates +10%	+0.2%	+7.0%	+10.0%	+0.2%	(47)

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Within level 3, the Group also classified:

- Investment property amounting to USD 7,828 million and 6,818 million for Group investments and USD 4,341 million and USD 4,100 million for investments for unit-linked contracts as of December 31, 2015 and 2014, respectively. A large portion of this portfolio is valued using an internal income capitalization model. The model is asset specific and capitalizes the sustainable investment income of a property with its risk specific cap rate. This cap rate is an "all risk yield" with components such as asset class yield for core assets (lowest risk) plus additional premiums for additional risks, for example second tier location or deterioration risk. All cap rate components (risk premiums) are reviewed and, if necessary, adjusted annually before revaluations are performed. The model takes into consideration external factors such as interest rate, market rent and vacancy rate. The significant unobservable inputs which are outside this model, are estimated rental value, rental growth, long term vacancy rate and discount rate. Significant increases/(decreases) in rental value and rental growth, in isolation, would result in a significantly higher/(lower) fair value measurement. Significant increases/(decreases) in the long term vacancy rate and discount rate, in isolation, would result in a significantly lower/(higher) fair value measurement.
- USD 270 million and USD 375 million for reinsurers' share of reserves fair value option and, USD 2,927 million and USD 3,594 million reserves for insurance contracts fair value option as of December 31, 2015 and 2014, respectively. The significant unobservable inputs used in the fair value measurement are the policy decrement assumptions used in projecting cash flows. Significant increases/(decreases) in claim incidence rates and significant decreases/(increases) in claim termination rates would result in a significantly higher/(lower) fair value measurement.

25. Analysis of financial assets

Tables 25.1a and 25.1b provide an analysis, for non unit-linked businesses, of the age of financial assets that are past due but not impaired and of financial assets that are individually determined to be impaired.

Analysis of financial assets – current period

Table 25.1a

in USD millions, as of December 31, 2015	Debt securities	Mortgage loans[1]	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**137,414**	**6,965**	**9,568**	**11,203**	**165,150**
Past due but not impaired financial assets. Past due by:					
1 to 90 days	–	41	–	1,215	1,257
91 to 180 days	–	6	–	285	291
181 to 365 days	–	4	–	138	142
> 365 days	–	8	–	188	197
Past due but not impaired financial assets	**–**	**60**	**–**	**1,827**	**1,887**
Financial assets impaired	**316**	**106**	**21**	**136**	**579**
Gross carrying value	**137,730**	**7,130**	**9,589**	**13,166**	**167,616**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	98	20	85	204
Impairment allowances on collectively assessed financial assets	–	8	–	163	171
Net carrying value	**137,730**	**7,024**	**9,569**	**12,917**	**167,240**

[1] USD 97 million impaired mortgage loans relate to the run-off property loans at Dunbar Assets Ireland.

Analysis of financial assets – prior period

Table 25.1b

in USD millions, as of December 31, 2014	Debt securities	Mortgage loans[1]	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**153,354**	**7,150**	**10,832**	**13,482**	**184,818**
Past due but not impaired financial assets. Past due by:					
1 to 90 days	–	104	–	1,263	1,367
91 to 180 days	–	27	–	289	316
181 to 365 days	–	17	–	236	253
> 365 days	–	59	–	251	310
Past due but not impaired financial assets	**–**	**208**	**–**	**2,038**	**2,247**
Financial assets impaired	**294**	**1,105**	**20**	**154**	**1,573**
Gross carrying value	**153,648**	**8,462**	**10,853**	**15,675**	**188,639**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	598	19	80	698
Impairment allowances on collectively assessed financial assets	–	38	–	186	224
Net carrying value	**153,648**	**7,826**	**10,834**	**15,409**	**187,717**

[1] USD 100 million past due but not impaired and USD 1.1 billion impaired mortgage loans relate to the run-off property loans at Dunbar Assets Ireland.

Tables 25.2a and 25.2b show how the allowances for impairments of financial assets in tables 25.1a and 25.1b developed during the periods ended December 31, 2015 and 2014, respectively.

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Development of allowance for impairments – current period

Table 25.2a

in USD millions	Mortgage loans	Other loans	Receivables
As of January 1, 2015	637	19	266
Increase/(Decrease) in allowance for impairments	44	1	61
Amounts written-off[1]	(543)	–	(54)
Foreign currency translation effects	(31)	–	(24)
As of December 31, 2015	**106**	**20**	**249**

[1] Includes USD 542 million related to the run-off property loans at Dunbar Assets Ireland.

Development of allowance for impairments – prior period

Table 25.2b

in USD millions	Mortgage loans	Other loans	Receivables
As of January 1, 2014	787	20	297
Increase/(Decrease) in allowance for impairments	22	–	23
Amounts written-off	(109)	–	(26)
Divestments[1]	–	–	(3)
Foreign currency translation effects	(64)	–	(25)
As of December 31, 2014	**637**	**19**	**266**

[1] Due to the sale of the Group's General Insurance retail business in Russia (see note 5 of the Consolidated financial statements 2014).

26. Related party transactions

In the normal course of business, the Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the Group, either individually or in aggregate. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

Table 26 summarizes related party transactions with key personnel reflected in the Consolidated financial statements. Key personnel includes members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd and members of the Group Executive Committee.

Related party transactions – key personnel

Table 26

in USD millions, for the years ended December 31	**2015**	2014
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	27	27
Post-employment benefits	4	4
Share-based compensation	15	15
Other remuneration	11	5
Total remuneration of key personnel	**57**	**50**

As of December 31, 2015 and 2014 there were no loans, advances or credits outstanding from members of the Group Executive Committee. Outstanding loans and guarantees granted to members of the Board of Directors amounted to nil for the years ended December 31, 2015 and 2014. The terms "members of the Board of Directors" and "members of the Group Executive Committee" in this context include the individual as well as members of their respective households. The figures in table 26 include the fees paid to members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd, which were USD 5 million and USD 4 million for the years ended December 31, 2015 and 2014, respectively.

Information required by art. 663b^{bis} and art. 663c paragraph 3 of the Swiss Code of Obligations is disclosed in the Remuneration report.

The cash compensation, current benefits and fees are short term in nature.

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27. Relationship with the Farmers Exchanges

Farmers Group, Inc. and its subsidiaries (FGI) provide certain non-claims administrative and management services to the Farmers Exchanges, which are managed by Farmers Group, Inc. a wholly owned subsidiary of the Group, including risk selection, preparation and mailing of policy documents and invoices, premium collection, management of the investment portfolios and certain other administrative and managerial functions. Fees for these management services are primarily determined as a percentage of gross premiums earned by the Farmers Exchanges. The finances and operations of the Farmers Exchanges are governed by independent Boards of Governors. In addition, the Group has the following relationships with the Farmers Exchanges.

a) Certificates of contribution issued by the Farmers Exchanges

As of December 31, 2015 and 2014, FGI and other Group companies held the following certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Certificates of contribution

Table 27.1

in USD millions, as of December 31	**2015**	2014
6.15% certificate of contribution, due June 2021	707	707
Various other certificates of contribution	23	23
Total	**730**	**730**

Conditions governing payment of interest and repayment of principal are outlined in the certificates of contribution. Generally, repayment of principal and payment of interest may be made only when the issuer has an appropriate amount of surplus, and then only after approval is granted by the appropriate state insurance regulatory department in the U.S. Additionally, the approval by the issuer's governing board is needed for repayment of principal.

b) Quota share reinsurance treaties with the Farmers Exchanges

The Farmers Exchanges cede risk through quota share reinsurance treaties to Farmers Reinsurance Company (Farmers Re Co), a wholly owned subsidiary of FGI, and to Zurich Insurance Company Ltd (ZIC). These treaties can be terminated after 90 days' notice by any of the parties.

The Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges provides for annual ceded premiums of USD 500 million and USD 900 million in 2015 and 2014, respectively. In addition, Farmers Re Co and ZIC assume a quota share percentage of ultimate net losses sustained by the Farmers Exchanges in their APD lines of business.

The Farmers Exchanges participate in an All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Re Co and ZIC. The All Lines agreement provides for a cession of a quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied.

Quota share reinsurance treaties

Table 27.2

in USD millions, for the years ended December 31	APD agreement		All Lines agreement		Total	
	2015[1]	2014[2]	**2015**[3]	2014[4]	**2015**	2014
Net earned premiums and policy fees	500	900	1,766	3,056	2,266	3,956
Insurance benefits and losses, net[5]	(365)	(646)	(1,223)	(2,004)	(1,588)	(2,650)
Total net technical expenses[6]	(139)	(262)	(565)	(978)	(704)	(1,240)
Net underwriting result	**(3)**	**(8)**	**(23)**	**74**	**(26)**	**66**

[1] Farmers Re Co assumed 7.0 percent and ZIC assumed 64.0 percent. The remaining 29.0 percent was assumed by a third party on the same terms as Farmers Re Co and ZIC.
[2] Farmers Re Co assumed 10.0 percent and ZIC assumed 80.0 percent. The remaining 10.0 percent was assumed by a third party on the same terms as Farmers Re Co and ZIC.
[3] From January 1, 2015, Farmers Re Co and ZIC assumed a 1.0 percent and 9.0 percent respective quota share. Another 4.0 percent was assumed by a third party on the same terms as Farmers Re Co and ZIC. Subject to the approval of the California Department of Insurance, effective December 31, 2015. ZIC assumed an 8.0 percent quota share, while another 12.0 percent is assumed by third parties on the same terms as ZIC. Farmers Re Co ceased its participation in the All Lines agreement, effective December 31, 2015.
[4] From January 1, 2014, Farmers Re Co and ZIC assumed a 2.0 percent and 16.0 percent respective quota share. Another 2.0 percent was assumed by a third party on the same terms as Farmers Re Co and ZIC. Effective December 31, 2014, Farmers Re Co and ZIC assumed a 1.0 percent and 9.0 percent respective quota share. Another 4.0 percent is assumed by a third party on the same terms as Farmers Re Co and ZIC.
[5] Under the All Lines agreement the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1.2 billion.
[6] Under the APD agreement the ceding commission for acquisition expenses range between 27.1 percent and 29.1 percent and the ceding commission for unallocated loss adjustment expenses range between 8.0 percent and 10.0 percent, both based on a previous 5 year average experience. Under the All Lines agreement, the Farmers Exchanges receive a ceding commission of 26.7 percent, 8.4 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses.

c) Farmers management fees and other related revenues

FGI through its attorney-in-fact (AIF) relationships with the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group, is permitted by policyholders to receive a management fee of up to 20 percent (up to 25 percent in the case of the Fire Insurance Exchange) of the gross premiums earned by the Farmers Exchanges.

FGI has historically charged a lower management fee than the amount allowed by policyholders. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 18,885 million and USD 18,545 million for the years ended December 31, 2015 and 2014, respectively.

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28. Segment information

The Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both businesses and geography. The Group's reportable segments have been identified on the basis of the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. Segment information is presented accordingly. The Group's reportable segments are as follows:

General Insurance provides a variety of motor, home and commercial products and services for individuals, as well as small and large businesses.

Global Life pursues a strategy of providing market-leading unit-linked, protection and corporate propositions through global distribution and proposition pillars to develop leadership positions in its chosen segments.

Farmers, through Farmers Group, Inc. and its subsidiaries (FGI), provides certain non-claims administrative and management services to the Farmers Exchanges. This segment also includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S.

For the purpose of discussing financial performance the Group considers General Insurance, Global Life and Farmers to be its core business segments.

Other Operating Businesses predominantly consist of the Group´s Holding and Financing and Headquarters activities. Certain alternative investment positions not allocated to business operating segments are included within Holding and Financing.

Non-Core Businesses include insurance and reinsurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. In addition, Non-Core Businesses includes the Group's management of property loans and banking activities. Non-core businesses are mainly situated in the U.S., Bermuda, the UK and Ireland.

The Group also manages two of the three core segments on a secondary level.

General Insurance is managed based on market-facing businesses, including:

- Global Corporate
- North America Commercial
- Europe, Middle East & Africa (EMEA)
- Latin America
- Asia-Pacific

For external reporting purposes Latin America and Asia-Pacific are aggregated into International Markets.

Global Life is managed on a regional-based structure within a global framework, including:

- North America
- Latin America
- Europe, Middle East & Africa (EMEA)
- Asia-Pacific

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.

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.

Business operating profit

The segment information includes the Group's internal performance measure, business operating profit (BOP). This measure is the basis on which the Group manages all of its business units. It indicates the underlying performance of the Group's business units, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and impairments on investments (except for the capital markets and property lending/banking operations included in Non-Core Businesses, investments in hedge funds, certain securities held for specific economic hedging purposes and policyholders' share of investment results for the life businesses) and non-operational foreign exchange movements. Significant items arising from special circumstances, including restructuring charges, charges for litigation outside the ordinary course of business, gains and losses on divestments of businesses, impairments of goodwill and the change in estimates of earn-out liabilities (with the exception of experience adjustments, which remain in BOP) are also excluded from BOP.

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Business operating profit by segment

Table 28.1

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2015	2014	**2015**	2014
Revenues				
Direct written premiums[1]	32,274	34,351	12,033	12,001
Assumed written premiums	1,746	1,981	186	184
Gross Written Premiums	34,020	36,333	12,220	12,185
Policy fees	–	–	2,227	2,409
Gross written premiums and policy fees	34,020	36,333	14,446	14,594
Less premiums ceded to reinsurers[2]	(5,634)	(5,473)	(2,489)	(675)
Net written premiums and policy fees	28,386	30,859	11,957	13,919
Net change in reserves for unearned premiums	(335)	(837)	(82)	(53)
Net earned premiums and policy fees	28,051	30,023	11,876	13,866
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,002	2,239	4,415	4,988
Net investment income on Group investments	2,002	2,149	3,320	3,815
Net capital gains/(losses) and impairments on Group investments	–	89	1,095	1,173
Net investment result on unit-linked investments	–	–	6,168	10,457
Other income	836	799	1,039	1,207
Total BOP revenues	30,889	33,060	23,498	30,519
of which: inter-segment revenues	*(527)*	*(356)*	*(316)*	*(450)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1,2]	20,152	19,920	8,612	10,685
Losses and loss adjustment expenses, net	20,157	19,923	–	–
Life insurance death and other benefits, net[1]	(4)	(3)	8,612	10,684
Policyholder dividends and participation in profits, net	3	6	7,706	12,097
Income tax expense/(benefit) attributable to policyholders	–	–	110	106
Underwriting and policy acquisition costs, net	5,907	5,946	2,454	2,654
Administrative and other operating expense (excl. depreciation/amortization)	3,636	3,758	2,463	2,711
Interest credited to policyholders and other interest	112	61	445	400
Restructuring provisions and other items not included in BOP	(372)	(119)	(435)	(174)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	29,437	29,572	21,355	28,478
Business operating profit (before interest, depreciation and amortization)	**1,452**	**3,489**	**2,143**	**2,042**
Depreciation and impairments of property and equipment	127	87	28	33
Amortization and impairments of intangible assets	252	213	578	452
Interest expense on debt	101	115	14	46
Business operating profit before non-controlling interests	972	3,073	1,523	1,512
Non-controlling interests	108	95	223	239
Business operating profit	**864**	**2,979**	**1,300**	**1,273**

[1] Global Life included approximately USD 2,701 million and USD 1,551 million of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2015 and 2014, respectively (see note 3).

[2] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of April 1, 2015 and an additional tranche as of October 1, 2015. The combined initial impact of this transaction was an increase of USD 1.8 billion in premiums ceded to reinsurers and an increase of USD 1.8 billion in ceded insurance benefits and losses in the Global Life business. The gain resulting from this transaction of approximately USD 105 million will be recognized on a linear basis over the lifetime of the reinsurance contract, which is expected to end on June 30, 2016.

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
–	–	–	–	67	95	–	–	44,374	46,448
2,145	3,428	47	45	90	92	(98)	(110)	4,116	5,621
2,145	3,428	47	45	156	188	(98)	(110)	48,490	52,069
–	–	–	–	281	303	–	–	2,508	2,712
2,145	3,428	47	45	437	491	(98)	(110)	50,998	54,781
–	–	(41)	(47)	(11)	(16)	98	110	(8,078)	(6,101)
2,145	3,428	6	(2)	426	475	–	–	42,920	48,680
120	528	–	–	–	3	–	–	(296)	(359)
2,266	3,956	6	(2)	426	478	–	–	42,624	48,321
2,786	2,791	–	–	–	–	–	–	2,786	2,791
49	68	300	387	236	762	(427)	(628)	6,576	7,816
49	68	300	387	328	415	(427)	(628)	5,572	6,206
–	–	–	–	(91)	347	–	–	1,004	1,610
–	–	–	–	70	327	–	–	6,238	10,784
56	99	1,104	847	98	47	(1,685)	(1,276)	1,448	1,723
5,156	6,914	1,411	1,233	830	1,613	(2,112)	(1,904)	59,671	71,435
(16)	*(30)*	*(1,222)*	*(1,022)*	*(33)*	*(46)*	*2,112*	*1,904*		
1,588	2,650	–	(7)	394	1,116	–	–	30,746	34,364
1,588	2,650	–	(1)	118	299	–	–	21,862	22,871
–	–	–	(6)	276	817	–	–	8,884	11,492
–	–	–	–	154	465	–	–	7,863	12,568
–	–	–	–	–	–	–	–	110	106
703	1,240	–	–	7	6	(10)	(10)	9,061	9,835
1,340	1,315	1,225	1,144	137	115	(1,342)	(1,198)	7,458	7,845
–	–	136	3	89	126	(315)	(68)	467	523
(14)	3	(75)	(13)	(10)	–	–	–	(906)	(303)
3,618	5,208	1,286	1,128	770	1,828	(1,668)	(1,275)	54,799	64,938
1,538	**1,706**	**125**	**105**	**60**	**(215)**	**(445)**	**(629)**	**4,872**	**6,497**
36	46	7	7	–	–	–	–	198	173
81	86	92	89	–	–	–	–	1,004	840
–	–	751	982	9	11	(445)	(629)	431	525
1,421	1,573	(726)	(973)	51	(226)	–	–	3,240	4,959
–	–	(7)	(13)	–	1	–	–	324	322
1,421	**1,573**	**(720)**	**(960)**	**51**	**(227)**	**–**	**–**	**2,916**	**4,638**

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Reconciliation of BOP to net income after income taxes

Table 28.2

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2015	2014	**2015**	2014
Business operating profit	**864**	**2,979**	**1,300**	**1,273**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	466	871	240	485
Net gain/(loss) on divestments of businesses[1]	–	(245)	–	–
Restructuring provisions	(314)	(36)	(71)	(29)
Net income/(expense) on intercompany loans[2]	(17)	(16)	(17)	(6)
Impairments of goodwill	–	–	(281)	(98)
Change in estimates of earn-out liabilities	29	(19)	(21)	(31)
Other adjustments[3]	(70)	(48)	(44)	(10)
Add back:				
Business operating profit attributable to non-controlling interests	108	95	223	239
Net income before shareholders' taxes	1,066	3,580	1,328	1,822
Income tax expense/(benefit) attributable to policyholders	–	–	110	106
Net income before income taxes	**1,066**	**3,580**	**1,439**	**1,929**
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

[1] In 2014, General Insurance and Other Operating Businesses relate to the sale of the Group's General Insurance retail business in Russia (see note 5).
[2] The impact on Group level relates to foreign currency translation differences.
[3] For the year ended December 31, 2015, total Group includes accounting and other restructuring charges of USD 199 million (of which USD 67 million relates to software impairments and USD 32 million to impairments of own use properties, see note 15 and 14 respectively, and USD 100 million of other restructuring related costs) relating to initiatives announced in 2015. In addition it includes other adjustments in the amount of USD (24) million. For the year ended December 31, 2014, General Insurance includes real estate transfer tax of USD 40 million relating to the acquisition of non-controlling interests of Deutscher Herold AG (see note 5).

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	1,421	**1,573**	**(720)**	**(960)**	**51**	**(227)**	**2,916**	**4,638**
	20	34	152	1	8	4	887	1,395
	–	–	10	(2)	–	(13)	10	(259)
	(13)	2	(49)	(34)	(10)	–	(457)	(97)
	–	–	33	22	–	–	(1)	–
	–	–	–	–	–	–	(281)	(98)
	–	–	–	–	–	–	8	(50)
	(1)	1	(59)	–	–	–	(175)	(57)
	–	–	(7)	(13)	–	1	324	322
	1,427	1,611	(640)	(987)	48	(235)	3,230	5,792
	–	–	–	–	–	–	110	106
	1,427	**1,611**	**(640)**	**(987)**	**48**	**(235)**	**3,340**	**5,898**
							(1,294)	(1,670)
							(110)	(106)
							(1,183)	(1,564)
							2,047	**4,228**
							205	280
							1,842	3,949

Consolidated financial statements *continued*

Assets and liabilities by segment

Table 28.3

in USD millions, as of December 31	General Insurance 2015	General Insurance 2014	Global Life 2015	Global Life 2014
Assets				
Total Group Investments	82,669	86,902	103,223	111,898
Cash and cash equivalents	9,756	9,939	3,049	3,568
Equity securities	10,053	8,953	8,107	6,408
Debt securities	54,773	60,410	70,919	79,817
Investment property	3,611	3,193	5,844	5,054
Mortgage loans	1,329	1,369	5,695	5,880
Other loans	3,143	3,035	9,597	11,158
Investments in associates and joint ventures	4	4	11	13
Investments for unit-linked contracts	–	–	115,559	122,446
Total investments	82,669	86,902	218,782	234,344
Reinsurers' share of reserves for insurance contracts	11,073	11,345	3,657	1,979
Deposits made under assumed reinsurance contracts	90	38	63	73
Deferred policy acquisition costs	4,226	3,984	13,298	13,584
Deferred origination costs	–	–	506	595
Goodwill	465	533	5	309
Other intangible assets	1,384	1,649	2,900	3,556
Other assets	14,121	15,147	6,045	7,104
Total assets (after cons. of investments in subsidiaries)	**114,029**	**119,597**	**245,255**	**261,545**
Liabilities				
Liabilities for investment contracts	–	–	70,406	70,581
Reserves for insurance contracts, gross	73,502	74,566	140,799	153,334
Reserves for losses and loss adjustment expenses, gross	57,777	58,390	–	–
Reserves for unearned premiums, gross	15,664	16,101	–	–
Future life policyholder benefits, gross	36	45	67,717	72,783
Policyholder contract deposits and other funds, gross	25	30	19,858	21,120
Reserves for unit-linked contracts, gross	–	–	53,224	59,431
Senior debt	517	1,148	68	91
Subordinated debt	1,081	1,268	708	754
Other liabilities	18,566	19,906	15,787	17,529
Total liabilities	**93,666**	**96,889**	**227,769**	**242,289**
Equity				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	357	781	127	409

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
3,253	4,096	19,957	19,510	9,847	11,940	(27,711)	(29,486)	191,238	204,860
1,312	481	9,649	8,525	1,632	1,843	(17,240)	(16,755)	8,159	7,600
43	62	572	577	98	99	–	–	18,873	16,099
574	1,163	6,330	6,261	6,329	7,222	(1,195)	(1,224)	137,730	153,648
74	74	10	209	325	254	–	–	9,865	8,784
–	–	–	–	–	576	–	–	7,024	7,826
1,249	2,317	3,396	3,887	1,460	1,943	(9,277)	(11,507)	9,569	10,834
–	–	1	51	3	2	–	–	18	70
–	–	–	–	11,169	11,970	–	–	126,728	134,416
3,253	4,096	19,957	19,510	21,016	23,910	(27,711)	(29,486)	317,966	339,276
–	–	–	–	3,127	3,330	(84)	(103)	17,774	16,550
1,476	1,952	–	–	79	142	–	(2)	1,708	2,203
149	182	–	–	–	–	3	–	17,677	17,750
–	–	–	–	–	–	–	–	506	595
819	819	–	–	–	–	–	–	1,289	1,661
353	328	129	195	–	–	–	–	4,766	5,729
1,528	1,624	987	1,021	1,400	1,864	(3,795)	(3,995)	20,287	22,766
7,578	**9,002**	**21,074**	**20,726**	**25,623**	**29,246**	**(31,587)**	**(33,586)**	**381,972**	**406,529**
–	–	–	–	221	232	–	–	70,627	70,813
1,663	2,231	28	31	21,715	23,661	(84)	(104)	237,622	253,719
1,103	1,551	23	26	4,142	4,590	(75)	(84)	62,971	64,472
560	680	3	3	13	14	(10)	(19)	16,230	16,779
–	–	2	2	4,198	4,823	–	–	71,952	77,652
–	–	–	–	2,193	2,265	–	(1)	22,076	23,415
–	–	–	–	11,169	11,970	–	–	64,393	71,400
–	–	10,391	13,257	659	514	(7,164)	(9,631)	4,471	5,379
–	–	6,374	6,615	23	23	(2,572)	(2,803)	5,614	5,857
1,354	1,427	13,150	11,998	3,642	4,120	(21,765)	(21,048)	30,733	33,932
3,017	**3,658**	**29,942**	**31,900**	**26,260**	**28,551**	**(31,586)**	**(33,586)**	**349,069**	**369,700**
								31,178	34,735
								1,725	2,095
								32,904	36,830
								381,972	**406,529**
162	144	31	51	–	–	–	–	677	1,384

Consolidated financial statements *continued*

General Insurance – Revenues and non-current assets by region

Table 28.4

in USD millions

	Gross written premiums and policy fees from external customers – Total, for the years ended December 31		of which Global Corporate, for the years ended December 31		Property, equipment and intangible assets, as of December 31	
	2015	2014	**2015**	2014	**2015**	2014
North America						
United States	13,363	12,671			254	242
Canada	744	870			13	11
Bermuda	10	9			16	18
North America	14,117	13,550	3,545	3,661	282	272
Europe						
United Kingdom	3,747	4,199			305	258
Germany	2,709	3,213			166	193
Switzerland	3,060	3,344			517	562
Italy	1,502	1,839			32	31
Spain	1,237	1,408			328	378
Austria	526	611			20	20
Ireland	306	363			47	55
Portugal	265	310			18	20
France	359	428			1	1
Rest of Europe	743	959			152	187
Europe	14,453	16,673	3,956	4,565	1,587	1,706
Latin America						
Argentina	469	425			9	13
Brazil	942	1,112			285	510
Chile	272	316			21	27
Mexico	620	650			178	216
Venezuela	211	291			–	8
Rest of Latin America	19	34			6	1
Latin America	2,533	2,829	348	373	499	775
Asia-Pacific						
Australia	740	1,030			44	55
Hong Kong	284	251			12	13
Japan	671	705			16	11
Taiwan	122	127			16	14
Malaysia	165	197			2	2
Rest of Asia-Pacific	259	276			5	3
Asia-Pacific	2,241	2,586	533	583	95	98
Middle East	232	212	181	171	37	51
Africa						
South Africa	311	341			13	11
Morocco	128	139			24	28
Africa	440	480	48	30	37	40
Total	**34,016**	**36,330**	**8,612**	**9,384**	**2,537**	**2,941**

Table 28.5

Global Life – Revenues and non-current assets by region

in USD millions	Gross written premiums and policy fees from external customers for the years ended December 31		Life insurance deposits for the years ended December 31		Property, equipment and intangible assets as of December 31	
	2015	2014	**2015**	2014	**2015**	2014
North America						
United States	983	921	434	549	140	138
North America	983	921	434	549	140	138
Latin America						
Chile	425	718	59	83	257	326
Argentina	165	131	66	59	31	56
Mexico	364	403	12	3	151	188
Venezuela	31	43	–	–	–	–
Brazil	1,118	1,427	1,565	2,058	421	664
Uruguay	8	7	–	–	–	–
Latin America	2,111	2,729	1,702	2,203	861	1,234
Europe, Middle East & Africa						
United Kingdom	1,673	1,532	3,971	6,557	260	338
Germany	2,544	3,252	1,926	1,874	308	596
Switzerland	1,421	1,594	158	167	71	67
Ireland[1]	631	727	2,972	2,998	5	5
Spain	3,264	1,891	75	51	1,381	1,632
Italy	437	433	1,537	1,024	58	72
Zurich International Life[2]	279	321	1,479	1,396	30	30
Portugal	22	27	132	122	–	–
Austria	151	188	60	61	24	28
Luxembourg[1]	14	13	16	136	–	2
Europe, Middle East & Africa	10,439	9,977	12,327	14,387	2,138	2,770
Asia Pacific						
Hong Kong	68	76	36	37	–	1
Taiwan	–	–	–	3	–	–
Indonesia	11	7	–	–	1	1
Australia	309	353	38	53	–	–
Japan	112	91	1	1	16	15
Singapore	8	6	5	6	–	3
Malaysia	158	185	46	50	20	26
Asia Pacific	667	718	127	151	38	46
Other						
International Group Risk Solutions[3]	201	187	–	–	–	–
Other	201	187	–	–	–	–
Total	**14,400**	**14,532**	**14,591**	**17,289**	**3,177**	**4,188**

[1] Includes business written under freedom of services and freedom of establishment in Europe, and the related assets.
[2] Includes business written through licenses, mainly into Asia Pacific and Middle East, and the related assets.
[3] Includes business written through licenses into all regions.

Consolidated financial statements *continued*

29. Interest in subsidiaries

Significant subsidiaries are defined as those subsidiaries, which either individually or in aggregate, contribute significantly to gross written premiums, shareholder's equity, total assets or net income attributable to shareholders.

Significant subsidiaries – non-listed

Table 29.1

as of December 31, 2015

	Registered office	Segment[1]	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
Australia						
Zurich Australia Limited	Sydney	Global Life	100	100	AUD	0.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance/ Global Life	99.98	99.98	EUR	12.0
Bermuda						
Centre Group Holdings Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
Zurich International (Bermuda) Ltd.	Hamilton	General Insurance	100	100	USD	9.9
Brazil						
Zurich Santander Brasil Seguros e Previdência S.A.	Sao Paulo	Global Life	51	51	BRL	1,659.2
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	General Insurance/ Global Life	100	100	BRL	2,809.6
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.99	98.99	CLP	24,484.0
Zurich Santander Seguros de Vida Chile S.A.	Santiago	Global Life	51	51	CLP	36,252.9
Germany						
Deutscher Herold Aktiengesellschaft	Bonn	Global Life	100	100	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	100	100	EUR	68.5
Zurich GI Management Aktiengesellschaft (Deutschland)	Frankfurt	General Insurance	100	100	EUR	10.0
Ireland						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	8.2
Zurich Financial Services EUB Holdings Limited	Dublin	Non Core Businesses	100	100	EUR	0.001
Italy						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	164.0
Luxembourg						
Zurich Eurolife S.A.	Bertrange	Global Life	100	100	EUR	16.5
Malaysia						
Zurich Insurance Malaysia Berhad	Kuala Lumpur	General Insurance/ Global Life	100	100	MYR	579.0
Mexico						
Zurich Santander Seguros México, S.A.	Mexico City	General Insurance/ Global Life	51	51	MXN	190.0

Significant subsidiaries – non-listed (continued)

Table 29.1

as of December 31, 2015

	Registered office	Segment[1]	Voting rights %	Ownership interest %		Nominal value of share capital (in local currency millions)
South Africa						
Zurich Insurance Company South Africa Limited[2]	Johannesburg	General Insurance	100	100	ZAR	4.7
Spain						
Bansabadell Pensiones, E.G.F.P, S.A.[3]	Barcelona	Global Life	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A.[3] de Seguros y Reaseguros	Barcelona	General Insurance	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros[3] y Reaseguros	Barcelona	Global Life	50	50	EUR	43.9
Zurich Latin America Holding S.L. – Sociedad Unipersonal	Barcelona	Other Operating Businesses	100	100	EUR	43.0
Zurich Santander Holding (Spain), S.L.	Madrid	Global Life	51	51	EUR	94.3
Zurich Santander Holding Dos (Spain), S.L.	Madrid	Global Life	51	51	EUR	40.0
Zurich Santander Insurance America, S.L.	Madrid	Global Life	51	51	EUR	177.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Global Life	100	100	EUR	56.4
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	20.4
Zurich Finance Company AG	Zurich	Other Operating Businesses	100	100	CHF	0.2
Zurich Insurance Company Ltd[4]	Zurich	Other Operating Businesses	100	100	CHF	825.0
Zurich Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Zurich Life Insurance Company Ltd[5]	Zurich	Other Operating Businesses	100	100	CHF	60.0
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	100	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	Isanbul	General Insurance	100	100	TRY	168.9
United Kingdom						
Allied Zurich Holdings Limited	St. Hélier	Other Operating Businesses	100	100	GBP	90.8
Zurich Assurance Ltd	Cheltenham, England	Global Life	100	100	GBP	236.1
Zurich Employment Services Limited	Cheltenham, England	Global Life	100	100	GBP	125.3
Zurich Financial Services (UKISA) Limited	Cheltenham, England	Other Operating Businesses	100	100	GBP	1,652.1
Zurich Holdings (UK) Limited	Fareham, England	Other Operating Businesses	100	100	GBP	137.3
Zurich International Life Limited	Douglas, Isle of Man	Global Life	100	100	GBP	109.0
Zurich Project Finance (UK) Limited	Cheltenham, England	Other Operating Businesses	100	100	GBP	0.000001
Zurich (Scotland) Limited Partnership[6]	Edinburgh	Global Life	100	100	GBP	–
Zurich UK General Services Limited	Fareham, England	Other Operating Businesses	100	100	GBP	173.1

Consolidated financial statements *continued*

Significant subsidiaries – non-listed (continued)

Table 29.1

as of December 31, 2015

	Registered office	Segment[1]	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
United States of America						
Farmers Group, Inc.[7]	Reno, NV	Farmers	100	100	USD	0.001
Farmers New World Life Insurance Company[7]	Mercer Island, WA	Global Life	100	100	USD	6.6
Farmers Reinsurance Company[7]	Woodland Hills	Farmers	100	100	USD	58.8
ZFS Finance (USA) LLC V[6]	Wilmington, DE	Other Operating Businesses	100	100	USD	–
Zurich American Corporation	Wilmington, DE	Non-Core Businesses	100	100	USD	0.00001
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD	5.0
Zurich American Life Insurance Company	Schaumburg, IL	Global Life/ Non-Core Businesses	100	100	USD	2.5
Zurich Holding Company of America, Inc.[8]	Wilmington, DE	Other Operating Businesses	100	100	USD	–

[1] The segments are defined in note 28.
[2] In September 2015, Zurich Insurance Company South Africa Limited was delisted from the Johannesburg Stock Exchange after an increase in its shareholding from 84.05 percent to 100 percent (see note 5).
[3] Relates to Bansabadell insurance entities which are controlled by the Group.
[4] The results of the operating activities are included in the General Insurance, Global Life and Farmers segments, whereas the Headquarters' activities are included in Other Operating Businesses.
[5] The results of the operating activities are included in the Global Life segment, whereas the Headquarters' activities are included in Other Operating Businesses.
[6] These entities are LLCs or partnerships and have no share capital.
[7] The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of Zurich Insurance Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
[8] Shares have no nominal value in accordance with the company's articles of incorporation and local legislation.

Due to the nature of the insurance industry, the Group's business is subject to extensive regulatory supervision, and companies in the Group are subject to numerous legal restrictions and regulations. These restrictions may refer to minimum capital requirements or the ability of the Group's subsidiaries to pay dividends imposed by regulators in the countries in which the subsidiaries operate. These are considered industry norms, generally applicable to insurers who operate in the same markets.

For Zurich Santander Insurance America, S.L. and its subsidiaries, and the Bansabadell insurance entities, certain protective rights exist, amongst others around liquidation, material sale of assets, transactions impacting the legal ownership structure, dividend distribution and capital increase, distribution channel partnerships and governance, which are not quantifiable.

For details on the Group's capital restrictions, see the capital management section in the Risk review, which forms an integral part of the Consolidated financial statements.

Table 29.2 shows the summarized financial information for each subsidiary that has non-controlling interests that are material to the Group.

Non-controlling interests

Table 29.2

in USD millions, as of December 31	Zurich Santander Insurance America, S.L. and its subsidiaries		Bansabadell insurance entities	
	2015	2014	**2015**	2014
Non-controlling interests percentage	49%	49%	50%	50%
Total Investments	9,031	11,486	6,825	6,966
Other assets	2,728	4,052	1,851	2,183
Insurance and investment contract liabilities[1]	9,231	12,136	6,564	6,734
Other liabilities	1,102	1,549	489	544
Net assets	**1,426**	**1,853**	**1,622**	**1,871**
Non-controlling interests in net assets	**699**	**908**	**811**	**936**
Total revenues	2,922	3,239	3,430	2,127
Net income after taxes	349	328	23	138
Other comprehensive income	(470)	(182)	(195)	(189)
Total comprehensive income	**(120)**	**146**	**(172)**	**(51)**
Non-controlling interests in total comprehensive income	**(59)**	**71**	**(86)**	**(25)**
Dividends paid to non-controlling interests	133	94	28	23

[1] Includes reserves for premium refunds, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees and reserves for insurance contracts.

Report of the statutory auditor

Report of the statutory auditor

To the General Meeting of Zurich Insurance Group Ltd

Report of the statutory auditor on the Consolidated financial statements

As statutory auditor, we have audited the Consolidated financial statements of Zurich Insurance Group Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity, and notes (pages 159 to 257 and the audited sections of the Risk review on pages 123 to 155), for the year ended December 31, 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the Consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of Consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these Consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the Consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the Consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated financial statements for the year ended December 31, 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of Consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the Consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Mark Humphreys
Audit expert
Auditor in charge

Stephen O'Hearn
Global relationship partner

Zurich, February 10, 2016

Holding company

Review of the year

Net income after taxes for the year was CHF 2,693 million compared with CHF 2,723 million in 2014. The result was mainly driven by the dividend income from its subsidiary Zurich Insurance Company Ltd of CHF 2,500 million and by the interest income of CHF 307 million earned on subordinated loans with subsidiaries. Net income after taxes also includes impairments on investments in subsidiaries of CHF 90 million compared to CHF 100 million in the prior year.

The Annual General Meeting on April 1, 2015, approved a dividend of CHF 17.00 per share to be paid free of Swiss withholding tax to the shareholders out of the capital contribution reserve.

Shareholders' equity increased by CHF 357 million to CHF 17,408 million as of December 31, 2015, from CHF 17,051 million as of December 31, 2014. The increase was mainly driven by the net income after taxes for the year as well as capital contributed through the issuance of new shares to employees out of contingent capital, partially offset by the dividend paid in 2015. The Board will propose a dividend from the capital contribution reserve of CHF 17.00 per share for the year 2015 for approval at the Annual General Meeting to be held on March 30, 2016.

Contents

Income statements

in CHF thousands, for the years ended December 31	Notes	**2015**	2014
Other operating income	4	21,177	20,778
Other operating expenses	5	(23,228)	(21,680)
Depreciation and valuation adjustments to non-current assets	6	(89,500)	(100,000)
Financial income	7	2,828,373	2,913,149
Dividend income		*2,500,000*	*2,500,000*
Interest income		*306,953*	*307,085*
Other financial income		*21,420*	*106,064*
Financial expenses	8	(22,270)	(65,498)
Direct taxes	9	(21,305)	(23,927)
Net income after taxes		**2,693,247**	**2,722,822**

Holding company *continued*

Balance sheets

Assets

in CHF thousands, as of December 31	Notes	2015	2014
Current assets			
Cash and cash equivalents		1,645,111	1,217,452
Accrued income and prepaid expenses from subsidiaries		396	346
Accrued income and prepaid expenses from third parties		–	14
Derivatives with subsidiaries		170	2,615
Total current assets		1,645,677	1,220,427
Non-current assets			
Subordinated loans to subsidiaries	10	4,876,704	4,878,836
Investments in subsidiaries	11	11,430,069	11,519,569
Total non-current assets		16,306,773	16,398,405
Total assets		**17,952,450**	**17,618,832**

Liabilities and shareholders' equity

in CHF thousands, as of December 31	Notes	2015	2014
Short-term liabilities			
Other liabilities to subsidiaries		524,128	496
Other liabilities to third parties		17,636	20,438
Other liabilities to shareholders		1,032	950
Accrued expenses and deferred income to subsidiaries		996	2,048
Accrued expenses and deferred income to third parties		210	2,946
Derivatives with subsidiaries		–	127
Total short-term liabilities		544,002	27,005
Long-term liabilities			
Loans from subsidiaries		–	520,150
Provisions		–	20,745
Total long-term liabilities		–	540,895
Total liabilities		544,002	567,900
Shareholders' equity (before appropriation of available earnings)			
Share capital	13	15,041	14,964
Legal reserves:		3,986,688	6,324,460
Capital contribution reserve[1]	*14*	*3,645,548*	*5,983,320*
General capital contribution reserve		*3,342,187*	*5,668,198*
Reserve for treasury shares	*15*	*303,361*	*315,122*
General legal reserve		*341,140*	*341,140*
Free reserve	16	342,206	340,242
Retained earnings:			
As of January 1		*10,371,266*	*7,648,444*
Net income after taxes		*2,693,247*	*2,722,822*
Retained earnings, as of December 31		13,064,513	10,371,266
Total shareholders' equity (before appropriation of available earnings)		17,408,448	17,050,932
Total liabilities and shareholders' equity		**17,952,450**	**17,618,832**

[1] Dividends paid in the year, out of capital contribution reserve in respect of the 2014 result, amounting to CHF 2,534,052.

Notes to the financial statements

1. General information
Zurich Insurance Group Ltd (the Company) is a public limited company domiciled in Zurich, Switzerland, and its shares are listed on the SIX Swiss Exchange. It was incorporated on April 26, 2000, and is the holding company of the Zurich Insurance Group with the principal activity of holding subsidiary companies. The Company does not employ staff, as employees work in a joint capacity for Zurich Insurance Company Ltd.

2. Basis of presentation
Zurich Insurance Group Ltd presents its financial statements in accordance with Swiss law. The latest changes within the Swiss Code of Obligations have been applied effective January 1, 2015. Prior year comparatives have been revised to conform with the current year's presentation.

All amounts in these financial statements including the notes are shown in Swiss franc thousands, rounded to the nearest thousand, unless otherwise specified.

3. Summary of significant accounting policies
a) Exchange rates
Unless otherwise stated, assets and liabilities expressed in currencies other than Swiss francs are translated at year end exchange rates. Revenues and expenses are translated using the exchange rate at the date of the transaction. Net unrealized exchange losses are recorded in the income statements and net unrealized exchange gains are deferred until realized.

b) Investments in subsidiaries
Investments in subsidiaries are equity interests, held on a long-term basis for the purpose of the holding company's business activities. Each investment in subsidiaries is valued individually and carried at its cost less adjustments for impairments. This constitutes a change compared to prior periods where the investments in subsidiaries have been valued on a group basis. This change in methodology reflects the changes in the Swiss Code of Obligations effective January 1, 2015.

c) Accrued income
Income is accrued for interest which is earned but not yet due for payment at the end of the reporting period.

d) Derivatives
Derivatives are carried at market value, with changes in the market value recorded in the income statements.

4. Other operating income
Other operating income mainly represents the release of CHF 21.1 million (prior year CHF 20.7 million) of the irrevocable commitment made by the Company on behalf of the Zurich Insurance Group to the Z Zurich Foundation in 2011, as another Group company made the payments for 2015 and 2014.

5. Other operating expenses
Other operating expenses include directors' fees of CHF 4.7 million and CHF 3.5 million for the years ended December 31, 2015, and December 31, 2014, respectively. In addition, overhead expenses of CHF 10.0 million for both the years ended December 31, 2015 and 2014 are included. Fees paid to the Swiss Financial Market Supervisory Authority increased by CHF 1.4 million to CHF 5.3 million in 2015.

6. Depreciation and valuation adjustments to non-current assets
Impairments on investments in subsidiaries amount to CHF 90 million and CHF 100 million for the years ended December 31, 2015, and December 31, 2014, respectively (also refer to note 11).

7. Financial income
Financial income mainly consists of the dividend income received from the Company's subsidiary Zurich Insurance Company Ltd of CHF 2,500 million (2014: CHF 2,500 million) and the interest income earned on the subordinated loan of CHF 4,832 million with Zurich Insurance Company Ltd. It also includes CHF 21.4 million of other financial income, thereof CHF 15.8 million of foreign exchange gains.

Holding company *continued*

8. Financial expenses

Financial expenses decreased by CHF 43.2 million to CHF 22.3 million mostly driven by realized and unrealized foreign exchange losses of CHF 16.1 million compared with CHF 59.2 million in the previous year.

9. Direct taxes

Direct taxes include income and capital taxes in Switzerland.

10. Subordinated loans to subsidiaries

Subordinated loans have remained unchanged in local currency compared with 2014, and mainly include a loan to Zurich Insurance Company Ltd of CHF 4,832 million as of December 31, 2015 and 2014, respectively.

11. Investments in subsidiaries

Investments in subsidiaries

as of December 31	2015			2014		
	Carrying value[1]	**Voting rights in %**	**Capital rights in %**	Carrying value[1]	Voting rights in %	Capital rights in %
Zurich Insurance Company Ltd	11,088,466	100.00	100.00	11,088,466	100.00	100.00
Zurich Financial Services EUB Holdings Ltd	183,436	99.90	99.90	272,936	99.90	99.90
Farmers Group, Inc.	157,992	12.10	4.62	157,992	12.10	4.62
Allied Zurich Limited	175	100.00	100.00	175	100.00	100.00
Total	**11,430,069**			**11,519,569**		

[1] in CHF thousands

The investment in Zurich Financial Services EUB Holdings Limited was impaired by CHF 90 million in 2015 compared with an impairment of CHF 100 million in the previous year.

In addition to the above mentioned directly held subsidiaries, the Company indirectly owns further subsidiaries primarily through Zurich Insurance Company Ltd. The information on indirectly owned subsidiaries is included on pages 254 to 256 of this Annual Report.

12. Commitments and contingencies

Zurich Insurance Group Ltd has provided unlimited guarantees in support of entities belonging to the Zurich Capital Markets group of companies. The Company has also entered into support agreements and guarantees for the benefit of certain of its subsidiaries. They amounted to CHF 3,150 million as of December 31, 2015, and CHF 12,136 million as of December 31, 2014. The decrease is mainly due to expired guarantees in the aggregate amount of GBP 5,595 million provided to a fully owned subsidiary and certain of its directors in connection with the restructuring of the Group's top holding structure which resulted in the merger of Zurich Group Holding into Zurich Insurance Group Ltd (formerly known as Zurich Financial Services Ltd) in December 2009. Furthermore, Zurich Insurance Group Ltd has issued an unlimited guarantee in favor of the Institute of London Underwriters in relation to business transferred to Zurich Insurance plc from a Group company which no longer has insurance licenses.

Zurich Insurance Group Ltd knows of no event of default that would require it to satisfy any of these guarantees or to take action under a support agreement.

13. Share capital

a) Issued share capital

In 2015, there was no change to the ordinary share capital. At the Annual General Meeting on April 2, 2014, the shareholders approved an extension of authorized share capital with the number of shares remaining unchanged at 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each until April 2, 2016. In 2015, there were no changes to the authorized share capital. In 2014, there were no changes to the ordinary share capital or to the authorized share capital. During the years 2015 and 2014, a total of 768,128 shares and 733,614 shares, respectively, were issued to employees out of the contingent capital.

b) Authorized share capital

Until April 2, 2016, the Board of Zurich Insurance Group Ltd is authorized to increase the share capital by an amount not exceeding CHF 1,000,000 by issuing up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the commencement of entitlement to dividends.

The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with a subsequent offer of those shares to current shareholders. The Board may allow the expiry of pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or withdraw the pre-emptive rights of shareholders and to allocate them to third parties if the shares are to be used for the take-over of an enterprise, or parts of an enterprise or of participations or if issuing shares for the financing including re-financing of such transactions, or for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges.

c) Contingent share capital

Capital market instruments and option rights to shareholders

The share capital of Zurich Insurance Group Ltd may be increased by an amount not exceeding CHF 1,000,000 by the issuance of up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each (i) by exercising of conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Insurance Group Ltd or one of its subsidiaries in national or international capital markets; and/or (ii) by exercising option rights which are granted to current shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at the current convertible bond or warrant issue conditions.

The conversion rights are exercisable during a maximum period of ten years and option rights for a maximum period of seven years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions whereby, for shares of Zurich Insurance Group Ltd, the quoted share price is to be used as a basis.

Employee participation

On January 1, 2014, the contingent share capital, to be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 239,203.70 or 2,392,037 fully paid registered shares with a nominal value of CHF 0.10 each. On January 1, 2015, the contingent share capital, to be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 165,842.30 or 1,658,423 fully paid registered shares with a nominal value of CHF 0.10 each.

During 2015 and 2014, 768,128 and 733,614 shares, respectively, were issued to employees out of the contingent share capital. Of the total 768,128 registered shares issued to employees during the year 2015, 684,061 shares were issued in the period from January 1, 2015, to March 31, 2015, and 84,067 registered shares were issued as from April 1, 2015, to December 31, 2015. As a result, on December 31, 2015 and 2014, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 89,029.50 and CHF 165,842.30 or 890,295 and 1,658,423 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each. Pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares to employees is subject to one or more regulations to be issued by the Board and take into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to the employees at a price lower than that quoted on the stock exchange.

Holding company *continued*

14. Capital contribution reserve

Capital contribution reserve

in CHF thousands	2015	2014
As of January 1	5,983,320	8,319,504
Transfer to free reserve (adjustment capital contribution reserve)	(1,964)	(1,799)
Dividend payment out of capital contribution reserve	(2,534,052)	(2,516,073)
Agio on share-based payment transactions	198,244	181,688
As of December 31	**3,645,548**	**5,983,320**

15. Reserve for treasury shares

This reserve corresponds to the purchase value of all Zurich Insurance Group Ltd shares held by companies of the Zurich Insurance Group as shown in the table below. The Company itself does not hold any treasury shares.

Capital contribution reserve (reserve for treasury shares)

	Number of shares 2015	Purchase value 2015[1]	Number of shares 2014	Purchase value 2014[1]
As of January 1	1,292,220	315,122	1,320,652	322,056
Sales during the year	(48,289)	(11,761)	(28,432)	(6,934)
As of December 31	**1,243,931**	**303,361**	**1,292,220**	**315,122**
Average selling price, in CHF		277		255

[1] in CHF thousands

16. Free reserve

Free reserve

in CHF thousands	2015	2014
As of January 1	340,242	338,443
Transfer from capital contribution reserve	1,964	1,799
As of December 31	**342,206**	**340,242**

17. Shareholders

According to information available as of December 31, 2015, Zurich Insurance Group Ltd is not aware of any person or institution, other than BlackRock, Inc., New York, (>5 percent of the shares) which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd representing three percent or more of its issued shares.

18. Remuneration of the Board of Directors and the Group Executive Committee

The Ordinance Against Excessive Compensation in articles 14–16 prevails over article 663bbis of the Swiss Code of Obligations. The information required by article 663bbis of the Swiss Code of Obligations is therefore disclosed and audited in the Remuneration report on pages 68 to 101 of this Annual Report.

19. Shareholdings of the Board of Directors and the Group Executive Committee

The information on share and share option holdings of Directors and of the members of the GEC, who held office as of December 31, 2015, as required by article 663c paragraph 3 of the Swiss Code of Obligations is included and audited in the Remuneration report on pages 68 to 101 of this Annual Report.

20. Supplementary information

Cash and cash equivalents of CHF 1,645 million include restricted cash of CHF 0.4 million in 2015, compared to CHF 1,217 million cash and cash equivalents and thereof restricted cash of CHF 0.5 million in the previous year.

Holding company *continued*

Proposed appropriation of available earnings and capital contribution reserve

as of December 31	2015	2014
Registered shares eligible for dividends		
Eligible shares	150,404,964	149,636,836

in CHF thousands	2015	2014
Appropriation of available earnings as proposed by the Board of Directors		
Net income after taxes	2,693,247	2,722,822
Balance brought forward	10,371,266	7,648,444
Retained earnings	13,064,513	10,371,266
Balance carried forward	**13,064,513**	**10,371,266**

The Board of Directors proposes to the shareholders at the Annual General Meeting on March 30, 2016, to carry forward retained earnings of CHF 13,064,513 as shown in the above table.

in CHF thousands	Capital contribution reserve
Appropriation of capital contribution reserve	
As of January 1, 2016 (incl. reserve for treasury shares)	3,645,548
Dividend payment out of capital contribution reserve[1]	(2,556,884)
Balance carried forward[1]	**1,088,664**

[1] These figures are based on the issued share capital as of December 31, 2015. They may change following the issuance of shares out of contingent capital for employees after the balance sheet date (see note 13). Treasury shares are not entitled to dividends.

The Board of Directors proposes to the Annual General Meeting on March 30, 2016, to pay a dividend of CHF 2,557 million from the capital contribution reserve.

If this proposal is approved, a payment of CHF 17.00 per share exempt from Swiss withholding tax is expected to be paid starting from April 5, 2016.

Zurich, February 10, 2016

On behalf of the Board of Directors of Zurich Insurance Group Ltd

T. de Swaan

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Report of the Statutory Auditor

Report of the statutory auditor

To the General Meeting of Zurich Insurance Group Ltd

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Zurich Insurance Group Ltd, which comprise the balance sheet, income statement and notes, for the year ended December 31, 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2015, comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Mark Humphreys Audit expert Auditor in charge	Peter Bieri Audit expert

Zurich, February 10, 2016

Report in relation to the conditional capital increase

Report in relation to the conditional capital increase

To the Board of Directors of Zurich Insurance Group Ltd

We have audited the issue of new shares by Zurich Insurance Group Ltd in the period from January 1, 2015, to December 31, 2015, pursuant to the resolution of the general meeting of March 30, 2010, in accordance with article 653f para. 1 Code of Obligations (CO).

Board of Directors' responsibility
The Board of Directors is responsible for the issue of new shares in accordance with the legal requirements and the company's articles of incorporation.

Auditor's responsibility
Our responsibility is to express an opinion based on our audit as to whether the issue of new shares complies with Swiss law and the company's articles of incorporation. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the issue of new shares complies with the legal requirements and company's articles of incorporation.

An audit involves performing procedures to obtain audit evidence so that material breaches of the legal requirements and the company's articles of incorporation for the issue of new shares may be identified with reasonable assurance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material breaches of the requirements concerning the issue of new shares, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the issue of 768,128 registered shares with a nominal value of CHF 0.10 complies with Swiss law and the company's articles of incorporation.

PricewaterhouseCoopers AG

Mark Humphreys Audit expert Auditor in charge	Peter Bieri Audit expert

Zurich, January 14, 2016

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Shareholder information

In this section

Shareholder information

Zurich Insurance Group Ltd registered share data

Key indicators

as of December 31	2015	2014
Number of shares issued and registered[1]	150,404,964	149,636,836
Number of dividend-bearing shares[2]	150,404,964	149,636,836
Market capitalization (in CHF millions at end of period)	38,865	46,642
Authorized capital, number of shares	10,000,000	10,000,000
Contingent capital, number of shares[1]	10,890,295	11,658,423

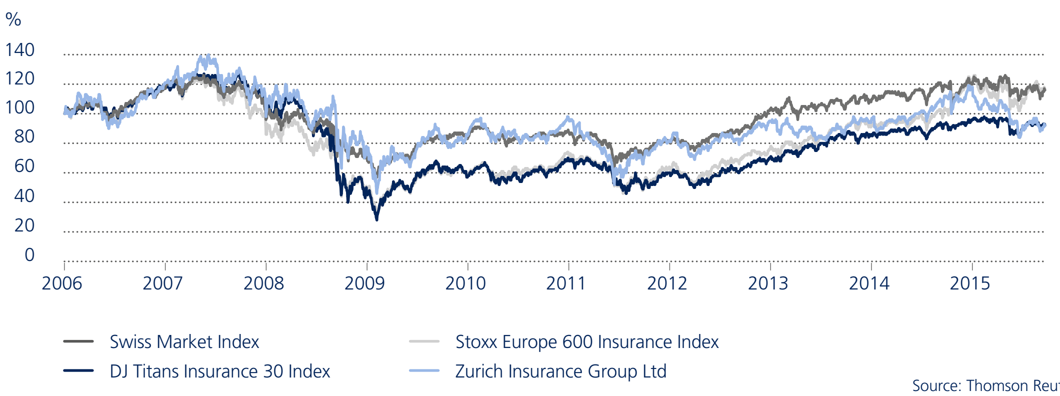
[1] Register of commerce
[2] Treasury shares are not entitled to dividends.

Per share data

in CHF	2015	2014
Gross dividend[1]	17.00	17.00
Basic earnings per share	11.89	24.39
Diluted earnings per share	11.86	24.17
Book value per share, as of December 31	209.27	232.65
Nominal value per share	0.10	0.10
Price at end of period	258.40	311.70
Price period high	332.90	314.70
Price period low	233.90	247.10

[1] Proposed dividend, subject to approval by shareholders at the Annual General Meeting 2016; expected payment date as from April 5, 2016. As the dividend payment will be paid from the capital contribution reserve, it will be exempt from Swiss withholding tax.

Zurich share performance (indexed) over the last ten years



Source: Thomson Reuters Datastream

Dividend

	Financial Year	Gross amount per registered share in CHF	Payment date as from
Dividend	2015	17.00[1]	April 5, 2016[1]
Dividend	2014	17.00	April 9, 2015
Dividend	2013	17.00	April 9, 2014
Dividend	2012	17.00	April 11, 2013
Dividend	2011	17.00	April 5, 2012
Dividend	2010	17.00	April 7, 2011
Dividend	2009	16.00	April 8, 2010
Dividend	2008	11.00	April 7, 2009
Dividend	2007	15.00	April 8, 2008
Dividend	2006	11.00	April 10, 2007

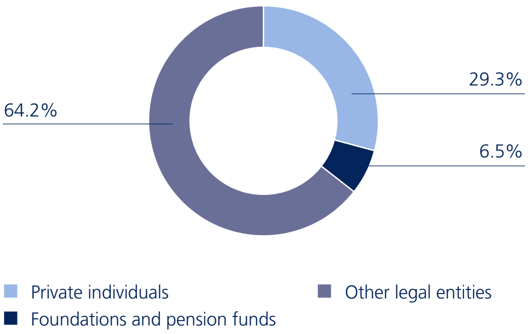
[1] Proposed dividend, subject to approval by shareholders at the Annual General Meeting 2016; expected payment date as from April 5, 2016.

Share trading

Zurich Insurance Group Ltd shares are listed on the SIX Swiss Exchange and traded on the SIX Swiss Exchange Blue Chip Segment; ticker symbol: ZURN; the Swiss security number (Valorennummer) is 1107539. Trading in Zurich Insurance Group Ltd shares on the Blue Chip Segment is conducted in Swiss francs.

Zurich Insurance Group Ltd shareholders registered in the share ledger

Zurich Insurance Group Ltd shareholders registered in the share ledger



The shares registered in the share ledger as of December 31, 2015 were owned by 130,151 shareholders of which 124,667 were private individuals holding 29.3% of the shares (or 17.0% of all outstanding shares), 1,970 were foundations and pension funds holding 6.5% of the shares (or 3.8% of all outstanding shares), and 3,514 were other legal entities holding 64.2% of the shares (or 37.2% of all outstanding shares).

Significant shareholders

As of December 31, 2015, Zurich Insurance Group Ltd is not aware of any person or institution, other than BlackRock, Inc., New York (> 5%), which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd representing three percent or more of its issued shares.

The announcements related to these notifications can be found via the search facility on the SIX Disclosure Office'splatform: https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

Shareholder information *continued*

Financial calendar

Annual General Meeting 2016
March 30, 2016

Ex-dividend date
April 1, 2016

Dividend payable as from
April 5, 2016

Results for the three months to March 31, 2016
May 12, 2016

Half year results 2016
August 11, 2016

Results for the nine months to September 30, 2016
November 10, 2016

Investor Day
December 1, 2016

Annual Review 2015
The Annual Review provides an overview of Zurich's business and strategy, and its financial and operating performance in 2015. It is available in English and German.

Annual Report 2015
The Annual Report contains detailed information about Zurich's financial performance, structure, executive bodies, risk management, corporate governance and remuneration in 2015. It is available in English and German, with the financial statements in English only.

If you are an iPad user, try our Investors and Media App, available on **www.zurich.com/investor-and-media-app**

Contact information

For more information please contact the appropriate office below, or visit our website at www.zurich.com

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Website:
www.zurich.com/shareholder-information

Corporate Responsibility
Zurich Insurance Group Ltd, Switzerland
Email: corporate.responsibility@zurich.com

American Depositary Receipts (ADR)
Zurich Insurance Group Ltd has an ADR program with The Bank of New York Mellon. For information relating to an ADR account, please contact BNY Mellon Shareowner Services, P.O. Box 30170, College Station, TX 77842-3170
Telephone: +1 888-269-2377
(toll-free number in the U.S.)
Telephone: + 1 201 680 6825 (international)
Website: www.mybnymdr.com
Email:
shrrelations@cpushareownerservices.com
General information on the company's ADR program can be obtained from The Bank of New York Mellon at www.adrbnymellon.com

Glossary

Group

Book value per share
is a measure that is calculated by dividing shareholders' equity by the number of shares issued less the number of treasury shares as of the period end.

Business operating profit (BOP)
is a measure that is the basis on which the Group manages all of its business units. It indicates the underlying performance of the Group's business units, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and impairments on investments (except for the capital markets and property lending/banking operations included in Non-Core Businesses, investments in hedge funds, certain securities held for specific economic hedging purposes and policyholders' share of investment results for the life businesses) and non-operational foreign exchange movements. Significant items arising from special circumstances, including restructuring charges, charges for litigation outside the ordinary course of business, gains and losses on divestments of businesses, impairments of goodwill and changes in estimates of earn-out liabilities (except experience adjustments, which remain within BOP) are also excluded from BOP. **Business operating profit before interest, depreciation and amortization (BOPBIDA)** is BOP before interest expense on debt, depreciation and impairments of property and equipment and amortization and impairments of intangible assets, but including amortization of deferred policy acquisition costs and deferred origination costs.

Business operating profit (after-tax) return on shareholders' equity (BOPAT ROE)
indicates the level of BOP relative to resources provided by shareholders. It is calculated as BOP, annualized on a linear basis and adjusted for taxes, divided by the average value of shareholders' equity, adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges, using the value at the beginning and end of each quarter within the period. The average shareholders' equity for each quarter is then added together and divided by the number of quarters. If the dividend is approved at the Annual General Meeting within the first ten working days in April, then the dividend is deducted from the second quarter opening shareholders' equity.

Investments
Total investments in the consolidated balance sheets include Group investments and investments for unit-linked contracts. **Group investments** are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Average invested assets exclude cash collateral received for securities lending. The Group manages its diversified investment portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of the Group's Asset/Liability Management and Investment Committee. **Investments for unit-linked contracts** include investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked contracts. They are managed in accordance with the investment objectives of each unit-linked fund. The investment result for unit-linked products is passed to policyholders through a charge to policyholder dividends and participation in profits.

Return on shareholders' equity (ROE)
is a measure that indicates the level of profit or loss relative to resources provided by shareholders. It is calculated as net income after taxes attributable to shareholders, annualized on a linear basis, divided by the average value of shareholders' equity, adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges, using the value at the beginning and end of each quarter within the period. The average shareholders' equity for each quarter is then added together and divided by the number of quarters. If the dividend is approved at the Annual General Meeting within the first ten working days in April, then the dividend is deducted from the second quarter opening shareholders' equity.

General Insurance

The following General Insurance measures are net of reinsurance.

Net underwriting result
is calculated as the difference between net earned premiums and policy fees and the sum of net insurance benefits and losses and net technical expenses.

Total net technical expenses
includes underwriting and policy acquisition costs, as well as the technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, and other income.

Combined ratio
is a performance measure that indicates the level of claims and net technical expenses during the period relative to net earned premiums and policy fees. It is calculated as the sum of the loss ratio and the expense ratio.

Loss ratio
is a performance measure that indicates the level of claims during the period relative to net earned premiums and policy fees. It is calculated as insurance benefits and losses net, which include paid claims, claims incurred but not reported (IBNR) and claims handling costs, divided by net earned premiums and policy fees.

Expense ratio
is a performance measure that indicates the level of technical expenses during the period relative to net earned premiums and policy fees. It is calculated as the sum of net technical expenses and policyholder dividends and participation in profits, divided by net earned premiums and policy fees.

Net non-technical result
includes expenses or income not directly linked to insurance operating performance, such as gains/losses on foreign currency translation and interest expense on debt. It includes the impact of financial market volatility and other non-operational variables that distort the ongoing business performance.

Global Life

Embedded value (EV) principles
is a methodology using a "bottom-up" market consistent approach, which explicitly allows for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets. A liquidity premium, which increases risk discount rates, has been applied to certain lines of business consistent with the CFO Forum principles. Options and guarantees are valued using market consistent models calibrated to observable market prices.

Insurance deposits
are deposits, similar to customer account balances, not recorded as revenues. However, the fees charged on insurance deposits are recorded as revenue within gross written premiums and policy fees. These deposits arise from investment contracts and insurance contracts that are accounted for under deposit accounting. They represent the pure savings part, which is invested.

New business annual premium equivalent (APE)
is calculated as new business annual premiums plus 10 percent of single premiums, before the effect of non-controlling interests. **Present value of new business premiums (PVNBP)** is calculated as the value of new business premiums discounted at the risk-free rate, before the effect of non-controlling interests.

New business value, after tax
is a measure that reflects the value added by new business written during the period, including allowances for frictional costs, time value of options and guarantees, and the cost of non-market risk, and is valued at the point of sale. It is calculated as the present value of the projected after-tax profit from life insurance contracts sold during the period using a valuation methodology consistent with the EV principles, after the effect of non-controlling interests.

Source of earnings (SOE)
reporting presents the key drivers of Global Life BOP identifying specific profit sources. This information provides the shareholders' view of earnings, thereby the components attributable to policyholders and non-controlling interests are included in each line item and are not separately identified.

Loadings and fees include fund and non-fund based fees. The investment margin is the spread between the investment result and interest credited to policyholders, plus the return on free surplus. The technical margin shows the mortality, morbidity, and longevity premiums less benefits to the policyholders together with the reinsurance result.

Operating and funding costs include administrative and operating expenses, interest expense on debt, depreciation and amortization of fixed assets and non-acquisition related intangible assets. Acquisition expenses include commissions and other new business expenses, as well as costs related to business combinations, including amortization of acquisition related intangible assets. The impact of deferrals is the net effect of deferral and amortization of policy acquisition and origination costs and front-end fees, which may be affected by movements in financial markets and changes in assumptions as well.

Farmers

Gross management result
is a performance measure of Farmers Management Services calculated as management fees and other related revenues minus management and other related expenses, including amortization and impairments of intangible assets.

Managed gross earned premium margin
is a performance measure calculated as the gross operating profit of Farmers Management Services divided by the gross earned premiums of 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 as attorney-in-fact and receives fees for its services.

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