

# Board of Directors Report

on the approval of the remuneration  
for the Board of Directors and  
for the Group Executive Committee

at the Annual General Meeting 2016  
of Zurich Insurance Group Ltd

Agenda item 5



## Dear shareholders,

Zurich's remuneration philosophy is an integral part of our overall employment offering to attract, retain, motivate and reward our employees to deliver outstanding performance. We continue to evaluate and test the remuneration approach to ensure our strategy, long term business performance, business affordability and shareholder interests are considered. Our remuneration system meets legal and regulatory requirements, aligns to our risk management and corporate governance principles, while considering market practice and trends.

It has been one year since we first introduced the two binding votes on the approval of the maximum total amounts of remuneration for the Board of Directors (Board) and for the Group Executive Committee (GEC) in accordance with the Ordinance Against Excessive Compensation (Ordinance AEC) at the Annual General Meeting (AGM) on April 1, 2015.

This year, we once again invite you to vote on the approval of the maximum total amounts of remuneration for:

- the Board for the one-year period from the AGM 2016 to the AGM 2017 and
- the GEC for the 2017 financial year.

Regarding last year's approval on the maximum total amount of remuneration for the Board for the one-year period from the AGM 2015 to the AGM 2016 (95.6 percent of votes in favor), we are pleased to say that the approved total amount of remuneration of CHF 4,900,000 is aligned with the actual total amount of remuneration being paid for this period.

Regarding the approval on the maximum total amount of remuneration for the GEC for the 2016 financial year (CHF 75,900,000; 89.9 percent of votes in favor), we intend to provide a reconciliation of the approved amount compared to the actual amount in 2019 once the final remuneration is known, including the vesting level for the performance shares allocated under the long-term incentive plan (LTIP) in 2016.

To ensure that you can continue to express your opinion on our Remuneration Report, Zurich also submits the Remuneration Report 2015 to a consultative, non-binding vote (agenda item 1.2).

We hope that you find this document helpful in providing more information on agenda item 5 on the approval of the remuneration for the Board and for the GEC. You can find further information on the remuneration system and on remuneration in general in the Remuneration Report 2015.

On behalf of the Board of Zurich Insurance Group Ltd

A handwritten signature in blue ink, appearing to read 'Tom de Swaan'.

Tom de Swaan  
Chairman of the Board of Directors

A handwritten signature in blue ink, appearing to read 'Thomas K. Escher'.

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

## Agenda item 5.1

### Approval of the remuneration for the Board of Directors

The Board of Directors proposes to approve a maximum total amount of remuneration for the Board of Directors of CHF 4,700,000 for the period from the AGM 2016 to the AGM 2017.

In 2015, shareholders approved a maximum total amount of remuneration for the Board of CHF 4,900,000 for the period from the AGM 2015 to the AGM 2016. Based on the payments made already in 2015 and the amounts forecasted to be paid in the first quarter of 2016, the actual amount of remuneration for the Board for this period amounts to CHF 4,900,000, fully in line with the approved amount.

As a global insurance provider, Zurich's Directors' fees need to be established at a level which enables Zurich to attract and retain high caliber individuals with diverse backgrounds. To assist the Board in determining its remuneration, an independent advisor carries out benchmarking studies on a regular basis. The Board aims to position the remuneration of its members towards the relevant median amongst the companies listed in the Swiss Market Index.

All Directors of Zurich are also members of the Board of Zurich Insurance Company Ltd and the fees cover the duties and responsibilities under both boards. All fees are paid exclusively as a fixed amount and 50 percent of the basic fee is allocated in sales-restricted shares of Zurich Insurance Group Ltd with the restriction running for a five-year period. Zurich's Directors are not entitled to any variable, performance related pay and no fees (including the portion provided in sales-restricted shares), are subject to the achievement of any specific performance conditions. Further information on Board remuneration can be found in the Remuneration Report 2015.

## Summary of annual fees paid to the Board over the last five calendar years<sup>1</sup>

Year	Number of members <sup>2</sup>	Fees (in CHF thousand)		
		Total	in cash	in shares
2011	11.00	4,258	3,079	1,179
2012	11.00	4,244	3,166	1,078
2013	10.67	4,151	2,993	1,158
2014	9.25	3,701	2,702	999
2015	10.50	4,817	2,787	2,030

At the AGM in 2015, shareholders approved changes to the fee structure that took effect on April 1, 2015. These included an adjustment to the fees for the Chairman and the Vice-Chairman, an increase to the portion of the basic fee allocated in shares to 50 percent and an increase to the sales restriction period on shares to five years. For 2016, there are no changes proposed to the fee structure of the Board.

1 Provides information on the annual fees paid to the Board during the financial year as opposed to a one-year period from AGM to AGM which the vote relates to.

2 The number of members is disclosed on a pro-rata basis taking into account the number of months served.

## Fee structure and fee levels as of March 30, 2016<sup>3</sup>

(in CHF thousand)

Role	Fee elements		
	Total	in cash	in shares
Basic fee for the Chairman of the Board	1,500	750	750
Basic fee for the Vice-Chairman of the Board	400	200	200
Basic fee for a member of the Board	240	120	120
Committee fee	60	60	–
Chair fee for the Audit Committee	80	80	–
Chair fee for the Remuneration Committee	60	60	–
Chair fee for the Risk Committee	60	60	–
Chair fee for the Governance and Nominations Committee <sup>4</sup>	60	60	–

At the AGM 2016, shareholders will elect each member of the Board and each member of the Remuneration Committee individually. Under the premise that the members of the Board and the members of the Remuneration Committee will be elected and the designated Committee and Committee Chair responsibilities remain unchanged for the period from the AGM 2016 to the AGM 2017, the total amount of remuneration would be CHF 4,550,000. To allow for any potential changes to the Committee Chairs and/or in the subsidiary board responsibilities, an additional CHF 150,000 is proposed for approval to cover any additional fees that may be paid.

<sup>3</sup> Excluding other fees for board memberships of subsidiary boards of Zurich, but including the fees for board membership of Zurich Insurance Company Ltd.

<sup>4</sup> No such fees are due as long as the Chairman (or Vice-Chairman) of the Board is chairing the Governance and Nominations Committee.

The maximum total amount of remuneration for the Board is broken down as follows:

**Anticipated fees for the members of the Board for the period from the AGM 2016 to the AGM 2017 (in CHF thousand)**

	Basic fees	Committee fees	Chair fees	Other fees <sup>5</sup>	Total fees		
					Total	in cash	in shares
T. de Swaan, Chairman	1,500	–	–	–	1,500	750	750
F. Kindle, Vice-Chairman	400	–	–	–	400	200	200
J. Amble	240	60	–	–	300	180	120
S. Bies	240	60	–	50	350	230	120
A. Carnwath	240	60	–	–	300	180	120
Ch. Franz	240	60	–	–	300	180	120
J. Hayman	240	60	–	–	300	180	120
M. Mächler	240	60	–	–	300	180	120
K. Mahbubani	240	60	–	–	300	180	120
D. Nish	240	60	–	–	300	180	120
Fees to be allocated to the chairs of the Audit, Remuneration and Risk Committees	–	–	200	–	200	200	–
Sub-total	3,820	480	200	50	4,550	2,640	1,910
Reserve to cover any potential changes to responsibilities <sup>6</sup>	n/a	n/a	n/a	n/a	150	150	n/a
<b>Total</b>	<b>3,820</b>	<b>480</b>	<b>200</b>	<b>50</b>	<b>4,700</b>	<b>2,790</b>	<b>1,910</b>
Total approved at the AGM 2015 <sup>7</sup>	4,060	540	200	100	4,900	2,870	2,030



On the basis of the fees shown on the previous page, the Board of Directors proposes to approve a maximum total amount of remuneration for the Board of Directors of CHF 4,700,000<sup>8</sup> for the period from the AGM 2016 to the AGM 2017.

5 Where a Director is also a member of one or more subsidiary boards of Zurich other than Zurich Insurance Company Ltd, the Director is entitled to an additional fee of CHF 50,000 per annum plus CHF 10,000 per annum if he or she also chairs an audit committee of such a board. The fee structure for subsidiary boards can be modified if certain circumstances, such as additional time commitment to discharge the duties of a board member, warrant it.

6 Changes to responsibilities could include for example, committee chairmanship or subsidiary board responsibilities.

7 At the AGM 2015 an amount of CHF 4,900,000 was proposed and approved by shareholders for the period AGM 2015 to AGM 2016. This was based on 11 members of the Board (as opposed to 10 members for this year's vote) and included an additional CHF 50,000 'other fees' for D. Nicolaisen in his role as a board member of Zurich Holding Company of America, Inc.

8 In connection with the payment of the Board fees, Zurich pays the company-related portion of contributions to social security systems in line with applicable law. These contributions are not part of the maximum total amount of remuneration, however as a reference Zurich paid an amount of CHF 92,129 for the year 2015.

## Agenda item 5.2

### Approval of the remuneration for the Group Executive Committee

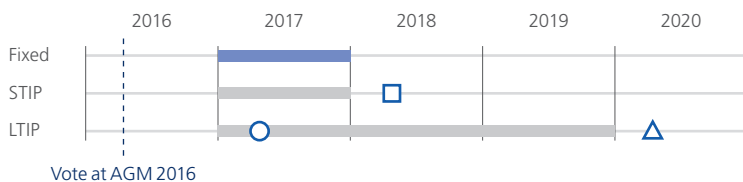
The Board of Directors proposes to approve a maximum total amount of remuneration for the Group Executive Committee of CHF 74,300,000 for the financial year 2017.

The remuneration structure and the mix of the remuneration elements for the members of the GEC are determined by the Board and take into account relevant market practices and internal relativities. Target total remuneration for each member of the GEC is positioned towards the relevant market median level.

The elements of total remuneration for the GEC include base salary, short- and long-term incentives (STIP and LTIP), pensions and benefits and other remuneration. Variable remuneration (STIP and LTIP) is closely linked to the achievement of pre-defined strategic goals and business results. Total remuneration may therefore be lower than, in line with, or higher than the target level. Individual awards under STIP are primarily dependent on the achievement of Zurich's net income attributable to shareholders (NIAS) and the overall individual performance of the respective member. The vesting level of the performance shares under LTIP is assessed over a three-year period taking into account relative Total Shareholder Return (TSR), NIAS return on common shareholders' equity (NIAS ROE), and cash remittance achievements. Further information on GEC remuneration may be found in the Remuneration Report 2015.

The illustration on the next page explains the timing of the remuneration elements which as a sum form the total remuneration for 2017.

## Illustration of the timing for the various remuneration elements



- Fixed remuneration includes base pay, pensions and benefits, and other remuneration during 2017.
- Payment of STIP for 2017, made in March 2018 and disclosed in the Remuneration Report 2017.
- Allocation of LTIP target shares in 2017, disclosed in the Remuneration Report 2017.
- Assessment of the vesting level for the performance period 2017 to 2019.<sup>9</sup>
- Duration of the performance period relevant for the performance criteria of STIP (1 year) and of LTIP (3 years).

To further facilitate the assessment of the proposed maximum total amount of remuneration, the total amounts of remuneration at target and at maximum levels are illustrated in the table on the next page. These figures are based on the GEC comprising 11 members and on assumptions regarding the remuneration structure in 2017.<sup>10</sup>

<sup>9</sup> Half of the vested performance shares are sales-restricted for a further three years such that all restrictions are lifted in 2023.

<sup>10</sup> To calculate the amounts in CHF an exchange rate of USD 1 = CHF 1 was applied.

**Total remuneration for the GEC for approval for 2017  
and previously approved for 2016**

	Target		Maximum		Criteria to achieve maximum <sup>11</sup>
	Value 2017	Value 2016	Value 2017	Value 2016	
Fixed	CHF 15.9m	CHF 15.7m	CHF 15.9m	CHF 15.7m	–
	Base salary, pensions and benefits and other remuneration.		Base salary, pensions and benefits and other remuneration.		
STIP	CHF 11.3m	CHF 11.2m	CHF 22.6m	CHF 22.4m	Over financial year 2017: i) exceptional NIAS out-performance <b>and</b> ii) highest performance rating for each member of the GEC.
	STIP target for the applicable year. STIP target % multiplied by base salary.		Twice the value of the STIP target. Maximum payment is 200% of target.		
LTIP	CHF 17.9m	CHF 18.9m	CHF 35.8m	CHF 37.8m	Over the relevant 3 year performance period: i) relative TSR position: Top three positions out of 18 companies <b>and</b> ii) NIAS ROE: $\geq 14.25\%$ pa <b>and</b> iii) cash remittance: $\geq$ USD 10.0bn.
	LTIP target allocations in the applicable year. LTIP target % multiplied by base salary.		Twice the value of the LTIP target allocation. Maximum vesting is 200% of target.		
<b>Total</b>	<b>CHF 45.1m</b>	<b>CHF 45.8m</b>	<b>CHF 74.3m</b>	<b>CHF 75.9m</b>	

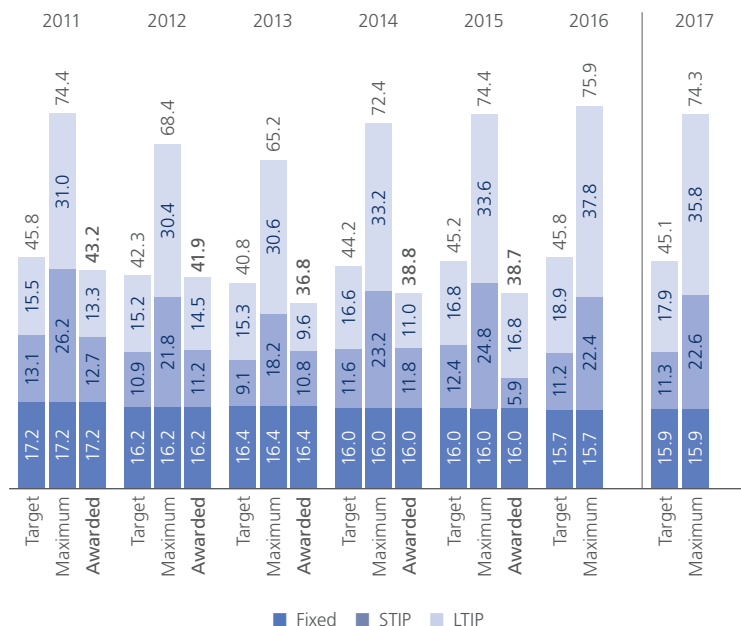
11 Criteria based on the 2014–2016 strategy. The performance framework for 2017–2019 will be aligned with the goals and objectives of the next strategic cycle.

The amounts for the individual remuneration elements (Fixed, STIP and LTIP) are indicative and might change within the maximum total amount of remuneration submitted for approval (Total).

The calculation of the maximum total amount of remuneration for the GEC takes into account the potential maximum STIP award and the maximum LTIP vesting level, which in both cases is 200 percent of target. This method reflects the maximum total remuneration that could arise under the remuneration policy and the Board believes this is a transparent approach for shareholders. In order to award the maximum levels of remuneration under the incentive plans, exceptional performance needs to be achieved.

The graph shown on the next page includes historical figures over the years 2011 to 2015 to provide an insight into the development of Zurich's GEC remuneration with regard to target, maximum and the actual awarded amounts (Awarded). It also includes the maximum amount of total remuneration that was approved by shareholders for 2016 and the amount proposed for approval for 2017, along with the respective target amounts. The awarded amounts comprise the actual amounts paid under the STIP for the respective financial year and the actual vesting levels achieved for the respective LTIP target allocation in that financial year. As illustrated, the awarded remuneration over the five-year period was on average 56 percent of the potential maximum amount ("Awarded" versus "Maximum").

**Graphical illustration of the total remuneration of the GEC<sup>12</sup>**  
(in CHF million)



12 The 2013 and 2014 awarded amounts reflect the vesting level in 2016 applicable to the 3<sup>rd</sup> tranche of the 2013 LTIP allocation and the 1<sup>st</sup> tranche of the 2014 LTIP allocation. For the 2<sup>nd</sup> tranche of the 2014 LTIP allocation and the full 2015 LTIP allocation, a vesting level of 100 percent of target has been assumed until vesting levels are available to determine the actual awarded amount.

On the basis of the maximum remuneration shown on the previous page, the Board of Directors proposes to approve a maximum total amount of remuneration for the Group Executive Committee of CHF 74,300,000<sup>13</sup> for the financial year 2017.<sup>14</sup>

13 Any shareholder returns including dividend equivalents from the date of the target share allocation until the date of vesting, as well as the impact of foreign exchange rate fluctuations, are not included. In connection with the payment of GEC remuneration, Zurich pays the company-related portion of contributions to social security systems in line with applicable law. These contributions are not included in the maximum total amount of remuneration, however as a reference, Zurich paid an amount of CHF 2.1m for the year 2015.

14 Based on the Articles of Incorporation, Zurich is authorized to make payments to any member who joins the GEC during a period for which the Annual General Meeting has already approved the remuneration of the GEC, of a supplementary amount for the period(s) in question, where the total amount already approved for such remuneration is not sufficient. The sum of all supplementary amounts may not exceed, during any one remuneration period, 30 percent of the respective total amount of approved maximum total remuneration for the GEC.





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