

Annual Report 2015



Zurich Insurance Company Group



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.

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Operating and financial review

The Operating and financial review is the management analysis of the business performance of Zurich Insurance Company Ltd and its subsidiaries (collectively the 'Zurich Insurance Company Group' or 'ZIC Group') for the year ended December 31, 2015, compared with 2014.

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The information contained within the Operating and financial review is unaudited and is based on the consolidated results of the ZIC 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 ZIC 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 ZIC Group uses business operating profit (BOP) and other performance indicators to enhance the understanding of its results. 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 ZIC 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 ZIC 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 | 2,895 | 4,646 | (38%) |
| Net income attributable to shareholders | 1,859 | 3,986 | (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 | 1,290 | 1,266 | 2% |
| Farmers business operating profit | 1,357 | 1,508 | (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 | 198,605 | 206,404 | (4%) |
| Net investment result on Group investments | 7,507 | 9,241 | (19%) |
| Net investment return on Group investments ² | 3.8% | 4.5% | (0.7 pts) |
| Total return on Group investments ² | 1.7% | 8.6% | (7.0 pts) |
| Shareholders' equity ³ | 29,646 | 33,721 | (12%) |

¹ Parentheses around numbers represent an adverse variance.

² Calculated on average Group investments.

³ As of December 31, 2015 and December 31, 2014, respectively.

Operating and financial review *continued*

Performance overview

The ZIC Group delivered overall business operating profit of USD 2.9 billion, a decrease of USD 1.8 billion or 38 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 1.9 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 1.8 billion in business operating profit and lower net gains on investments of USD 521 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.

Shareholders' equity decreased by USD 4.1 billion during the year to December 31, 2015 to USD 29.6 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.

Business operating profit decreased by USD 1.8 billion to USD 2.9 billion, or by 38 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 24 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 151 million to USD 1.4 billion, or by 10 percent. **Farmers Re** business operating profit decreased by USD 128 million to USD 60 million due to underwriting losses, as well as lower net investment income. **Farmers Management Services** business operating profit decreased by USD 22 million to USD 1.3 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 689 million, compared with a loss of USD 934 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 73 million compared with a loss of USD 173 million in 2014. The improvement arose from the impact of lower adverse development of reserves established in prior years 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 1.7 billion, or 19 percent in U.S. dollar terms and by 9 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 619 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 2.0 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 4.2 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 **shareholders' effective tax rate** increased to 35.5 percent for the year ended December 31, 2015 compared with 26.5 percent for 2014. The increase of 9 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.

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 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 | 1,290 | 1,266 | 2% |
| Net policyholder flows ¹ | 7,200 | 5,470 | 32% |
| Assets under management ^{2, 3} | 254,210 | 265,515 | (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.

Business operating profit increased by USD 24 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 in U.S dollar terms, but increased in local currency due to 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 also decreased in U.S dollar terms, but increased on a local currency basis, which largely resulted from increased investment returns in Latin America, while the investment margin in EMEA remained flat. Technical margin improved mainly 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 in U.S dollar terms, but increased on a local currency basis due to disciplined central expense management in 2015, which 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 in U.S dollar terms, but increased on a local currency basis reflecting 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 largely coming from North America and EMEA.

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.

Operating and financial review *continued*

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.

Farmers

Farmers business operating profit decreased by USD 151 million to USD 1.4 billion. This was due to a reduction in business operating profit of USD 128 million in Farmers Re and USD 22 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 | (41) | (15) | nm |
| Business operating profit | 1,297 | 1,320 | (2%) |
| Managed gross earned premium margin | 7.1% | 7.2% | (0.1 pts) |

Business operating profit decreased by USD 22 million to USD 1.3 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** decreased by USD 25 million.

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 | 60 | 188 | (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 128 million to USD 60 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 | (489) | (652) | 25% |
| Headquarters | (200) | (282) | 29% |
| Total business operating profit | (689) | (934) | 26% |

Holding and Financing business operating loss of USD 489 million decreased by USD 163 million, or by 25 percent in U.S. dollar terms and 21 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 | (29) | (155) | 81% |
| Other run-off | 102 | (17) | nm |
| Total business operating profit | 73 | (173) | 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 29 million. The result was primarily driven by changes to reserves in the run-off portfolios. The improvement of USD 127 million arose primarily from the impact of lower adverse development of loss reserves established in prior years.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 102 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

The risk review is an integral part of the consolidated financial statements. Risks and capital are managed at the Zurich Insurance Group, segment, region and business unit level according to our risk and capital management framework. The principles of the Zurich Insurance Group's enterprise risk and management described in the 'Risk and capital management section' are equally applicable to the Zurich Insurance Company Ltd (ZIC) and its consolidated subsidiaries (collectively the 'ZIC Group'). There is no material difference in how risk and capital are managed at the Zurich Insurance Group and the ZIC Group. The figures presented are prepared on a ZIC Group basis.

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The risk review is an integral part of the consolidated financial statements.

Risk and capital management

Mission and objectives of risk management

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

The Zurich Insurance Group's major risk management objectives are to:

- Protect the capital base by monitoring that risks are not taken beyond the Zurich Insurance 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 Insurance Group'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 Zurich Insurance Group's main risk governance document; it specifies the Zurich Insurance 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 Zurich Insurance Group regularly reports on its risk profile at local and Zurich Insurance Group levels. The Zurich Insurance 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 Zurich Insurance Group assesses risks systematically and from a strategic perspective through its proprietary Total Risk Profiling™ (TRP) process, which allows Zurich Insurance Group to identify and evaluate the probability and severity of a risk scenario. The Zurich Insurance Group then develops, implements and monitors improvements. The TRP process is integral to how Zurich Insurance Group deals with change, and is particularly suited to evaluating strategic risks as well as risks to the Zurich Insurance Group's reputation. At Zurich Insurance Group level this process is conducted annually, reviewed regularly and tied to the planning process.

In addition to this qualitative approach, the Zurich Insurance Group regularly measures and quantifies material risks to which it is exposed. The Zurich Insurance Group's policy is to maintain capital consistent with an 'AA' financial strength rating for the Zurich Insurance Group. The Zurich Insurance Group translates that goal into a quantified risk tolerance. The Zurich Economic Capital Model (Z-ECM) provides a key input into the Zurich Insurance Group's strategic planning process as it allows an assessment as to whether the Zurich Insurance Group's risk profile is in line with the Zurich Insurance Group's risk tolerance. Z-ECM forms the basis for optimizing the Zurich Insurance Group's risk-return profile by providing consistent risk measurement across the Zurich Insurance Group.

Risk review *continued*

Based on the Zurich Insurance Group's remuneration rules, the Board of Directors designs and structures remuneration arrangements to ensure they do not encourage inappropriate risk taking. The Zurich Insurance Group Chief Risk Officer (CRO) consults with the other assurance, control and governance functions to provide the Zurich Insurance Group CEO with a review of risk factors to consider in the annual variable-compensation process. In consultation with these functions, the Zurich Insurance Group CRO provides an individual assessment of Zurich Insurance Group key risk takers as part of their annual individual performance assessment.

Zurich Insurance Group risk management organization

The Zurich Insurance Group Chief Risk Officer leads the Risk Management function, which develops frameworks and processes for identifying, measuring, managing, monitoring and reporting risks throughout the Zurich Insurance Group. The Zurich Insurance Group Chief Risk Officer is responsible for oversight of risks across the Zurich Insurance Group, regularly reporting risk matters to the Zurich Insurance Group Chief Executive Officer, senior management committees and the Risk Committee of the Board.

The Zurich Insurance Group Risk Management function consists of central teams at Zurich Insurance Group level and a decentralized risk management network at segment, regional, business unit and functional levels. Staff at Zurich Insurance 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 Zurich Insurance Groups 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 Zurich Insurance Group Group's Chief Risk Officer.

The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group 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 Zurich Insurance 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.

Zurich Insurance Group strives to simplify its legal entity structure to reduce complexity and increase fungibility of capital. The Zurich Insurance Group pools risk, capital and liquidity centrally as much as possible.

Capital management framework

The Zurich Insurance Group's capital management framework forms the basis for actively managing capital within Zurich Insurance Group. The Zurich Insurance Group uses a number of different capital models, taking into account economic, regulatory, and rating agency constraints. The Zurich Insurance Group's capital and solvency position is monitored and regularly reported.

The Zurich Insurance Group'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 Zurich Insurance Group's executive management determines the capital management strategy and sets the principles, standards and policies to execute the strategy. Zurich Insurance Group Treasury and Capital Management executes the strategy.

Capital management program

The Zurich Insurance Group's capital management program comprises various actions to optimize shareholders' total return and to meet capital needs, while enabling Zurich Insurance Group 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 Zurich Insurance 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 Zurich Insurance 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 Company Ltd faces no legal restrictions on dividends it may pay to its shareholders. As of December 31, 2015, the amount of the legal reserve exceeded 20 percent of the paid-in share capital.

The ability of the ZIC 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.

Risk review *continued*

Own risk and solvency assessment

Insurance financial strength rating

The Zurich Insurance 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 Zurich Insurance Company Ltd is an important element of the Zurich Insurance Group's competitive position. Also, credit ratings derived from the financial strength ratings also affect the cost of capital.

The Zurich Insurance Group maintained its strong rating level in 2015. As of December 31, 2015, the IFSR of Zurich Insurance Company Ltd was 'AA-' by Standard & 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 Insurance Company Ltd from 'positive' to 'stable,' while reaffirming 'AA-' financial strength, on August 28, 2015. A.M. Best revised its outlook for Zurich Insurance Company Ltd 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 Zurich Insurance 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 ZIC 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 Zurich Insurance Group aims to hold an adequate buffer to ensure regulated subsidiaries meet local capital requirements. The Zurich Insurance Group is subject to different capital requirements depending on the countries in which it operates.

The Zurich Insurance Group pools risk and capital as much as possible at a Zurich Insurance Group level, realizing diversification benefits for the Zurich Insurance Group. This also allows the Zurich Insurance 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 Insurance Group's internal model for 2015 on a provisional basis, without prejudicing the final approval. Zurich Insurance Group 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 Zurich Insurance 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 Insurance Group filed its first Group ORSA report with FINMA.

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 Insurance Group 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

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. The exposure is transferred to ZIC Group through the underwriting process. Zurich Insurance Group actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. Zurich Insurance Group 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 ZIC 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.

The Zurich Insurance Group's underwriting strategy takes advantage of the diversification of general insurance risks across lines of business and geographic regions. The Zurich Insurance Group seeks to optimize shareholder value by achieving its mid-term return on equity target. Zurich Insurance Group's underwriting governance is applicable throughout the Zurich Insurance Group.

Underwriting discipline is a fundamental part of managing insurance risk. The Zurich Insurance Group sets limits on underwriting capacity, and delegates authority to individuals based on their specific expertise. The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Insurance Group's economic view on inflation and specific claims activity, and feeds into actuarial models and Zurich Insurance Group'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 Zurich Insurance Group monitors potential new emerging risk exposures. Zurich Insurance Group 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 Zurich Insurance 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 ZIC 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 |

Table 1.b

General Insurance –
Direct written
premiums and
policy fees by line
of business –
prior period

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 |

Risk review *continued*

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 ZIC 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 Zurich Insurance Group also monitors insurance risk by evaluating extreme scenarios, taking into account non-linear effects of reinsurance contracts.

Table 2.a

in USD millions, for the year ended December 31, 2015

Insurance risk sensitivity for the General Insurance business – current period

| | 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 | (39) | (51) | (69) | (22) |

Table 2.b

in USD millions, for the year ended December 31, 2014

Insurance risk sensitivity for the General Insurance business – prior period

| | 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 | (47) | (56) | (90) | (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 Zurich Insurance 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.

The Zurich Insurance Group has local product development committees and a Zurich Insurance Group-level product approval committee to analyze potential new life products that could significantly increase or change the nature of its risks. The Zurich Insurance Group regularly reviews the continued suitability and the potential risks of existing life products.

The Zurich Insurance Group uses market-consistent embedded value reporting principles, which allow Zurich Insurance Group 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.

From a risk-management perspective, unit-linked products are designed to reduce much of the market and credit risk associated with the Zurich Insurance Group's traditional business. Risks that are inherent in these products are largely passed on to the policyholder, although a portion of the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 ZIC 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 the Zurich Insurance Group 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 Zurich Insurance 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 ZIC 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 ZIC 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 | | Other life | | Total reserves | |
|------------------------------|---------------------|---------------|-----------------------|---------------|----------------|----------------|
| | insurance contracts | | insurance liabilities | | | |
| | 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 Zurich Insurance 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 Insurance Group buys.

To have a consistent approach and form a global perspective on accumulations, the Zurich Insurance Group models general insurance exposures in a center of excellence, which works with local businesses to help improve the overall quality of data. The Zurich Insurance 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, hailstorms, downburst and straight-line winds, and geologically-induced perils such as earthquakes. The Zurich Insurance 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 Insurance Group 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 Insurance Group's experience in monitoring potential exposures to natural catastrophes is also applicable to threats posed by man-made catastrophes, particularly terrorism.

The Zurich Insurance 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 Insurance Group's overall exposure. Zurich Insurance Group uses a vendor-provided catastrophe model to evaluate potential exposures in every major U.S. city and selected cities in Europe. The Zurich Insurance Group undertakes more detailed and frequent analyses for cities in which Zurich Insurance Group has greater exposure.

The Zurich Insurance 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 Zurich Insurance Group assesses the risk for countries with the next-greatest potential net exposure. The Zurich Insurance Group periodically monitors accumulation limits for these and other areas.

Reinsurance for general insurance and life insurance

The Zurich Insurance Group's objective in purchasing reinsurance is to provide market-leading capacity for customers while protecting the balance sheet and achieving capital efficiency. The Zurich Insurance 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 Insurance Group structures and aligns its reinsurance programs to achieve an optimum risk-return ratio. Zurich Insurance Group manages its central reinsurance purchasing according to these principles. The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's business by event and region, and if multiple events occur across regions.

The Zurich Insurance 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.

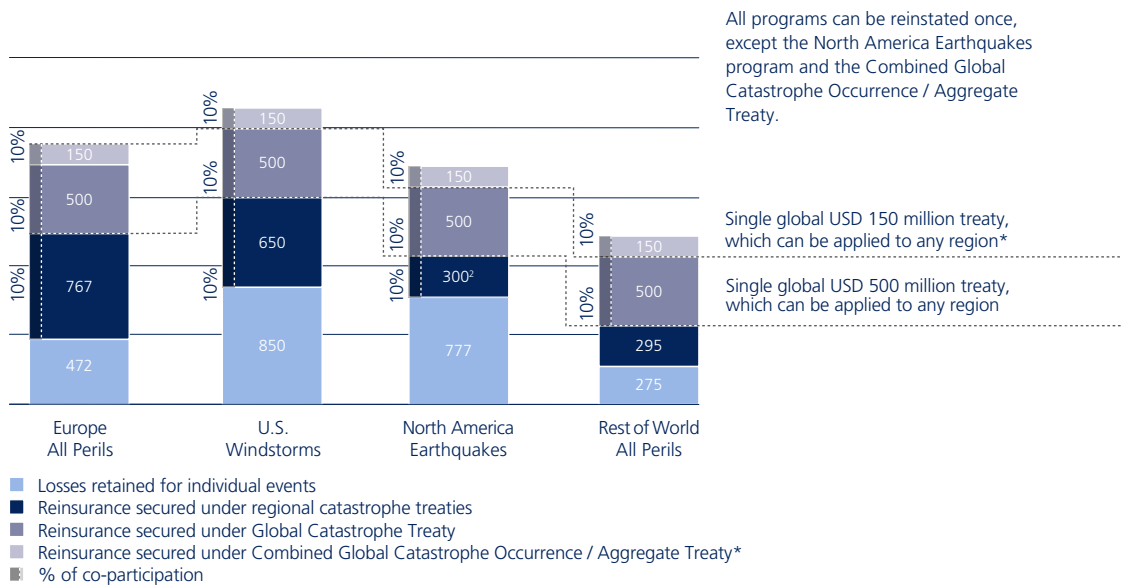
The Zurich Insurance Group participates in the underlying risks through its retention and through its co-participation in the excess layers. The contracts are on a loss-occurrence basis except the aggregate catastrophe cover Lakeside Re III Cat bond and the Global Aggregate Catastrophe cover, which operate on an annual aggregate basis. In addition to these covers, the Zurich Insurance 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*

The treaty structures of most catastrophe covers, including the regional retentions, remained stable in 2015. Zurich Insurance Group 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 events¹

(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 Zurich Insurance Group purchases catastrophe reinsurance specific to life insurance for its exposure to natural and man-made catastrophes.

Market risk including investment credit risk

Market risk is the risk associated with the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's risk tolerance and local regulatory constraints.

The Zurich Insurance 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 Insurance Group 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 Zurich Insurance 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 Zurich Insurance Group also limits illiquid investments.

The Asset/Liability Management Investment Committee reviews and monitors Zurich Insurance Group strategic asset allocation and tactical boundaries, and monitors Zurich Insurance Group asset/liability exposure. The Zurich Insurance Group oversees the activities of local asset/liability management investment committees and regularly assesses market risks at both Zurich Insurance 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 Zurich Insurance 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.

The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's policy prohibits speculative trading in derivatives, meaning a pattern of 'in and out' activity without reference to an underlying position. The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group unwound the hedge because the European bailout plan reduced the probability of such a tail event.

For more information on the ZIC 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 review *continued*

Risk from equity securities and property

The Zurich Insurance Group is exposed to risks from price fluctuations on equity securities and property which could affect the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Insurance Group 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 Zurich Insurance 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 Zurich Insurance 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 Insurance Group has limits on holdings in real assets and limits on deviations of asset interest rate sensitivities from liability interest rate sensitivities. The Zurich Insurance 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 Zurich Insurance 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.

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 ZIC 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 Insurance Group considers available to protect policyholders in a worst-case scenario.

Tables 4, 5 and 6 show the estimated economic market risk sensitivities of ZIC 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 ZIC Group. The net impact – the difference between the impact on ZIC Group investments and liabilities – represents the economic risk related to changes in market risk factors that the ZIC 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 ZIC 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.

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 | | 2015 | 2014 |
|--------------------------------------|--|-------|-------|
| Economic interest rate sensitivities | In USD millions, as of December 31 | | |
| | 100 basis points increase in the interest rate yield curves | | |
| | General Insurance business | | |
| | Net impact after tax | (293) | (222) |
| | Global Life business | | |
| | Total impact on Embedded Value | (276) | (65) |
| | Rest of the business | | |
| | Net impact after tax | 67 | (55) |
| | 100 basis points decrease in the interest rate yield curves | | |
| | General Insurance business | | |
| | Net impact after tax | 252 | 73 |
| | Global Life business | | |
| | Total impact on Embedded Value | 29 | (222) |
| Rest of the business | | | |
| Net impact after tax | (158) | (3) | |

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 | | 2015 | 2014 |
|-------------------------------------|-------------------------------------|-------|-------|
| Economic equity price sensitivities | In USD millions, as of December 31 | | |
| | 10% decline in stock markets | | |
| | General Insurance business | | |
| | Net impact after tax | (467) | (547) |
| | Global Life business | | |
| | Total impact on Embedded Value | (289) | (301) |
| | Rest of the business | | |
| Net impact after tax | (31) | (62) | |

Risk review *continued*

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 | (1,022) | (1,351) |
| Global Life business | | | |
| | Total impact on Embedded Value | (1,056) | (884) |
| Rest of the business | | | |
| | Net impact after tax | (225) | (432) |

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 ZIC Group effective tax rate is 35.5 percent for 2015 and 26.5 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 Zurich Insurance 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 Zurich Insurance Group's financial condition.

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 ZIC Group is exposed to credit risk from third-party counterparties where the ZIC 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% | 30,309 | 19.7% |
| | AA | 47,288 | 34.3% | 58,007 | 37.8% |
| | A | 24,165 | 17.6% | 27,529 | 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% | 1,439 | 1.0% |
| | Total | 137,686 | 100.0% | 153,602 | 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 ZIC 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 Zurich Insurance Group identifies investments expected to be downgraded, it implements appropriate actions.

The risk-weighted average issuer credit rating of the ZIC Group's debt securities portfolio was 'BBB' in 2015 and 'BBB+' in 2014.

As of December 31, 2015, the largest concentration in the ZIC 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 ZIC 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.

In addition to debt exposure, the ZIC 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 ZIC 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 ZIC Groups 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 Zurich Insurance 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.

Cash and cash equivalents

To reduce concentration, settlement and operational risks, the Zurich Insurance Group limits the amount of cash that can be deposited with a single counterparty. The Zurich Insurance Group also maintains an authorized list of acceptable cash counterparties.

Cash and cash equivalents amounted to USD 7.8 billion as of December 31, 2015 and USD 7.4 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. 62 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 Zurich Insurance 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 Zurich Insurance Group sets requirements for local policies, and monitoring and reporting standards. The Zurich Insurance Group closely monitors performance of portfolios with respect to impairments and losses.

The ZIC 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. 48.2 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 8 shows the composition of the loan portfolio by rating class. As of December 31, 2015, a total of USD 5.0 billion or 48.9 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.

Risk review *continued*

Other loans by rating of issuer

| Rating | 2015 | | 2014 | |
|---------------|---------------|---------------|---------------|---------------|
| | USD millions | % of total | USD millions | % of total |
| AAA | 4,243 | 41.3% | 4,998 | 42.6% |
| AA | 1,387 | 13.5% | 1,741 | 14.8% |
| A | 1,702 | 16.5% | 2,262 | 19.3% |
| BBB and below | 1,200 | 11.7% | 1,577 | 13.4% |
| Unrated | 1,751 | 17.0% | 1,153 | 9.9% |
| Total | 10,282 | 100.0% | 11,731 | 100.0% |

Derivatives

The positive replacement value of outstanding derivatives represents a credit risk to the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's standard practice is to only transact derivatives with those counterparties for which the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group operates internationally and therefore is exposed to the financial impact arising from changes in the exchange rates of various currencies. The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group. Zurich Insurance Group 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 Zurich Insurance Group's presentation currency, the U.S. dollar. The Zurich Insurance Group applies net investment hedge accounting to protect against the impact that changes in certain exchange rates might have on selected net investments.

Table 9 shows the total IFRS equity's sensitivity to changes in exchange rates for the main functional currencies to which the ZIC Group is exposed. Positive values represent an increase in the value of the ZIC Group's total equity. See notes 1, 3 and 7 of the consolidated financial statements for additional information on foreign currency translation and transactions.

Sensitivity of the ZIC Group's total IFRS equity to exchange rate fluctuations

| | 2015 | 2014 |
|----------------------------|------|-------|
| 10% increase in | | |
| EUR/USD rate | 584 | 825 |
| GBP/USD rate | 202 | 279 |
| CHF/USD rate | 56 | (262) |
| 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 Insurance Group's view of expected future market changes. While table 9 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

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 Zurich Insurance Group's exposure to other credit risk is derived from the following main categories of assets:

- Reinsurance assets
- Receivables

The Zurich Insurance Group's objective in managing credit risk exposures is to maintain them within parameters that reflect the Zurich Insurance Group's strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Zurich Insurance Group has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Zurich Insurance 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 Zurich Insurance Group generally applies the lowest, unless other indicators justify an alternative, which may be an internal credit rating.

The Zurich Insurance Group regularly tests and analyzes credit risk scenarios and prepares possible contingency measures that may be implemented, if the credit risk environment worsens.

The Zurich Insurance Group actively uses collateral to mitigate credit risks. Nevertheless, underlying credit risks are managed independently from the collateral. The Zurich Insurance Group has limits and quality criteria to identify acceptable letter-of-credit providers. Letters of credit enable Zurich Insurance Group to limit the risks embedded in reinsurance captives, deductibles, trade credit and surety.

Credit risk concentration

The Zurich Insurance Group limits and regularly monitors credit exposures to individual and related counterparties. The Zurich Insurance 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 Zurich Insurance 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 ZIC Group also has off-balance sheet exposures related to undrawn loan commitments of USD 7 million and USD 2 million as of December 31, 2015 and 2014, respectively. See note 23 of the consolidated financial statements for undrawn loan commitments.

Credit risk related to reinsurance assets

The Zurich Insurance Group's Corporate Reinsurance Security Committee manages the credit quality of cessions and reinsurance assets. The Zurich Insurance 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.

Risk review *continued*

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 Zurich Insurance 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 10 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 10 shows reinsurance premiums ceded and reinsurance assets split by rating.

| Table 10 as of December 31 | | 2015 | | | | 2014 | | | |
|-------------------------------|--|-----------------|---------------|--------------------|---------------|-----------------|---------------|--------------------|---------------|
| | | Premiums ceded | | Reinsurance assets | | Premiums ceded | | Reinsurance assets | |
| Rating | | USD millions | % of total | USD millions | % of total | USD millions | % of total | USD millions | % of total |
| 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% |
| Total¹ | | 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.

Credit risk related to receivables

The ZIC 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 ZIC Group, or to pay claims to customers on behalf of the ZIC Group. The Zurich Insurance Group has policies and standards to manage and monitor credit risk related to intermediaries. The Zurich Insurance requires intermediaries to maintain segregated cash accounts for policyholder money. The Zurich Insurance 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 Zurich Insurance Group reports internally on Zurich Insurance 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.

Operational risk

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 Insurance Group has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk within the Zurich Insurance Group.

Within this framework, the Zurich Insurance 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 Zurich Insurance Group and highlights the main scenarios contributing to the Z-ECM capital required.
- 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 Zurich Insurance 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 Zurich Insurance 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 Insurance Group mitigates and responds to cyber risks and threats to data security. Data held by Zurich Insurance Group'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 Zurich Insurance Group's information security policies.

The Zurich Insurance Group regularly assesses risks associated with strategic suppliers to verify that suppliers remain financially viable and able to deliver services, and that the Zurich Insurance Group is not exposed to geographic and supplier concentration risks.

Preventing, detecting and responding to fraud is embedded in Zurich Insurance Group's business. Both claims and non-claims fraud are included in the common framework for assessing and managing operational risks.

Risk review *continued*

Liquidity risk

Liquidity risk is the risk that the Zurich Insurance 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 Insurance Group'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 Zurich Insurance Group assesses, monitors and manages its liquidity needs on an ongoing basis.

Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group had to recapitalize local balance sheets.

Similar guidelines apply at the Zurich Insurance Group level, and detailed liquidity forecasts are regularly conducted, based on local businesses' input and the Zurich Insurance Group's forecasts. As part of its liquidity management, the Zurich Insurance Group maintains sufficient cash and cash equivalents and high-quality, liquid investment portfolios to meet outflows under expected and stressed conditions. The Zurich Insurance Group also maintains internal liquidity sources that cover the Zurich Insurance Group's potential liquidity needs, including those that might arise in times of stress. The Zurich Insurance Group takes into account the amount, availability and speed at which these sources can be accessed. The Zurich Insurance 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 Zurich Insurance Group maintains a range of maturities for external debt securities. A potential source of liquidity risk is the effect of a downgrade of the Zurich Insurance Group's credit rating. This could affect the Zurich Insurance 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 Zurich Insurance Group's liquidity framework.

The Zurich Insurance 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 Zurich Insurance 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 ZIC 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 Zurich Insurance 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 Zurich Insurance Group's actual and forecast liquidity, possible adverse scenarios that could affect the Zurich Insurance Group's liquidity and possible liquidity needs from the Zurich Insurance Group's main subsidiaries, including under conditions of stress. For more information on the ZIC 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 Zurich Insurance 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 Zurich Insurance Group on a timely basis. See note 23 of the consolidated financial statements.

Strategic risk and risks to the Zurich Insurance Group's reputation

Strategic risk

Strategic risk corresponds to the risk that Zurich Insurance Group 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 Insurance Group defines the strategy as the long term plan of action designed to allow the Zurich Insurance Group to achieve its goals and aspirations.

The Zurich Insurance 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 Zurich Insurance Group Executive Committee assessed in 2015 the key strategic risk scenarios, looking at 2016 and beyond. The Zurich Insurance Group TRP identified and assessed risks in executing the Zurich Insurance Group's transformation program, delivering on its customer strategy, information security and cyber risks. Zurich Insurance Group has put mitigating actions in place to manage and carry out the Zurich Insurance Group's transformation; to meet the challenge of evolving customer needs and changes in the distribution model affected by digitalization; and to strengthen Zurich Insurance Group's ability to handle and protect data and information in anticipation of a rapidly evolving external environment.

The Zurich Insurance Group evaluates the risks of M&A transactions both from a quantitative and a qualitative perspective. The Zurich Insurance Group conducts risk assessments of M&A transactions to evaluate risks specifically related to integrating acquired businesses.

Risks to the Zurich Insurance Group's reputation

Risks include acts or omissions by the Zurich Insurance Group or any of its employees that could damage the Zurich Insurance Group's reputation or lead to a loss of trust among its stakeholders. Every risk type has potential consequences for Zurich Insurance Group's reputation. Effectively managing each type of risk helps reduce threats to Zurich Insurance Group's reputation.

The Zurich Insurance 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 Zurich Insurance Group's code of conduct, which promotes integrity and good business practice. The Zurich Insurance Group centrally manages certain aspects of reputation risk, for example, communications, through functions with the appropriate expertise.

Consolidated financial statements

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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 | 7,507 | 9,241 |
| Net investment income on Group investments | | 5,553 | 6,172 |
| Net capital gains/(losses) and impairments on Group investments | | 1,953 | 3,069 |
| Net investment result on unit-linked investments | | 6,238 | 10,784 |
| Net gain/(loss) on divestments of businesses | | 10 | (259) |
| Other income | | 1,383 | 1,714 |
| Total revenues | | 60,548 | 72,591 |
| 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 | 8,602 | 8,812 |
| Interest expense on debt | | 432 | 525 |
| Interest credited to policyholders and other interest | | 461 | 515 |
| Total benefits, losses and expenses | | 57,165 | 66,620 |
| Net income before income taxes | | 3,383 | 5,971 |
| Income tax (expense)/benefit | 18 | (1,273) | (1,659) |
| attributable to policyholders | 18 | (110) | (106) |
| attributable to shareholders | 18 | (1,163) | (1,552) |
| Net income after taxes | | 2,110 | 4,313 |
| attributable to non-controlling interests | | 252 | 326 |
| attributable to shareholders | | 1,859 | 3,986 |

¹ The ZIC 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.

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 | 3,986 | 2,416 | 200 |
| Details of movements during the period | | | |
| Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders) | | 5,366 | 132 |
| Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders) | | (1,948) | 163 |
| Deferred income tax (before foreign currency translation effects) | | (702) | (65) |
| Foreign currency translation effects | | (299) | (30) |
| 2015 | | | |
| Comprehensive income for the period | 1,859 | (1,573) | (12) |
| Details of movements during the period | | | |
| Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders) | | (42) | 23 |
| Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders) | | (1,776) | (16) |
| Deferred income tax (before foreign currency translation effects) | | 394 | (15) |
| Foreign currency translation effects | | (150) | (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 |
|--|--|---------------------|---|--|---|---|--|----------------------------|
| (1,236) | 1,380 | 24 | (398) | (374) | 1,006 | 4,993 | 84 | 5,077 |
| (1,236) | 4,262 | 32 | (841) | (809) | 3,453 | | | |
| | (1,786) | – | – | – | (1,786) | | | |
| – | (767) | (8) | 185 | 177 | (590) | | | |
| – | (329) | – | 257 | 257 | (72) | | | |
| (2,081) | (3,666) | 9 | 629 | 638 | (3,028) | (1,169) | (130) | (1,299) |
| (2,081) | (2,100) | 12 | 648 | 660 | (1,440) | | | |
| – | (1,792) | – | – | – | (1,792) | | | |
| – | 380 | (2) | (162) | (164) | 216 | | | |
| – | (154) | – | 142 | 142 | (12) | | | |

Consolidated financial statements *continued*

Consolidated balance sheets

| Assets | in USD millions, as of | | | Restated | |
|--|------------------------|-------|----------------|----------------|----------------|
| | | Notes | 12/31/15 | 12/31/14 | 01/01/14 |
| Investments | | | | | |
| Total Group investments | | 6 | 191,918 | 205,292 | 207,516 |
| Cash and cash equivalents | | | 7,849 | 7,352 | 7,053 |
| Equity securities | | | 19,194 | 16,504 | 13,566 |
| Debt securities | | | 137,685 | 153,602 | 156,379 |
| Investment property | | | 9,865 | 8,784 | 8,745 |
| Mortgage loans | | | 7,024 | 7,249 | 8,933 |
| Other loans | | | 10,282 | 11,731 | 12,712 |
| Investments in associates and joint ventures | | | 18 | 70 | 129 |
| Investments for unit-linked contracts | | | 126,728 | 134,416 | 134,267 |
| Total investments¹ | | | 318,646 | 339,708 | 341,783 |
| 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 | 2,320 |
| Receivables and other assets | | 16 | 14,921 | 16,915 | 18,455 |
| Deferred tax assets | | 18 | 1,454 | 1,559 | 2,018 |
| 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 | | | 382,642 | 406,927 | 415,242 |

¹ The ZIC 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 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.

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 | | 2,835 | 3,053 | 3,012 |
| Other liabilities | 17 | 16,669 | 18,280 | 18,131 |
| Deferred tax liabilities | 18 | 4,482 | 5,008 | 5,098 |
| Liabilities held for sale | | – | – | 49 |
| Senior debt | 19 | 4,656 | 5,379 | 6,337 |
| Subordinated debt | 19 | 5,614 | 5,857 | 6,342 |
| Total liabilities | | 350,841 | 370,726 | 380,814 |
| Equity | | | | |
| Share capital | 20 | 660 | 660 | 660 |
| Additional paid-in capital | 20 | 14,666 | 14,790 | 14,729 |
| Net unrealized gains/(losses) on available-for-sale investments | | 2,469 | 4,042 | 1,626 |
| Cash flow hedges | | 294 | 306 | 106 |
| Cumulative foreign currency translation adjustment | | (7,605) | (5,524) | (4,288) |
| Revaluation reserve | | 228 | 218 | 195 |
| Retained earnings | | 18,934 | 19,228 | 18,825 |
| Shareholders' equity | | 29,646 | 33,721 | 31,851 |
| Non-controlling interests | | 2,155 | 2,481 | 2,576 |
| Total equity | | 31,801 | 36,202 | 34,428 |
| Total liabilities and equity | | 382,642 | 406,927 | 415,242 |

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 | 1,859 | 3,986 |
| 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 | 135 | 86 |
| Underwriting activities: | 6,868 | 14,532 |
| <i>Reserves for insurance contracts, gross</i> | 4,528 | 4,759 |
| <i>Reinsurers' share of reserves for insurance contracts¹</i> | (1,981) | 691 |
| <i>Liabilities for investment contracts</i> | 4,806 | 9,746 |
| <i>Deferred policy acquisition costs</i> | (981) | (1,014) |
| <i>Deferred origination costs</i> | 47 | 55 |
| <i>Deposits made under assumed reinsurance contracts</i> | 526 | 429 |
| <i>Deposits received under ceded reinsurance contracts</i> | (77) | (134) |
| Investments: | (5,129) | (15,698) |
| <i>Net capital (gains)/losses on total investments and impairments</i> | (6,324) | (12,081) |
| <i>Net change in derivatives</i> | 175 | 19 |
| <i>Net change in money market investments</i> | 1,415 | 1,955 |
| <i>Sales and maturities</i> | | |
| <i>Debt securities¹</i> | 85,796 | 108,678 |
| <i>Equity securities</i> | 60,736 | 57,056 |
| <i>Other</i> | 6,997 | 7,185 |
| <i>Purchases</i> | | |
| <i>Debt securities</i> | (83,237) | (104,404) |
| <i>Equity securities</i> | (62,423) | (67,124) |
| <i>Other</i> | (8,265) | (6,982) |
| Net changes in sale and repurchase agreements | 237 | (139) |
| Movements in receivables and payables | (54) | 929 |
| Net changes in other operational assets and liabilities | 75 | 1,056 |
| Deferred income tax, net | 18 | 177 |
| Net cash provided by/(used in) operating activities | 5,192 | 6,188 |

¹ The ZIC 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) | (1,232) |
| Cash flows from financing activities | | |
| Dividends paid | (3,045) | (3,267) |
| Other acquisitions and divestments related cash flows | (34) | (403) |
| Issuance of debt | 490 | 1,526 |
| Repayment of debt | (1,023) | (1,560) |
| Net cash provided by/(used in) financing activities | (3,612) | (3,705) |
| Foreign currency translation effects on cash and cash equivalents | (698) | (758) |
| Change in cash and cash equivalents | 355 | 493 |
| Cash and cash equivalents as of January 1 | 8,528 | 8,035 |
| Cash and cash equivalents as of December 31 | 8,883 | 8,528 |
| of which: | | |
| – Group investments | 7,849 | 7,352 |
| – Unit-linked | 1,034 | 1,176 |
| Other supplementary cash flow disclosures | | |
| Other interest income received | 5,134 | 6,231 |
| Dividend income received | 1,999 | 1,968 |
| Other interest expense paid | (992) | (1,117) |
| Income taxes paid | (1,383) | (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 | 7,001 | 6,557 |
| Cash equivalents | 1,882 | 1,971 |
| Total¹ | 8,883 | 8,528 |

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 709 million and USD 817 million, respectively.

The notes to the Consolidated financial statements are an integral part of these Consolidated financial statements.

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 | 660 | 14,729 |
| Issuance of share capital | – | – |
| Dividends to shareholders | – | – |
| Share-based payment transactions | – | 61 |
| Change in ownership interests with no loss of control | – | – |
| Total comprehensive income for the period, net of tax | – | – |
| <i>Net income</i> | – | – |
| <i>Net unrealized gains/(losses) on available-for-sale investments</i> | – | – |
| <i>Cash flow hedges</i> | – | – |
| <i>Cumulative foreign currency translation adjustment</i> | – | – |
| <i>Revaluation reserve</i> | – | – |
| <i>Net actuarial gains/(losses) on pension plans</i> | – | – |
| Net changes in capitalization of non-controlling interests | – | – |
| Balance as of December 31, 2014, as restated | 660 | 14,790 |
| Balance as of December 31, 2014, as previously reported | 660 | 14,790 |
| Total adjustments due to restatement | – | – |
| Balance as of December 31, 2014, as restated | 660 | 14,790 |
| Issuance of share capital | – | – |
| Dividends to shareholders | – | – |
| Share-based payment transactions | – | (124) |
| Change in ownership interests with no loss of control | – | – |
| Total comprehensive income for the period, net of tax | – | – |
| <i>Net income</i> | – | – |
| <i>Net unrealized gains/(losses) on available-for-sale investments</i> | – | – |
| <i>Cash flow hedges</i> | – | – |
| <i>Cumulative foreign currency translation adjustment</i> | – | – |
| <i>Revaluation reserve</i> | – | – |
| <i>Net actuarial gains/(losses) on pension plans</i> | – | – |
| Net changes in capitalization of non-controlling interests | – | – |
| Balance as of December 31, 2015 | 660 | 14,666 |

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 |
|---|------------------|--|---------------------|-------------------|----------------------|---------------------------|---------------|
| 1,626 | 106 | (4,288) | 195 | 18,825 | 31,851 | 2,576 | 34,428 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | (3,147) | (3,147) | (121) | (3,267) |
| - | - | - | - | - | 61 | - | 61 |
| - | - | - | - | (38) | (38) | - | (38) |
| 2,416 | 200 | (1,236) | 24 | 3,588 | 4,993 | 84 | 5,077 |
| - | - | - | - | 3,986 | 3,986 | - | - |
| 2,416 | - | - | - | - | 2,416 | - | - |
| - | 200 | - | - | - | 200 | - | - |
| - | - | (1,236) | - | - | (1,236) | - | - |
| - | - | - | 24 | - | 24 | - | - |
| - | - | - | - | (398) | (398) | - | - |
| - | - | - | - | - | - | (59) | (59) |
| 4,042 | 306 | (5,524) | 218 | 19,228 | 33,721 | 2,481 | 36,202 |
| 4,042 | 306 | (5,470) | 218 | 19,174 | 33,721 | 2,481 | 36,202 |
| - | - | (54) | - | 54 | - | - | - |
| 4,042 | 306 | (5,524) | 218 | 19,228 | 33,721 | 2,481 | 36,202 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | (2,883) | (2,883) | (162) | (3,045) |
| - | - | - | - | 113 | (11) | - | (11) |
| - | - | - | - | (12) | (12) | - | (12) |
| (1,573) | (12) | (2,081) | 9 | 2,487 | (1,169) | (130) | (1,299) |
| - | - | - | - | 1,859 | 1,859 | - | - |
| (1,573) | - | - | - | - | (1,573) | - | - |
| - | (12) | - | - | - | (12) | - | - |
| - | - | (2,081) | - | - | (2,081) | - | - |
| - | - | - | 9 | - | 9 | - | - |
| - | - | - | - | 629 | 629 | - | - |
| - | - | - | - | - | - | (34) | (34) |
| 2,469 | 294 | (7,605) | 228 | 18,934 | 29,646 | 2,155 | 31,801 |

Consolidated financial statements *continued*

Zurich Insurance Company Ltd (ZIC) and its subsidiaries (collectively the “Zurich Insurance Company Group” or “ZIC Group”) is a provider of insurance products and related services. The ZIC Group mainly operates in Europe, North America, Latin America and Asia Pacific through subsidiaries, as well as branch and representative offices.

Zurich Insurance Company Ltd, is incorporated in Zurich, Switzerland. The registered office is Mythenquai 2, 8002 Zurich, Switzerland. Zurich Insurance Company Ltd is a wholly owned subsidiary of Zurich Insurance Group Ltd and together with its subsidiaries forms part of the Zurich Insurance Group.

On March 2, 2016 the Board of Directors of Zurich Insurance Company 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 ZIC 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 ZIC Group’s accounting policies for insurance and reinsurance contracts are therefore based on those developed by the ZIC Group before the adoption of IFRS 4 in areas where IFRS 4 did not include specific requirements. Before this adoption, the ZIC 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 ZIC Group’s accounting policies. In case of business combinations, the ZIC Group may decide to maintain the local statutory treatment if this does not distort the fair presentation of the financial position of the ZIC 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 ZIC Group. The ZIC 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 ZIC 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 Risk review on pages 13 to 35, and they form an integral part of the Consolidated financial statements.

The ZIC 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 246 million and USD 81 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 (147) million and USD 109 million for the years ended December 31, 2015 and 2014, respectively.

| Principal exchange rates | Table 1 | | Consolidated balance sheets | | Consolidated income | |
|-----------------------------|-------------------------------|----------|-----------------------------|--------|---------------------------|--|
| | USD per foreign currency unit | | at end-of-period exchange | | statements and cash flows | |
| | | | rates | | 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 ZIC 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 ZIC 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 ZIC Group's consolidated balance sheet or income statement.

Other adjustments

During the year ended December 31, 2015, the ZIC 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 ZIC 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 ZIC Group

Table 2 shows new accounting standards or amendments to and interpretations of standards relevant to the ZIC Group, which are not yet effective and are not expected to have a material impact on the ZIC Group's financial position or performance, unless stated otherwise. In addition to the standards and amendments listed in table 2 the ZIC 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 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 ZIC 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 ZIC Group's Consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Company Ltd and its subsidiaries. A subsidiary is an entity that Zurich Insurance Company 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 ZIC Group's Consolidated financial statements is not material.

b) Foreign currency translation and transactions

Foreign currency translation

Due to the ZIC Group's economic exposure to the U.S. dollar (USD), the presentation currency of the ZIC Group's Consolidated financial statements is USD. Many ZIC 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) Common control business combination

A business combination of entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations between entities under common control are accounted for by applying the pooling of interest method. The acquirer (entity that receives the net assets or the equity interest) initially recognizes the assets and liabilities transferred at their previous carrying amounts in the accounts of the transferor at the date of transfer. Any difference between the consideration paid and the carrying value of the net assets received is recorded in shareholders' equity. Such business combinations are recorded as if they had taken place at the beginning of the earliest period presented (or the date that the entities were first under common control, if later), for the purpose of including the result of the transferee in the retained earnings of the acquirer.

d) Insurance contracts and investment contracts with discretionary participating features (DPF)

Classification

Contracts issued under which the ZIC Group accepts significant insurance risk and obligations arising from investment contracts with DPF are accounted for as insurance contracts.

Consolidated financial statements *continued*

The ZIC 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 ZIC 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.

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 ZIC 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 ZIC 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 ZIC 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 ZIC 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.

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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.

Reinsurance

The ZIC 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 ZIC 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 ZIC 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.

e) Liabilities for investment contracts (without DPF)

Investment contracts are those contracts that do not transfer significant insurance risk. The ZIC 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 ZIC 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.

f) 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 ZIC 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 ZIC 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 ZIC Group recognizes regular purchases and sales of financial assets on the trade date, which is the date on which the ZIC 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 ZIC 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).

Consolidated financial statements *continued*

g) 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 ZIC 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.

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.

h) Attorney-in-fact relationships (AIF)

The AIF reflects the ability of the ZIC Group to generate future revenues based on the ZIC Group's relationship with the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. (FGI), a wholly owned subsidiary of the Zurich Insurance Group. In determining that these relationships have an indefinite useful life, the ZIC 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.

i) 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.

j) 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.

k) 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 ZIC Group recognizes these fees on a straight-line basis over the estimated life of the contract.

l) Employee benefits

Share-based compensation and cash incentive plans

The ZIC Group operates long-term incentive plans that are accounted for as equity-settled share-based compensation plans. Under these plans, shares of Zurich Insurance Group Ltd are awarded directly to employees of entities within the ZIC Group. Zurich Insurance Group Ltd (the ultimate parent of the ZIC Group) is not part of the ZIC Group. 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 ZIC 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 ZIC 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.

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 ZIC Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the ZIC 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 ZIC 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 ZIC Group's reserves for reported losses and loss adjustment expenses are based on estimates of future payments to settle reported claims. The ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group's actuaries. Additionally, the ZIC Group's Corporate Center actuaries perform periodic reserve reviews of the ZIC 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 ZIC 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 ZIC Group is exposed to longevity risk.
- Under certain contracts, the ZIC 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 ZIC 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 ZIC 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 ZIC 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.

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.

Consolidated financial statements *continued*

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 ZIC 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 ZIC 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.

Discount and perpetual growth rates for goodwill and AIF for major CGUs

Table 4.1

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 | 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

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 ZIC Group provides defined benefit plans and other post-employment plans. In assessing the ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group obtained control over MSD by virtue of the existing shareholders' agreement between the ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features.

Table 6.1

Net investment result on Group investments

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 | 648 | 840 | 1,115 | 1,157 | (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 | 244 | 281 | 4 | 1 | 249 | 281 | 4 | 1 |
| Other loans | 454 | 570 | 2 | 82 | 456 | 653 | (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 | 5,813 | 6,432 | 1,953 | 3,069 | 7,766 | 9,501 | (163) | (36) |
| Investment expenses for Group investments ² | (259) | (260) | – | – | (259) | (260) | – | – |
| Investment result, net, for Group investments | 5,553 | 6,172 | 1,953 | 3,069 | 7,507 | 9,241 | (163) | (36) |

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.

Table 6.2

Details of Group investments by category

as of December 31

| | 2015 | | 2014 | |
|--|----------------|--------------|----------------|--------------|
| | USD millions | % of total | USD millions | % of total |
| Cash and cash equivalents | 7,849 | 4.1 | 7,352 | 3.6 |
| Equity securities: | | | | |
| Fair value through profit or loss | 3,519 | 1.8 | 3,619 | 1.8 |
| Available-for-sale ¹ | 15,675 | 8.2 | 12,885 | 6.3 |
| Total equity securities | 19,194 | 10.0 | 16,504 | 8.0 |
| Debt securities: | | | | |
| Fair value through profit or loss | 6,180 | 3.2 | 7,121 | 3.5 |
| Available-for-sale ¹ | 128,137 | 66.8 | 142,510 | 69.4 |
| Held-to-maturity | 3,369 | 1.8 | 3,971 | 1.9 |
| Total debt securities | 137,685 | 71.7 | 153,602 | 74.8 |
| Investment property | 9,865 | 5.1 | 8,784 | 4.3 |
| Mortgage loans | 7,024 | 3.7 | 7,249 | 3.5 |
| Other loans | 10,282 | 5.4 | 11,731 | 5.7 |
| Investments in associates and joint ventures | 18 | 0.0 | 70 | 0.0 |
| Total Group investments | 191,918 | 100.0 | 205,292 | 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 | 56,414 | 60,891 | 3,373 | 3,751 | 62,932 | 68,307 |
| 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 | 128,137 | 142,510 | 6,180 | 7,121 | 137,685 | 153,602 |

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 | 6,787 | 10,589 | 501 | 942 | 8,076 | 12,033 |
| 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 | 110,441 | 123,642 | 5,619 | 6,414 | 119,429 | 134,027 |
| 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 | 128,137 | 142,510 | 6,180 | 7,121 | 137,685 | 153,602 |

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.

Consolidated financial statements *continued*

| Table 6.6 | | | |
|--|--|---------------|----------------------|
| in USD millions, as of December 31 | | | |
| Net unrealized gains/(losses) on Group investments included in equity | | 2015 | Total 2014 |
| Equity securities: available-for-sale | | 1,138 | 1,559 |
| Debt securities: available-for-sale | | 8,723 | 12,510 |
| Other | | 367 | 372 |
| Gross unrealized gains/(losses) on Group investments | | 10,228 | 14,441 |
| 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 | | (29) | (49) |
| Total¹ | | 2,763 | 4,348 |

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.

| Table 6.7 | | | |
|---|--|-------------|-------------|
| in USD millions, as of December 31 | | | |
| Securities lending, repurchase and reverse repurchase agreements | | 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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, respectively.

Under the terms of securities lending or repurchase agreements, the ZIC 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 ZIC 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 ZIC Group. The cash delivered by the ZIC 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 ZIC 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. While these notional amounts express the extent of the ZIC 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 | | | | | | |
|--|--|-----------------------------|--------------|------------------------------------|------------------|----------------------|----------------------|------------------|----------------------|----------------------|
| | | Maturity by notional amount | | | Notional amounts | 2015 | | 2014 | | |
| | | < 1 year | 1 to 5 years | > 5 years | | Positive fair values | Negative fair values | Notional amounts | Positive fair values | Negative fair values |
| 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 | | 131 | 70 | – | 201 | – | – | 453 | – | (1) |
| Total interest rate contracts | | 610 | 1,996 | 3,785 | 6,392 | 206 | (44) | 7,821 | 316 | (91) |
| Equity contracts: | | | | | | | | | | |
| OTC | | | | | | | | | | |
| Swaps | | 48 | – | – | 48 | – | – | 49 | 1 | – |
| Options | | 1,597 | 2,552 | 206 | 4,355 | 121 | (73) | 4,175 | 111 | (71) |
| Exchange traded | | | | | | | | | | |
| Options | | 27 | – | – | 27 | – | – | 16 | 1 | – |
| Futures | | 397 | – | – | 397 | – | (5) | 535 | – | (17) |
| Total equity contracts | | 2,069 | 2,552 | 206 | 4,828 | 121 | (78) | 4,775 | 113 | (88) |
| Foreign exchange contracts: | | | | | | | | | | |
| OTC | | | | | | | | | | |
| Swaps and forwards | | 19,145 | – | – | 19,145 | 84 | (116) | 15,303 | 111 | (104) |
| Total foreign exchange contracts | | 19,145 | – | – | 19,145 | 84 | (116) | 15,303 | 111 | (104) |
| Other contracts: | | | | | | | | | | |
| OTC | | | | | | | | | | |
| Swaps | | – | – | 56 | 56 | – | (5) | 60 | – | (8) |
| Total other contracts | | – | – | 56 | 56 | – | (5) | 60 | – | (8) |
| Total Group derivative financial instruments | | 21,825 | 4,548 | 4,047 | 30,421 | 411 | (243) | 27,958 | 540 | (291) |

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 ZIC 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 ZIC 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 ZIC 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.

Table 7.2

Maturity profile of notional amounts and fair values of Group derivative financial instruments

in USD millions, as of December 31

| | Maturity by notional amount | | | Notional principal amounts | Positive fair values | Negative fair values | 2015 | | | 2014 | | | | | |
|------------------------------------|-----------------------------|--------------|--------------|----------------------------|----------------------|----------------------|----------------------------|----------------------|----------------------|----------------------------|----------------------|----------------------|----------------------------|----------------------|----------------------|
| | < 1 year | 1 to 5 years | > 5 years | | | | Notional principal amounts | Positive fair values | Negative fair values | Notional principal amounts | Positive fair values | Negative fair values | Notional principal amounts | Positive fair values | Negative fair 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 ZIC Group against changes in interest rate exposure and foreign currency exposure of debt issued by the ZIC Group.

Information on debt issuances designated as hedged items in fair value hedge relationships is set out in note 19.

The ZIC Group also has fair value hedge relationships consisting of cross currency swaps and forwards to protect the ZIC 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) | | |
| <i>on hedging instruments¹</i> | (21) | 48 |
| <i>on hedged items attributable to the hedged risk</i> | 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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.

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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 ZIC 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 | | Derivative assets | | Derivative liabilities | |
|--|--|-------------------|------------|------------------------|--------------|
| in USD millions, as of December 31 | | 2015 | 2014 | 2015 | 2014 |
| Group derivative financial instruments subject to enforceable master netting arrangements and collateral agreements | Fair value | 1,114 | 1,208 | (356) | (413) |
| | Related amounts not offset | (109) | (186) | 110 | 186 |
| | Cash collateral (received)/pledged | (913) | (876) | 55 | 82 |
| | Non cash collateral (received)/pledged | (25) | (27) | 62 | 8 |
| | Net amount | 66 | 119 | (129) | (138) |

8. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts

| Reserves for insurance contracts | 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 contracts³ | 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 ZIC 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 | 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 ZIC Group's general insurance portfolio to a third party and USD (61) million relating to the sale of the ZIC 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 ZIC Group's General Insurance retail business in Russia to held for sale (see note 2).

The ZIC 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: | | | | | | | | | | |
| <i>One year later</i> | (11,237) | (12,551) | (13,047) | (12,716) | (13,092) | (13,525) | (13,799) | (13,301) | (12,576) | |
| <i>Two years later</i> | (18,362) | (19,660) | (19,909) | (19,821) | (21,073) | (21,245) | (21,465) | (21,002) | | |
| <i>Three years later</i> | (23,421) | (24,428) | (24,693) | (25,623) | (27,137) | (26,871) | (27,064) | | | |
| <i>Four years later</i> | (26,839) | (27,735) | (28,808) | (30,127) | (31,375) | (31,129) | | | | |
| <i>Five years later</i> | (29,224) | (30,690) | (32,170) | (33,325) | (34,478) | | | | | |
| <i>Six years later</i> | (31,483) | (33,310) | (34,596) | (35,678) | | | | | | |
| <i>Seven years later</i> | (33,665) | (35,188) | (36,480) | | | | | | | |
| <i>Eight years later</i> | (35,215) | (36,717) | | | | | | | | |
| <i>Nine years later</i> | (36,511) | | | | | | | | | |
| Cumulative incurred as of December 31: | | | | | | | | | | |
| <i>One year later</i> | (1,219) | (1,271) | (1,059) | (1,378) | (1,302) | (571) | (757) | (59) | 149 | |
| <i>Two years later</i> | (2,171) | (2,152) | (2,350) | (2,565) | (1,819) | (891) | (652) | (139) | | |
| <i>Three years later</i> | (2,686) | (2,844) | (3,048) | (2,700) | (2,028) | (677) | (777) | | | |
| <i>Four years later</i> | (3,003) | (3,533) | (3,176) | (2,770) | (1,891) | (804) | | | | |
| <i>Five years later</i> | (3,438) | (3,580) | (3,235) | (2,587) | (2,020) | | | | | |
| <i>Six years later</i> | (3,279) | (3,478) | (2,958) | (2,677) | | | | | | |
| <i>Seven years later</i> | (3,146) | (3,215) | (2,973) | | | | | | | |
| <i>Eight years later</i> | (2,845) | (3,271) | | | | | | | | |
| <i>Nine years later</i> | (2,808) | | | | | | | | | |
| Net reserves re-estimated as of December 31: | | | | | | | | | | |
| <i>One year later</i> | 49,594 | 53,441 | 51,927 | 54,565 | 54,878 | 54,770 | 56,628 | 57,259 | 54,852 | |
| <i>Two years later</i> | 48,642 | 52,559 | 50,637 | 53,379 | 54,361 | 54,450 | 56,734 | 57,180 | | |
| <i>Three years later</i> | 48,127 | 51,868 | 49,939 | 53,243 | 54,152 | 54,664 | 56,609 | | | |
| <i>Four years later</i> | 47,811 | 51,179 | 49,810 | 53,173 | 54,289 | 54,537 | | | | |
| <i>Five years later</i> | 47,376 | 51,131 | 49,752 | 53,357 | 54,160 | | | | | |
| <i>Six years later</i> | 47,535 | 51,234 | 50,028 | 53,267 | | | | | | |
| <i>Seven years later</i> | 47,668 | 51,497 | 50,014 | | | | | | | |
| <i>Eight years later</i> | 47,969 | 51,441 | | | | | | | | |
| <i>Nine years later</i> | 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 ZIC 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.

| Table 8.4 | | 2015 | | 2014 | |
|--|--|--------------|--------------|--------------|--------------|
| Development of reserves for losses and loss adjustment expenses for asbestos | | Gross | Net | Gross | Net |
| in USD millions | | | | | |
| 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 ZIC Group has considered asbestos, including latent injury, claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The ZIC 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 ZIC 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.

Table 8.6

in USD millions, for the years ended December 31

Effect of changes in assumptions for future life policyholder benefits

| | 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.

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| Table 8.7 | | | |
|--|------------------------------------|---------------|---------------|
| in USD millions, as of December 31 | | | |
| | | 2015 | 2014 |
| Policyholder contract deposits and other funds gross | Universal life and other contracts | 12,120 | 12,626 |
| | Policyholder dividends | 9,957 | 10,789 |
| | Total | 22,076 | 23,415 |

| 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.

| Table 8.9a | | | | |
|---|--|-----------------------------------|--|----------------|
| in USD millions, as of December 31, 2015 | | | | |
| Expected maturity profile for reserves for insurance contracts, net of reinsurance – current period | 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 |
| 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 |
| 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

| Table 9.1 | | | |
|--------------------------------------|---------------------------------------|---------------|---------------|
| in USD millions, as of December 31 | | | |
| | | 2015 | 2014 |
| Liabilities for investment contracts | 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 ZIC 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.

| Table 9.2 | | | |
|---|--|---------------|---------------|
| in USD millions | | | |
| | | 2015 | 2014 |
| Development of liabilities for investment contracts | 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 ZIC Group actively manages the Global Life in-force business to improve persistency and retention.

| Table 9.3a | | | | |
|---|---|--|---|---------------|
| in USD millions, as of December 31, 2015 | | | | |
| Expected maturity profile for liabilities for investment contracts – current period | 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 |
| 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 | | | | Total |
|---|---|--|---|--|---------------|
| | 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 | | |
| < 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 ZIC Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the ZIC 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 |

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11. Gross and ceded insurance revenues and expenses

| Table 11.1 | | in USD millions, for the years ended December 31 | | | | | |
|-------------------------------|--|--|---------------|----------------|----------------|---------------|---------------|
| Insurance benefits and losses | | 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 |

| Table 11.2 | | in USD millions, for the years ended December 31 | |
|---|--|--|---------------|
| Policyholder dividends and participation in profits | | 2015 | 2014 |
| | | Change in policyholder contract deposits and other funds | 1,439 |
| 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 |

| Table 11.3 | | in USD millions, for the years ended December 31 | | | | | |
|---|--|--|---------------|--------------|--------------|--------------|--------------|
| Underwriting and policy acquisition costs | | 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 | | | | | |
|--|--|--|------|-------|------|------|------|
| Change in reserves for unearned premiums | | Gross | | Ceded | | Net | |
| | | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | | 648 | 351 | (352) | 8 | 296 | 359 |

12. Deferred policy acquisition costs and deferred origination costs

| Table 12.1 | | | | | | | | | |
|---|-----------------|-------------------|--------------|---------------|---------------|------------|------------|---------------|---------------|
| Development of deferred policy acquisition costs | 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 |
| 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 ZIC 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 401 million, USD 491 million, respectively.

| Table 12.2 | | | |
|---|----------------------------|------------|------|
| Development of deferred origination costs | 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).

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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 | 8,602 | 8,812 |
| | 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 | 12,579 | 13,100 |
| | of which: | | |
| | Personnel and other related costs | 5,702 | 6,115 |
| | Amortization and impairments of intangible assets | 1,003 | 840 |
| | Depreciation and impairments of property and equipment | 198 | 173 |
| | Building and infrastructure | 578 | 572 |
| | Brand and marketing expenses | 439 | 523 |
| | Life recurring commission | 400 | 415 |
| | Asset and other non-income taxes | 73 | 88 |
| | IT expenses | 1,389 | 1,485 |
| | Restructuring costs | 447 | 97 |
| | External professional services | 1,062 | 1,095 |
| | Foreign currency translation | (246) | (81) |
| | Other | 1,533 | 1,779 |
| | Total | 12,579 | 13,100 |

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.

Table 14.1

in USD millions

Property and
equipment –
current period

| | 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 | 381 | 423 | 769 | 2,635 |
| Less: accumulated depreciation/impairments | (6) | (352) | (233) | (354) | (416) | (1,362) |
| 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 | 226 | 297 | 407 | 1,299 |
| Gross carrying value as of December 31, 2015 | 217 | 737 | 364 | 362 | 759 | 2,439 |

¹ Following restructuring decisions in General Insurance, certain own use properties will no longer be required, resulting in an impairment of USD 32 million.

Table 14.2

in USD millions

Property and
equipment –
prior period

| | 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 | 403 | 461 | 739 | 2,978 |
| Less: accumulated depreciation/impairments | (7) | (407) | (254) | (391) | (426) | (1,484) |
| 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) | (126) |
| Net carrying value as of December 31, 2014 | 233 | 471 | 148 | 69 | 353 | 1,273 |
| Plus: accumulated depreciation/impairments | 6 | 352 | 233 | 354 | 416 | 1,362 |
| Gross carrying value as of December 31, 2014 | 239 | 823 | 381 | 423 | 769 | 2,635 |

Consolidated financial statements *continued*

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 | 4,582 | 186 | 14,753 |
| Less: accumulated amortization/ impairments | – | (117) | (2,145) | (903) | (3,039) | (133) | (6,338) |
| Net carrying value as of January 1, 2015 | 1,025 | 1,661 | 556 | 3,577 | 1,542 | 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 | 3,161 | 130 | 6,666 |
| Gross carrying value as of December 31, 2015 | 1,025 | 1,667 | 2,501 | 3,715 | 4,666 | 173 | 13,746 |

As of December 31, 2015, intangible assets relating to non-controlling interests were USD 94 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,221 million for distribution agreements and USD 31 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 ZIC 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 | 4,713 | 226 | 15,436 |
| Less: accumulated amortization/ impairments | – | (338) | (2,189) | (811) | (3,072) | (145) | (6,556) |
| 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 | 1,542 | 53 | 8,415 |
| Plus: accumulated amortization/ impairments | – | 117 | 2,145 | 903 | 3,039 | 133 | 6,338 |
| Gross carrying value as of December 31, 2014 | 1,025 | 1,778 | 2,701 | 4,480 | 4,582 | 186 | 14,753 |

As of December 31, 2014, intangible assets relating to non-controlling interests were USD 125 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,531 million for distribution agreements and USD 31 million for software.

The ZIC 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 ZIC 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 | 1,542 | 53 | 8,415 |

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16. Receivables and other assets

| Table 16 | | | |
|------------------------------------|---|---------------|---------------|
| in USD millions, as of December 31 | | | |
| | | 2015 | 2014 |
| Receivables and other assets | Financial assets | | |
| | Group derivative assets | 1,114 | 1,208 |
| | 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 | 327 | 603 |
| | Other receivables | 1,921 | 2,214 |
| | Allowance for impairments ¹ | (249) | (266) |
| | Other assets ² | 143 | 697 |
| | Non-financial assets | | |
| | Current tax receivables | 736 | 729 |
| | Accrued premiums | 953 | 720 |
| | Prepaid expenses | 275 | 312 |
| | Prepaid insurance benefits | 327 | 327 |
| | Other assets | 337 | 401 |
| | Total receivables and other assets | 14,921 | 16,915 |

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

| Table 17.1 | | | |
|--|---|---------------|---------------|
| Other liabilities | in USD millions, as of December 31 | 2015 | 2014 |
| | Other financial liabilities | | |
| | Group derivative liabilities | 356 | 413 |
| | 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 | 1,179 | 1,527 |
| | 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 | 3,817 | 4,123 |
| Other non-financial liabilities | | | |
| | Current tax payables | 613 | 905 |
| | Restructuring provisions | 376 | 125 |
| | Premium prepayments and other advances | 864 | 1,022 |
| | Other liabilities | 2,214 | 1,824 |
| Total other liabilities | | 16,669 | 18,280 |

¹ See note 21

Table 17.2 shows the maturity schedule of other financial liabilities as of December 31, 2015 and 2014.

| Table 17.2 | | | | | |
|--|------------------------------------|-----------------------------|--------------------------------------|-----------------------------|--------------------------------------|
| Maturity schedule – other financial liabilities ¹ | 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 | 8,433 | 8,487 | 9,005 | 9,067 |
| | 1 to 2 years | 120 | 173 | 102 | 130 |
| | 2 to 3 years | 48 | 92 | 121 | 175 |
| | 3 to 4 years | 347 | 388 | 42 | 82 |
| | 4 to 5 years | 89 | 161 | 401 | 440 |
| | > 5 years | 315 | 631 | 687 | 1,230 |
| Total | | 9,353 | 9,933 | 10,358 | 11,124 |

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*

Table 17.3

| Restructuring provisions | in USD millions | |
|--|-----------------|------------|
| | 2015 | 2014 |
| As of January 1 | 125 | 188 |
| Provisions made during the period | 457 | 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 | (14) | (10) |
| As of December 31 | 376 | 125 |

During the year ended December 31, 2015, restructuring programs with estimated costs of USD 457 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 ZIC 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 ZIC 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

| Table 18.1 | | | |
|--|---|--------------|--------------|
| in USD millions, for the years ended December 31 | | | |
| | | 2015 | 2014 |
| Income tax expense – current/deferred split | Current | 1,254 | 1,463 |
| | Deferred | 18 | 195 |
| | Total income tax expense/(benefit) | 1,273 | 1,659 |

| Table 18.2 | | | | |
|---|--------------|--------------|--------------|--------------|
| in USD millions, for the years ended December 31 | | | | |
| | Rate | 2015 | Rate | 2014 |
| Expected and actual income tax expense | | | | |
| Net income before income taxes | | 3,383 | | 5,971 |
| less: income tax (expense)/benefit attributable to policyholders | | (110) | | (106) |
| Net income before income taxes attributable to shareholders | | 3,273 | | 5,865 |
| Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate | 22.0% | 720 | 22.0% | 1,290 |
| Increase/(reduction) in taxes resulting from: | | | | |
| <i>Tax rate differential in foreign jurisdictions</i> | | 283 | | 232 |
| <i>Tax exempt and lower taxed income</i> | | (92) | | (109) |
| <i>Non-deductible expenses</i> | | 41 | | 148 |
| <i>Tax losses not recognized</i> | | 162 | | 85 |
| <i>Prior year adjustments and other</i> | | 49 | | (94) |
| Actual income tax expense attributable to shareholders | 35.5% | 1,163 | 26.5% | 1,552 |
| plus: income tax expense/(benefit) attributable to policyholders | | 110 | | 106 |
| Actual income tax expense | 37.6% | 1,273 | 27.8% | 1,659 |

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 ZIC 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 ZIC 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 ZIC 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.

Consolidated financial statements *continued*

Table 18.3

in USD millions, as of December 31

Deferred tax assets/(liabilities) analysis by source

| | 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 | 177 | (379) | 176 | (462) |
| 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 | 427 | (44) | 351 | (37) |
| Tax loss carryforwards | 550 | – | 544 | – |
| Gross deferred tax assets/(liabilities) before valuation allowance | 3,281 | (1,558) | 3,205 | (1,515) |
| Valuation allowance | (269) | – | (131) | – |
| Gross deferred tax assets/(liabilities) after valuation allowance | 3,012 | (1,558) | 3,075 | (1,515) |
| Deferred tax assets | 1,454 | | 1,559 | |
| 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 | (103) | 118 | (191) |
| 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 | (8,184) | 3,926 | (8,912) |
| Valuation allowance | (23) | – | (22) | – |
| Gross deferred tax assets/(liabilities) after valuation allowance | 3,702 | (8,184) | 3,904 | (8,912) |
| Deferred tax liabilities | | (4,482) | | (5,008) |
| Net deferred tax liabilities | | (3,028) | | (3,449) |

¹ Includes reserves for unit-linked contracts

The ZIC 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 2 billion and USD 5 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.

| Table 18.4 | | | |
|--|---|----------------|----------------|
| in USD millions | | | |
| | | 2015 | 2014 |
| Development of net deferred tax liabilities | As of January 1 | (3,449) | (3,080) |
| | Net change recognized in the income statement | (18) | (195) |
| | Net change recognized in equity | 215 | (590) |
| | Net changes due to acquisitions/(divestments) | (1) | (26) |
| | Foreign currency translation effects | 225 | 442 |
| | As of December 31 | (3,028) | (3,449) |
| | attributable to policyholders | (562) | (589) |
| | attributable to shareholders | (2,466) | (2,860) |

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.

| Table 18.5 | | | |
|--|---|-------------|--------------|
| in USD millions | | | |
| | | 2015 | 2014 |
| Development of deferred income taxes included in equity | As of January 1 | (111) | 446 |
| | Net unrealized gains/(losses) on available-for-sale investments | 394 | (702) |
| | Cash flow hedges | (15) | (65) |
| | Revaluation reserve | (2) | (8) |
| | Net actuarial gains/(losses) on pension plans | (162) | 185 |
| | Foreign currency translation effects | 29 | 33 |
| | As of December 31 | 134 | (111) |

| Table 18.6 | | | |
|---|---|--------------|--------------|
| in USD millions, as of December 31 | | | |
| | | 2015 | 2014 |
| Tax loss carryforwards and tax credits | 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 | 805 | 1,218 |
| | Subtotal | 1,271 | 1,553 |
| | 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 | 826 | 445 |
| | Subtotal | 980 | 593 |
| | Total | 2,250 | 2,146 |

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 27.6 percent and 24.6 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

| Table 19.1 | | 2015 | 2014 | |
|-------------------------------------|---|---|---------------|--------------|
| in USD millions, as of December 31 | | | | |
| Senior and subordinated debt | 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 |
| | | Various debt instruments payable within 1 year to related parties ⁷ | 184 | – |
| | | Euro Commercial Paper Notes, due in less than 3 months | 400 | 400 |
| | Zurich Finance (USA), Inc. | 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 | 4,656 | 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 | 10,270 | 11,236 | |

¹ The ZIC 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 ZIC 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 ZIC Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.

⁴ Issued under the Zurich Insurance 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 ZIC Group applied the fair value hedge methodology to hedge the interest rate and foreign currency exposure.

⁷ Loans with subsidiaries of Zurich Insurance Group which are not part of Zurich Insurance Company Group Ltd.

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 Zurich Insurance 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 ZIC 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.

Table 19.2

Maturity schedule of outstanding debt in USD millions, as of December 31

| | 2015 | | 2014 | |
|---------------|----------------|-------------------------|----------------|-------------------------|
| | Carrying value | Undiscounted cash flows | Carrying value | Undiscounted cash flows |
| < 1 year | 2,168 | 2,544 | 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 | 10,270 | 11,941 | 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 ZIC 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 ZIC 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

| Table 20 | | | |
|---|--|------------|------------|
| Share capital and profit sharing certificates | number of shares, as of December 31 | 2015 | 2014 |
| | Contingent and issued share capital, CHF 10 par value | 86,000,000 | 86,000,000 |
| | Issued share capital, CHF 10 par value | 82,500,000 | 82,500,000 |
| | Profit sharing certificates (Genussscheine) ¹ | 2 | 2 |
| | | | |

¹ These profit sharing certificates confer on their holder the right to receive a dividend if and to the extent the General Meeting decides. However, they do not confer on their holder any voting rights or rights associated thereto, any rights to subscribe for new shares, or any rights to liquidation proceeds.

a) Contingent share capital

At the General Meeting of Shareholders on June 11, 1997, a contingent capital of CHF 35,000,000, or 3,500,000 shares with a par value of CHF 10 each, was created, of which 2,500,000 shares can be issued in connection with the granting of conversion and/or option rights and 1,000,000 shares can be issued for the purpose of employees' share ownership plans. None of the contingent shares have been issued as of December 31, 2015 and December 31, 2014.

b) Profit sharing certificates

As of December 31, 2015 and 2014, Zurich Insurance Company Ltd had two profit sharing certificates with no par value issued.

c) Additional paid-in capital

On April 25, 2008, a subordinated loan agreement was entered into between Zurich Insurance Company Ltd and Zurich Group Holding, which was assumed by Zurich Insurance Group Ltd as a consequence of its merger with Zurich Group Holding. The remaining loan was CHF 4.8 billion (USD 5.0 billion) and CHF 4.8 billion (USD 5.3 billion) as of December 31, 2015 and 2014, respectively.

The loan is undated and pays interest subject to solvency thresholds and the payment of interest is optional if Zurich Insurance Company Ltd does not declare or pay any dividends or other profit distributions to its shareholders. The loan is classified as an equity instrument under IFRS as it meets the classification criteria as such under IAS 32.

21. Employee benefits

Personnel and other related costs incurred for the years ended December 31, 2015 and 2014, were USD 5,967 million and USD 6,224 million, including wages and salaries of USD 4,771 million and USD 5,081 million, respectively.

The ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group level for the supervision and exercise of company powers and obligations in relation to pension and benefit plans.

The ZIC 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 ZIC 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 ZIC Group's total defined benefit obligation. The remaining plans in other countries are not individually significant, therefore no separate disclosure is provided.

Certain ZIC 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 ZIC Group's defined benefit pension plans are funded through contributions by the ZIC Group and, in some cases also by employees, to investment vehicles managed by trusts or foundations independent of the ZIC 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 ZIC Group's overall funding policy and local regulation. Independent actuarial valuations for the plans are performed as required. It is the ZIC 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.

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The overall investment policy and strategy for the ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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.

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 ZIC 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 ZIC Group's post-employment defined benefit plans.

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| 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) |

| Table 21.1b | | | | |
|--|----------------------------|----------------------|---------------|---------------------------------------|
| in USD millions | | | | |
| | Defined benefit obligation | Fair value of assets | Asset ceiling | 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) |

Movement in defined benefit obligation and fair value of assets – current period

Movement in defined benefit obligation and fair value of assets – prior period

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.

| Fair value of assets held in funded defined benefit pension plans | Table 21.2 | | | | | | | |
|---|------------------------------------|---------------|---------------|-------------|--------------------------|---------------|---------------|-------------|
| | in USD millions, as of December 31 | | | | | | | |
| | 2015 | | | | 2014 | | | |
| | Quoted in active markets | | | % of Total | Quoted in active markets | | | % of Total |
| | Other | Total | | Other | 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 ZIC 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 ZIC 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) |

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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.

Table 21.4 shows the key financial assumptions used to calculate the ZIC Group's post-employment defined benefit obligations and the ZIC 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 ZIC 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

| Country | Mortality table for major plans | 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 |
| 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

| Country | Mortality table for major plans | 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 |
| 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 ZIC 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 ZIC 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.

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b) Defined contribution pension plans

Certain of the ZIC 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 ZIC Group's contributions under these plans amounted to USD 157 million and USD 140 million for the years ended December 31, 2015 and 2014, respectively.

22. Share-based compensation and cash incentive plans

The ZIC 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 ZIC 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, the ultimate parent which is not part of the ZIC Group.

a) Cash incentive plans

Various businesses throughout the ZIC 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 380 million and USD 524 million for the years ended December 31, 2015 and 2014, respectively.

b) Share-based compensation plans for employees and executives

The ZIC 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 ZIC Group.

Employee share plans

Share Incentive Plan for employees in the UK

The ZIC 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 ZIC 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.

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The Zurich Insurance 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 Zurich Insurance 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

for the years ended December 31

Shares allocated during the period

| | Number | | Fair value at the allocation date (in CHF) | |
|------------------------------------|---------|---------|--|------|
| | 2015 | 2014 | 2015 | 2014 |
| Shares allocated during the period | 503,570 | 973,565 | 329 | 274 |

The shares allocated each year are based on target under the Zurich Insurance 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.

23. Commitments and contingencies, legal proceedings and regulatory investigations

The ZIC 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.

Table 23.1

| Quantifiable commitments and contingencies | in USD millions, as of December 31 | | |
|---|------------------------------------|-------|-------|
| | | 2015 | 2014 |
| Remaining commitments under investment agreements | | 1,431 | 871 |
| Guarantees and letters of credit ¹ | | 4,219 | 4,288 |
| Future operating lease commitments | | 1,510 | 1,214 |
| Undrawn loan commitments | | 7 | 2 |
| Other commitments and contingent liabilities | | 574 | 538 |

¹ Guarantee features embedded in life insurance products are not included.

Commitments under investment agreements

The ZIC 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 ZIC Group on a timely basis.

Guarantees and letters of credit

The ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group has entered into various non-cancellable operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 251 million and USD 119 million for the years ended December 31, 2015 and 2014, respectively.

Table 23.2

| Future payments under non-cancelable operating leases with terms in excess of one year | in USD millions, as of December 31 | | |
|--|------------------------------------|--------------|--------------|
| | | 2015 | 2014 |
| < 1 year | | 277 | 263 |
| 1 to 2 years | | 215 | 236 |
| 2 to 3 years | | 179 | 153 |
| 3 to 4 years | | 154 | 113 |
| 4 to 5 years | | 122 | 101 |
| > 5 years | | 564 | 348 |
| Total | | 1,510 | 1,214 |

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Indemnity agreements

The ZIC 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 ZIC Group has recorded provisions of USD 38 million for losses in excess of USD 289 million.

Other contingent liabilities

The ZIC Group has received notices from various tax authorities asserting deficiencies in taxes for various years. The ZIC Group is of the view that the ultimate outcome of these reviews would not materially affect the ZIC Group's consolidated financial position.

The ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC Group's business is subject to extensive supervision, and the ZIC Group is in regular contact with various regulatory authorities. The ZIC 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 ZIC Group are engaged in the following legal proceedings:

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 ZIC 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 ZIC 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 ZIC 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.

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24. Fair value measurement

To measure fair value, the ZIC 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 ZIC 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 ZIC 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 ZIC 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 ZIC 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.

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 | | Total fair value | | Total carrying value | |
|---|--|------------------|-----------------|----------------------|-----------------|
| Fair value and carrying value of financial assets and financial liabilities | | 2015 | | 2014 | |
| in USD millions, as of December 31 | | | | | |
| Available-for-sale securities | | | | | |
| Equity securities | | 15,675 | 12,885 | 15,675 | 12,885 |
| Debt securities | | 128,137 | 142,510 | 128,137 | 142,510 |
| Total available-for-sale securities | | 143,812 | 155,395 | 143,812 | 155,395 |
| 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 | | 1,114 | 1,208 | 1,114 | 1,208 |
| 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 | 7,876 | 7,024 | 7,249 |
| Other loans | | 11,992 | 13,841 | 10,282 | 11,731 |
| Total financial assets | | 178,324 | 193,878 | 175,318 | 190,365 |
| Derivative liabilities | | (356) | (413) | (356) | (413) |
| 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 | | (4,780) | (5,626) | (4,656) | (5,379) |
| Subordinated debt | | (5,983) | (6,483) | (5,614) | (5,857) |
| Total financial liabilities held at amortized cost | | (18,124) | (19,282) | (18,652) | (19,084) |
| Total financial liabilities | | (18,480) | (19,695) | (19,009) | (19,498) |

All of the ZIC 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.

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Recurring fair value measurements of assets and liabilities

| Table 24.2a | | | | | |
|---|---|---------------|----------------|----------------|----------------|
| in USD millions, as of December 31, 2015 | | Level 1 | Level 2 | Level 3 | Total |
| Fair value hierarchy – non unit-linked – current period | Available-for-sale securities | | | | |
| | Equity securities | 12,464 | 2,252 | 959 | 15,675 |
| | Debt securities | 495 | 121,680 | 5,962 | 128,137 |
| | Total available-for-sale securities | 12,959 | 123,932 | 6,921 | 143,812 |
| | 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 | 590 | 523 | 1,114 |
| | Investment property | – | 2,037 | 7,828 | 9,865 |
| | Reinsurers' share of reserves for insurance contracts fair value option ¹ | – | – | 270 | 270 |
| | Total | 13,977 | 132,675 | 18,108 | 164,759 |
| | Derivative liabilities | (5) | (258) | (94) | (356) |
| | Reserves for insurance contracts fair value option ² | – | – | (2,927) | (2,927) |
| Total | (5) | (257) | (3,021) | (3,282) | |

¹ Included within reinsurers' share of reserves for insurance contracts

² Included within reserves for insurance contracts

| Table 24.2b | | | | | |
|---|---|---------------|----------------|----------------|----------------|
| in USD millions, as of December 31, 2014 | | Level 1 | Level 2 | Level 3 | Total |
| Fair value hierarchy – non unit-linked – prior period | Available-for-sale securities | | | | |
| | Equity securities | 11,697 | 259 | 929 | 12,885 |
| | Debt securities | 362 | 139,384 | 2,764 | 142,510 |
| | Total available-for-sale securities | 12,058 | 139,644 | 3,693 | 155,395 |
| | 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 | 852 | 355 | 1,208 |
| | Investment property | – | 1,965 | 6,818 | 8,784 |
| | Reinsurers' share of reserves for insurance contracts fair value option ¹ | – | – | 375 | 375 |
| | Total | 13,039 | 149,619 | 13,844 | 176,501 |
| | Derivative liabilities | (18) | (354) | (41) | (413) |
| | Reserves for insurance contracts fair value option ² | – | – | (3,594) | (3,594) |
| Total | (18) | (354) | (3,635) | (4,007) | |

¹ Included within reinsurers' share of reserves for insurance contracts

² Included within reserves for insurance contracts

**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 contracts¹ | 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 contracts¹ | 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 ZIC 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 ZIC 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.

Consolidated financial statements *continued*

Within level 3, the ZIC 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 ZIC 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 ZIC 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.

Development of assets and liabilities classified within level 3 – non unit-linked – current period

Table 24.4a
in USD millions

| | Available-for-sale securities | | Fair value through profit or loss securities | | Derivative assets | Derivative liabilities | Investment property |
|--|-------------------------------|-----------------|--|-----------------|-------------------|------------------------|---------------------|
| | Equity securities | Debt securities | Equity securities | Debt securities | | | |
| As of January 1, 2015 | 929 | 2,764 | 2,417 | 185 | 355 | (41) | 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) | (1) | – | 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) | (10) | 2 | (224) |
| As of December 31, 2015 | 959 | 5,962 | 2,419 | 146 | 523 | (94) | 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 ZIC 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 ZIC 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.

Development of assets and liabilities classified within level 3 – non unit-linked – prior period

Table 24.4b
in USD millions

| | Available-for-sale securities | | Fair value through profit or loss securities | | Derivative assets | Derivative liabilities | Investment property |
|--|-------------------------------|-----------------|--|-----------------|-------------------|------------------------|---------------------|
| | Equity securities | Debt securities | Equity securities | Debt securities | | | |
| As of January 1, 2014 | 1,000 | 2,775 | 2,175 | 219 | 66 | (42) | 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 | 2 | 16 | 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) | (26) | 1 | (708) |
| As of December 31, 2014 | 929 | 2,764 | 2,417 | 185 | 355 | (41) | 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.

Consolidated financial statements *continued*

For the year ended December 31, 2014, the ZIC 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.

| Table 24.5a | | | | |
|--|--|--------------|--------------|--------------|
| in USD millions | | | | |
| | | Gross | Ceded | Net |
| Development of reserves for insurance contracts fair value option classified within level 3 – current period | 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.

| Table 24.5b | | | | |
|--|--|--------------|--------------|--------------|
| in USD millions | | | | |
| | | Gross | Ceded | Net |
| Development of reserves for insurance contracts fair value option classified within level 3 – prior period | 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 |

| Table 24.6a | | | | |
|--|---|--|-----------------|---------------------|
| in USD millions | | | | |
| | | Fair value through profit or loss securities | | |
| | | Equity securities | Debt securities | Investment property |
| Development of assets and liabilities classified within level 3 – unit-linked – current period | 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 | – | – |
| | 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.

Development of 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 | – |
| 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 ZIC Group may measure certain assets or liabilities at fair value on a non-recurring basis when an impairment charge is recognized.

The ZIC Group has valued USD 4 million and USD 8 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 ZIC 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 ZIC 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 ZIC 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.

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Table 24.7a

as of December 31, 2015

Sensitivity analysis of level 3 investments to changes in key assumptions – current period

| | 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 |

Table 24.7b

as of December 31, 2014

Sensitivity analysis of level 3 investments to changes in key assumptions – prior period

| | 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 |

Table 24.8a

as of December 31, 2015

Inter-relationship analysis of level 3 investments to changes in key assumptions – current period

| | 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) |

Table 24.8b

as of December 31, 2014

Inter-relationship analysis of level 3 investments to changes in key assumptions – prior period

| | 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) |

Within level 3, the ZIC 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.

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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.

Table 25.1a

in USD millions, as of December 31, 2015

**Analysis of
financial assets –
current period**

| | Debt securities | Mortgage loans | Other loans | Receivables and other financial assets | Total |
|---|--------------------|-------------------|----------------|---|----------------|
| Neither past due nor impaired financial assets | 137,369 | 6,965 | 10,281 | 11,208 | 165,824 |
| 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 | 9 | 21 | 136 | 481 |
| Gross carrying value | 137,685 | 7,033 | 10,302 | 13,171 | 168,192 |
| Less: impairment allowance | | | | | |
| Impairment allowances on individually assessed financial assets | – | 1 | 20 | 85 | 107 |
| Impairment allowances on collectively assessed financial assets | – | 8 | – | 163 | 171 |
| Net carrying value | 137,685 | 7,024 | 10,282 | 12,922 | 167,914 |

Table 25.1b

in USD millions, as of December 31, 2014

**Analysis of
financial assets –
prior period**

| | Debt securities | Mortgage loans | Other loans | Receivables and other financial assets | Total |
|---|--------------------|-------------------|----------------|---|----------------|
| Neither past due nor impaired financial assets | 153,307 | 7,142 | 11,730 | 13,485 | 185,665 |
| Past due but not impaired financial assets. | | | | | |
| Past due by: | | | | | |
| 1 to 90 days | – | 77 | – | 1,263 | 1,340 |
| 91 to 180 days | – | 9 | – | 289 | 299 |
| 181 to 365 days | – | 9 | – | 236 | 245 |
| > 365 days | – | 13 | – | 251 | 264 |
| Past due but not impaired financial assets | – | 108 | – | 2,038 | 2,147 |
| Financial assets impaired | 294 | 14 | 20 | 154 | 482 |
| Gross carrying value | 153,602 | 7,264 | 11,751 | 15,678 | 188,294 |
| Less: impairment allowance | | | | | |
| Impairment allowances on individually assessed financial assets | – | 2 | 19 | 80 | 101 |
| Impairment allowances on collectively assessed financial assets | – | 13 | – | 186 | 199 |
| Net carrying value | 153,602 | 7,249 | 11,731 | 15,412 | 187,994 |

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.

**Development of
allowance for
impairments
– current period**

Table 25.2a

in USD millions

| | Mortgage loans | Other loans | Receivables |
|--|---------------------------|------------------------|--------------------|
| As of January 1, 2015 | 15 | 19 | 266 |
| Increase/(Decrease) in allowance for impairments | (3) | 1 | 61 |
| Amounts written-off | (1) | – | (54) |
| Foreign currency translation effects | (1) | – | (24) |
| As of December 31, 2015 | 9 | 20 | 249 |

**Development of
allowance for
impairments –
prior period**

Table 25.2b

in USD millions

| | Mortgage loans | Other loans | Receivables |
|--|-------------------|----------------|-------------|
| As of January 1, 2014 | 26 | 19 | 297 |
| Increase/(Decrease) in allowance for impairments | (1) | – | 23 |
| Amounts written-off | (9) | – | (26) |
| Divestments ¹ | – | – | (3) |
| Foreign currency translation effects | (2) | – | (25) |
| As of December 31, 2014 | 15 | 19 | 266 |

¹ Due to the sale of the ZIC Group's General Insurance retail business in Russia (see note 5 of the Consolidated financial statements 2014).

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26. Related party transactions

In the normal course of business, the ZIC Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the ZIC 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 26.1 sets out related party transactions with equity method accounted investments, reflected in the consolidated income statements and consolidated balance sheets.

| Table 26.1 | | | |
|--|---|-------------|------|
| Related party transactions included in the Consolidated financial statements | in USD millions for the years ended December 31 | | |
| | | 2015 | 2014 |
| | Net earned premiums and policy fees | – | 1 |
| | Net investment result on Group investments | 13 | 54 |
| | Other income | 18 | 17 |
| | Insurance benefits and losses, net of reinsurance | (5) | (8) |
| | Administrative and other operating expense | (56) | (62) |
| | Interest expense on debt | – | – |
| | in USD millions for the years ended December 31 | | |
| | | 2015 | 2014 |
| | Other loans ¹ | 721 | 909 |
| | Deposits made under assumed reinsurance contracts | – | – |
| | Receivables and other assets | 7 | 5 |
| Reserves for insurance contracts | – | (1) | |
| Accrued liabilities | – | 2 | |
| Other liabilities ² | (1,855) | (1,441) | |
| Senior debt | (184) | – | |

¹ Includes loans with Zurich Insurance Group Ltd of USD 524 million as of both December 31, 2015 and 2014.

² Includes other liabilities with Zurich Insurance Group Ltd of USD 1,850 million and USD 1,436 million as of December 31, 2015 and 2014, respectively.

On April 25, 2008 a subordinated loan agreement was entered into between Zurich Insurance Company Ltd and Zurich Group Holding, which was assumed by Zurich Insurance Group Ltd as a consequence of its merger with Zurich Group Holding. The remaining loan was CHF 4.8 billion (USD 5.0 billion) and CHF 4.8 billion (USD 5.3 billion) as of December 31, 2015 and 2014, respectively (see note 20).

Table 26.2 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 of the Zurich Insurance Group.

| Table 26.2 | | | |
|--|---|-------------|-----------|
| Related party transactions – key personnel | in USD millions, for the years ended December 31 | | |
| | | 2015 | 2014 |
| | Remuneration of key personnel of the ZIC 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 26.2 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.

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 Zurich Insurance 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 ZIC 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 ZIC 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.

Table 27.1

Certificates of contribution

| 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 Zurich Insurance 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.

Consolidated financial statements *continued*

28. Segment information

The ZIC Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both businesses and geography. The ZIC Group's reportable segments have been identified on the basis of the businesses operated by the ZIC Group and how these are strategically managed to offer different products and services to specific customer groups. Segment information is presented accordingly. The ZIC 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 ZIC 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 ZIC Group considers General Insurance, Global Life and Farmers to be its core business segments.

Other Operating Businesses predominantly consist of the ZIC 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 ZIC Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. Non-core businesses are mainly situated in the U.S., Bermuda and the UK.

The ZIC 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 ZIC 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 ZIC Group. Comparative figures have been restated to reflect this change.

Business operating profit

The segment information includes the ZIC Group's internal performance measure, business operating profit (BOP). This measure is the basis on which the ZIC Group manages all of its business units. It indicates the underlying performance of the ZIC 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 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.

Consolidated financial statements *continued*

| 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 | |
| <i>of which: inter-segment revenues</i> | <i>(530)</i> | <i>(361)</i> | <i>(316)</i> | <i>(450)</i> | |
| 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 | 232 | 246 | |
| Business operating profit | 864 | 2,979 | 1,290 | 1,266 | |

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 ZIC Group's Spanish operations for the years ended December 31, 2015 and 2014, respectively (see note 3).

² The ZIC 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 | 301 | 387 | 276 | 775 | (425) | (627) | 6,618 | 7,831 |
| 49 | 68 | 301 | 387 | 307 | 379 | (425) | (627) | 5,553 | 6,172 |
| – | – | – | – | (31) | 396 | – | – | 1,065 | 1,659 |
| – | – | – | – | 70 | 327 | – | – | 6,238 | 10,784 |
| 56 | 99 | 1,085 | 826 | 40 | 43 | (1,672) | (1,261) | 1,383 | 1,714 |
| 5,156 | 6,914 | 1,392 | 1,212 | 812 | 1,623 | (2,097) | (1,888) | 59,649 | 71,440 |
| (10) | (24) | (1,209) | (1,006) | (33) | (47) | 2,097 | 1,888 | | |
| 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 | 1,203 | 1,125 | 92 | 78 | (1,333) | (1,188) | 7,400 | 7,800 |
| – | – | 136 | 3 | 84 | 119 | (315) | (68) | 461 | 515 |
| (14) | 3 | (97) | (35) | – | – | – | – | (918) | (325) |
| 3,618 | 5,208 | 1,243 | 1,087 | 730 | 1,784 | (1,659) | (1,266) | 54,724 | 64,863 |
| 1,538 | 1,706 | 149 | 125 | 82 | (161) | (438) | (622) | 4,925 | 6,577 |
| 36 | 46 | 7 | 7 | – | – | – | – | 198 | 173 |
| 81 | 86 | 92 | 89 | – | – | – | – | 1,003 | 840 |
| – | – | 746 | 976 | 9 | 11 | (438) | (622) | 432 | 525 |
| 1,421 | 1,573 | (696) | (947) | 72 | (172) | – | – | 3,292 | 5,040 |
| 64 | 65 | (6) | (13) | – | – | – | – | 397 | 394 |
| 1,357 | 1,508 | (689) | (934) | 73 | (173) | – | – | 2,895 | 4,646 |

Consolidated financial statements *continued*

Table 28.2

in USD millions, for the years ended December 31

Reconciliation of
BOP to net income
after income taxes

| | General Insurance | | Global Life | |
|--|-------------------|--------------|--------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| Business operating profit | 864 | 2,979 | 1,290 | 1,266 |
| 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 | 232 | 246 |
| 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 ZIC Group's General Insurance retail business in Russia (see note 5).

² The impact on ZIC Group level relates to foreign currency translation differences.

³ For the year ended December 31, 2015, total ZIC 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 (2) 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 |
| | | 1,357 | 1,508 | (689) | (934) | 73 | (173) | 2,895 | 4,646 |
| | | 20 | 34 | 154 | 16 | 8 | 4 | 889 | 1,410 |
| | | - | - | 10 | (2) | - | (13) | 10 | (259) |
| | | (13) | 2 | (49) | (34) | - | - | (447) | (97) |
| | | - | - | 33 | 22 | - | - | (1) | - |
| | | - | - | - | - | - | - | (281) | (98) |
| | | - | - | - | - | - | - | 8 | (50) |
| | | (1) | 1 | (81) | (22) | - | - | (197) | (80) |
| | | 64 | 65 | (6) | (13) | - | - | 397 | 394 |
| | | 1,427 | 1,611 | (629) | (967) | 80 | (181) | 3,273 | 5,865 |
| | | - | - | - | - | - | - | 110 | 106 |
| | | 1,427 | 1,611 | (629) | (967) | 80 | (181) | 3,383 | 5,971 |
| | | | | | | | | (1,273) | (1,659) |
| | | | | | | | | (110) | (106) |
| | | | | | | | | (1,163) | (1,552) |
| | | | | | | | | 2,110 | 4,313 |
| | | | | | | | | 252 | 326 |
| | | | | | | | | 1,859 | 3,986 |

Consolidated financial statements *continued*

Table 28.3

Assets and liabilities by segment

| | General Insurance | | Global Life | |
|---|-------------------|----------------|----------------|----------------|
| in USD millions, as of December 31 | 2015 | 2014 | 2015 | 2014 |
| Assets | | | | |
| Total Group Investments | 82,669 | 86,902 | 103,229 | 111,906 |
| Cash and cash equivalents | 9,756 | 9,939 | 3,049 | 3,568 |
| Equity securities | 10,053 | 8,953 | 8,113 | 6,416 |
| 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 | 218,788 | 234,352 |
| 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 | 245,262 | 261,552 |
| 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 | 18,512 | 19,852 | 15,787 | 17,529 |
| Total liabilities | 93,612 | 96,835 | 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 | 20,266 | 19,901 | 9,503 | 11,449 | (27,003) | (28,963) | 191,918 | 205,292 |
| 1,312 | 481 | 9,644 | 8,519 | 1,327 | 1,601 | (17,240) | (16,755) | 7,849 | 7,352 |
| 43 | 62 | 886 | 974 | 98 | 99 | - | - | 19,194 | 16,504 |
| 574 | 1,163 | 6,330 | 6,261 | 6,285 | 7,175 | (1,195) | (1,224) | 137,685 | 153,602 |
| 74 | 74 | 10 | 209 | 325 | 254 | - | - | 9,865 | 8,784 |
| - | - | - | - | - | - | - | - | 7,024 | 7,249 |
| 1,249 | 2,317 | 3,396 | 3,887 | 1,466 | 2,318 | (8,569) | (10,984) | 10,282 | 11,731 |
| - | - | 1 | 51 | 3 | 2 | - | - | 18 | 70 |
| - | - | - | - | 11,169 | 11,970 | - | - | 126,728 | 134,416 |
| 3,253 | 4,096 | 20,266 | 19,901 | 20,672 | 23,419 | (27,003) | (28,963) | 318,646 | 339,708 |
| - | - | - | - | 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 | 989 | 1,021 | 1,380 | 1,822 | (3,786) | (3,987) | 20,277 | 22,731 |
| 7,578 | 9,002 | 21,384 | 21,117 | 25,259 | 28,713 | (30,871) | (33,055) | 382,642 | 406,927 |
| - | - | - | - | 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 |
| - | - | 9,867 | 12,733 | 659 | 514 | (6,456) | (9,107) | 4,656 | 5,379 |
| - | - | 6,374 | 6,615 | 23 | 23 | (2,572) | (2,803) | 5,614 | 5,857 |
| 1,354 | 1,427 | 14,964 | 13,374 | 3,462 | 3,815 | (21,757) | (21,039) | 32,321 | 34,958 |
| 3,017 | 3,658 | 31,232 | 32,752 | 26,080 | 28,245 | (30,869) | (33,054) | 350,841 | 370,726 |
| - | - | - | - | - | - | - | - | 29,646 | 33,721 |
| - | - | - | - | - | - | - | - | 2,155 | 2,481 |
| - | - | - | - | - | - | - | - | 31,801 | 36,202 |
| - | - | - | - | - | - | - | - | 382,642 | 406,927 |
| - | - | - | - | - | - | - | - | - | - |
| 162 | 144 | 31 | 51 | - | - | - | - | 677 | 1,384 |

Consolidated financial statements *continued*

Table 28.4

in USD millions

General Insurance – Revenues and non-current assets by region

| | Gross written premiums and policy fees from external customers | | | | Property, equipment and intangible assets | |
|-----------------------|--|---------------|---------------------|---------------------|---|--------------|
| | Total | | of which | | 2015 | 2014 |
| | for the years ended | | Global Corporate | | | |
| | December 31 | December 31 | for the years ended | for the years ended | | |
| 2015 | 2014 | 2015 | 2014 | as of December 31 | | |
| 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 |

**Global Life –
Revenues and
non-current assets
by region**

Table 28.5

in USD millions

| | Gross written premiums and policy fees from external customers | | Life insurance deposits | | Property, equipment and intangible assets | |
|---|--|---------------|-------------------------|---------------|--|--------------|
| | for the years ended | | for the years ended | | as of December 31 | |
| | December 31 | | 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.

Table 29.1

as of December 31, 2015

Significant
subsidiaries –
non-listed

| | 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 |
| 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 | Barcelona | General Insurance | 50 | 50 | EUR | 10.0 |
| Bansabadell Vida S.A. de Seguros ³ | Barcelona | Global Life | 50 | 50 | EUR | 43.9 |
| Y Reaseguros | | | | | | |
| 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 Investment Management AG | Zurich | Other Operating Businesses | 100 | 100 | CHF | 10.0 |
| Zurich Life Insurance Company Ltd ⁴ | 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. | Istanbul | 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 ⁵ | 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*

Table 29.1

as of December 31, 2015

Significant
subsidiaries –
non-listed
(continued)

| | Registered office | Segment ¹ | Voting rights % | Ownership interest % | Nominal value of share capital (in local currency millions) | |
|---|-------------------|----------------------|-----------------|----------------------|---|---------|
| United States of America | | | | | | |
| Farmers Group, Inc. ⁶ | Reno, NV | Farmers | 87.90 | 95.38 | USD | 0.001 |
| Farmers New World Life Insurance Company ⁶ | Mercer Island, WA | Global Life | 87.90 | 95.38 | USD | 6.6 |
| Farmers Reinsurance Company ⁶ | Woodland Hills | Farmers | 87.90 | 95.38 | USD | 58.8 |
| | | Other Operating | | | | |
| ZFS Finance (USA) LLC V ⁵ | Wilmington, DE | 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 |
| | | Global Life/ | | | | |
| Zurich American Life Insurance Company | Schaumburg, IL | Non-Core Businesses | 100 | 100 | USD | 2.5 |
| | | Other Operating | | | | |
| Zurich Holding Company of America, Inc. ⁷ | Wilmington, DE | 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 ZIC Group.⁴ The results of the operating activities are included in the Global Life segment, whereas the Headquarters' activities are included in Other Operating Businesses.⁵ These entities are LLCs or partnerships and have no share capital.⁶ The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of ZIC Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.⁷ 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 ZIC Group's business is subject to extensive regulatory supervision, and companies in the ZIC Group are subject to numerous legal restrictions and regulations. These restrictions may refer to minimum capital requirements or the ability of the ZIC 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 ZIC 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 ZIC 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.

Consolidated financial statements *continued*

30. Events after the balance sheet date

On February 18, 2016, the Zurich Insurance Group announced the successful placement of CHF 200 million of undated subordinated notes, which was subsequently raised to CHF 225 million at closing on March 2, 2016. The subordinated notes are first callable in June 2021. The notes will be issued by Zurich Insurance Company Ltd under the Euro Medium Term Note Program. The coupon of 2.75 percent per annum is fixed until June 2021. Thereafter the coupon will reset every 5 years based on the then prevailing 5-year swap rate plus a margin of 3.323 percent per annum. The notes were placed to retail and institutional investors in the Swiss franc domestic market and the transaction has been conducted for refinancing purposes.

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Report of the statutory auditor

Report of the statutory auditor

To the General Meeting of Zurich Insurance Company Ltd

Report of the statutory auditor on the Consolidated financial statements

As statutory auditor, we have audited the Consolidated financial statements of Zurich Insurance Company 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 37 to 137 and the Risk review pages 13 to 35), 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, March 2, 2016

Financial statements – statutory accounts

Board of Directors and auditors, as of December 31, 2015

Board of Directors and auditors

| | Residence | Expiration of current term of office |
|-----------------------------------|----------------------------|---|
| Board of Directors | | |
| Tom de Swaan, Chairman | Amsterdam, Netherlands | 2016 |
| Fred Kindle, Vice Chairman | London, United Kingdom | 2016 |
| Susan Bies | Landrum, SC, USA | 2016 |
| Alison Carnwath | Devon, United Kingdom | 2016 |
| Rafael del Pino | Madrid, Spain | 2016 |
| Thomas Escher | Uitikon, Switzerland | 2016 |
| Monica Mächler | Pfäffikon, SZ, Switzerland | 2016 |
| Don Nicolaisen | Aiken, SC, USA | 2016 |
| Christoph Franz | Zürich, Switzerland | 2016 |
| Joan Amble | Darien, CT, USA | 2016 |
| Kishore Mahbubani | Singapore, Singapore | 2016 |
| <hr/> | | |
| Adrian Peyer, Corporate Secretary | | |
| <hr/> | | |
| Auditors | | |
| PricewaterhouseCoopers AG | | |

Fritz Gerber is the Honorary Chairman of Zurich Insurance Company Ltd. He was chairman of Zurich Insurance Company Ltd between 1977 and 1995 and its Chief Executive Officer between 1977 and 1991. In recognition of his leadership and services to the 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 Director's fees.

Management report

Zurich Insurance Company Ltd (ZIC or the Company) is a public limited company domiciled in Zurich, Switzerland, and was incorporated on November 1, 1872. The Company is the principal operating insurance company of the Zurich Insurance Group (ZIG or the Group). As well as being an insurance company, it also acts as the holding company for all subsidiaries and other affiliates of the Group except for the Group's property loans and banking activities.

The results of ZIC include the direct general insurance business in Switzerland and its branches mainly located in Canada, Japan and Hong Kong as well as assumed reinsurance business from its subsidiaries.

ZIC reported a net income after taxes of CHF 1,962 million in 2015, a 46 percent decrease compared to 2014. This decrease is mainly driven by lower net earned premiums and policy fees of CHF 1,977 million, by the implementation of a new accounting policy in 2014 regarding the deferral of acquisition costs related to ZIC's reinsurance business (resulting in a non-recurring positive impact on the prior year result of CHF 1,153 million), partially offset by lower insurance benefits and losses, net, of CHF 864 million.

Total gross written premiums and policy fees decreased by CHF 1,923 million or 9 percent to CHF 19,216 million for the year ended December 31, 2015. In local currency, gross written premiums and policy fees decreased by 8 percent or CHF 1,681 million. Direct business gross written premiums and policy fees increased by CHF 11 million to CHF 4,327 million. Assumed reinsurance gross written premiums and policy fees decreased by CHF 1,934 million or 11 percent to CHF 14,890 million mainly due to the participation change in the All Lines Quota Share reinsurance agreement with Farmers Exchanges and the recapture of a reinsurance treaty assumed from a Group company.

The insurance reserves, net, decreased by CHF 813 million compared with the year-end 2014. The decrease is mainly due to the recapture of a Group internal reinsurance agreement and the participation change in the All Lines Quota Share reinsurance agreement with Farmers Exchanges, partially offset by the reserve strengthening for the U.S. business as well as by the Tianjin port explosion and higher natural catastrophe losses resulting from severe flooding in the United Kingdom and Ireland in December 2015.

The net investment result decreased by CHF 150 million to CHF 2,857 million, mainly due to higher write-ups/write-downs, net, on investments in subsidiaries and associates of CHF 592 million, on debt securities of CHF 349 million and on equity securities of CHF 463 million, offset by higher dividend income from subsidiaries and associates of CHF 574 million and higher realized capital gains/losses, net, of CHF 681 million, partially due to the contribution of a subsidiary to another subsidiary.

Shareholder's equity decreased by CHF 538 million to CHF 20,837 million as of December 31, 2015, from CHF 21,375 million as of December 31, 2014. The decrease is the net result of the net income after taxes of CHF 1,962 million and the dividend payment to ZIG of CHF 2,500 million in 2015, which was approved at the Annual General Meeting of shareholders on April 1, 2015.

ZIC is fully integrated into the Group-wide risk assessment process of the Zurich Insurance Group. This risk process also addresses the nature and scope of business activities and the specific risks of ZIC. For more information, see the Risk review on page 13 to 35 of this Annual Report.

In 2016, it is expected that in particular the amount of the assumed reinsurance will further decline. At the same time, the amount of the reinsurance ceded is expected to increase due to the purchase of additional reinsurance cover, resulting in lower net earned premiums and policy fees. ZIC is further looking at enhancing efficiency in order to achieve cost savings.

Financial statements – statutory accounts *continued*

Income statements

| Income statements | in CHF millions, for the years ended December 31 | Notes | 2015 | 2014 |
|-------------------|---|-------|-----------------|-----------------|
| | Gross written premiums and policy fees | | 19,216 | 21,139 |
| | Premiums ceded to reinsurers | | (2,765) | (2,862) |
| | Net written premiums and policy fees | | 16,451 | 18,278 |
| | Change in reserves for unearned premiums, gross | | 61 | 206 |
| | Change in reserves for unearned premiums, ceded | | 53 | 59 |
| | Net earned premiums and policy fees | | 16,565 | 18,542 |
| | Other income | | 1,839 | 1,500 |
| | Total technical income | | 18,405 | 20,042 |
| | Claims paid, annuities and loss adjustment expenses, gross | | (13,447) | (13,227) |
| | Claims paid, annuities and loss adjustment expenses, ceded | | 1,682 | 1,614 |
| | Change in insurance reserves, gross | 14 | (64) | (1,295) |
| | Change in insurance reserves, ceded | 14 | (175) | 41 |
| | Insurance benefits and losses, net of reinsurance | | (12,003) | (12,867) |
| | Underwriting & policy acquisition costs, gross | | (4,714) | (4,148) |
| | Underwriting & policy acquisition costs, ceded | | 309 | 286 |
| | Underwriting & policy acquisition costs, net of reinsurance | | (4,405) | (3,862) |
| | Administrative and other expense | 4 | (2,209) | (2,262) |
| | Total technical expense | | (18,617) | (18,991) |
| | Investment income | 5 | 4,273 | 3,763 |
| | Investment expenses | 6 | (1,416) | (756) |
| | Net investment result | | 2,857 | 3,007 |
| | Other financial income | | 2,903 | 1,165 |
| | Other financial expense | | (2,832) | (854) |
| | Operating result | | 2,716 | 4,368 |
| | Interest expense on debt and other interest expense | | (659) | (700) |
| | Net income before taxes | | 2,057 | 3,668 |
| | Direct tax expenses | | (96) | (56) |
| | Net income after taxes | | 1,962 | 3,612 |

The notes to the financial statements are an integral part of these financial statements.

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Financial statements – statutory accounts *continued*

Balance sheets

| Assets | in CHF millions, as of December 31 | Notes | 2015 | 2014 |
|---|------------------------------------|-------|---------------|---------------|
| Investments | | | | |
| Real estate | | | 1,333 | 1,636 |
| Investments in subsidiaries and associates | | 7 | 29,167 | 29,384 |
| Debt securities | | | 23,320 | 24,613 |
| Other loans | | | 3,783 | 4,126 |
| Mortgage loans | | | 1,271 | 1,293 |
| Equity securities | | | 4,358 | 3,763 |
| Other investments | | 8 | 8,559 | 8,998 |
| Total investments | | | 71,792 | 73,813 |
| Other assets | | | | |
| Derivative assets | | | 461 | 721 |
| Deposits made under assumed reinsurance contracts | | | 3,548 | 3,957 |
| Cash and cash equivalents | | | 4,313 | 3,942 |
| Insurance reserves, ceded | | 13 | 5,420 | 5,933 |
| Fixed assets | | 9 | 134 | 142 |
| Deferred acquisition costs, net | | 10 | 1,215 | 1,153 |
| Intangible assets | | 11 | 247 | 357 |
| Receivables from insurance and reinsurance business | | 12 | 1,331 | 1,500 |
| Other receivables | | | 913 | 1,168 |
| Other assets | | | 21 | 30 |
| Accrued assets | | | 555 | 528 |
| Total other assets | | | 18,159 | 19,431 |
| Total assets | | | 89,950 | 93,244 |

The notes to the financial statements are an integral part of these financial statements.

Liabilities and shareholder's equity

| in CHF millions, as of December 31 | Notes | 2015 | 2014 |
|--|-------|-------------------|-------------------|
| Liabilities | | | |
| Insurance reserves, gross | 13 | 42,491 | 43,817 |
| Provisions | 16 | 751 | 1,081 |
| Senior and other debt | 17 | 13,443 | 14,206 |
| Derivative liabilities | | 155 | 247 |
| Deposits received under ceded reinsurance contracts | | 434 | 517 |
| Liabilities from insurance and reinsurance business | 18 | 624 | 806 |
| Other liabilities | | 1,250 | 1,336 |
| Accrued liabilities | | 1,383 | 1,416 |
| Subordinated debt | 17 | 8,583 | 8,442 |
| Total liabilities | | 69,114 | 71,869 |
| Shareholder's equity (before appropriation of available earnings) | | | |
| Share capital | 19 | 825 | 825 |
| Profit sharing certificates | | p.m. ¹ | p.m. ¹ |
| Capital contribution reserve | | 5,570 | 5,570 |
| Legal reserve | | 485 | 485 |
| General free reserve | | 4,272 | 4,272 |
| Retained earnings: | | | |
| <i>Beginning of year</i> | | 10,223 | 9,111 |
| <i>Dividend paid</i> | | (2,500) | (2,500) |
| <i>Net income after taxes</i> | | 1,962 | 3,612 |
| Retained earnings, end of year | | 9,685 | 10,223 |
| Total shareholder's equity (before appropriation of available earnings) | | 20,837 | 21,375 |
| Total liabilities and shareholder's equity | | 89,950 | 93,244 |

¹ pro memoria.

The notes to the financial statements are an integral part of these financial statements.

Financial statements – statutory accounts *continued*

Notes to the financial statements

1. Basis of presentation

The Company's financial statements are presented in accordance with the Swiss Code of Obligations and relevant insurance supervisory law, especially the FINMA Insurance Supervision Ordinance (ISO-FINMA), as revised per December 15, 2015. The latest changes within the Swiss Code of Obligations have been applied effective January 1, 2015. Prior year comparatives have been revised for comparability with the current year's presentation with no impact on net income and shareholder's equity.

All amounts in the financial statements, unless otherwise stated, are shown in CHF, rounded to the nearest million with the consequence that the rounded amounts may not add up the rounded total in all cases. All variances are calculated using the underlying amounts rather than the rounded amounts.

2. Summary of significant accounting policies

Investments

Real estate held for investment and for own use held in Switzerland is carried at the acquisition cost less required or permissible impairment, and is valued on a single valuation basis. Compared to prior periods, the single valuation basis constitutes a change and reflects the changes in the Swiss Code of Obligations. Real estate held for investment and for own use held by branches located outside Switzerland is carried at the local statutory value valid in the country where the real estate is located, valued on a single valuation basis.

Investments in subsidiaries and associates are held at acquisition cost less necessary impairments. The method to determine the necessary impairments is considering the similarity of the underlying investments in subsidiaries and associates such as the fungibility of capital or the pooling of reinsurance as well as the potential dependency with other investments in subsidiaries and associates. When managed as a sub-group, the book value of the sub-group is compared to its market value. When managed as an individual asset, the book value of the individual investments in subsidiaries and associates is compared to the market value on a single valuation basis. This constitutes a change compared to prior periods where investments in subsidiaries and associates were valued on a group valuation basis and reflects the changes in the Swiss Code of Obligations.

Debt securities are carried at amortized cost using the effective interest rate method. The valuation of debt securities held in the single investor funds in Switzerland is the same as for directly held securities.

Mortgage and other loans are valued at their nominal value less any necessary impairments.

Equity securities which are quoted on a stock exchange are carried at the stock exchange price at the end of December. Unquoted equity securities are carried at the acquisition cost with a deduction for necessary impairments. The valuation of equity securities held in the single investor funds in Switzerland is the same as for directly held securities.

Other investments consist of asset backed securities, which are valued at amortized cost using the effective interest rate method.

Other assets

Derivative financial instruments

Derivative financial instruments held for economic hedging are carried at fair value.

Deposits made under assumed reinsurance contracts

Reinsurance deposits consist of funds deposited with ceding insurers to guarantee contractual liabilities for assumed reinsurance.

Deferred acquisition costs, net

Acquisition costs related to reinsurance business are deferred. For general insurance business the deferred costs are subsequently amortized over the period in which the related assumed premiums are earned. For the life business the deferred costs are amortized over the life of the contract based on expected premiums or based on estimated gross margin expected to be realized over the life of the contract, depending on the type of underlying contracts. This policy is applied for the underwriting year 2014 onwards.

Accrued assets

This amount relates primarily to interest income accruals, other prepaid expenses and other accrued income. Accrued investment income within the single investor funds in Switzerland is recorded as a write-up on investments.

Insurance reserves

Reserves for unearned premiums represent the portion of the premiums written relating to the unexpired term of insurance coverage as of the balance sheet date. In many insurance contracts, the insurance period for which the insurance company assumes a risk against a premium paid does not correspond to the Company's financial year. Thus, an amount equivalent to the unearned portion of the premium is set up as a reserve at the end of the financial year.

Reserves for losses and loss adjustment expenses represent reserves for reported claims and reserves for losses incurred but not yet reported (IBNR). In addition, equalization reserves are included where these are accepted by the regulator in the country where such reserves are held. The reserves represent 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 are reflected in the income statements in the period in which estimates are changed.

Future life policyholders' benefits represent the estimated future benefit liability for life insurance policies and include the value of accumulated declared bonuses or dividends that have vested to policyholders. These liabilities relate to assumed reinsurance contracts. The liabilities are primarily measured using current financial and non-financial assumptions. Certain pension and annuity liabilities are calculated using a net level premium valuation method based on actuarial assumptions including mortality, expenses and investment return adjusted for a margin for adverse deviations.

Other income and administrative and other expense

Other income includes interest income on deposits received under ceded reinsurance contracts as well as other technical and other non-technical income. Administrative and other expense represent primarily technical expense in connection with the operation of the insurance business.

Investment income and expense

Realized capital gains/losses on investments occur when the sales price or redemption value is higher or lower than the carrying value at the time of sale. The gain/loss is the difference between carrying value and the sales price.

Write-downs and write-ups on investments include losses arising from a decrease in the fair value below cost or the carrying value at the previous year end on equity securities and necessary impairments of debt securities and investments in subsidiaries and associates. Write-ups of quoted equity securities are gains resulting from the difference between the lower book value at the beginning of the year or at the later purchase date and the higher book value as of the end of December. Write-ups also include gains as a result of the reversal of impairments on unquoted equity securities up to the acquisition cost value. Write-downs and write-ups further include the change in valuation of the single investor funds, which also include the investment income of the investments within these funds.

Other financial income and expense

Other financial income includes interest income on cash and cash equivalent as well as gains on derivatives. Other financial expenses includes losses on derivatives.

Direct tax expenses

Direct tax expenses include both Swiss and foreign income tax expense and capital tax expense in Switzerland as well as foreign withholding tax expense on investment income.

Financial statements – statutory accounts *continued*

3. Exchange rates

The presentation currency for ZIC and its branches is the Swiss franc. Several ZIC branches operate outside Switzerland with different functional currencies. A functional currency is the currency of the primary economic environment in which the branch operates. Assets and liabilities of those branches with functional currencies other than the Swiss franc are translated into the presentation currency at end-of-period exchange rates, except for investments in subsidiaries and associates where historical exchange rates are used. Revenues and expenses are translated using the average exchange rate of the year. The resulting exchange differences are recorded in the income statements.

The table below summarizes the principal exchange rates that have been used for translation purposes.

| Principal exchange rates | CHF per foreign currency unit | Balance sheets | | Income statements | |
|--------------------------|-------------------------------|-----------------|------------|-------------------|------|
| | | 12/31/2015 | 12/31/2014 | 2015 | 2014 |
| | | Canadian dollar | 0.72 | 0.86 | 0.75 |
| Euro | 1.09 | 1.20 | 1.07 | 1.21 | |
| British pound | 1.48 | 1.55 | 1.47 | 1.51 | |
| U.S. dollar | 1.00 | 0.99 | 0.96 | 0.91 | |

4. Administrative and other expense

| Administrative and other expense | in CHF millions, for the years ended December 31 | 2015 | 2014 |
|--|--|---|----------------|
| | | Administration and other general expenses | (1,280) |
| Personnel expenses | (1,112) | (1,112) | |
| Foreign currency transaction gains and losses | 707 | 358 | |
| Gains and losses on foreign currency derivatives | (327) | 238 | |
| Amortization and impairments of software and equipment | (197) | (197) | |
| Total administrative and other expense | | (2,209) | (2,262) |

Administration and other general expenses in 2014 include the expense related to the set-up of a provision for value fluctuations of CHF 250 million. In 2015 the provision was released through other income.

5. Investment income

Investment income

in CHF millions, for the years ended December 31

| | Current income | | Write-ups | | Realized capital gains | | Totals | |
|--|----------------|--------------|------------|------------|------------------------|------------|--------------|--------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Real estate | 104 | 105 | – | 3 | 14 | 39 | 118 | 147 |
| Investments in subsidiaries and associates | 2,479 | 1,905 | – | – | 200 | 2 | 2,679 | 1,907 |
| Debt securities | 320 | 356 | 8 | 189 | 334 | 251 | 662 | 796 |
| Other loans | 83 | 76 | – | – | 28 | 13 | 112 | 89 |
| Mortgage loans | 28 | 28 | – | – | – | – | 28 | 28 |
| Equity securities | 60 | 29 | 92 | 402 | 241 | 137 | 393 | 568 |
| Other investments | 209 | 174 | – | – | 73 | 54 | 282 | 227 |
| Total investment income | 3,282 | 2,674 | 100 | 594 | 891 | 494 | 4,273 | 3,763 |

Total investment income increased by CHF 510 million or 14 percent to CHF 4,273 million in 2015. Dividend income from subsidiaries and associates increased by CHF 574 million or 30 percent to CHF 2,479 million in 2015, mainly due to higher dividend income from Farmers Group, Inc. Realized capital gains on subsidiaries and associates increased by CHF 198 million mainly due to the contribution of CMSH Limited to Zurich Finance Company AG, a subsidiary of Zurich Insurance Company Ltd. The write-ups on debt securities and equity securities decreased mainly due to the foreign currency impact within the single investor funds as well as due to the general decrease in the equity market compared to 2014.

6. Investment expenses

Investment expenses

in CHF millions, for the years ended December 31

| | Write-downs | | Realized capital losses | | Totals | |
|--|----------------|-------------|-------------------------|--------------|----------------|--------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Real estate | (92) | (3) | (36) | (1) | (128) | (4) |
| Investments in subsidiaries and associates | (594) | (2) | (7) | (490) | (601) | (492) |
| Debt securities | (171) | (3) | (70) | (61) | (241) | (64) |
| Other loans | (1) | – | (87) | (21) | (88) | (21) |
| Mortgage loans | – | – | – | – | – | – |
| Equity securities | (171) | (18) | (52) | (41) | (223) | (60) |
| Other investments | – | – | (72) | (54) | (72) | (54) |
| Investment general expenses | n.a. | n.a. | n.a. | n.a. | (64) | (60) |
| Total investment expenses | (1,028) | (27) | (324) | (668) | (1,416) | (756) |

Total investment expenses increased by CHF 660 million or 87 percent. The write-downs increased by CHF 1,001 million from CHF 27 million in 2014 to CHF 1,028 million in 2015. The write-downs on investments in subsidiaries and associates increased by CHF 592 million compared with 2014 mainly due to an impairment of a subsidiary in the United Kingdom following a dividend payment of excess capital, as well as an impairment due to a merger in Italy. The write-downs on debt and equity securities increased by CHF 168 million and by CHF 153 million, respectively, both mainly due to the change in value within the single investor funds, as well as to the foreign currency impact.

Realized capital losses decreased by CHF 344 million from CHF 668 million in 2014 to CHF 324 million in 2015. In 2014, realized capital losses on subsidiaries and associates of CHF 490 million resulted from the sale of Zurich Insurance Holding (Cyprus) Ltd, which held the Group's General Insurance retail business in Russia.

Financial statements – statutory accounts *continued*

7. Investments in subsidiaries and associates

The table below shows the significant subsidiaries of ZIC with a carrying value of at least CHF 500 million and/or net income exceeding CHF 100 million. The carrying value of the listed subsidiaries and associates represents 89 percent of the total investments in subsidiaries and associates of CHF 29,167 million.

| Significant subsidiaries | as of December 31, 2015 | | | | Nominal value of common stock (in local currency millions) | |
|--|-------------------------|-----------------|----------------------|-----|--|--|
| | Registered office | Voting rights % | Ownership interest % | | | |
| Bermuda | | | | | | |
| Zurich International (Bermuda) Ltd. ² | Hamilton | 100 | 100 | USD | 9.9 | |
| Brazil | | | | | | |
| Zurich Minas Brasil Seguros S.A. ² | Belo Horizonte | 100 | 100 | BRL | 2,809.6 | |
| Germany | | | | | | |
| Zürich Beteiligungs-Aktiengesellschaft (Deutschland) | Frankfurt | 82.6 | 82.6 | EUR | 152.9 | |
| Ireland | | | | | | |
| Zurich Holding Ireland Limited | Dublin | 100 | 100 | EUR | 0.1 | |
| Zurich Insurance plc ² | Dublin | 4.5 | 4.5 | EUR | 8.2 | |
| Italy | | | | | | |
| Zurich Investments Life S.p.A. | Milan | 100 | 100 | EUR | 164.0 | |
| Switzerland | | | | | | |
| Zurich Life Insurance Company Ltd ² | Zurich | 100 | 100 | CHF | 60.0 | |
| Zurich Finance Company AG ³ | Zurich | 100 | 100 | CHF | 0.2 | |
| United Kingdom | | | | | | |
| Allied Zurich Holdings Limited | St. Hélier | 100 | 100 | GBP | 90.7 | |
| Zurich International Life Limited ² | Douglas, Isle of Man | 100 | 100 | GBP | 109.0 | |
| United States of America | | | | | | |
| Farmers Group, Inc. ^{1,4} | Reno, NV | 87.9 | 95.4 | USD | 0.0 | |
| Zurich Holding Company of America, Inc. | Wilmington, DE | 99.2 | 99.2 | USD | 0.0 | |

¹ The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of ZIC in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.

² Regulated insurance companies.

³ Compared to prior year, Zurich Finance Company AG is new on the list of significant subsidiaries. At the end of 2015, Zurich Finance Company AG has taken over the ownership of CMSH Limited from Zurich Insurance Company Ltd.

⁴ The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly-owned subsidiary of the Zurich Insurance Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

The table below shows the most significant indirectly held subsidiaries of ZIC with a net asset value exceeding USD 1,000 million (based on IFRS values) and ownership interest of more than 10%.

| Significant indirect subsidiaries | as of December 31, 2015 | | | Voting rights % | Ownership interest % |
|---|-------------------------|---------------------|--|-----------------|----------------------|
| | | Registered office | Parent company | | |
| Bermuda | | | | | |
| CMSH Limited | | Hamilton | Zurich Finance Company AG ¹ | 100.0 | 100.0 |
| Germany | | | | | |
| Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft | | Bonn | Zürich Beteiligungs-Aktiengesellschaft (Deutschland) ¹ | 32.5 | 32.5 |
| | | | Deutscher Herold Aktiengesellschaft | 67.5 | 67.5 |
| Spain | | | | | |
| Bansabadell Vida S.A. de Seguros y Reaseguros | | Barcelona | Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal | 50.0 | 50.0 |
| Zurich Santander Holding (Spain), S.L. | | Madrid | Zurich Santander Insurance America, S.L. | 51.0 | 51.0 |
| United Kingdom | | | | | |
| Zurich Assurance Ltd | | Cheltenham, England | Eagle Star Holdings Limited | 100.0 | 100.0 |
| United States of America | | | | | |
| Farmers New World Life Insurance Company | | Mercer Island, WA | Farmers Group, Inc. ¹ | 100.0 | 100.0 |
| Zurich American Corporation | | Wilmington, DE | Zurich Holding Company of America, Inc. ¹ | 100.0 | 100.0 |
| Zurich American Insurance Company | | New York, NY | Zurich Holding Company of America, Inc. ¹ | 100.0 | 100.0 |

¹ Direct subsidiary of the Company.

Financial statements – statutory accounts *continued*

8. Other investments

| Other investments | | | |
|------------------------------------|--------------------------------|--------------|--------------|
| in CHF millions, as of December 31 | | | |
| | | 2015 | 2014 |
| | Asset backed securities | 8,559 | 8,998 |
| | Total other investments | 8,559 | 8,998 |

9. Fixed assets

| Fixed assets | | | |
|------------------------------------|---------------------------|------------|------------|
| in CHF millions, as of December 31 | | | |
| | | 2015 | 2014 |
| | Furniture and equipment | 372 | 375 |
| | Accumulated amortization | (238) | (233) |
| | Total fixed assets | 134 | 142 |

10. Deferred acquisition costs

| Deferred acquisition costs, net | | | |
|------------------------------------|--|--------------|--------------|
| in CHF millions, as of December 31 | | | |
| | | 2015 | 2014 |
| | Deferred acquisition costs, assumed reinsurance | 1,272 | 1,194 |
| | Deferred acquisition costs, retroceded reinsurance | (57) | (41) |
| | Total deferred acquisition costs, net | 1,215 | 1,153 |

Acquisition costs related to reinsurance business are deferred and subsequently amortized over a defined period for the underwriting year 2014 onwards.

11. Intangible assets

| Intangible assets | | | |
|------------------------------------|--------------------------------|------------|------------|
| in CHF millions, as of December 31 | | | |
| | | 2015 | 2014 |
| | Brand names and trademarks | – | 41 |
| | Software | 247 | 316 |
| | Total intangible assets | 247 | 357 |

At the end of 2015, brand names and trademarks are fully amortized. The net additions as well as the impairment and amortization of software amounted to CHF 69 million in 2015.

12. Receivables from insurance and reinsurance business

| Receivables from insurance and reinsurance business | | | |
|---|--|--------------|--------------|
| in CHF millions, as of December 31 | | | |
| | | 2015 | 2014 |
| | Receivables from policyholders | 40 | 51 |
| | Receivables from agents and intermediaries | 164 | 212 |
| | Receivables from insurance and reinsurance companies | 1,127 | 1,237 |
| | Total receivables from insurance and reinsurance business | 1,331 | 1,500 |

13. Insurance reserves , net

| Insurance reserves, net | in CHF millions, as of December 31 | |
|---|------------------------------------|----------------|
| | 2015 | 2014 |
| Gross | | |
| Reserves for unearned premiums | 4,891 | 5,112 |
| Reserves for losses and loss adjustment expenses | 32,398 | 32,370 |
| Other technical reserves | 786 | 810 |
| Future life policyholders' benefits | 4,408 | 5,522 |
| Reserves for policyholders' dividends | 7 | 2 |
| Total insurance reserves, gross | 42,491 | 43,817 |
| Ceded | | |
| Reserves for unearned premiums | (1,017) | (1,036) |
| Reserves for losses and loss adjustment expenses | (4,147) | (4,634) |
| Future life policyholders' benefits | (255) | (264) |
| Total insurance reserves, ceded | (5,420) | (5,933) |
| Net | | |
| Reserves for unearned premiums | 3,874 | 4,076 |
| Reserves for losses and loss adjustment expenses | 28,251 | 27,737 |
| Other technical reserves | 786 | 810 |
| Future life policyholders' benefits | 4,153 | 5,258 |
| Reserves for policyholders' dividends | 7 | 2 |
| Total insurance reserves, net of reinsurance | 37,071 | 37,884 |

Total insurance reserves, net, decreased by CHF 813 million or 2 percent to CHF 37,071 million. In local currency, the insurance reserves would have decreased by CHF 4 million. The reserves for losses and loss adjustment expenses, net, only slightly increased in local currency. The reserves increased mainly due to the reserve strengthening for a Group internal quota share treaty related to the U.S. business, as well as due to the increase of reserves for large losses as the Tianjin port explosion and flooding in the United Kingdom and Ireland in December 2015, partially offset by the decrease due to the participation change in the All Lines Quota Share reinsurance agreement with Farmers Exchanges. The decrease in future life policyholders' benefits of CHF 1,105 million was mainly due to the recapture of a Group internal reinsurance agreement.

Financial statements – statutory accounts *continued*

14. Change in insurance reserves, net

| Change in insurance reserves, net | in CHF millions, for the years ended December 31 | |
|---|--|----------------|
| | 2015 | 2014 |
| Gross | | |
| Change in reserves for losses and loss adjustment expenses | (983) | (794) |
| Change in other technical reserves | (6) | 12 |
| Change in reserves for future life policyholders' benefits | 1,057 | (328) |
| Change in reserves for policyholders' dividends | (133) | (185) |
| Total change in insurance reserves, gross | (64) | (1,295) |
| Ceded | | |
| Change in reserves for losses and loss adjustment expenses | (164) | 38 |
| Change in reserves for future life policyholders' benefits | (10) | 4 |
| Change in reserves for policyholders' dividends | – | (1) |
| Total change in insurance reserves, ceded | (175) | 41 |
| Net | | |
| Change in reserves for losses and loss adjustment expenses | (1,147) | (756) |
| Change in other technical reserves | (6) | 12 |
| Change in reserves for future life policyholders' benefits | 1,047 | (324) |
| Change in reserves for policyholders' dividends | (133) | (185) |
| Total change in insurance reserves, net of reinsurance | (238) | (1,253) |

15. Direct and assumed business

| Direct and assumed business | in CHF millions, for the years ended December 31 | |
|--|--|-----------------|
| | 2015 | 2014 |
| Gross written premiums and policy fees, direct business | 4,327 | 4,316 |
| Gross written premiums and policy fees, assumed business | 14,890 | 16,824 |
| Premiums ceded to reinsurers | (2,765) | (2,862) |
| Net written premiums and policy fees | 16,451 | 18,278 |
| Change in reserves for unearned premiums, direct business | 10 | (54) |
| Change in reserves for unearned premiums, assumed business | 51 | 260 |
| Change in reserves for unearned premiums, ceded | 53 | 59 |
| Change in reserves for unearned premiums, net of reinsurance | 114 | 264 |
| Claims paid, annuities and loss adjustment expenses, direct business | (2,905) | (2,728) |
| Claims paid, annuities and loss adjustment expenses, assumed business | (10,542) | (10,499) |
| Claims paid, annuities and loss adjustment expenses, ceded | 1,682 | 1,614 |
| Claims paid, annuities and loss adjustment expenses, net of reinsurance | (11,764) | (11,613) |
| Change in insurance reserves, direct business | 81 | (338) |
| Change in insurance reserves, assumed business | (145) | (957) |
| Change in insurance reserves, ceded | (175) | 41 |
| Change in insurance reserves, net of reinsurance | (238) | (1,253) |
| Underwriting & policy acquisition costs, direct business | (834) | (801) |
| Underwriting & policy acquisition costs, assumed business | (3,880) | (3,347) |
| Underwriting & policy acquisition costs, ceded | 309 | 286 |
| Underwriting & policy acquisition costs, net of reinsurance | (4,405) | (3,862) |

16. Provisions

These provisions were established in anticipation of expected, estimated or perceived expenditures or exposures, and this line item consists mainly of provisions to cover obligations relating to administrative and sales staff. In 2015, the provision for restructuring costs increased by CHF 38 million and amounted to CHF 45 million. The provision for value fluctuations of investments in the amount of CHF 250 million, which was set up in 2014, has been released in 2015.

17. Debt

a) Senior and other debt

| Senior and other debt | in CHF millions, as of December 31 | 2015 | 2014 |
|-----------------------|--|---------------|---------------|
| | Issuances to capital markets under Euro | | |
| | Medium Term Note Programme | | |
| | 3.375% EUR 500 million, due June 2022 | 544 | 601 |
| | 1.75% EUR 500 million, due September 2024 | 544 | 601 |
| | 2.375% CHF 525 million, due November 2018 | 525 | 525 |
| | 2.25% CHF 500 million, due July 2017 | 500 | 500 |
| | 1.5% CHF 400 million, due June 2019 | 400 | 400 |
| | 1.125% CHF 400 million, due September 2019 | 400 | 400 |
| | 0.625% CHF 250 million, due July 2020 | 250 | 250 |
| | 2.875% CHF 250 million, due July 2021 | 250 | 250 |
| | Floating rate CHF 200 million, due June 2016 | 200 | 200 |
| | 1.5% CHF 150 million, due July 2026 | 150 | 150 |
| | 1.875% CHF 100 million, due September 2023 | 100 | 100 |
| | Zurich Insurance Group | various | 9,511 |
| | Other debt | various | 70 |
| | Total senior and other debt | 13,443 | 14,206 |
| | <i>thereof due in one to five years</i> | <i>2,275</i> | <i>2,025</i> |
| | <i>thereof due in more than five years</i> | <i>1,587</i> | <i>1,952</i> |

b) Subordinated debt

| Subordinated debt | in CHF millions, as of December 31 | 2015 | 2014 |
|-------------------|---|--|--------------|
| | Zurich Insurance Group Ltd | 6.30% CHF 4,832 million perpetual loan | 4,832 |
| | Issuances to capital markets under Euro | | |
| | Medium Term Note Programme | | |
| | 4.25% EUR 1 billion notes, first callable on October 2, 2023, due October 2043 | 1,087 | 1,202 |
| | 4.25% CHF 700 million perpetual notes, first callable on May 26, 2016 | 700 | 700 |
| | 7.5% EUR 425 million notes, first callable on July 24, 2019, due July 2039 | 462 | 511 |
| | 4.625% CHF 500 million perpetual notes, first callable on May 16, 2018 | 500 | 500 |
| | 8.25% USD 500 million perpetual capital notes, first callable on January 18, 2018 | 501 | 497 |
| | 2.75% CHF 200 million perpetual capital notes, first callable on September 30, 2021 | 200 | 200 |
| | 4.25% USD 300 million subordinated notes, first callable on October 1, 2025 | 300 | – |
| | Total subordinated debt | 8,583 | 8,442 |
| | <i>thereof due in one to five years</i> | <i>1,001</i> | <i>1,697</i> |
| | <i>thereof due in more than five years</i> | <i>6,882</i> | <i>6,746</i> |

Financial statements – statutory accounts *continued*

18. Liabilities from insurance and reinsurance business

| Liabilities from insurance and reinsurance business | in CHF millions, as of December 31 | | |
|--|------------------------------------|------------|------------|
| | | 2015 | 2014 |
| Amounts due to policyholders | | 75 | 82 |
| Amounts due to agents and intermediaries | | 2 | 25 |
| Amounts due to insurance and reinsurance companies | | 547 | 699 |
| Total liabilities from insurance and reinsurance business | | 624 | 806 |

19. Share capital

| Share capital and profit sharing certificates | number of shares, as of December 31 | | |
|--|-------------------------------------|------------|------------|
| | | 2015 | 2014 |
| Contingent and issued share capital, CHF 10 par value | | 86,000,000 | 86,000,000 |
| Issued share capital, CHF 10 par value | | 82,500,000 | 82,500,000 |
| Profit sharing certificates (Genussscheine) ¹ | | 2 | 2 |

¹ These profit sharing certificates confer on their holder the right to receive a dividend if and to the extent the Annual General Meeting of Shareholders decides. However, they do not confer on their holder any voting rights or rights associated thereto, any rights to subscribe for new shares, or any rights to liquidations proceeds.

a) Issued share capital

As of December 31, 2015 and 2014, ZIC had issued share capital of CHF 825,000,000, consisting of 82,500,000 issued and fully paid registered shares of CHF 10 par value each.

b) Contingent share capital

At the Annual General Meeting of Shareholders on June 11, 1997, contingent share capital of CHF 35,000,000, or 3,500,000 shares with a par value of CHF 10 each, was created, of which 2,500,000 shares can be issued in connection with the granting of conversion and/or option rights, and 1,000,000 shares can be issued under employees' share ownership plans. None of the contingent shares have been issued as of December 31, 2015.

c) Profit sharing certificates

As of December 31, 2015 and 2014, ZIC had issued two profit sharing certificates with no par value.

d) Shareholders

As of December 31, 2015 and 2014, 100 percent of the registered shares of Zurich Insurance Company Ltd were owned by Zurich Insurance Group Ltd.

| Shareholder's equity | in CHF millions, as of December 31 | | | |
|-----------------------------------|------------------------------------|-------------------|-------------------|--------------|
| | | 2015 | 2014 | changes |
| Shareholder's equity | | | | |
| Share capital | | 825 | 825 | – |
| Profit sharing certificates | | p.m. ¹ | p.m. ¹ | – |
| Capital contribution reserve | | 5,570 | 5,570 | – |
| Legal reserve | | 485 | 485 | – |
| General free reserve | | 4,272 | 4,272 | – |
| Retained earnings: | | | | |
| <i>Beginning of year</i> | | 10,223 | 9,111 | 1,112 |
| <i>Dividend paid</i> | | (2,500) | (2,500) | – |
| <i>Net income after taxes</i> | | 1,962 | 3,612 | (1,650) |
| Retained earnings, end of year | | 9,685 | 10,223 | (538) |
| Total shareholder's equity | | 20,837 | 21,375 | (538) |

¹ pro memoria.

20. Assets and liabilities relating to companies within the Zurich Insurance Group

| Assets and liabilities relating to direct and indirect subsidiaries | in CHF millions, as of December 31 | 2015 | 2014 |
|---|------------------------------------|---------------|---------------|
| | Assets | | |
| Investments in subsidiaries and associates | | 29,167 | 29,384 |
| Debt securities | | 13 | 13 |
| Other loans | | 3,684 | 3,713 |
| Derivative assets | | 156 | 316 |
| Deposits made under assumed reinsurance contracts | | 1,985 | 1,914 |
| Cash and cash equivalents | | 905 | 1,637 |
| Insurance reserves, ceded | | 1,402 | 1,683 |
| Deferred acquisition costs, net | | 1,069 | 987 |
| Receivables from insurance and reinsurance business | | 642 | 614 |
| Other receivables | | 491 | 573 |
| Other assets | | – | – |
| Accrued assets | | 180 | 163 |
| Total assets | | 39,694 | 40,997 |
| Liabilities | | | |
| Insurance reserves, gross | | 29,508 | 30,445 |
| Provisions | | 135 | 119 |
| Senior and other debt | | 7,861 | 8,966 |
| Derivative liabilities | | 39 | 53 |
| Deposits received under ceded reinsurance contracts | | 9 | 5 |
| Liabilities from insurance and reinsurance business | | 368 | 407 |
| Other liabilities | | 189 | 201 |
| Accrued liabilities | | 120 | 109 |
| Total liabilities | | 38,229 | 40,304 |

| Assets and liabilities relating to ZIG Ltd | in CHF millions, as of December 31 | 2015 | 2014 |
|--|------------------------------------|--------------|--------------|
| | Assets | | |
| Equity securities | | 315 | 395 |
| Derivative assets | | – | – |
| Other receivables | | – | – |
| Total assets | | 315 | 395 |
| Liabilities | | | |
| Senior and other debt | | 1,645 | 1,217 |
| Derivative liabilities | | – | 3 |
| Accrued liabilities | | 207 | 207 |
| Subordinated debt | | 4,832 | 4,832 |
| Total liabilities | | 6,684 | 6,259 |

Financial statements – statutory accounts *continued*

21. Supplementary information

| Supplementary information | in CHF millions, as of December 31 | |
|--|------------------------------------|--------|
| | 2015 | 2014 |
| Guarantees, indemnity liabilities and pledges in favor of third parties | 16,932 | 18,216 |
| Pledged assets in respect of securities lending agreements (at book value) | 1,610 | 2,713 |
| Leasing obligations not recorded on the balance sheet | 369 | 306 |
| Security deposits | 13,810 | 14,622 |
| Number of employees – Average full time equivalents | 5,963 | 5,631 |
| Audit fees | (14) | (14) |
| Other service fees | (1) | (4) |

Guarantees, indemnity liabilities and pledges in favor of third parties include two guarantees of USD 3,000 million (CHF 3,003 million) in both 2015 and 2014, in favor of subsidiaries to provide funds under certain circumstances. The total maximum exposure under these guarantees amounted to USD 600 million (CHF 601 million) as of December 31, 2015, and USD 949 million (CHF 943 million) as of December 31, 2014.

In addition to the guarantees listed above, the Company has provided unlimited guarantees in support of various subsidiaries belonging to the Zurich Insurance Group.

Two guarantees with a total value of CHF 269 million have expired as of December 31, 2015, and are therefore not included in the above table.

According to regulatory requirements, CHF 12.5 billion and CHF 13.4 billion are attributed to tied assets, as of December 31, 2015 and 2014, respectively.

To secure the insurance reserves of the assumed reinsurance business, investments with a value of CHF 13,810 million and CHF 14,622 million as of December 31, 2015 and 2014, respectively, were deposited in favor of ceding companies.

22. Net release of hidden reserves

In 2015, net hidden reserves of CHF 276 million have been released, mainly related to the release of the provision for value fluctuations of investments. In 2014, there was no material net release of hidden reserves.

23. Subsequent event

On February 18, 2016, the Zurich Insurance Group announced the successful placement of CHF 200 million of undated subordinated notes, which was subsequently raised to CHF 225 million at closing on March 2, 2016. The subordinated notes are first callable in June 2021. The notes will be issued by Zurich Insurance Company Ltd under its "Euro Medium Term Note Programme". The coupon of 2.75 percent per annum is fixed until June 2021. Thereafter the coupon will reset every 5 years based on the then prevailing 5-year swap rate plus a margin of 3.323 percent per annum. The notes were placed to retail and institutional investors in the Swiss franc domestic market and the transaction has been conducted for refinancing purposes.

Appropriation of available earnings as proposed by the Board of Directors

| number of shares, as of December 31 | 2015 | 2014 |
|--|------------|------------|
| Dividend-paying registered shares | | |
| Dividend-paying shares | 82,500,000 | 82,500,000 |

| in CHF, as of December 31 | 2015 (Proposed) | 2014 (Approved) |
|--|----------------------|-----------------------|
| Appropriation of available earnings as proposed by the Board of Directors | | |
| Balance brought forward | 7,723,157,781 | 6,611,181,760 |
| Net income after taxes | 1,961,628,804 | 3,611,976,020 |
| Available earnings | 9,684,786,585 | 10,223,157,781 |
| Dividend | (1,400,000,000) | (2,500,000,000) |
| Balance carried forward | 8,284,786,585 | 7,723,157,781 |

The Board of Directors proposes to its shareholder at the Annual General Meeting on March 31, 2016, to pay a dividend of CHF 1,400,000,000 and to carry forward available earnings of CHF 8,284,786,585 as shown in the above table.

As the general reserves (consisting of the legal reserve and the capital contribution reserve) exceed 100 percent of fully paid-in share capital, no further allocation to the general reserves is required by the Swiss Code of Obligations and article 28a of the Company's articles of incorporation.

On behalf of the Board of Directors of Zurich Insurance Company Ltd

Tom de Swaan

Chairman

Zurich, March 2, 2016

Report of the statutory auditor

Report of the statutory auditor

To the General Meeting of Zurich Insurance Company Ltd, Zurich

Report of the statutory auditor on the Financial statements

As statutory auditor, we have audited the accompanying financial statements of Zurich Insurance Company 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, March 2, 2016

Disclaimer and cautionary statement

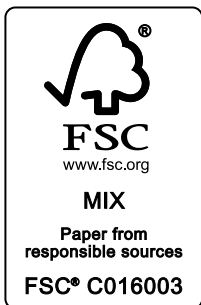
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printed in
switzerland



ClimatePartner[®]
climate neutral

Print | ID53232-1603-1024

Design by Addison Group, www.addison-group.net

Publishing system: ns.publish by Multimedia Solutions AG, www.mmsag.ch

Cover printed on Heaven 42, an environmentally friendly paper sourced from well-managed forests independently certified according to the rules of the Forest Stewardship Council[®] (FSC).

Content printed on MultiOffset, an environmentally friendly paper made from totally chlorine-free pulp also sourced from well-managed forests independently certified according to the rules of the Forest Stewardship Council[®] (FSC).

Printed climate neutrally with ClimatePartner using green electricity in March 2016 by Neidhart + Schön AG, www.nsgroup.ch. ISO 14001 certified.

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46930-1603

