

# Board of Directors Report

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

at the Annual General Meeting 2017 of Zurich Insurance Group Ltd

Agenda item 5



#### Dear shareholders,

We continue to ensure that our remuneration approach is aligned with our strategic objectives, does not promote excessive risk-taking and also allows us to attract, motivate and retain high caliber employees, while rewarding appropriately for the business results achieved.

No changes are proposed to the remuneration structure of the Board of Directors (Board). The remuneration for our Board is fixed and includes a basic fee, which is paid half in cash and half in five-year sales-restricted shares. The sales-restricted shares are not subject to the achievement of any specific performance conditions.

Given the strategic direction communicated in November last year to move to a simpler, customer-oriented structure, several changes have been made to align our incentive architecture effective from 2017. You can find more information on these changes in our remuneration report 2016. In summary:

- The Short Term Incentive Plan (STIP) architecture has been aligned to the new organizational structure and accountabilities, and the funding of the incentive plan will be focused predominantly on the achievements of the Business Operating Profit (BOP) result throughout the Group.
- The Long Term Incentive Plan (LTIP) vesting criteria have been reviewed and remain unchanged. However, with regard to cash remittance the target vesting level will only be achieved if the cumulative cash remittance over the three-year period is USD 9.5bn instead of the current USD 9.0bn. The change will be applied for the first time to assess the vesting level in 2020 for the performance period 2017–2019.

The elements of total remuneration for our Executive Committee (ExCo) also remain unchanged and include base salary, STIP and LTIP, pensions and benefits and other remuneration. The remuneration for the ExCo is structured in a way that puts more emphasis on the variable remuneration elements (STIP and LTIP) and these are closely linked to the achievement of pre-defined business results and strategic goals, with a higher weighting towards the long-term.

As in previous years, 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 Annual General Meeting (AGM) 2017 to the AGM 2018: CHF 5,000,000, which includes the remuneration of one new Board member proposed for election at the AGM (agenda item 5.1) and
- the ExCo for the 2018 calendar year: CHF 74,300,000 (agenda item 5.2).

To ensure that you can continue to express your opinion on our remuneration report, Zurich also submits the remuneration report 2016 to a consultative, non-binding vote (agenda item 1.2).

We hope that you find this information helpful to support the approval of the remuneration for the Board and for the ExCo. You can find further information on the remuneration system and on remuneration in general in the remuneration report 2016.

On behalf of the Board of Zurich Insurance Group Ltd

Tom de Swaan

Chairman of the Board of Directors

Christoph Franz

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 5,000,000 for the period from the AGM 2017 to the AGM 2018. The increase from the previous year reflects the proposed appointment of a new member for the Board, there are no changes proposed in the underlying fee structure for the period from the AGM 2017 to the AGM 2018.

In 2016, shareholders approved a maximum total amount of remuneration for the Board of CHF 4,700,000 for the period from the AGM 2016 to the AGM 2017. Based on the payments made already in 2016 and the amounts to be paid in the first quarter of 2017, the actual amount of remuneration for the Board for this period amounts to CHF 4,550,000 which is within the amount approved at last year's AGM.

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 2016.

## Summary of annual fees paid to the Board over the last two periods covering the previous shareholder votes 1

Period (AGM to AGM)	Number of	Fees (in CHF thousands)			
	members	Total	in cash	in shares	
2015-2016	11	4,817	2,787	2,030	
2016-20172	10	4,550	2,640	1,910	

 $<sup>1\,</sup>$  Provides information on the fees paid to the Board during a one-year period from AGM to AGM.

<sup>2</sup> Includes the amounts to be paid in March 2017.

### Fee structure and fee levels as of March 29, 2017<sup>3</sup> (in CHF thousands)

Role	Fee elements				
Note	Total	in cash	in shares		
Basic fee for the Chairman of the Board <sup>4</sup>	1,500	750	750		
Basic fee for the Vice-Chairman of the Board <sup>4</sup>	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 and Investment Committee	60	60	-		
Chair fee for the Governance, Nominations and Corporate Responsibility Committee <sup>5</sup>	60	60	-		

At the AGM 2017, 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 2017 to the AGM 2018, the total amount of remuneration would be CHF 4,850,000. 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. This follows the same methodology as in previous years.

<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> Neither the Chairman nor the Vice-Chairman receive any additional fees for their committee work on the Board of Zurich.

<sup>5</sup> No such fees are due as long as the Chairman (or Vice-Chairman) of the Board is chairing the Governance, Nominations and Corporate Responsibility 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 2017 to the AGM 2018 (in CHF thousands)

	fees	Committee fees	fees	Other fees <sup>6</sup>	Total fees		;
	Basicfees	Comn	Chair fees	Other	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
C. Bessant	240	60	-	-	300	180	120
Fees to be allocated to the chairs of the Audit, Remuneration and Risk Committees	-	-	200	-	200	200	-
Sub-total	4,060	540	200	50	4,850	2,820	2,030
Reserve to cover any potential changes to responsibilities <sup>7</sup>	n/a	n/a	n/a	n/a	150	150	n/a
Total	4,060	540	200	50	5,000	2,970	2,030
Total approved at the AGM 20168					4,700		

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 5,000,0009 for the period from the AGM 2017 to the AGM 2018.

- 6 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.
- 7 Changes to responsibilities could include for example, committee chairmanship or subsidiary board responsibilities.
- 8 At the AGM 2016 an amount of CHF 4,700,000 was proposed and approved by share-holders for the period from the AGM 2016 to the AGM 2017. This was based on 10 members of the Board (as opposed to 11 members for this year's vote).
- 9 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 293,471 for the calendar year 2016.

### Agenda item 5.2 Approval of the remuneration for the Executive Committee

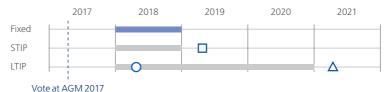
The Board of Directors proposes to approve a maximum total amount of remuneration for the Executive Committee of CHF 74,300,000 for the financial year 2018.

The remuneration structure and the mix of the remuneration elements for the members of the ExCo are determined by the Board and take into account relevant market practices and internal relativities. Target total remuneration for each member of the ExCo is positioned towards the relevant market median level, although the actual target level takes the skills and experience of the individual members of the ExCo into account.

The elements of total remuneration for the ExCo 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 business results and strategic goals. 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 BOP 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 ExCo remuneration may be found in the remuneration report 2016.

The illustration on the next page explains the timing of the remuneration elements which as a sum form the total remuneration for 2018.

#### Illustration of the timing for the various remuneration elements



- Fixed remuneration includes base pay, pensions and benefits, and other remuneration during 2018.
- Payment of STIP for 2018 made in March 2019 and disclosed in the remuneration report 2018.
- Allocation of LTIP target shares in 2018, disclosed in the remuneration report 2018.
- △ Assessment of the vesting level for the performance period 2018 to 2020.¹¹0
- 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 ExCo comprising 11 members and on assumptions regarding the remuneration structure in 2018.<sup>11</sup>

<sup>10</sup> Half of the vested performance shares are sales-restricted for a further three years such that all restrictions are lifted in 2024.

<sup>11</sup> To calculate the amounts in CHF an exchange rate of USD 1 = CHF 1 was applied.

## Total remuneration for the ExCo for approval for 2018 and previously approved for 2017

Target		Maximum			
	Value 2018	Value 2017	Value 2018	Value 2017	Criteria to achieve maximum <sup>12</sup>
Fixed	CHF 16.1m	CHF 15.9 m	CHF 16.1m	CHF 15.9m	-
	Base salary, pensions and benefits and other remuneration.		Base salary, pensions and benefits and other remuneration.		
STIP	CHF 10.9m CHF 11.3m  STIP target for the applicable year (target % multiplied by base salary).		CHF 21.8m CHF 22.6m Maximum STIP award is 200% of target.		Over financial year 2018: i) exceptional BOP out-performance and ii) highest performance rating for each member of the ExCo.
LTIP	CHF 18.2m CHF 17.9m  LTIP target for the applicable year (target % multiplied by base salary).		CHF 36.4m CHF 35.8m  Maximum LTIP vesting level is 200% of target.		Over the relevant 3-year performance period: i) relative TSR position: Top three positions out of 18 companies and ii) NIAS ROE: ≥ 14.25% p.a. and iii) cash remittance: ≥ USD 10.5 bn.
Total	CHF 45.2m	CHF 45.1m	CHF 74.3 m	CHF 74.3 m	

<sup>12</sup> The performance framework for 2018–2020 will be aligned with the goals and objectives for that performance period.

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).

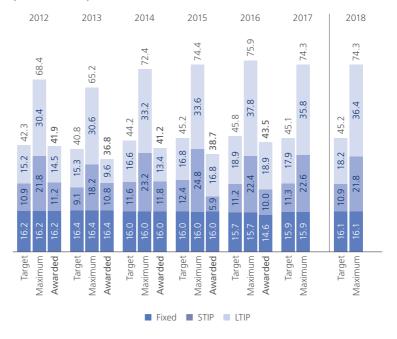
The calculation of the maximum total amount of remuneration for the ExCo takes into account the potential maximum STIP award and the maximum LTIP vesting level, which in both cases is 200 percent of target. This method reflects the maximum total remuneration that could arise under the remuneration policy 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 2012 to 2016 to provide an insight into the development of our ExCo's remuneration with regard to Target, Maximum and the actual awarded amounts ("Awarded"). It also includes the maximum amounts of total remuneration approved by shareholders for 2016 and 2017, as well as the amount proposed for approval for 2018, along with the respective target amounts

For the period 2012 to 2015, the fixed Awarded amounts are equal to the fixed Target amounts. For 2016, the fixed Target amount reflects the target amount underlying the maximum total remuneration amount approved by shareholders and the fixed Awarded amount includes what has been disclosed in the remuneration report for 2016.

In all years, the awarded amounts for STIP comprise the actual amounts paid under the STIP for the respective financial year and disclosed in the remuneration report. Further, the awarded amounts for LTIP are based on the overall vesting levels achieved for the respective LTIP target allocation in the financial year when the allocation was made, and where this information is already available. As illustrated, the awarded remuneration over the five-year period was on average 57 percent of the potential maximum amount ("Awarded" versus "Maximum").

### Graphical illustration of the total remuneration of the ExCo<sup>13</sup> (in CHF millions)



<sup>13</sup> The 2014 awarded amount reflects the vesting levels of 0 percent of target in 2016 and 121 percent of target in 2017. For the 2015 and 2016 LTIP allocations, a vesting level of 100 percent of target has been assumed as the actual vesting levels will only be known in 2019 and 2020 respectively.

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 ExCo of CHF 74,300,00014 for the financial year 2018. 15

Regarding the approval of the maximum total amount of remuneration for the ExCo for the calendar years 2016 (CHF 75,900,000; 89.9 percent of votes in favor) and 2017 (CHF 74,300,000; 90.2 percent of votes in favor) the final amount and reconciliation will only be available in 2019 and 2020 respectively, once the vesting level for the performance shares allocated under the LTIP in 2016 and 2017 are known.

<sup>14</sup> 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 ExCo 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 1.2m for the year 2016.

<sup>15</sup> Based on the Articles of Incorporation, Zurich is authorized to make payments to any member who joins the ExCo during a period for which the AGM has already approved the remuneration of the ExCo, 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 ExCo.

Zurich Insurance Group Ltd Share Register c/o Computershare Switzerland Ltd P.O. Box CH-4609 Olten Phone +41 (0)44 625 22 55 shareholder.services@zurich.com

