

Defining the future, together

Annual Review 2016



Highlights

Zurich Insurance Group is a leading multi-line insurer that serves its customers in global and local markets. With about 54,000 employees, it provides a wide range of property and casualty, and life insurance products and services in more than 210 countries and territories. Zurich's customers include individuals, small businesses, and mid-sized and large companies, as well as multinational corporations. The Group is headquartered in Zurich, Switzerland.

USD 4.5 bn

Business operating profit (BOP)¹

USD 3.2 bn

Net income attributable to shareholders (NIAS)

11.6%

Business operating profit after tax return on equity (BOPAT ROE)²

USD 10.4 bn

Cash remittances over 2014–2016 period

USD 67.2 bn

Total revenues

USD 190 bn

Total Group investments

Z-ECM 122%

Zurich Economic Capital Model ratio³ estimated as of December 31, 2016

AA–/stable

Standard & Poor's financial strength rating of Zurich Insurance Company Ltd as of December 31, 2016

Our cover

Formulated by our people, for our customers, our new strategy will guide us in our efforts to provide the best service and products. Our cover shows the individuals who worked with 12 senior Zurich leaders over five months to develop our new strategy. Learn more on page 7.

Note on terminology

As part of the simplification of our business, we are removing the segment layers of General Insurance and Global Life. The new business structure is focused on geographic regions and consists of Asia Pacific, Europe, Middle East & Africa (EMEA), Latin America and North America. Further, the Group has created a new unit called Commercial Insurance, which combines Corporate and Commercial businesses into a single global business. Starting in 2017, the products and solutions belonging to the former General Insurance will be referred to collectively as Property & Casualty, or P&C; the same applies to Global Life, which will now be Life; Farmers remains the same, but in future will contain the Farmers New World Life business results.

¹ Business operating profit indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables. Total Group business volumes comprises gross written premiums, policy fees, insurance deposits and management fees generated within General Insurance, Global Life and Farmers.

² Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

³ The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy and reflects midpoint estimates with an error margin of +/-5 ppts.

At Zurich, our focus is on long-term, sustainable value. Founded in 1872, today we are one of the world's leading insurers. With our knowledge and experience, we help our customers to understand and protect themselves from risk. Our success is tied to principles of sound corporate governance. Our Board and management focus on delivering high-quality results. Merit-based incentives encourage our people to do their best. Through our products, services and expertise we can benefit society as a whole. We are mindful of our responsibilities to all our stakeholders. Now and in the future.

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Message from our Chairman

Looking to the future, building on our strengths

2016 was a year of transition. I am confident that our new strategy and structure will allow us to meet the challenges and grasp the opportunities that lie ahead.



Tom de Swaan
Chairman of the Board of Directors

USD 30.7 bn

Shareholders' equity

CHF 17.00

Proposed dividend per share

“

We will work toward becoming a more agile and customer-focused organization.”

For Zurich and externally, 2016 was a year of transition and change. Following his appointment by the Board, Mario Greco began as Group CEO in March 2016. His immediate focus was how best to position Zurich for long-term sustainable success. This culminated in our new strategy presented to investors in November 2016. The strategy provides Zurich with a clear direction, a focused set of actions and a simpler, more efficient way of working. Our aspiration is to serve every customer in a way that feels personal, is effective and is uniquely Zurich. The new strategy harnesses Zurich's core strengths. These include our well-balanced geographical footprint and portfolio, our solid financial base, our trusted brand and our highly skilled and talented people.

To be successful, Zurich must ensure its culture and behaviors are consistent with its strategic aims. We will work toward becoming a more agile and customer-focused organization, with an accountable, collaborative and merit-based culture. One example of how we are increasing our focus on customers was our decision to merge our Global Corporate and Commercial businesses into a single, strong Commercial Insurance unit.

Our ability to reduce costs and increase efficiency is implicit within achieving the strategy. We are pleased that expenses fell significantly in 2016, reflecting actions taken during the year. We will continue to focus on achieving net savings over the years to come in line with our targets. Zurich's encouraging 2016 results show that

our new strategy and organizational structure already are beginning to take effect. We achieved underlying improvements in our General Insurance business, a continued strong performance of our Global Life business, and in Farmers.

Focusing on sustainability

Through this period of organizational and strategic change, Zurich remains focused on corporate responsibility. By acting responsibly, we can create sustainable value for all our stakeholders. In 2016, Zurich achieved its highest score of 85 in the Dow Jones Sustainability Index review, outperforming 97 percent of other companies in the insurance industry group. Our responsible investment approach was awarded the Institutional Investor Institute's Peer-to-Peer award for 'Best Environmental, Social and Governance Programme.' Meanwhile, Zurich's award-winning flood resilience program continued its work within our flood resilience alliance in communities in Mexico, Indonesia, Nepal, Peru and Bangladesh.

Challenges and opportunities

2016 saw persisting challenges in the external environment, including the transformative effects of digitalization. This means insurers must disrupt or be disrupted. Meeting this challenge is a considerable task, compounded by a low-yield environment, which poses particular problems for the insurance industry. Meanwhile, a shifting political landscape creates uncertainties for future legislation and regulation governing globally active insurance companies such as Zurich.

Zurich is well positioned to succeed in this environment. Our new strategy and organization will help us in our aims to deliver the disciplined, sustainable profit that we have already seen the beginnings of in 2016.

Going forward, Zurich will retain its identity as a global insurer. We will continue to champion the benefits of free and open cross-border trade, which has lifted millions out of poverty to date. We will navigate external challenges and seize the opportunities presented by trends such as digitalization. And we will strive to deliver success sustainably as a responsible business.

With a robust new strategy and structure in place, I am confident we will meet the challenges and grasp the opportunities that lie ahead. Thank you for your continued support.



Tom de Swaan
Chairman of the Board of Directors

Our business segments

General Insurance

Property and casualty insurance and services, risk insights.

USD 2.4 bn

Business operating profit

USD 33.1 bn

Gross written premiums and policy fees

Global Life

Protection, savings and investment solutions.

USD 1.3 bn

Business operating profit

USD 30.3 bn

Gross written premiums, policy fees and insurance deposits

Farmers

Management services related to property and casualty insurance.

USD 1.5 bn

Business operating profit

USD 2.9 bn

Management fees and other related revenues

Message from our Group CEO

Our strategic aims

At our Investor Day on November 17, 2016, Zurich announced a new strategy that positions the company for future success. Building on its solid foundations, Zurich will strengthen its position as a global multi-line insurer by enhancing commercial capabilities and developing a more focused retail proposition. At the same time, we will continue to invest for the future and reinforce capabilities to make our business more efficient and deliver excellent client service. And Zurich is determined to deliver sustainable earnings that will support an increase in the return of capital to our shareholders over time.



Mario Greco
Group Chief Executive Officer

The economic outlook remains challenging. Growth is likely to be soft, particularly in the developed markets in which we operate. Interest rates and, consequently, returns on investments, are likely to remain low. In this context of uncertainty about the world economy and financial markets, we are intensifying our focus on our core business.

Zurich is a very solid and sound company with a good balance of businesses, uniquely diversified by product lines, geographies and customer types. Zurich's exposure to property and casualty risks is well balanced between Europe and the U.S. We have a strong, growing presence in Latin America. Our Asia Pacific business, although small, is stable and profitable.

We also have a good mix of revenues between Property & Casualty, Life and Farmers. Such diversification, together with our strong capital base, expertise and highly regarded brand, positions us well for the future.

“
Zurich is a very solid and sound company with a good balance of businesses, uniquely diversified by product lines, geographies and customer types.”

Nevertheless, we have some clear opportunities to improve our competitive position.

We aim to continue to increase our insurance profitability, and in order to do this, we are enhancing technical excellence – this includes becoming more disciplined in selecting and pricing risks, and reducing volatility. Initial results that we achieved in 2016 were encouraging.

We will also reduce the gap to peers on the cost side in both commercial and retail businesses. For this reason, we expect to deliver USD 1.5 billion in net expense savings by end of 2019 relative to our 2015 cost base.

To sustain and improve our competitive position, working on profitability is not enough: we will further enhance the way we interact with customers, especially in retail. We will become simpler: our customers will experience dedicated and tailor-made service, we will shorten decision and response times, and streamline internal and client-facing processes to create a seamless customer experience.

We want the contact our customers have with us to be the real differentiating factor, truly setting us apart, and building on the recent successful efforts of the Farmers Exchanges.¹

To achieve these goals, we must continue the work we started in 2016: adopting a simpler and leaner group structure, improving accountability throughout the organization and focusing even more on our core business.

To successfully capture these opportunities and decrease our cost base in a sustainable way, we will continue investing in transforming the way we operate.

Keeping within our cost constraints, we are planning to invest about USD 700 million over the next three years to improve our technologies and platforms. The newly-created role of Group Chief Operating Officer, which combines responsibility for operations and technology with underwriting, risk engineering and claims, will ensure a close connection between operational investments and business.

Enhancing our commercial capabilities

We have a strong leadership position in our core markets in commercial insurance, with top-tier positioning in the UK and Switzerland, and a strong position in the U.S. and Germany. We also have an added advantage in that we have extensive experience in developing international programs for large multinationals, managing captives and in providing our business customers with insights on cross-border regulatory issues.

Our strategy will focus on four key objectives that will help us build on this competitive position:

Our highest priority lies in further enhancing technical excellence. There is a clear opportunity to improve profitability in commercial lines through our underwriting performance. We will achieve this by being more disciplined in the use of our underwriting tools, through initiatives to reduce portfolio volatility by limiting our risk exposures, and through talent-management initiatives, which include new performance incentive structures, training and career development.

We will upgrade the way we deliver products to our customers and expand our go-to-market approach by providing greater clarity on our risk appetite, making it clearer which risks we will and will not insure, and by creating industry-specific propositions.

We will augment our global capabilities and make best use of our unique platform for global commercial clients, adding new skills and improving our ability to 'cross-sell' property and casualty, and life products to international clients.

We plan to re-balance our portfolio and reduce our overweight position in long-tail lines. We will build our capabilities in specialties and will adopt a more global and market-based approach, making the specialties business into a key differentiator, especially in serving the needs of our large, global commercial customers.

¹ The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of 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.

Timeline of events

March 2016

Mario Greco is appointed Group Chief Executive Officer, returning to Zurich where from 2007 to 2012 he served first as head of Zurich's Global Life business, then as head of its property and casualty (General Insurance) business.

April 2016

A new Strategy Task Force is formed. By late June, the team of 40 individuals is at work with 12 senior leaders, supported by experts and other employees, drafting plans for Zurich's future.

July 2016

Zurich introduces a simpler, more customer-oriented approach, supporting our global and local businesses.

September 2016

As part of its process to simplify and strengthen its organization, Zurich announces that it will combine its Global Corporate and Commercial businesses into a single global business: Commercial Insurance.

November 2016

Zurich unveils its new strategy; built on qualities that include financial strength, a trusted brand and talented people, Zurich also sets financial targets for 2017–2019.

February 2017

Zurich reports business operating profit of USD 4.5 billion and net income attributable to shareholders of USD 3.2 billion for 2016. It also proposes a dividend of CHF 17 per share.

Message from our Group CEO (continued)

We took the first step to deliver on these priorities in 2016 when we combined our Global Corporate and Commercial businesses. The newly-created Commercial Insurance unit will focus on case underwriting business, which will enable us to use and extend to all commercial customers the immense capabilities we have already established for Global Corporate customers. This will allow Zurich to serve multinational customers in a single, unified way.

Strengthening our retail position in key markets

Retail business is a valuable contributor to Zurich's performance. The earnings from retail are historically less volatile and, once adjusted for investment returns, largely uncorrelated with profits from the commercial business. Retail also provides a sizable share of Zurich's operating profit. We will seek to strengthen our retail position in key markets; through our retail strategy we will differentiate ourselves in customer service and customer relationships.

We will focus on our core retail customer segments and strengthen our digital capabilities across the value chain to better address the needs of target customers. In addition, we plan to introduce and track new customer metrics to enhance our understanding of their needs. And we will continue to focus on bank distribution and 'affinity' markets.

We will also improve our proposition for small and medium-sized enterprises by delivering consistent service across our key markets. And, to grow our base in retail, we will invest in technologies and platforms to capture new customers and better serve existing ones.

For the retail business, we see an opportunity to build on the successes of the Farmers Exchanges, which have improved cross-sell and retention rates by delivering a better experience to their customers. Using the same tools and approach will also allow us to target the most promising customers and distributors in our chosen retail markets.

Net Promoter Scores have proven to be a very effective tool in cross selling and retention. We will implement a unified 'NPS' process, which will improve a customer's journey from first encounter to final claims, and help our employees target better opportunities. The Farmers Exchanges' model has also demonstrated the need to offer simpler, more transparent products and to be more accessible.

To become more customer focused, in June 2016 we combined the former General Insurance and Life segments into one market-facing unit in every country, moving the organization from being product-oriented to one that is more centered on customers and local markets. Country heads, who are at the forefront of managing customer relationships, now have full responsibility for local units and for implementing the new strategy.

Focusing on transformation and efficiency

Over the coming years, costs will remain an issue for the industry and for Zurich. This development is led by changes in customer behavior and increasing competitive pressures.

To ensure we remain competitive, Zurich aims to reduce net costs by USD 1.5 billion by the end of 2019 relative to our 2015 base. This target goes beyond our previous objectives. We will deliver these savings through a combination of initiatives, including simplifying our organization, making best use of our shared services model, streamlining processes, reducing real estate and facilities costs, getting the most from our spending on IT infrastructure, and through selected country initiatives.

This will position us well to continue generating strong cash flows with which to reward our investors, while making us more competitive.

We look forward to delivering these objectives over the next three years, and we are fully committed to carrying out this strategy.



Mario Greco
Group Chief Executive Officer

A strategy designed by Zurich

To develop our new strategy we relied on a team of highly knowledgeable experts – our own people.

In 2016, a group of Zurich employees got a unique opportunity. As part of a small team they became the architects of Zurich's future. Out of over 2,000 applications from across our business, 40 employees were chosen to form the Group Strategy Task Force. For several months they worked intensely alongside 12 senior Zurich executives to develop the new strategy that Zurich unveiled in November – all the while continuing to work in their daily jobs.

The Task Force's diversity reflects our business and the broad range of customers we serve. Strategy team members collectively speak 18 languages and between them have 17 different nationalities. Each brought vital skills to the table. The average age of Task Force members during the project was 34. Even so, members were already well acquainted with the industry, having spent on average six years at Zurich, and nine years working in the broader insurance field.

+ Pages 10 to 11 >

Many have multiple academic degrees ranging from actuarial science, mathematics, accounting, finance and management, to civil engineering, law, and physics. All team members contributed to a better understanding of the world Zurich operates in and how it can best shape the business for the future. For example, Rodrigo Hayvard, a lawyer for Zurich Chile, helped the team to better comprehend the complex environment in which multinational insurers operate. Dave Savoy, an online marketing manager at Farmers New World Life in Seattle, brought knowledge of digital marketing and web design. The team also benefited from analytical skills provided by its members, including Katja Trümpler, a trained mathematician based in Switzerland.

Many Task Force members cited teamwork and an interesting challenge as reasons to join the team. Some wished to inspire others: "I wanted to help reinforce a sense of truly liking to work for Zurich, and a feeling of responsibility toward its success," said Eric Chandler, a senior corporate counsel for the life business in Zurich North America. Task Force members were also keen to give back to those who rely on us. Julie Quach, Senior Project Leader for Hong Kong claims, summed it up well: "I wanted to join the Task Force to enable us to deliver the best services to our customers."

[Learn more about our strategy at www.zurich.com/strategy](http://www.zurich.com/strategy)

“I wanted to help reinforce a sense of truly liking to work for Zurich and a feeling of responsibility toward its success.”

Eric Chandler

Senior corporate counsel
in Zurich North America



Task force members discuss strategy

40

Number of Task Force Members

18

Number of languages spoken

34

Average age

6

Average years at Zurich

9

Average years in the insurance industry

17

Different nationalities

12

Senior leaders

203

Senior leaders' combined years of insurance industry experience

Business environment

A changing global environment

As a global insurer, we support our customers in a complex and increasingly risky environment. We track, analyze and weigh the impact of trends affecting our customers' businesses and lives. They may have considerable implications for our commercial customers' profitability, competitiveness, and how and where they operate. These changes can also affect individual customers, including ways they plan for the future and how they interact with us. Here are some examples of developments that are influencing our business now, or might in the future.

Twelve key emerging technologies

Insurers and their customers can benefit from the opportunities presented by technological advances. They also need to be mindful of risks. The examples here, taken from the Global Risks Report 2017, outline some key developments that could profoundly affect the world in future.

3D printing

Advances in additive manufacturing, using a widening range of materials and methods; innovations include 3D bioprinting of organic tissues.

Advanced materials and nanomaterials

Creation of new materials and nanostructures for the development of beneficial material properties, such as thermoelectric efficiency, shape retention and new functionality.

Artificial intelligence and robotics

Development of machines that can substitute for humans, increasingly in tasks associated with thinking, multitasking, and fine motor skills.

Biotechnologies

Innovations in genetic engineering, sequencing and therapeutics, as well as biological computational interfaces and synthetic biology.

Energy capture, storage and transmission

Breakthroughs in battery and fuel cell efficiency; renewable energy through solar, wind, and tidal technologies; energy distribution through smart grid systems, wireless energy transfer and more.

Blockchain and distributed ledger

Distributed ledger technology based on cryptographic systems that manage, verify and publicly record transaction data; the basis of 'cryptocurrencies' such as bitcoin.

Geoengineering

Technological intervention in planetary systems, typically to mitigate effects of climate change by removing carbon dioxide or managing solar radiation.

Ubiquitous linked sensors

Also known as the 'Internet of Things.' The use of networked sensors to remotely connect, track and manage products, systems, and grids.

Neurotechnologies

Innovations such as smart drugs, neuroimaging, and bioelectronic interfaces that allow for reading, communicating and influencing human brain activity.

New computing technologies

New architectures for computing hardware, such as quantum computing, biological computing or neural network processing, as well as innovative expansion of current computing technologies.

Space technologies

Developments allowing for greater access to and exploration of space, including microsatellites, advanced telescopes, reusable rockets and integrated rocket-jet engines.

Virtual and augmented realities

Next-step interfaces between humans and computers, involving immersive environments, holographic readouts and digitally produced overlays for mixed-reality experiences.

Globalization versus retrenchment, slower growth

Society is changing in ways that affect us all. Globalization has encouraged trade, facilitated cross-border financial flows and contributed to freer movement of labor. Yet lately, sluggish growth in many major markets has increased protectionist sentiment, fueling a more fragmented approach and encouraging regulation at a national level that complicates the environment in which international insurers do business.

For insurers, fixed-income markets are a major source of investment returns. Slow growth has kept interest rates in major markets at or near historic lows. In this environment, our industry must stay efficient and focused on risk assessment and pricing to keep delivering on promises to all stakeholders.

Addressing the challenges of companies and aging societies

Employee benefits programs help companies to compete by attracting talent. Insurers can make a difference to businesses by working with them to ensure their benefits programs (for example, life insurance, medical and disability cover) are best suited to companies' and employees' needs.

As societies age, the term 'mature' economies is taking on new meaning. Aging populations require more resources for pensions and healthcare. Where public pension systems are in place, supporting an aging population can also mean proportionately less funding available for other public expenditures. Insurers can provide ways to achieve more financial security, helping people to save and protect themselves if they become disabled, thus benefiting society as a whole.

Risks of being interconnected

According to the World Economic Forum's 2016 Global Risks Perception Survey, rising cyber dependency is one of the top five trends determining global developments. Respondents to the Survey saw large-scale cyber attacks as sixth among risks most likely to occur in the next 10 years. Based on the Survey, some technological advances are likely to play a key role in future (see box).

The 'Internet of Things,' for example, allows individuals to link devices, making their lives easier, but raises concerns about personal privacy and data and identity theft. Businesses, too, benefit from new technology, but face special risks that may have huge implications for security and supply chains. Insurers can offer knowledge and expertise to address cyber risks suited to customers' specific needs, and provide products to counter cyber threats.

New technologies, new opportunities

Advances in technology are profoundly influencing how we live and work. Technology opens avenues for new competitors to enter markets traditionally dominated by insurers. Customers are better informed, can more easily compare products and switch between providers. One way insurers can compete in this environment is by harnessing technology to provide expertise and services.

Technological advances are also providing our industry with ways to become more efficient. It offers many possibilities, including 'blockchain' technology used to share information securely. In Europe, a group of insurers including Zurich is exploring uses of blockchain technology that could help to deliver products and processes more price-efficiently in the future.

Better equipped to deal with the 'sharing economy'

Advances in technology and data science have enabled many new business models. One example is the rise of the so-called 'sharing economy,' which has also brought with it new challenges for regulators and insurers.

In 2016, the European Commission issued guidelines to European Union member states to encourage an orderly development of this new market; in 2016, Zurich representatives met members of the European Parliament and the European Commission to discuss the importance of the sharing economy. We highlighted the challenges to transacting business in this segment and how the Commission could help to address them. Zurich continues to design and test insurance solutions for the sharing economy.

Regulations that protect insurance customers

Regulatory developments aim to protect customers and their data and safeguard financial markets. While the largest insurers operate globally, regulation is still mainly focused on national markets. In November 2016, the Financial Stability Board updated its list of global systemically important insurers (G-SIIs) – those it considers 'too big to fail.' In 2016, Zurich was not designated as systemically important. We believe this decision recognizes our focus on traditional insurance business and our view that it poses no systemic risk.

Strategic overview

Our strategy

Our strategy positions Zurich for success over the long term. It builds on our unique footprint, solid financial position, balanced portfolio, trusted brand and the skills, strengths and expertise of our people.

Building on our strengths

Our strategy announced in November 2016 calls for us to build on our strong market position and our trusted brand to serve our customers in a way that is distinctly 'Zurich.' Strong performance is the outcome of a clear strategy, enabled by the right culture and demonstrated through actions and behaviors.

Our strategic aspiration

In the spring of 2016, CEO Mario Greco took a unique approach to developing Zurich's strategy – he invited all employees to volunteer for the assignment. More than 2,000 applied, and after a rigorous vetting process, 40 colleagues who represent the diversity of Zurich in every sense of the word were selected for a Strategy Task Force. In a collaborative forum they worked with another 2,000 employees, as well as subject matter experts from across the business (see also page 7).

The result: A strategy built on Zurich's strengths that can be owned and delivered by every employee.

This collaborative effort reflects the spirit of Zurich's strategic aspiration: We will build on our market leadership in commercial insurance and on our strong and trusted brand to serve every commercial and retail customer in a personal, effective and uniquely Zurich way.

Strategic targets

Long term

Our strategy to deliver long-term competitive advantage focuses on continuing to increase profitability and consolidating the Group's position as a leading global underwriter for property and casualty (P&C) and life insurance. The Group will expand customer relationships, simplify the business and significantly reduce costs. At the operating level, Zurich will continue to reduce complexity and improve accountability. Zurich will enhance technical excellence and strengthen its go-to-market-approach for commercial customers. It will also seek to enhance its offerings to individuals by monitoring and aiming to increase customer satisfaction and retention. The Farmers Exchanges¹ will continue to focus on improving customer satisfaction and retention rates.

2017–2019

BOPAT ROE ²	>12% and increasing
Z-ECM ³	100–120%
Net cash remittances ⁴	>9.5 bn (cumulative)
Net savings	USD 1.5 bn by 2019 compared with 2015 baseline

¹ The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of 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.

² Business operating profit (after-tax) return on shareholders' equity. Excludes unrealized gains and losses.

³ The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy.

⁴ Cumulative net cash remittances to Zurich Insurance Company Ltd, after deducting central costs, in 2017 to 2019.

Our actions

We will deliver on our strategic aspiration by:

Making our technical capabilities a competitive advantage by investing in the skills of our technical community, simplifying governance, adopting new tools and technologies, and making it easier and more beneficial to work together.

Strengthening our relationships by building a stronger go-to-market commercial approach with clear accountability to customers and brokers and a single point of contact to support this experience. In retail, we are using customer-centric key performance indicators (KPIs) in addition to our financial metrics to ensure we provide customers with the desired solutions. We will continue to develop our use of these metrics in the future.

Enhancing our propositions and capabilities by making specialties a truly global business for our commercial customers. In the retail market, we will strengthen our digital capabilities for customers and distributors alike and build direct delivery channels, helping us to meet the changing needs of all our customers.

Our ability to reduce complexity and increase efficiency is inherent in these actions and will enable us to deliver on our overall strategy.

To learn more about our strategy, visit www.zurich.com/strategy

Strong performance is the outcome of a clear strategy, enabled by the right culture.

Our strengths

Our global reach

Zurich is a financially strong global insurance company, serving customers in more than 210 countries and territories.

Our unique footprint

Our unique footprint is balanced between Europe and North America, between commercial and retail, and between property and casualty and life insurance. The Latin American contribution is strong and growing, and business in Asia Pacific is limited in size but profitable. This diversification positions us well to weather economic and market volatility, and gives us a strong presence across customer segments and product lines.

Our solid financial position

We have a solid financial position. That can reassure our customers that we will be there when they need us to handle their claims, our shareholders that we are financially stable, and our colleagues that we have a well-earned positive reputation as a business and an employer.

Our balanced portfolio

Our portfolio is healthy, and balanced between property and casualty, and life insurance. Both are sustainable and profitable businesses. Farmers is performing well, providing stable income in line with expectations.

Our trusted brand

Our brand is strong and reinforces our reputation for being able to understand the risks our customers face and to structure offerings that meet their unique needs.

Our talented people

We have, and continue to attract, the most talented people in the industry.

Our strategy builds on these strengths and positions Zurich for success over the long term.

Business review 2016

Making a difference to our customers

Globally and in local markets, we serve those who depend on us. We aim to become a more efficient and responsive company, tailoring our solutions to best meet the needs of all our customers. Here are some examples of how we are doing this.

Getting closer to multinational customers

Nearly half of our business operating profit comes from serving commercial customers. A good part of this involves our property and casualty business. Increasingly, we are also covering businesses' life and pensions-related needs.

A unified approach to commercial insurance

In 2016 we brought together our Global Corporate and Commercial businesses to form Commercial Insurance. Combining the businesses makes it easier for our commercial customers and distributors to have a single point of contact within Zurich for commercial risks. Our customers get the same quality wherever they do business with us. We can provide them with clear

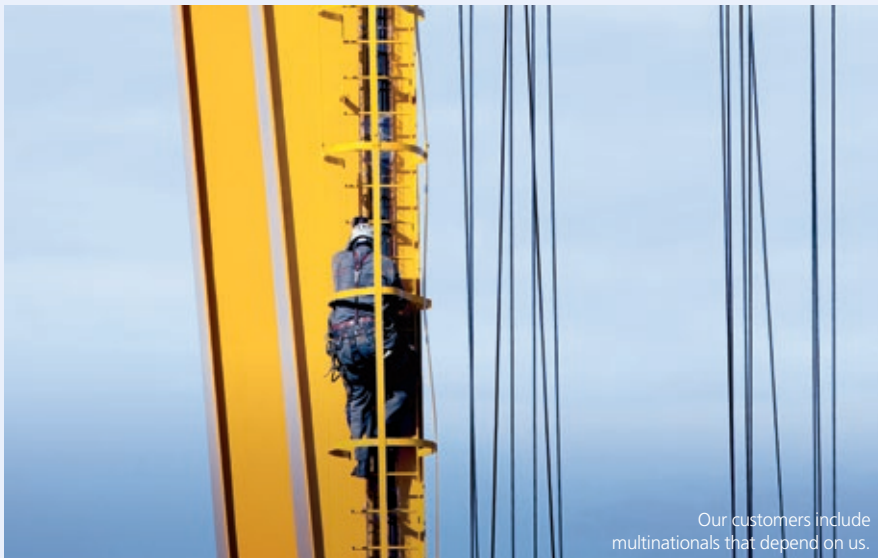
views on pricing and risk management services within a given country and across the globe.

"We now have a consistent approach to providing products and risk management services to all our customers," says James Shea, CEO Commercial Insurance. "One good example is our international

programs proposition. We will expand this platform to address the growing needs of smaller and medium-sized companies with operations overseas."

Commercial Insurance offers products and risk engineering capabilities and works with our customers through our global property, casualty and specialty lines. Specialty lines includes accident and health, marine, trade credit, political risk, surety and financial lines.

We are also investing in product and underwriting capability. Technology and predictive analytics support us in reaching our goals. This approach will help to meet the complex and changing risk management needs of current and future customers. In 2016, Zurich's commercial business won the Strategic Account Management Association's award for excellence, recognizing us as a leader in customer relationship management.



Our customers include multinationals that depend on us.

Understanding our global risks

We are using advanced data processing and analytics technologies to control our global risk 'accumulation.' Accumulations of risk can occur, for instance, if we insure several properties or other assets in an area that can be affected by a single event. If the area is hit by a catastrophe, large losses can occur.

One way we are getting a better overview of accumulated risks is through our Risk Exposure Data Store (REDS), a system that stores information about our location-based exposure to risk in a single place. For example, our underwriters can use REDS to analyze insured risks within a 200-meter radius and, if necessary, take action to reduce risk exposure at a particular site.

REDS already consolidates data from all markets except for North America, the UK and Brazil. We plan to integrate these remaining markets over the next 18 months. This will provide us with a more complete picture of our accumulated risks wherever they are, helping us to continue to improve the quality of our insurance portfolios, benefiting both us and our customers.

Helping businesses to find the best life and pensions solutions

Zurich's Corporate Life & Pensions (CLP) provides employee benefits solutions to domestic and multinational corporations. In 2016, CLP contributed positively to Zurich's business operating profit, writing USD 1.8 billion annual premium equivalent (APE), equal to over 37 percent of all our life insurance APE in 2016.

"CLP bases its success on intimate knowledge of clients and distributors, and an experienced executive team with an average of 27 years in the employee benefits industry," says Hanno Mijer, Global Head CLP.

In 2016, we strengthened our position in core markets, helped by our global relations with distributors and customers. We further strengthened our positions in Switzerland and in the UK in our group risk solutions business, which includes life and disability protection for employees. We also increased the assets under administration in our UK group savings business, growth that was supported by our existing distribution partnerships. In Ireland, we continued to invest in developing our savings and risk products, helping to consolidate an already strong market position.

In 2016, we launched a program for employees of multinationals seeking centralized control of their employee benefits programs (see story on this page). Our other international business that caters mainly to expatriate employees entered into an agreement with Storebrand Group, a company that provides savings and insurance products to about 1.8 million customers in Norway and Sweden, and Mandatum Life, a financial services provider based in Finland, extending our business in northern Europe.



Wendy Liu

Making benefits programs easier for multinationals

Zurich International Programs for Employees was launched in 2016. It gives multinational companies a centralized way to make it easier for them to manage their employee benefits. Our program relies on our knowledge about life insurance and the expertise we have acquired through managing over 7,000 international programs for property and casualty business customers worldwide.

Employee benefits are important to gain and retain talent – even more so in a context of widening income protection gaps (see page 15), as responsibility to provide for employees and their families is shifting to the private sector.

In the past, employee benefits have generally been managed locally by companies' human resource departments. But rising costs, more complex regulatory requirements and increasingly international workforces are leading multinationals to look for better solutions.

"Companies are asking insurance providers for more central control over their employee benefits, including centralized purchase with economies of scale, reduced complexity through a simplified program structure and a single contact point, and technology that provides faster access to data and reporting," says Wendy Liu, Head of Zurich Global Employee Benefits Solutions.

The Zurich International Programs for Employees is directed at centralized multinational companies. Customers and distributors have welcomed the program, in particular those that have experience with our property and casualty international programs.

Business review 2016 (continued)

Making things simpler for retail customers

Our retail business contributes significantly to our operating profit. In 2016, we announced that we are changing how we approach the segment. The changes we are introducing include adopting a simpler, more customer-oriented structure.

Organizing around retail customers' needs

We introduced changes in 2016 to reflect the importance of retail business to our overall success. One of the most important changes was our decision to bring together, in local markets, the property and casualty, and life insurance businesses. This approach will provide clearer accountability and 'ownership' for local business leaders who best know and understand their customers and markets.

To gain more in-depth knowledge about customers' needs, we are applying a common metric called the Net Promoter Score (NPS) to measure whether customers not only choose to stay with us, but also recommend us to others. The Farmers Exchanges¹ are an excellent example of what can be achieved. By implementing and tracking customer metrics like the NPS, the Farmers Exchanges have focused on areas to improve, for example, customer retention and satisfaction (see story on opposite page).

At the same time, we are providing our products and expertise to customers where they need us. Customers can communicate with us through channels that work best for them. We are positioning ourselves as one company: online, in person or on the phone.

While ensuring customers get the same high-quality service no matter how they approach us, technology is also allowing us to become more cost-effective and efficient. We are investing in technology to ensure we have the best systems in place for claims, payments and renewals.

In addition, we are strengthening our agency business, especially in Europe and Asia, and seeking ways to improve Zurich's bank distribution model, a profitable, solid part of the retail business, especially for life insurance.

¹ The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of 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.

Bank customers gain access to better protection, savings and retirement products

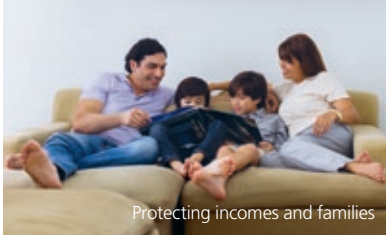
Zurich can reach to over 60 million customers in major markets in 15 countries through our bank distribution networks. This approach is particularly popular in southern Europe and Latin America for customers seeking life insurance and savings products, as well as general insurance products. Many banks also see this as a way to develop key products to meet the needs of their customers.

We continue to grow our business through such agreements. The largest one is a joint venture with Banco Santander S.A. in Latin America, providing access to customers in Brazil, Argentina, Chile, Mexico and Uruguay.

Our joint venture with Banco Sabadell S.A. in Spain provides access to about six million potential customers. The Santander and Sabadell agreements together contributed USD 319 million to our BOP in 2016, reflecting our participation of 51 and 50 percent, respectively. We also have almost 70 local agreements in place with other providers worldwide. These agreements include a strategic relationship with Deutsche Bank in Germany, Italy and Spain, and with HSBC and Citibank in the Middle East.



Putting our customers' needs first



Protecting incomes and families

Helping to offset financial worries due to disability

Disability or illness can pose serious financial hardships for individuals and their families, and affect businesses and even society. When financial protection is insufficient to cover the associated costs, 'income protection gaps' arise. These become more acute as people age and labor markets change. We help customers to mitigate these risks. And we use our expertise and knowledge to inform people about income protection, including through research. In 2016, we published a new study on this topic, based on surveys involving over 11,000 people in 11 countries.

That study, produced with the Smith School of Enterprise and Environment at the University of Oxford, showed that over half of people without income protection would consider buying it. One reason they didn't was their perception that it was too expensive. Our study also found, however, that people often overestimated the cost. Better information may help to overcome this barrier. We also learned that people who have direct experience with loss of income are more likely to see the value of income protection. This too is a useful insight when considering how to address these gaps. We continue to work with regulators and policy makers, also involving our customers and distribution partners, and are exploring new approaches to insurance that are simple and easy to understand for everyone.

Zurich sets industry standard in transparency

In the UK we gained industry-wide attention in 2016 by publishing in-depth statistics on the claims our UK business paid out. "By publishing these numbers, we aim to show that the vast majority of claims are paid," according to Zurich's Gary Shaughnessy, CEO Europe, Middle East & Africa. "It shows that we can help our customers when they need us most – after all, that's why we're here."

Although Zurich in the UK has published some information about claims in the past, in 2016 it provided more details. The decision prompted the Financial Times to mention us in an article headlined 'Zurich raises the bar on claims history transparency.'

In 2016, Zurich's UK business paid about GBP 2 billion in claims. Our UK life business (which includes critical illness) paid 94 percent of claims. The UK property and casualty business paid 99 percent of personal lines motor claims, 94 percent of personal lines property claims, and 99 percent of commercial claims.

Apart from providing more transparency, we also believe there is more the industry can do to help people understand what their insurance covers, and to ensure that they have the right coverage. We are helping to inform policymakers and customers through discussions, dialogue and our publications.

Focusing on customer loyalty and growth in the eastern U.S.

The Farmers Exchanges¹ continue to focus on customer loyalty. They are also improving products and services. One way the Farmers Exchanges did this in 2016 was by upgrading their online services and making these services more accessible via mobile devices. The Farmers Exchanges also used feedback from customers to redesign the digital 'storefronts' that customers use to contact local agents.

The Farmers Exchanges are committed to sharing customer feedback to improve how customers experience the service they provide. By using information they collect through the Net Promoter Score (NPS), a measure of customer loyalty, they spot ways to make effective improvements. At the end of 2016, the NPS score stood at 43.2 compared with 40.4 in 2015.

The Farmers Exchanges also continue to grow their share of business along the Atlantic seaboard. Efforts designed to attract and place better-capitalized and experienced agents in Eastern markets are paying off. Gross written premiums from the Eastern states, including Pennsylvania, New Jersey, Georgia, Maryland, New York and Connecticut, increased in 2016 to USD 691 million from USD 486 million in 2015.

¹ The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of 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.

Business review 2016 (continued)

Innovations that help our customers

We are investing in the future of our business – in new products and innovative services. By offering innovative products and services we can help all of our customers to better meet their goals, while making Zurich a more profitable, efficient company.



Drones and satellites allow us to assess our customers' risks more easily and accurately.

Using satellites and drones to assess hazardous claims

We are using technology to 'see' damaged properties before anyone can set foot on dangerous locations where there may be a claim, helping us to inform customers about potential damage and process their claims faster. As a global company, Zurich can use a wealth of information about sites where there may be claims to do remote assessments long before we ever visit a customer's factory or home.

One way we did this in 2016 was by using imagery from satellites and aircraft to assess property in the path of huge wildfires in Alberta Canada, which burned through the town of Fort McMurray.

We could review customers' claims in Fort McMurray just two days after fires forced the town's evacuation, and long before anyone could enter the site. We linked the pictures of the damage using imagery from satellites and aircraft and cross referenced this with our risk modeling data and underwriting information. We also learned about the status of evacuations, and how rapidly the fires were spreading, by monitoring social media like Twitter and Facebook. To get early information, and get it faster, we have also used drones for events such as floods and other individual large losses.

Helping a mid-size pension fund control risk

Through our Corporate Life & Pensions (CLP) business we are supporting mid-sized pension funds in the U.K. by offering innovative ways to limit the risks associated with pensioners' longevity. Large companies have been able to significantly reduce this risk through an agreement called a longevity swap. Due to the cost and complexity of such agreements, however, generally only the largest businesses have chosen this option.

In 2016, Zurich collaborated with Mercer and a panel of reinsurers to streamline processes, so that smaller and mid-sized pension schemes can afford to cover longevity risks. Since the launch of this solution in 2016, we have covered over GBP 1 billion of longevity swap liabilities, contributing over GBP 45 million of annual premium equivalent (APE). This includes liability cover of more than GBP 600 million for about 5,000 pensioners and dependents of tire manufacturer Pirelli. For Zurich, these agreements already contributed to our profit in 2016, and helped us to use capital more efficiently.

Innovations helping customers in Switzerland and Germany

In Switzerland we have introduced an online service allowing customers to get their claims resolved quickly. They can replace an insured item through an online order using a coupon Zurich supplies, or buy something new, or take a cash payment. Customer satisfaction rates have been high for this service, which was introduced in August.

In Germany we set up small 'Champion' teams within the company to help us become more agile and innovative. These teams already have achieved results. One example is a new travel insurance product designed specifically for younger travelers planning a long-term stay abroad. It took the team just two months to design and launch of the new product. As an example of thinking 'out of the box,' Zurich Germany also staged its first InsurHack in 2016: more than 130 computer 'hackers' were given the job of coming up with innovative ideas for ways to make our service more personal and efficient. The best solutions won awards.

Using technology to make a difference to crop insurance

Following our acquisition of crop insurer Rural Community Insurance Services (RCIS) in 2016, we are using predictive analytics to augment critical underwriting decisions. Crop loss risk can be volatile, highly dependent on weather and commodity prices and difficult to predict. Combining RCIS' expertise with insights from predictive analytics helps us to make better decisions about the risks we will underwrite, and can ultimately improve the profitability of our expanded crop business.



We're helping customers to identify risks

An online 'Advisor' for businesses

Zurich Risk Advisor offers businesses a simple way to understand and prioritize risks. In 2016, business users downloaded our award-winning Risk Advisor application more than 2,750 times: the online platform hosted over 10,000 online sessions over the year.

Drawing on the knowledge and experience of Zurich's more than 900 risk engineering specialists, Zurich Risk Advisor helps business customers to 'self-assess' risks they face and, based on Zurich's established expertise, choose measures to help them manage and mitigate these risks.

The app allows any business to do a risk self-assessment online or on a mobile device or tablet. Using the 'What If' feature, Zurich corporate customers can simulate the impact of improvements that our risk engineers recommend.

In recognition of its value, in 2016 the Zurich Risk Advisor received the Risk Management 'Innovation of the Year' award sponsored by CIR (Continuity Insurance & Risk) Magazine and won second place in the Innovation Prize of the Swiss Insurance Industry.

“
We are making full use of digital technologies to help our customers understand and protect themselves from risk.”

Robert Gremli
Global Chief Risk Engineering Officer,
Zurich Risk Engineering

>2,750

downloads of our award-winning Zurich Risk Advisor application

>900

risk engineering specialists helping business customers to assess risks

Business review 2016 (continued)

Gaining more from our businesses

We can best support our customers by being effective and efficient. There are a number of ways we do this, including through sound capital management, a streamlined operational approach, and building our position in profitable markets.



We are growing in promising markets in Asia Pacific, including in Australia.

Focusing on profitable markets

We are strengthening our presence in some key markets, including in the U.S. where we completed the acquisition of Rural Community Insurance Services (RCIS). With a national network of over 4,000 agents, RCIS conducts business in all 50 U.S. states, insuring more than 130 crops on over 90 million acres. The acquisition builds on an already strong crop business.

We are also building on our position in Asia Pacific. We have announced plans to acquire Cover-More, a major travel insurance provider based in Australia, which has strong market positions in New Zealand, India and the U.S. In Australia, we also finished acquiring a portfolio of

active life policies (in-force life business) from the Macquarie Group. In Malaysia, we completed acquiring MAA Takaful Berhad, a family and general takaful (Sharia-compliant) insurer. We also acquired Kono Insurance Limited, a general insurance company incorporated in Hong Kong.

We exited retail and commercial property and casualty businesses in South Africa and Botswana, Morocco, and Taiwan, but we remain committed to our corporate business in these markets. In the Middle East, we have exited our retail and commercial property and casualty lines, but remain committed to our life and corporate property and casualty businesses in the region.

Employing capital in a disciplined way

Zurich is in the business of writing insurance and does not seek to add market risk through its investments solely to generate returns. In our investment portfolio, Group Investment Management aims to achieve optimum returns relative to Zurich's insurance obligations. We do this by making the best use of the capital we allocate to market risk. In 2016 we achieved strong returns despite a continuing decline in fixed income yields. Our investment approach included slightly increasing equity and corporate bond holdings, while continuing to implement a strategy of investing in sound, less-liquid assets such as corporate lending, real estate and infrastructure debt. Starting in the second half of 2016, we decided to reduce the amount of market risk we take relative to our overall risk capital, and we began to gradually decrease our equity exposure. We also realized some gains in 2016 from fixed income that reflect our market view. We consistently ensure that our invested assets match our insurance obligations and are in line with our risk appetite. Our Group Investments as of December 31, 2016, totaled USD 190 billion.



Our data center in London

Efficiency that benefits customers and Zurich

In 2016 we achieved our expense savings target of USD 300 million, and aim for a total of USD 1.5 billion in net savings by the end of 2019 relative to 2015 expenses.

Our businesses and shared service teams plan to jointly achieve that through simplifying products and business processes, consolidating information technology (IT) systems and creating more flexible shared services options that provide higher quality at lower cost. We are also using new automation technologies like robotics and cognitive computing, which, for example, can support decision-making in underwriting and claims.

Efficiency includes reducing the number of data centers. At the end of 2016 we had 35 compared with 70 in early 2015. By the end of 2019, we plan to have just eight. Our new European data center in London replaces several older centers, meets future business needs and minimizes complexity, cost and energy consumption.

These initiatives not only make us more efficient – above all, they help us to create a differentiated customer experience, and become faster and more agile in the market.

We will continue to significantly reduce costs by standardizing IT systems. We use such systems for everything from underwriting and pricing, to policy administration, claims and billing. Today we have approximately 3,000 IT systems. By 2019 we aim to have reduced this number by 500.

“We are investing about USD 700 million over the next three years to make savings sustainable. These savings will be enabled by structural investments related to operations. Investments will be concentrated predominantly on our main markets, with particular focus on data, automation and application consolidation,” says Kristof Terry, Group Chief Operating Officer.

“
We are investing about
USD 700 million
over the next three
years to make savings
sustainable.”

Kristof Terry
Group Chief Operating Officer

Increasing the value of our in-force business

We aim to generate more value for customers and shareholders through a dedicated focus on our existing life insurance business. From the beginning of 2014 to the end of 2016, our active approach to in-force business across 10 retail and corporate businesses delivered over USD 170 million in additional annual (‘run-rate’) BOP. This includes over USD 70 million of annual BOP in 2016 alone.

Several initiatives and businesses contributed. For example, our Irish corporate claims team has increased its focus on early-stage job absences, working with employers and employees to support faster recoveries and get people back on the job sooner. In the Middle East, we are applying data analytics to our existing business to help increase customer satisfaction and retention. In Australia, to win back customers, we are offering them more suitable coverage by sending them SMS text messages within 20 days after they give a termination notice. In Spain, our dedicated team has contacted over 25,000 customers over the last three years, aiming to retain them by offering better-targeted solutions. In Switzerland, we are contacting pension customers just before retirement with personalized financial planning, aimed at improving loyalty and generating new business in retail insurance.

Business review 2016 (continued)

A sustainable way of doing business

Through our corporate responsibility approach we not only benefit communities, we also encourage sustainable business practices and generate returns. Our award-winning flood resilience program aims to help customers and communities to reduce the devastating impact of floods.

A more targeted approach to CR

Through our approach to corporate responsibility (CR), we are striving to create value for both our stakeholders and our business. We are also taking into consideration long-term environmental, social and governance issues within our products and services, investments, operations and technology, while continuing to help communities.

Through the Z Zurich Foundation and our award-winning flood resilience program, we are working to make communities more resilient by sharing our resources and expertise. Through our responsible investment approach we are investing to have an impact and helping to shape responsible investment practices in financial markets.

Recognizing Zurich's progress in corporate responsibility

In 2016, Zurich achieved its highest score of 85 in the Dow Jones Sustainability Index (DJSI) review and outperformed 97 percent of other companies in the insurance industry group. The annual review conducted by S&P Dow Jones Indices and sustainability investment services firm RobecoSAM, assesses companies against 19 environmental, social and governance (ESG) criteria. Zurich is a member of the DJSI World and DJSI Europe Indices.

Our responsible investment approach was recognized by fellow German, Austrian and Swiss institutional investors with the Institutional Investor Institute Peer-to-Peer Award for 'Best ESG Programme' in 2016.

Investing responsibly

At Zurich, we believe that it is possible to directly affect lives and benefit society through our investments, while achieving market returns. Our impact investment portfolio in 2016 totaled USD 1.7 billion, with the biggest part invested in green bonds, which support environmentally beneficial projects including renewable energy generation. We also invest in social and sustainability bonds that raise funds to address issues such as education and social housing.

We seek to ensure our investments reflect our views on sound environmental and social practices and good governance by keeping these factors in mind in our investment process. One way we do this is by meeting regularly with our asset managers to discuss the sustainability performance of our portfolios.

To achieve greater impact, we also share our knowledge and collaborate with six major industry groups to promote responsible investment. One of these is the Investment Leaders Group (ILG), of which we are a founding member. In 2016 with Zurich's support, the ILG published three influential reports on climate risk, long-term investing and impact reporting.

For further information and a breakdown of our investments, see the chart on responsible investment KPIs.

KPIs

Responsible investment KPIs

	2016	2015	Change
External asset managers who are signatories to PRI (%) ¹	74.1%	70.4%	3.7 pts
Group assets managed by PRI signatories (%) ²	98.2%	98.1%	0.1 pts
Total amount of impact investments (USD millions) ³	1,697	1,031	65%
Total Group investments (USD millions)	189,808	191,238	(1%)

¹ The United-Nations supported Principles for Responsible Investment (PRI).

² Including assets managed by Zurich.

³ Impact investments in 2016 consisted of: green bonds (USD 1.39 billion); investments committed to private equity funds (USD 105 million, thereof 28 percent drawn down); and other investments (USD 199 million).



Working to improve flood resilience in Peru

Working together to reduce flood risk

Floods affect more people globally than any other natural hazard. Addressing the underlying problems related to floods is more efficient and cost effective than simply providing relief after floods have occurred. Zurich's global flood resilience program takes a collaborative approach to supporting communities at risk of floods. Together with members of the Zurich flood resilience alliance, we use our in-house expertise as an insurer to help communities reduce flood risk.

Our flood resilience alliance includes the International Federation of Red Cross and Red Crescent Societies (IFRC) and non-governmental organization Practical

Action, supported by research by the International Institute for Applied Systems Analysis (IIASA) in Austria, and the Wharton Risk Management and Decision Processes Center in the U.S. In 2016, the IFRC worked with 22 rural communities in Mexico and 21 urban and semi-urban communities in Indonesia directly, while Practical Action offered direct assistance to 74 rural communities in the Karnali basin in Nepal, 15 semi-urban communities in the Rimac and Piura river basins in Peru and 15 communities in Bangladesh.

To read more about our work underway in Peru to protect communities from floods, see www.zurich.com/early-warning-systems

A local and global approach with the Z Zurich Foundation

Community investment is at the heart of Zurich's corporate responsibility strategy. We establish long-term community programs that support local business objectives and allow our people to apply more of their skills and know-how to make a difference. These local community programs run by Zurich offices around the world focus on areas such as mental health, youth empowerment, homelessness and helping disadvantaged communities to build resilience to disasters.

Zurich provides funding to the Z Zurich Foundation, which supports these local programs as well as our global flood resilience program.

Promoting sound, sustainable leadership

We adhere to sound and sustainable principles of corporate governance. Zurich, as a strategic partner of the World Economic Forum, supports the WEF's 'Compact for Responsive and Responsible Leadership.' The Compact encourages global businesses and investors to focus on sustainability and the long-term goals of society. Our Board and Executive Committee also take an active role in overseeing and implementing our approach to corporate responsibility. Zurich is a signatory to the United Nations Global Compact, which commits us to aligning our strategy, culture and day-to-day operations with the Global Compact's 10 principles. And we are a signatory of the Principles for Responsible Investment (PRI).

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

Business review 2016 (continued)

Ensuring diversity and a merit-based approach

We need to make sure we have the skills and talent to achieve our goals. A merit-based approach, and diversity and inclusion, are key to ensuring that we have the right mix of talent to succeed.



Our people reflect our diverse customer base

Recognizing the advantages of diversity in our businesses

By reflecting the diversity of our customers we can best meet their needs. And by recognizing our peoples' individuality we achieve better business results, while creating an environment that allows all our people to feel motivated, valued and able to excel.

To achieve our aims, we became the first global company in the insurance industry to receive 'EDGE' (Economic Dividends for Gender Equality) certification. Our decision to apply for EDGE certification demonstrates our aim to improve gender equality within all areas of our business, starting in 2015 with Germany, Hong Kong, Italy, Spain, Switzerland and the UK. Building on

our success, in 2016 we received certification in Australia, Austria, Brazil, Ireland, Japan and Mexico. These 12 businesses represent over 28,000 employees.

EDGE not only provides data and benchmarking; the insights we gain through this program have also enabled Zurich to focus resources on global initiatives to encourage greater workplace inclusion for all employees. We are continuing our global approach by expanding our new flexible working program, while continuing to focus on pay equality and improving transparency in recruitment and promotions.

Reinforcing a merit-based approach to jobs

We want to give people equal opportunity to deliver, and we aim to compensate our people fairly through pay, promotions and opportunities. To support these aims, in 2016 we introduced our 'Global Job Model,' which provides our employees with access to their role profiles and career levels, and gives clear information about what is expected in their role and career options, making it easier for them to build successful careers at Zurich.

A sophisticated database at the heart of the new program includes profiles and standardized information on about 41,000 roles our employees fill throughout Zurich for over 2,000 job types. It covers a wide range of employees, from trainees and graduates fresh out of university to senior managers. Our people also have full access to our global job catalogue. The information is available in English, German, Italian, Spanish, French, Portuguese, and Japanese.

Zurich also benefits from having standardized descriptions that make it easier to compare jobs across countries, and describe jobs when a role is vacant. The system also supports data analytics, helping us to track information including turnover, demographics, and other key metrics.

Returning veterans to the workforce

Zurich North America is grateful to those who have served and protected the U.S. More than one million veterans will need to transition from military service over the next few years. It's of great importance for companies to provide opportunities that support this move from active duty to the civilian workforce. The insurance industry offers a number of jobs, including in claims, risk engineering, information technology, operations and underwriting suited to veterans' skills and experience. Veterans are also helping Zurich to succeed. Zurich has joined more than 170 companies in the U.S. participating in the Veteran Jobs Mission, a national coalition committed to hiring veterans. To make it easier for veterans to pursue careers at Zurich, Zurich North America set up the web page 'zurichhiresheroes.com' to help veterans align their transferable military skills to available Zurich jobs across the nation.

"By supporting veterans as they transition from active duty to the civilian workforce, we gain their leadership, discipline and teamwork skills. It's the least we can do to say 'thank you,'" said Randall Clouser, Zurich's head of Marketing, Distribution and Regional Management in North America and executive sponsor for the Veterans Engagement Team at Zurich (VETZ).

www.zurichna.com/en/careers/veterans

Zurich was named one of the top 75 employers for veterans in the U.S. by the Military Times.

KPIs

Our people – operational KPIs

	2016	2015	Change
Total number of employees – headcount	53,894	55,732	(3.3%)
Employees – full-time equivalents (FTE)	52,473	54,335	(3.4%)
Employee turnover rate (%)	16.5%	12.9%	3.5 pts
Average tenure (years)	9.9	9.6	3.1%

KPIs

Building talent KPIs

	2016	2015	Change
Female workforce participation (%)	51.1%	51.9%	(0.8 pts)
Female participation in Leadership Team (%)	16.2%	13.7%	2.5 pts

Training new leaders

By providing a single, uniform standard of leadership training and accountability, we can ensure that we meet customers' expectations around the world. Our employees also have opportunities to work in different countries, so we need a global, coherent approach to leadership.

We believe encouraging new talent is the best way to ensure strong leadership for the future. With that in mind, in 2016 we introduced Zurich Oxygen, a comprehensive program to develop leadership skills among our employees. All our managers took part in this program in 2016. Over 6,500 people managers, from line managers to country CEOs, also participated in over 120 one-day events to help them better understand the skills good managers need. Recognizing our efforts, in September 2016, Harvard Business Review featured Zurich in several case studies, including how Zurich is changing its culture by strengthening its focus on people in the organization.

Building on Zurich Oxygen, we have begun harmonizing how we develop leaders at Zurich. We are introducing a curriculum covering four sets of learning modules matching different career levels. These will replace existing local or regional programs.

Preparing tomorrow's insurers

We are helping to train people in skills for tomorrow's insurance industry. Our apprenticeship programs include a new two-year course introduced in the U.S.

Based on the Swiss 'apprentice' model, 20 participants took part in the first year of this program in 2016. It is offered through William Rainey Harper College, situated near Zurich's North American headquarters in Schaumburg, Illinois. We expect that at least 100 apprentices will take part in the program by the end of 2020.

Learn more about our people initiatives:
www.zurich.com/our-people

Performance overview

Improvements in all core businesses

Zurich's underlying performance in all core businesses improved in 2016. General Insurance's result progressed favorably following re-underwriting and pricing actions, while Global Life achieved a strong result. Although Farmers Re incurred higher losses mainly as a result of higher catastrophe losses, Farmers Management Services continued its positive momentum, benefiting from premium growth in the Farmers Exchanges.¹

Financial highlights (unaudited)

in USD millions, for the years ended December 31, unless otherwise stated

	2016	2015	Change in USD ²
Business operating profit	4,530	2,916	55%
Net income attributable to shareholders	3,211	1,842	74%
Net investment return on Group investments ³	3.7%	3.8%	(0.1 pts)
Total return on Group investments ³	4.3%	1.7%	2.6 pts
Shareholders' equity ⁴	30,660	31,178	(2%)
Diluted earnings per share (in CHF)	21.04	11.86	77%
Book value per share (in CHF) ⁴	208.44	209.27	–
Return on common shareholders' equity (ROE) ⁵	11.8%	6.4%	5.4 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) ⁵	11.6%	6.4%	5.2 pts

¹ 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. Farmers Group, Inc., a wholly owned subsidiary of 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. All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California-domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors.

² Parentheses around numbers represent an adverse variance.

³ Calculated on average Group investments.

⁴ As of December 31, 2016 and December 31, 2015, respectively.

⁵ Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

USD 2.4bn

General Insurance BOP increased by USD 1.6 billion or by 182 percent

USD 1.3bn

Global Life BOP increased by USD 44 million or by 3 percent

USD 1.5bn

Farmers BOP increased by USD 99 million or by 7 percent

In 2016, the Group's business operating profit (BOP)¹ was USD 4.5 billion, an increase of USD 1.6 billion, or 55 percent compared with 2015, as the underlying performance in all core businesses improved. Net income attributable to shareholders (NIAS) of USD 3.2 billion increased by USD 1.4 billion, or by 74 percent.

General Insurance delivered improved results following re-underwriting and pricing actions initiated in the second six months of 2015. Global Life achieved a strong result and continued to grow, while maintaining its focus on priority markets and on extracting value from in-force business. Farmers Management Services² continued its positive momentum from premium growth, though Farmers Re incurred higher losses, mainly as a result of higher catastrophe events.

Capital, solvency remain strong

The Group's capital and solvency positions remained strong and enabled the Board of Directors to propose a dividend of CHF 17 per share. Solvency measured on an economic basis as determined under the Zurich Economic Capital Model (Z-ECM)³ was estimated at 122 percent as of December 31, 2016, above the target range of 100 to 120 percent and remained stable.

Shareholders' equity decreased by USD 518 million to USD 30.7 billion during 2016. This decrease resulted from the cost of the dividend approved in March 2016, net actuarial losses on pension plans and negative currency translation adjustments, partly offset by the net income and net unrealized gains on investments.

ROE increased by 5.4 percentage points to 11.8 percent, largely due to the increase in net income attributable to shareholders. BOPAT ROE increased by 5.2 percentage points to 11.6 percent as a result of the increase in business operating profit. Diluted earnings per share in Swiss francs increased by 77 percent to CHF 21.04 compared with CHF 11.86 in 2015. Diluted earnings per share in U.S. dollars increased by 73 percent to USD 21.36 compared with USD 12.33 in 2015.

General Insurance

General Insurance business operating profit increased by USD 1.6 billion to USD 2.4 billion, or 182 percent, resulting mainly from an improvement in the net underwriting result of USD 1.4 billion across all regions. The non-technical result improved largely due to foreign exchange gains and the sale of own-use real estate in Germany. The combined ratio improved to 98.4 percent compared with 103.6 percent in 2015.

Gross written premiums and policy fees decreased by USD 898 million to USD 33.1 billion, or by 3 percent, as a result of the focus on profitability, the impact of soft market conditions and exiting businesses in South Africa and Morocco. Rates rose by around 2 percent in 2016.

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

² The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of 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.

³ The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy and reflects midpoint estimates with an error margin of +/- 5 ppts.

Performance overview (continued)

Global Life

Global Life business operating profit increased by USD 44 million to USD 1.3 billion, or by 3 percent in U.S. dollar terms. Improvements on a local currency basis in Latin America, Europe, the Middle East & Africa (EMEA), and Asia Pacific were partly offset by a lower contribution from North America. Lower overall costs net of deferrals and improvements in the investment margin were partly offset by a deterioration in the technical margin.

Global Life gross written premiums, policy fees and insurance deposits increased by USD 1.3 billion to USD 30.3 billion, or 5 percent in U.S. dollar terms and 10 percent on a local currency basis. The increase on a local currency basis arose predominantly in EMEA and Latin America, from higher sales of individual savings products in Spain, individual protection products in Zurich Santander and a large corporate contract in Chile, partially offset due to lower sales of single premium products in Germany.

Farmers

Farmers business operating profit increased by USD 99 million to USD 1.5 billion, or by 7 percent. Farmers Management Services business operating profit increased by USD 118 million to USD 1.5 billion, driven by growth in gross earned premiums at the Farmers Exchanges and a one-time USD 86 million favorable impact as a result of a pension plan curtailment gain. Gross written premiums in the Farmers Exchanges increased by USD 637 million to USD 19.7 billion, or by 3 percent. Growth in most lines of business from continuing operations was partially offset by decreases in discontinued 21st Century operations.

Farmers Re business operating profit decreased by USD 19 million to USD 42 million due to a lower underwriting result compared with 2015. The loss ratio increased by 1.2 percentage points as a result of higher catastrophe losses, mainly related to Texas storms.

Other Operating Businesses reported a business operating loss of USD 758 million, compared with a loss of USD 720 million in 2015, primarily due to the impact of less favorable foreign exchange rates, and several one-off items in both 2016 and 2015.

Non-Core Businesses reported a business operating loss of USD 11 million compared with a profit of USD 51 million in 2015, partly as a consequence of higher release of long-term reserves in 2015 compared with 2016 related to a buy-back program for a variable annuity product in the U.S.

Consolidated income statements (unaudited)

in USD millions, for the years ended December 31

	2016	2015
Revenues		
Gross written premiums	48,208	48,490
Policy fees	2,407	2,508
Gross written premiums and policy fees	50,615	50,998
Less premiums ceded to reinsurers	(7,843)	(8,078)
Net written premiums and policy fees	42,772	42,920
Net change in reserves for unearned premiums	(150)	(296)
Net earned premiums and policy fees	42,622	42,624
Farmers management fees and other related revenues	2,867	2,786
Net investment result on Group investments	7,045	7,462
Net investment income on Group investments	5,484	5,572
Net capital gains/(losses) and impairments on Group investments	1,561	1,891
Net investment result on unit-linked investments	13,613	6,238
Net gain/(loss) on divestments of businesses	(89)	10
Other income	1,187	1,448
Total revenues	67,245	60,568
Benefits, losses and expenses		
Insurance benefits and losses, gross of reinsurance	35,173	36,076
Less ceded insurance benefits and losses	(4,682)	(5,330)
Insurance benefits and losses, net of reinsurance	30,491	30,746
Policyholder dividends and participation in profits, net of reinsurance	14,519	7,863
Underwriting and policy acquisition costs, net of reinsurance	8,538	9,061
Administrative and other operating expense	7,478	8,659
Interest expense on debt	423	431
Interest credited to policyholders and other interest	475	467
Total benefits, losses and expenses	61,924	57,227
Net income before income taxes	5,321	3,340
Income tax (expense)/benefit	(1,843)	(1,294)
attributable to policyholders	(304)	(110)
attributable to shareholders	(1,539)	(1,183)
Net income after taxes	3,478	2,047
attributable to non-controlling interests	268	205
attributable to shareholders	3,211	1,842
in USD		
Basic earnings per share	21.51	12.36
Diluted earnings per share	21.36	12.33
in CHF		
Basic earnings per share	21.18	11.89
Diluted earnings per share	21.04	11.86

Performance overview (continued)

Business operating profit by business segment (unaudited)

	General Insurance		Global Life		Farmers	
in USD millions, for the years ended December 31	2016	2015	2016	2015	2016	2015
Revenues						
Direct written premiums ¹	31,770	32,274	13,194	12,033	–	–
Assumed written premiums	1,352	1,746	218	186	1,587	2,145
Gross Written Premiums	33,122	34,020	13,413	12,220	1,587	2,145
Policy fees	–	–	2,117	2,227	–	–
Gross written premiums and policy fees	33,122	34,020	15,530	14,446	1,587	2,145
Less premiums ceded to reinsurers	(7,014)	(5,634)	(874)	(2,489)	–	–
Net written premiums and policy fees	26,108	28,386	14,656	11,957	1,587	2,145
Net change in reserves for unearned premiums	(6)	(335)	(119)	(82)	(65)	120
Net earned premiums and policy fees	26,102	28,051	14,537	11,876	1,521	2,266
Farmers management fees and other related revenues	–	–	–	–	2,867	2,786
Net investment result on Group investments	2,086	2,002	3,884	4,415	39	49
Net investment income on Group investments	2,019	2,002	3,244	3,320	39	49
Net capital gains/(losses) and impairments on Group investments	67	–	640	1,095	–	–
Net investment result on unit-linked investments	–	–	13,298	6,168	–	–
Other income	646	836	823	1,039	86	56
Total BOP revenues	28,834	30,889	32,543	23,498	4,513	5,156
<i>of which: inter-segment revenues</i>	<i>(347)</i>	<i>(527)</i>	<i>(318)</i>	<i>(316)</i>	<i>(26)</i>	<i>(16)</i>
Benefits, losses and expenses						
Insurance benefits and losses, net ¹	17,394	20,152	11,510	8,612	1,085	1,588
Losses and loss adjustment expenses, net	17,396	20,157	–	–	1,085	1,588
Life insurance death and other benefits, net ¹	(2)	(4)	11,510	8,612	–	–
Policyholder dividends and participation in profits, net	7	3	14,114	7,706	–	–
Income tax expense/(benefit) attributable to policyholders	–	–	304	110	–	–
Underwriting and policy acquisition costs, net	5,765	5,907	2,282	2,454	487	703
Administrative and other operating expense (excl. depreciation/amortization)	2,963	3,636	2,396	2,463	1,297	1,340
Interest credited to policyholders and other interest	104	112	455	445	–	–
Restructuring provisions and other items not included in BOP	(321)	(372)	(277)	(435)	(2)	(14)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	25,912	29,437	30,785	21,355	2,867	3,618
Business operating profit (before interest, depreciation and amortization)						
	2,921	1,452	1,758	2,143	1,647	1,538
Depreciation and impairments of property and equipment	109	127	22	28	33	36
Amortization and impairments of intangible assets	148	252	126	578	93	81
Interest expense on debt	97	101	10	14	–	–
Business operating profit before non-controlling interests	2,567	972	1,600	1,523	1,520	1,421
Non-controlling interests	133	108	255	223	–	–
Business operating profit	2,435	864	1,344	1,300	1,520	1,421

¹ Global Life includes approximately USD 3,968 million and USD 2,701 million of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2016 and 2015, respectively (see note 3 of the consolidated financial statements).

Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2016	2015	2016	2015	2016	2015	2016	2015
–	–	59	67	–	–	45,024	44,374
48	47	80	90	(101)	(98)	3,184	4,116
48	47	139	156	(101)	(98)	48,208	48,490
–	–	290	281	–	–	2,407	2,508
48	47	429	437	(101)	(98)	50,615	50,998
(43)	(41)	(13)	(11)	101	98	(7,843)	(8,078)
6	6	416	426	–	–	42,772	42,920
–	–	40	–	–	–	(150)	(296)
6	6	456	426	–	–	42,622	42,624
–	–	–	–	–	–	2,867	2,786
294	300	282	236	(401)	(427)	6,185	6,576
294	300	289	328	(401)	(427)	5,484	5,572
–	–	(6)	(91)	–	–	701	1,004
–	–	315	70	–	–	13,613	6,238
957	1,104	56	98	(1,380)	(1,685)	1,187	1,448
1,257	1,411	1,109	830	(1,781)	(2,112)	66,475	59,671
(1,086)	(1,222)	(5)	(33)	1,781	2,112		
–	–	502	394	–	–	30,491	30,746
–	–	54	118	–	–	18,534	21,862
–	–	448	276	–	–	11,957	8,884
–	–	398	154	–	–	14,519	7,863
–	–	–	–	–	–	304	110
–	–	11	7	(7)	(10)	8,538	9,061
1,181	1,225	122	137	(1,072)	(1,342)	6,888	7,458
120	136	78	89	(281)	(315)	475	467
(65)	(75)	(1)	(10)	–	–	(666)	(906)
1,236	1,286	1,110	770	(1,360)	(1,668)	60,549	54,799
21	125	–	60	(421)	(445)	5,926	4,872
9	7	–	–	–	–	174	198
49	92	–	–	–	–	416	1,004
727	751	10	9	(421)	(445)	423	431
(763)	(726)	(11)	51	–	–	4,913	3,240
(6)	(7)	–	–	–	–	382	324
(758)	(720)	(11)	51	–	–	4,530	2,916

Performance overview (continued)

Consolidated balance sheets (unaudited)

Assets		
in USD millions, as of December 31	2016	2015
Investments		
Total Group investments	189,808	191,238
Cash and cash equivalents	7,197	8,159
Equity securities	15,908	18,873
Debt securities	140,181	137,730
Investment property	10,562	9,865
Mortgage loans	6,794	7,024
Other loans	9,146	9,569
Investments in associates and joint ventures	20	18
Investments for unit-linked contracts	125,907	126,728
Total investments	315,715	317,966
Reinsurers' share of reserves for insurance contracts	18,347	17,774
Deposits made under assumed reinsurance contracts	1,764	1,708
Deferred policy acquisition costs	17,796	17,677
Deferred origination costs	426	506
Accrued investment income	1,653	1,727
Receivables and other assets	16,434	14,930
Deferred tax assets	1,448	1,455
Assets held for sale	530	10
Property and equipment	953	1,140
Attorney-in-fact contracts	1,025	1,025
Goodwill	1,795	1,289
Other intangible assets	4,795	4,766
Total assets	382,679	381,972

Liabilities and equity		
in USD millions, as of	2016	2015
Liabilities		
Reserve for premium refunds	509	537
Liabilities for investment contracts	69,113	70,627
Deposits received under ceded reinsurance contracts	568	903
Deferred front-end fees	4,872	5,299
Reserves for insurance contracts	238,326	237,622
Obligations to repurchase securities	1,280	1,596
Accrued liabilities	3,038	2,849
Other liabilities	16,437	15,051
Deferred tax liabilities	4,562	4,498
Liabilities held for sale	290	–
Senior debt	4,162	4,471
Subordinated debt	7,050	5,614
Total liabilities	350,206	349,069
Equity		
Share capital	11	11
Additional paid-in capital	1,348	3,245
Net unrealized gains/(losses) on available-for-sale investments	2,809	2,556
Cash flow hedges	418	294
Cumulative foreign currency translation adjustment	(9,973)	(9,347)
Revaluation reserve	235	228
Retained earnings	35,812	34,192
Shareholders' equity	30,660	31,178
Non-controlling interests	1,813	1,725
Total equity	32,473	32,904
Total liabilities and equity	382,679	381,972

More information

Financial calendar

Annual General Meeting 2017

March 29, 2017

Ex-dividend date

March 31, 2017

Dividend payable as from

April 4, 2017

Results for the three months ended March 31, 2017

May 11, 2017

Half year results 2017

August 10, 2017

Results for the nine months ended September 30, 2017

November 9, 2017

Note: all dates are subject to change.

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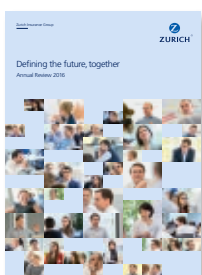
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Our 2016 reports



Annual Review 2016

The Annual Review provides an overview of Zurich's business and strategy, and its financial and operating performance in 2016. It is available in English and German.



Annual Report 2016

The Annual Report contains detailed information about Zurich's financial performance, executive bodies, risk management, corporate governance and remuneration in 2016, and its strategy. It is available in English and German, with the financial statements in English only.

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