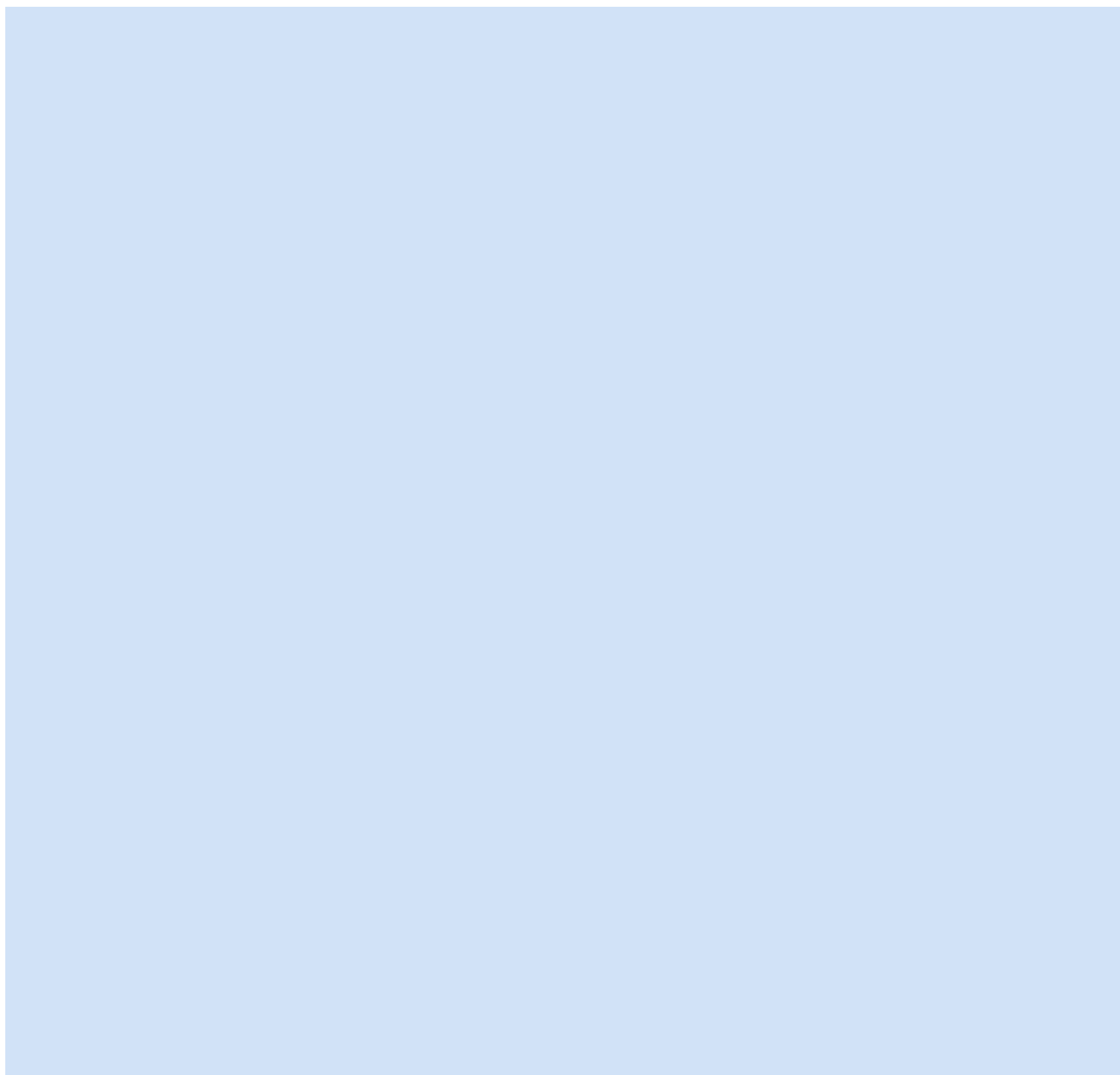


# Consolidated financial statements 2016

Annual Results 2016



# Consolidated financial statements

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## Consolidated income statements

in USD millions, for the years ended December 31

	Notes	2016	2015
<b>Revenues</b>			
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	10	(150)	(296)
Net earned premiums and policy fees		42,622	42,624
Farmers management fees and other related revenues	26	2,867	2,786
Net investment result on Group investments	6	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
<b>Total revenues</b>		<b>67,245</b>	<b>60,568</b>
<b>Benefits, losses and expenses</b>			
Insurance benefits and losses, gross of reinsurance	10	35,173	36,076
Less ceded insurance benefits and losses	10	(4,682)	(5,330)
Insurance benefits and losses, net of reinsurance	10	30,491	30,746
Policyholder dividends and participation in profits, net of reinsurance	10	14,519	7,863
Underwriting and policy acquisition costs, net of reinsurance	10	8,538	9,061
Administrative and other operating expense	12	7,478	8,659
Interest expense on debt		423	431
Interest credited to policyholders and other interest		475	467
<b>Total benefits, losses and expenses</b>		<b>61,924</b>	<b>57,227</b>
<b>Net income before income taxes</b>		<b>5,321</b>	<b>3,340</b>
Income tax (expense)/benefit	17	(1,843)	(1,294)
attributable to policyholders	17	(304)	(110)
attributable to shareholders	17	(1,539)	(1,183)
<b>Net income after taxes</b>		<b>3,478</b>	<b>2,047</b>
attributable to non-controlling interests		268	205
attributable to shareholders		3,211	1,842
in USD			
Basic earnings per share	19	21.51	12.36
Diluted earnings per share	19	21.36	12.33
in CHF			
Basic earnings per share	19	21.18	11.89
Diluted earnings per share	19	21.04	11.86

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

## Consolidated financial statements (continued)

## Consolidated statements of comprehensive income

in USD millions, for the years ended December 31

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
<b>2015</b>			
Comprehensive income for the period	1,842	(1,512)	(12)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		17	23
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(1,777)	(16)
Deferred income tax (before foreign currency translation effects)		397	(15)
Foreign currency translation effects		(149)	(4)
<b>2016</b>			
Comprehensive income for the period	3,211	254	125
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,307	163
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(899)	(7)
Deferred income tax (before foreign currency translation effects)		(38)	(23)
Foreign currency translation effects		(116)	(8)

Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
(3,034)	(4,558)	9	629	639	(3,919)	(2,078)	(173)	(2,251)
(3,034)	(2,994)	12	649	661	(2,333)			
	(1,793)	–	–	–	(1,793)			
–	382	(2)	(162)	(164)	218			
–	(153)	–	142	142	(11)			
(626)	(247)	7	(995)	(988)	(1,236)	1,975	267	2,242
(767)	703	9	(1,615)	(1,606)	(903)			
141	(765)	–	–	–	(765)			
–	(62)	(2)	272	270	208			
–	(124)	–	349	349	224			

## Consolidated financial statements (continued)

## Consolidated balance sheets

Assets	in USD millions, as of December 31	Notes	2016	2015
<b>Investments</b>				
Total Group investments		6	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
<b>Total investments</b>			<b>315,715</b>	<b>317,966</b>
Reinsurers' share of reserves for insurance contracts		8	18,347	17,774
Deposits made under assumed reinsurance contracts			1,764	1,708
Deferred policy acquisition costs		11	17,796	17,677
Deferred origination costs		11	426	506
Accrued investment income <sup>1</sup>			1,653	1,727
Receivables and other assets		15	16,434	14,930
Deferred tax assets		17	1,448	1,455
Assets held for sale <sup>2</sup>			530	10
Property and equipment		13	953	1,140
Attorney-in-fact contracts		14	1,025	1,025
Goodwill		14	1,795	1,289
Other intangible assets		14	4,795	4,766
<b>Total assets</b>			<b>382,679</b>	<b>381,972</b>

<sup>1</sup> Accrued investment income on unit-linked investments amounts to USD 91 million and USD 106 million as of December 31, 2016 and December 31, 2015, respectively.

<sup>2</sup> As of December 31, 2016, includes USD 456 million of assets reclassified based on agreements signed to sell businesses in Taiwan and Middle East (see note 5). In addition, assets held for sale includes land and buildings formerly classified as investment property and held for own use amounting to USD 67 million and USD 7 million, respectively. As of December 31, 2015, includes land and buildings formerly classified as investment property amounting to USD 10 million.

Liabilities  
and equity

in USD millions, as of December 31		Notes	2016	2015
<b>Liabilities</b>				
Reserve for premium refunds			509	537
Liabilities for investment contracts	9		69,113	70,627
Deposits received under ceded reinsurance contracts			568	903
Deferred front-end fees			4,872	5,299
Reserves for insurance contracts	8		238,326	237,622
Obligations to repurchase securities			1,280	1,596
Accrued liabilities			3,038	2,849
Other liabilities	16		16,437	15,051
Deferred tax liabilities	17		4,562	4,498
Liabilities held for sale <sup>1</sup>			290	–
Senior debt	18		4,162	4,471
Subordinated debt	18		7,050	5,614
<b>Total liabilities</b>			<b>350,206</b>	<b>349,069</b>
<b>Equity</b>				
Share capital	19		11	11
Additional paid-in capital	19		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
<b>Total equity</b>			<b>32,473</b>	<b>32,904</b>
<b>Total liabilities and equity</b>			<b>382,679</b>	<b>381,972</b>

<sup>1</sup> As of December 31, 2016, includes USD 290 million of liabilities reclassified based on agreements signed to sell businesses in Taiwan and Middle East (see note 5).

## Consolidated financial statements (continued)

## Consolidated statements of cash flows

in USD millions, for the years ended December 31	2016	2015
<b>Cash flows from operating activities</b>		
Net income attributable to shareholders	3,211	1,842
Adjustments for:		
Net (gain)/loss on divestments of businesses	89	(10)
(Income)/expense from equity method accounted investments	(3)	(8)
Depreciation, amortization and impairments of fixed and intangible assets	781	1,200
Other non-cash items	431	325
Underwriting activities:	14,798	6,868
<i>Reserves for insurance contracts, gross</i>	7,665	4,528
<i>Reinsurers' share of reserves for insurance contracts</i>	(977)	(1,981)
<i>Liabilities for investment contracts</i>	9,506	4,806
<i>Deferred policy acquisition costs</i>	(1,056)	(981)
<i>Deferred origination costs</i>	31	47
<i>Deposits made under assumed reinsurance contracts</i>	(46)	526
<i>Deposits received under ceded reinsurance contracts</i>	(326)	(77)
Investments:	(16,787)	(4,703)
<i>Net capital (gains)/losses on total investments and impairments</i>	(13,569)	(6,261)
<i>Net change in derivatives</i>	(240)	200
<i>Net change in money market investments</i>	(195)	1,415
<i>Sales and maturities</i>		
<i>Debt securities</i>	67,597	85,797
<i>Equity securities</i>	47,725	60,722
<i>Other</i>	7,067	7,444
<i>Purchases</i>		
<i>Debt securities</i>	(71,988)	(83,237)
<i>Equity securities</i>	(46,139)	(62,423)
<i>Other</i>	(7,046)	(8,361)
Net changes in sale and repurchase agreements	(137)	237
Movements in receivables and payables	(1,238)	(69)
Net changes in other operational assets and liabilities	(28)	(485)
Deferred income tax, net	355	24
Net cash provided by/(used in) operating activities	1,473	5,222



in USD millions, for the years ended December 31	2016	2015
<b>Cash flows from investing activities</b>		
Additions to tangible and intangible assets	(715)	(678)
Disposals of tangible and intangible assets	59	60
(Acquisitions)/disposals of equity method accounted investments, net	(2)	88
Acquisitions of companies, net of cash acquired	(826)	(8)
Divestments of companies, net of cash divested	341	4
Dividends from equity method accounted investments	1	8
Net cash provided by/(used in) investing activities	(1,142)	(526)
<b>Cash flows from financing activities</b>		
Dividends paid	(2,768)	(2,869)
Issuance of share capital	40	44
Net movement in treasury shares	17	21
Other acquisitions and divestments related cash flows	–	(34)
Issuance of debt	3,066	298
Repayment of debt	(1,652)	(1,023)
Net cash provided by/(used in) financing activities	(1,296)	(3,564)
Foreign currency translation effects on cash and cash equivalents	(280)	(714)
Change in cash and cash equivalents <sup>1</sup>	(1,245)	417
Cash and cash equivalents as of January 1	9,193	8,776
<b>Cash and cash equivalents as of December 31</b>	<b>7,948</b>	<b>9,193</b>
of which:		
– Group investments	7,197	8,159
– Unit-linked	751	1,034
<b>Other supplementary cash flow disclosures</b>		
Other interest income received	4,876	5,150
Dividend income received	1,837	1,999
Other interest expense paid	(861)	(997)
Income taxes paid	(1,461)	(1,400)

<sup>1</sup> The movement for the year ended December 31, 2016, includes USD 42 million of cash and cash equivalents reclassified to assets held for sale, which has been recognized in net changes in other operational assets and liabilities (see note 5).

## Cash and cash equivalents

in USD millions, as of December 31	2016	2015
<b>Cash and cash equivalents comprise the following:</b>		
Cash at bank and in hand	5,511	7,037
Cash equivalents	2,437	2,156
<b>Total<sup>1</sup></b>	<b>7,948</b>	<b>9,193</b>

<sup>1</sup> Includes cash and cash equivalents for unit-linked contracts of USD 751 million and USD 1,034 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, cash and cash equivalents held to meet local regulatory requirements were USD 625 million and USD 710 million, respectively.

## Consolidated financial statements (continued)

## Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2014	11	4,843
Issuance of share capital <sup>1</sup>	–	205
Dividends to shareholders <sup>2</sup>	–	(1,683)
Share-based payment transactions	–	(124)
Treasury share transactions <sup>3</sup>	–	4
Change in ownership interests with no loss of control	–	–
Total comprehensive income for the period, net of tax	–	–
<i>Net income</i>	–	–
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–
<i>Cash flow hedges</i>	–	–
<i>Cumulative foreign currency translation adjustment</i>	–	–
<i>Revaluation reserve</i>	–	–
<i>Net actuarial gains/(losses) on pension plans</i>	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of December 31, 2015	11	3,245
Balance as of December 31, 2015	11	3,245
Issuance of share capital <sup>1</sup>	–	47
Dividends to shareholders <sup>4</sup>	–	(1,949)
Share-based payment transactions	–	(15)
Treasury share transactions <sup>3</sup>	–	21
Change in ownership interests with no loss of control	–	–
Total comprehensive income for the period, net of tax	–	–
<i>Net income</i>	–	–
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–
<i>Cash flow hedges</i>	–	–
<i>Cumulative foreign currency translation adjustment</i>	–	–
<i>Revaluation reserve</i>	–	–
<i>Net actuarial gains/(losses) on pension plans</i>	–	–
Net changes in capitalization of non-controlling interests	–	–
<b>Balance as of December 31, 2016</b>	<b>11</b>	<b>1,348</b>

<sup>1</sup> The number of common shares issued as of December 31, 2016 was 150,607,406 (December 31, 2015: 150,404,964, December 31, 2014: 149,636,836).

<sup>2</sup> As approved by the Annual General Meeting on April 1, 2015, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 1,022 million between the dividend at transaction day exchange rates amounting to USD 2,705 million and the dividend at historical exchange rates amounting to USD 1,683 million is reflected in the cumulative foreign currency translation adjustment.

<sup>3</sup> The number of treasury shares deducted from equity as of December 31, 2016 amounted to 1,203,523 (December 31, 2015: 1,243,931, December 31, 2014: 1,292,220).

<sup>4</sup> As approved by the Annual General Meeting on March 30, 2016, the dividend of CHF 17 per share was paid out of the capital contribution reserve on April 5, 2016. The difference between the respective amounts of the dividend at transaction day exchange rates amounting to USD 2,643 million and at historical exchange rates are reflected in the cumulative foreign currency translation adjustment.

<sup>5</sup> Certain investment and insurance contracts sold by the Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the Group. Where that discretion has not been exercised, the total amount of undeclared funds surplus is included in equity. Mandated allocations related to unrealized results and earnings are included in policyholder liabilities and, upon declaration, discretionary bonuses are allocated to policyholders. The balances of unallocated gains and retained earnings after charging discretionary bonuses to policyholder liabilities amounted to USD 3,217 million and USD 2,965 million as of December 31, 2016 and 2015, respectively.

Net unrealized gains/(losses) on available-for-sale investments <sup>5</sup>	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve <sup>5</sup>	Retained earnings <sup>5</sup>	Shareholders' equity	Non-controlling interests	Total equity
4,068	306	(6,313)	218	31,602	34,735	2,095	36,830
-	-	-	-	-	205	-	205
-	-	-	-	-	(1,683)	(162)	(1,846)
-	-	-	-	113	(11)	-	(11)
-	-	-	-	18	21	-	21
-	-	-	-	(12)	(12)	-	(12)
(1,512)	(12)	(3,034)	9	2,471	(2,078)	(173)	(2,251)
-	-	-	-	1,842	1,842	-	-
(1,512)	-	-	-	-	(1,512)	-	-
-	(12)	-	-	-	(12)	-	-
-	-	(3,034)	-	-	(3,034)	-	-
-	-	-	9	-	9	-	9
-	-	-	-	629	629	-	629
-	-	-	-	-	-	(34)	(34)
2,556	294	(9,347)	228	34,192	31,178	1,725	32,904
2,556	294	(9,347)	228	34,192	31,178	1,725	32,904
-	-	-	-	-	47	-	47
-	-	-	-	(653)	(2,602)	(125)	(2,727)
-	-	-	-	40	25	-	25
-	-	-	-	14	35	-	35
-	-	-	-	3	3	-	3
254	125	(626)	7	2,216	1,975	267	2,242
-	-	-	-	3,211	3,211	-	-
254	-	-	-	-	254	-	-
-	125	-	-	-	125	-	-
-	-	(626)	-	-	(626)	-	-
-	-	-	7	-	7	-	7
-	-	-	-	(995)	(995)	-	-
-	-	-	-	-	-	(54)	(54)
2,809	418	(9,973)	235	35,812	30,660	1,813	32,473

## Consolidated financial statements (continued)

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

Zurich Insurance Group Ltd, a Swiss corporation, is the holding company of the Group and its shares are listed on the SIX Swiss Exchange. Zurich Insurance Group Ltd was incorporated on April 26, 2000, in Zurich, Switzerland. It is recorded in the Commercial Register of the Canton of Zurich under its registered address at Mythenquai 2, 8002 Zurich.

On February 8, 2017, the Board of Directors of Zurich Insurance Group Ltd authorized these consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on March 29, 2017.

### 1. Basis of presentation

#### General information

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. Where IFRS does not contain clear guidance governing the accounting treatment of certain transactions, including those that are specific to insurance and reinsurance products, IFRS permits reference to another comprehensive body of accounting principles that uses a similar conceptual framework. The Group's accounting policies for insurance and reinsurance contracts are therefore based on those developed by the Group before the adoption of IFRS 4 in areas where IFRS 4 did not include specific requirements. Before the adoption of IFRS 4, the Group typically applied U.S. GAAP pronouncements issued by the Financial Accounting Standards Board (FASB) on insurance and reinsurance contracts. Any changes to such pronouncements subsequent to this adoption are not reflected in the Group's accounting policies. In case of business combinations, the Group may decide to maintain the local statutory treatment if this does not distort the fair presentation of the financial position of the Group. If significant, the impact of such cases would be described elsewhere in the notes to these consolidated financial statements.

The accounting policies applied by the reportable segments are the same as those applied by the Group. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices. Dividends, realized capital gains and losses as well as gains and losses on the transfer of net assets, are eliminated within the segment, whereas all other intercompany gains and losses are eliminated at Group level. In the consolidated financial statements, inter-segment revenues and transfers are eliminated.

Disclosures under IFRS 4 'Insurance Contracts' and IFRS 7 'Financial Instruments: Disclosures' relating to the nature and extent of risks, and capital disclosures under IAS 1 'Presentation of Financial Statements' have been included in the audited sections of the Risk review on pages 5 to 35, and they form an integral part of the consolidated financial statements.

The Group's consolidated balance sheets are not presented using a current/non-current classification. The following balances are generally considered to be current: cash and cash equivalents, deferred policy acquisition costs on general insurance contracts, accrued investment income, receivables, reserve for premium refunds, obligations to repurchase securities and accrued liabilities.

The following balances are generally considered to be non-current: equity securities, investment property, investments in associates and joint ventures, deferred policy acquisition costs on life insurance contracts, deferred tax assets, property and equipment, goodwill, other intangible assets and deferred tax liabilities.

The following balances are mixed in nature (including both current and non-current portions): debt securities, mortgage loans, other loans, reinsurers' share of reserves for insurance contracts, deposits made under assumed reinsurance contracts, deferred origination costs, other assets, reserves and investments for unit-linked contracts, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees, reserves for losses and loss adjustment expenses, reserves for unearned premiums, future life policyholder benefits, policyholder contract deposits and other funds, other liabilities, senior and subordinated debt, and assets and liabilities held for sale.

Maturity tables have been provided for the following balances: debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), reserves for insurance contracts (tables 8.9a and 8.9b), liabilities for investment contracts (tables 9.3a and 9.3b), other financial liabilities (table 16.2) and outstanding debt (table 18.2).

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

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 118 million and USD 245 million for the years ended December 31, 2016 and 2015, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (131) million and USD (126) million for the years ended December 31, 2016 and 2015, respectively.

Table 1.1

Principal  
exchange rates

USD per foreign currency unit

	Consolidated balance sheets at end-of-period exchange rates		Consolidated income statements and cash flows at average exchange rates	
	12/31/16	12/31/15	12/31/16	12/31/15
	Euro	1.0557	1.0862	1.1067
Swiss franc	0.9845	0.9988	1.0153	1.0399
British pound	1.2346	1.4749	1.3550	1.5288
Brazilian real	0.3077	0.2525	0.2886	0.3053

## Consolidated financial statements (continued)

## 2. New accounting standards and amendments to published accounting standards

**Standards, amendments and interpretations effective or early adopted as of January 1, 2016 and relevant for the Group's operations**

Table 2.1 shows new accounting standards or amendments to and interpretations of standards relevant to the Group that have been implemented for the financial year beginning January 1, 2016, with no material impact on the Group's financial position or performance. In addition to the standards and amendments listed in table 2.1 the Group also incorporated amendments resulting from the IASB annual improvements project, which relate primarily to disclosure enhancements.

Table 2.1

Standard/ Interpretation		Effective date
	<b>Amended Standards</b>	
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
IAS 1	Disclosure initiative	January 1, 2016
IAS 16/IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	January 1, 2016

**Standards, amendments and interpretations issued that are not yet effective or adopted by the Group**

Table 2.2 shows new accounting standards or amendments to and interpretations of standards relevant to the Group, which are not yet effective or adopted by the Group.

Table 2.2

Standard/ Interpretation		Effective date
	<b>New Standards</b>	
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRS 16	Leases	January 1, 2019
IFRS 9	Financial Instruments	January 1, 2021
	<b>Amended Standards</b>	
IAS 7	Disclosure Initiative	January 1, 2017
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	January 1, 2017
IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
IFRS 4	Applying IFRS 9 with IFRS 4	January 1, 2018

**IFRS 17 'Insurance contracts'**

IFRS 17 'Insurance contracts' is expected to be issued in the first half of 2017. IFRS 17 will provide comprehensive guidance on accounting for insurance contracts and investment contracts with discretionary participation features. For general insurance contracts, IFRS 17 will introduce mandatory discounting of loss reserves expected to be paid in more than one year as well as risk adjustment, for which confidence level equivalent disclosure will be required. Further, IFRS 17 is expected to have a significant impact on accounting for life insurance contracts as well as on the presentation of insurance contract revenue in the financial statements.

In order to further evaluate the effects of adopting IFRS 17 in the consolidated financial statements, a joint IFRS 17 and IFRS 9 Group Implementation Program (Program) has been set up sponsored by Group Chief Financial Officer. A steering committee comprising senior management from Finance, Risk, Operations and Investment Management oversees the work performed by individual work streams, with a technical committee defining Group accounting policies and methodologies to be consistently applied throughout the Group and a transformation committee taking responsibility for systems implications and data flows. In 2017, the focus of the Program will be on preliminary impact analysis for significant legal entities as well as documentation of Group accounting policies.

In September 2016, the IASB issued an amendment to IFRS 4 introducing a temporary exemption from the adoption of IFRS 9 for reporting entities that have not previously applied any version of IFRS 9 and whose activities are predominantly related to insurance. Based on an analysis performed as of December 31, 2015, the Group is eligible to apply the temporary exemption as the predominance ratio reflecting the share of liabilities connected with insurance to total liabilities exceeds 90 percent. For the purpose of calculating the predominance ratio, liabilities connected with insurance include unit-linked investment contracts measured at fair value through profit or loss of USD 62.2 billion (see note 9) and subordinated funding liabilities that are considered to be part of regulatory capital of USD 5.6 billion (see note 18). The Program is proceeding on the assumption that the Group will apply the temporary exemption from the adoption of IFRS 9 and defer the implementation of IFRS 9 until a later date, however, no later than January 1, 2021.

#### IFRS 9 'Financial Instruments'

Upon implementation of IFRS 9, all equity securities and fund investments are expected to be measured at fair value through profit or loss. Similarly, a portion of debt instruments that are currently classified as available-for-sale will be classified as at fair value through profit or loss under IFRS 9 because the characteristics of the contractual cash flows from such instruments are not solely payments of principal and interest on the principal amount outstanding. We do not expect any significant impact on financial assets accounted for at amortized cost (such as mortgage and other loans) from the adoption of IFRS 9 classification requirements.

Furthermore, credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in other comprehensive income (OCI), are expected to increase due to the introduction of the expected credit loss methodology. Upon implementation of the revised standard IFRS 17 'Insurance Contracts', more assets may be classified at fair value through profit or loss under the fair value option.

The Group is currently assessing the impact of the application of both IFRS 17 and IFRS 9. As at the date of the publication of these consolidated financial statements it is not practicable to quantify the potential effect on the Group consolidated financial statements at the time when these standards are adopted.

#### IFRS 16 'Leases'

The Group expects IFRS 16 to impact the accounting of contracts where it acts as a lessee (and intermediate lessor), especially on real estate rental contracts. It is not expected that recognition of a right-of-use asset with a corresponding lease liability will have a material impact on the total amount of assets or liabilities or on net income.

Other standards, amendments and interpretations shown in table 2.2 are expected to have no or only an insignificant impact on the Group's financial position or performance.

## Consolidated financial statements (continued)

### 3. Summary of significant accounting policies

Significant accounting policies applied in these consolidated financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated. Other accounting policies are presented as part of the respective note disclosures.

#### a) Consolidation principles

The Group's consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Group Ltd and its subsidiaries. A subsidiary is an entity that Zurich Insurance Group Ltd either directly or indirectly controls. The results of subsidiaries acquired are included in the consolidated financial statements from the date of acquisition. The results of subsidiaries that have been divested during the year are included up to the date control ceased. All intra-Group balances, profits and transactions are eliminated in full.

Changes in ownership interests in a subsidiary that do not result in a change in control are recorded within equity.

Non-controlling interests are shown separately in equity, consolidated income statements, consolidated statements of comprehensive income and consolidated statements of changes in equity.

The consolidated financial statements are prepared as of December 31 based on individual company financial statements at the same date. In some cases information is included with a time lag of up to three months. The consequent effect on the Group's consolidated financial statements is not material.

#### b) Foreign currency translation and transactions

##### Foreign currency translation

Due to the Group's economic exposure to the U.S. dollar (USD), the presentation currency of the Group's consolidated financial statements is USD. Many Group companies have a different functional currency, being that of the respective primary economic environment in which these companies operate. Assets and liabilities are translated into the presentation currency at end-of-period exchange rates, while income statements and statements of cash flows are translated at average exchange rates for the period. The resulting foreign currency translation differences are recorded directly in other comprehensive income (OCI) as cumulative translation adjustment (CTA).

##### Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rate at the date of the transaction or, for practical reasons, a weighted average rate, if exchange rates do not fluctuate significantly. Foreign currency monetary items and foreign currency non-monetary items that are carried at fair value, are translated at end-of-period exchange rates. The resulting foreign currency translation differences are recorded in income, except for the following:

- 
- Foreign currency translation differences that are recognized in OCI in conjunction with the recognition of unrealized gains or losses on available-for-sale investments; and
  - Foreign currency translation differences arising on monetary items that form part of net investments in foreign operations as well as foreign currency translation differences arising from monetary items that are designated as hedging instruments in a qualifying net investment hedge relationship are included directly in OCI as CTA.
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#### c) Insurance contracts and investment contracts with discretionary participating features (DPF)

##### Classification

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

The Group also issues products containing embedded options that entitle the policyholder to switch all or part of the current and future invested funds into another product issued by the Group. Where this results in the reclassification of an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are also reclassified and are accounted for in accordance with the accounting policy to be applied to the new product on a prospective basis. As a consequence, no gain or loss is recognized as a result of the reclassification of a contract from investment to insurance.

Once a contract has been classified as an insurance contract, no reclassification can subsequently be made.



## Premiums

### *General insurance*

Premiums from the sale of short-duration general insurance products are generally recorded when written and are normally recognized as revenue in relation to the insurance coverage provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired coverage period.

### *Life insurance*

Premiums from traditional life insurance contracts, including participating contracts and annuity policies with life contingencies, are recognized as revenue when due from the policyholder. For single premium and limited pay contracts, premiums are recognized as revenue when due, with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from investment type insurance contracts such as universal life, unit-linked and unitized with-profits contracts are reported as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration and surrenders during the period. Front-end fees charged to the customer at inception, particularly for single premium contracts, are deferred and recognized over the estimated life of the contracts on a straight-line basis. Regular fees charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds are billed in advance and recognized on a straight-line basis over the period in which the service is rendered. Fees charged at the end of the period are accrued over the service period as a receivable and are offset against the financial liability when charged to the customer.

Cash flows from certain universal life-type contracts in the Group's Spanish operations are recognized as gross written premiums and insurance benefits and losses and not as deposits.

### *Reserves for losses and loss adjustment expenses*

Losses and loss adjustment expenses are charged to income as incurred. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed. The Group does not discount its loss reserves, other than for settled claims with fixed payment terms.

### *Reserves for life benefits*

Future life policyholders' benefits represent the estimated future benefit liability for traditional life insurance policies and include the value of accumulated declared bonuses or dividends that have vested to policyholders.

The reserves for life benefits for participating traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions taking into account guaranteed mortality benefits and interest rates.

The reserves for life benefits for other traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions including mortality, persistency, expenses and investment return, plus a margin for adverse deviations. These assumptions are locked-in at inception and are regularly assessed as part of the liability adequacy testing over the period of the contract.

Policyholder contract deposits represent the estimated policy benefits for investment type insurance contracts invested in non unit-linked funds. This liability comprises the accumulation of premiums received, less charges, plus declared policyholder dividends.

Unrealized gains or losses arising on the revaluation of available-for-sale assets are recorded directly in OCI in accordance with the Group's accounting policy for such assets. Where these assets are related to life insurance, corresponding adjustments to the reserves for life benefits and related assets are also recognized directly in OCI.

Reserves for unit-linked contracts are based on the fair value of the financial instruments backing those contracts less any fees and assessments charged to the policyholders. The related assets for unit-linked insurance contracts are designated at fair value through profit or loss in order to reduce measurement inconsistencies.

For products containing guarantees in respect of minimum death benefits (GMDB), retirement income benefits (GRIB) and/or annuitization options (GAO), additional liabilities are recorded in proportion to the receipt of the contracted revenues which are subject to a loss adequacy test taking into account policyholder behavior and current market conditions.

## Consolidated financial statements (continued)

For products managed on a dynamic basis, an option in IFRS 4 is used to measure the insurance liabilities using current financial and non-financial assumptions, to better reflect the way that these products are managed. Financial assets relating to these liabilities are designated at fair value through profit or loss.

### Deferred acquisition costs (DAC)

Costs that vary with and are directly related to the acquisition of new and renewal business, including for example commissions and certain underwriting and policy issue expenses, are deferred and subsequently amortized over a defined period.

### General insurance

DAC for general insurance contracts is amortized over the period in which the related premiums are earned.

### Life insurance

DAC for traditional participating life insurance contracts is amortized based on estimated gross margins expected to be realized over the life of the contract. Estimated gross margins are updated for actual and anticipated future experience and discounted using the latest revised interest rate for the remaining benefit period. Resultant deviations are reflected in income.

DAC for other traditional life insurance and annuity contracts is amortized over the life of the contracts based on expected premiums. Expected premiums are estimated at the date of policy issue for application throughout the life of the contract, unless a premium deficiency subsequently occurs.

DAC for investment type insurance contracts such as universal life, unit-linked and unitized with-profits contracts is amortized based on estimated gross profits expected to be realized over the life of the contract. Estimated gross profits are updated for actual and anticipated future experience and discounted using either the interest rate in effect at the inception of the contracts or the latest revised interest rate for the remaining benefit period, depending on whether crediting is based on the policyholder's or on the reporting entity's investment performance. Resultant deviations are reflected in income.

Unamortized DAC for life insurance contracts accrues interest at a rate consistent with the related assumptions for reserves.

For traditional participating and investment type life insurance contracts, DAC is adjusted for the impact of unrealized gains/(losses) on allocated investments that are recorded in OCI.

### Liability adequacy tests

Liability adequacy tests are performed annually for groupings of contracts determined in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

### General insurance

For general insurance contracts, unearned premiums are tested to determine whether they are sufficient to cover related expected losses, loss adjustment expenses, policyholder dividends, unamortized DAC and maintenance expenses, using current assumptions and considering anticipated investment returns. If a premium deficiency is identified, the DAC asset for the respective grouping of contracts is written down by the amount of the deficiency. If, after writing down the DAC asset to nil, a premium deficiency still exists for the respective grouping of contracts, then a premium deficiency reserve is established for the amount of the remaining deficiency.

### Life insurance

For life insurance contracts, the carrying amount of the existing reserve for life benefits, including any deferred front-end fees, reduced by the unamortized balance of DAC or present value of future profits of acquired insurance contracts (PVFP), is compared with the reserve for life benefits, calculated using revised assumptions for actual and anticipated experience as of the valuation date. If a deficiency is identified, the DAC or PVFP for the respective grouping of contracts is written down by the amount of the deficiency. If, after writing down the DAC or PVFP to nil, a deficiency still exists for the respective grouping of contracts, the reserve for life benefits is increased by the amount of the remaining deficiency.

### Reinsurance

The Group's insurance subsidiaries cede risk in the normal course of business in order to limit the potential for losses arising from certain exposures. Reinsurance does not relieve the originating insurer of its liability. Certain Group insurance companies assume reinsurance business incidental to their normal business.

Reinsurance contracts that do not transfer significant insurance risk are accounted for using the deposit method.

A deposit asset or liability is recognized based on the premium paid or received less any explicitly identified premiums or fees to be retained by the ceding company. Interest on deposits is accounted for using the effective interest rate method. Future cash flows are estimated to calculate the effective yield, and revenue and expense are recorded as interest income or expense. Reinsurance deposit assets or liabilities also include funds deposited or held by the Group, under assumed or ceded reinsurance contracts, respectively, when funds are retained by the reinsured under the terms of the contract.

Reinsurance is recorded gross in the consolidated balance sheet. Reinsurance assets include balances expected to be recovered from reinsurance companies for ceded paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the liability associated with the reinsured policy.

Reinsurance assets are assessed for impairment on a regular basis and impairment losses, if any, are recorded in the same manner as for loans and receivables.

#### **d) Liabilities for investment contracts (without DPF)**

Investment contracts are those contracts that do not transfer significant insurance risk. The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

##### **Unit-linked investment contracts**

These represent portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks related to the investments. The liabilities are carried at fair value, which is determined by reference to the underlying financial assets. Changes in fair value are recorded in income. The related assets for unit-linked investment contracts are designated at fair value through profit or loss in order to reduce measurement inconsistencies.

The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against the policyholders' account balances are included in policy fee revenue.

##### **Investment contracts at amortized cost**

Liabilities for investment contracts with fixed and guaranteed terms are measured at amortized cost, using the effective interest rate method. Transaction costs are included in the calculation of the effective yield. As of each reporting date, the Group re-estimates the expected future cash flows and re-calculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the original effective interest rate for the financial liability. Any adjustment is immediately recognized in income.

##### **Deferred origination costs (DOC)**

The costs of acquiring new investment contracts with investment management services, such as commissions and other incremental expenses directly related to the issuance of each new contract, are capitalized and amortized in line with the revenue generated by providing investment management services. DOC is tested for recoverability annually.

#### **e) Group investments excluding derivative financial instruments**

Group investments are accounted for at either (a) fair value through OCI; (b) fair value through profit or loss; or (c) amortized cost.

The majority of Group investments are accounted for at fair value through OCI (available-for-sale financial assets) and include debt and equity securities as well as fund investments. Such assets are carried at fair value, with changes in fair value recognized in OCI, until the securities are either sold or impaired. Interest income determined using the effective interest method and dividend income from financial assets at fair value through OCI is included in net investment income. The cumulative unrealized gains or losses recorded in OCI are net of cumulative deferred income taxes, certain related life policyholder liabilities and deferred acquisition costs. When available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains or losses are reclassified from OCI to income as net capital gains/(losses) on investments and impairments.

## Consolidated financial statements (continued)

Group investments at fair value through profit or loss include debt and equity securities backing certain life insurance contracts with participation features, and financial assets evaluated on a fair value basis. The designation of these assets at fair value through profit or loss eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or recognizing the gains and losses on these assets on a different basis to the liabilities.

Group investments at amortized cost include debt securities for which the Group has the positive intention and ability to hold to maturity (held-to-maturity financial assets) as well as mortgage and other loans (loans and receivables). Such investments are carried at amortized cost using the effective interest rate method, less any charges for impairment. When an impairment is determined to have occurred, the carrying amount of held-to-maturity investments and loans and receivables is reduced through the use of an allowance account, and the movement in the impairment allowance is recognized in income as an impairment loss.

The Group recognizes regular purchases and sales of financial assets on the trade date, which is the date on which the Group commits to purchase or sell the asset.

Realized and unrealized gains and losses arising from changes in the fair value are recognized in income, within net capital gains/(losses) on investments and impairments, in the period in which they arise. Interest income determined using the effective interest method and dividend income from financial assets at fair value through profit or loss is included in net investment income.

Group investments include investment property accounted for at fair value through profit or loss. Rental income from investment property is recognized on a straight-line basis over the lease term and included in net investment income along with rental operating expenses for investment property recognized on an accrual basis.

Group investments include the following in cash and cash equivalents: cash on hand, deposits held at call with banks, cash collateral received and other highly liquid investments with maturities of three months or less from the date of acquisition that are readily convertible into cash and are subject to an insignificant risk of change in fair value. Cash and cash equivalents are stated at current redemption value.

### Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that loss events have occurred that negatively affect the estimated future cash flows of a financial asset or a group of financial assets. The evaluation of whether a financial asset is impaired requires significant judgment (see note 4).

### f) Derivative financial instruments and hedge accounting

Derivative financial instruments, except those designated under a qualifying hedge relationship, are classified as held for trading assets or liabilities and carried at fair value on the balance sheet with changes in fair value recognized in income.

#### Derivative financial instruments that qualify for hedge accounting

Derivative financial instruments are used by the Group to economically hedge risks. In limited circumstances derivative financial instruments are designated as hedging instruments for accounting purposes in:

- Fair value hedges which are hedges of the exposure to changes in the fair value of a recognized asset or liability;
- Cash flow hedges, which are hedges of the exposure to variability in cash flows attributable to a particular risk either associated with a recognized asset or liability, or a highly probable forecast transaction that could affect profit or loss; or
- Net investment hedges, which are hedges of a net investment in a foreign operation.

All hedge relationships are formally documented, including the risk management objectives and strategy for undertaking the hedge. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed in order to determine whether the hedging instruments are expected (prospective assessment) and have been (retrospective assessment) highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. If the qualifying criteria for the application of hedge accounting are no longer met, the hedge relationship is discontinued prospectively, in which case the hedging instrument and the hedged item are then subsequently reported independently in accordance with the respective accounting policy.

The accounting treatment of a qualifying hedge relationship is further described in note 7.

#### g) Attorney-in-fact contracts (AIF)

The AIF reflects the ability of the Group to generate future revenues based on the Group's relationship with the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. (FGI), a wholly owned subsidiary of the Group. In determining that these relationships have an indefinite useful life, the Group considered the organizational structure of inter-insurance exchanges, under which subscribers exchange contracts with each other and appoint an attorney-in-fact to provide non-claims management services, and the historical AIF between FGI and the Farmers Exchanges. The AIF is tested for impairment at least annually.

#### h) Goodwill

Goodwill on the acquisition of subsidiaries is capitalized and tested for impairment annually, or more frequently if impairment indicators are observed. For the purpose of impairment testing, goodwill is allocated to cash generating units (CGUs) based on the level at which management monitors operations and makes decisions relating to the continuation or disposal of assets and operations. If goodwill has been allocated to a CGU and an operation within that unit is disposed of, the carrying amount of the operation includes attributable goodwill when determining the gain or loss on disposal.

#### i) Intangible assets

All intangible assets have finite lives and are carried at cost less accumulated amortization and impairments. Such assets are generally amortized using the straight-line method over their useful lives and reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

#### Present value of future profits from acquired insurance contracts (PVFP)

An intangible asset representing the PVFP arises from the acquisition of life insurance businesses. Such an asset is amortized over the expected life of the acquired contracts, following the same rules as for DAC. The carrying value of the PVFP asset is tested periodically for impairment as part of the liability adequacy test for insurance contracts.

#### Distribution agreements

Distribution agreements may have useful lives extending up to 30 years which are estimated based on the period of time over which they are expected to provide economic benefits, but for no longer than the contractual term, after taking into account all economic and legal factors such as stability of the industry, competitive position and the period of control over the assets.

#### Software

Costs associated with research and maintenance of internally developed computer software are expensed as incurred. Costs incurred during the development phase are capitalized. Software under development is tested for impairment annually.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into use.

The useful lives of computer software licenses and capitalized internal software development costs generally range from three to five years. In limited circumstances, capitalized software development costs may be amortized over a period of up to ten years, taking into account the effects of obsolescence, technology, competition and other economic and legal factors.

#### j) Other fees and commission income

Revenues from investment management and distribution fees are based on contractual fee arrangements applied to assets under management and recognized as earned when the service has been provided. For practical purposes, the Group recognizes these fees on a straight-line basis over the estimated life of the contract.

#### k) Employee benefits

##### Share-based compensation and cash incentive plans

The Group operates long-term incentive plans that are accounted for as equity-settled share-based compensation plans. The fair value of these incentive plans is determined at the grant date and is recognized as an expense in income over the vesting period, with a corresponding increase recorded in additional paid-in capital.

Subsequently, depending on the underlying performance metrics, the Group revises its estimates of the number of shares that are expected to be issued and recognizes the impact of the revision, if any, in income with a corresponding adjustment to additional paid-in capital. However, no subsequent adjustment is made after the vesting date.

## Consolidated financial statements (continued)

### Retirement benefits

Contributions to defined contribution plans are recorded as an expense in the period in which the economic benefit from the employees' service was received.

Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Group's expense relating to these plans is accrued over the employees' service periods based on the actuarially determined cost for the period. Net interest and service costs are determined using the spot rate approach. Actuarial gains and losses are recognized, in full in the period in which they occur, in OCI. Past service costs, which result from plan amendments and curtailments, are recognized in income on the earlier of the date on which the plan amendment or curtailment occurs (which is the date from which the plan change is effective) and the date on which a constructive obligation arises. Settlement gains or losses are recognized in income when the settlement occurs.

### Other post-employment benefits

Other post-employment benefits, such as medical care and life insurance, are also provided for certain employees and are primarily funded internally. Similar to defined benefit plans, the cost of such benefits is accrued over the service period of the employees based on the actuarially determined cost for the period.

## 4. Critical accounting judgments and estimates

The application of certain accounting policies necessitates critical accounting estimates that involve discretionary judgments and the use of assumptions which are susceptible to change due to inherent uncertainties. Because of the uncertainties involved, actual results could differ significantly from the assumptions and estimates made by management. Such critical accounting estimates are of significance to insurance reserves and deferred acquisition costs, the determination of fair value for financial assets and liabilities, impairment charges, deferred taxes and employee benefits.

### a) Reserves for insurance contracts and deferred acquisition costs

#### General Insurance

The Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the Group's general insurance products and the run-off of its former third party reinsurance operations. These reserves represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the balance sheet date. The Group establishes its reserves by product line, type and extent of coverage and year of occurrence. There are two categories of loss reserve: reserves for reported losses and reserves for incurred but not reported (IBNR) losses. Additionally, reserves are held for loss adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

The Group's reserves for reported losses and loss adjustment expenses are based on estimates of future payments to settle reported claims. The Group bases such estimates on the facts available at the time the reserves are established. These reserves are generally established on an undiscounted basis to recognize the estimated costs of bringing pending claims to final settlement. The reserve calculation takes into account inflation, as well as other factors that can influence the amount of reserves required, some of which are subjective and some of which are dependent on future events. In determining the level of reserves, the Group considers historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions, economic conditions and public attitudes may affect the ultimate cost of settlement and, as a result, the Group's estimation of reserves. Between the reporting and final settlement of a claim circumstances may change, which may result in changes to established reserves. Items such as changes in law and interpretations of relevant case law, results of litigation, changes in medical costs, as well as costs of vehicle and home repair materials and labor rates can substantially impact ultimate settlement costs. Accordingly, the Group reviews and re-evaluates claims and reserves on a regular basis. Amounts ultimately paid for losses and loss adjustment expenses can vary significantly from the level of reserves originally set.

The Group establishes IBNR reserves, to recognize the estimated cost of losses for events which have already occurred but which have not yet been notified. These reserves are established to recognize the estimated costs required to bring such claims to final settlement. As these losses have not yet been reported, the Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The Group also uses reported claim trends, claim severities, exposure growth, and other factors in estimating its IBNR reserves. These reserves are revised as additional information becomes available and as claims are actually reported.

The time required to learn of and settle claims is an important consideration in establishing the Group's reserves. Short-tail claims, such as those for automobile and property damage, are normally reported soon after the incident and are generally settled within months of the incident. Long-tail claims, such as bodily injury, pollution, asbestos and product liability, can take years to develop and additional time to settle. For these claims, information concerning the event, such as the required medical treatment for bodily injury claims and the required measures to clean up pollution, may not be readily available. Accordingly, the reserving analysis of long-tail lines of business is generally more difficult and subject to greater uncertainties than for short-tail claims.

Since the Group does not establish reserves for catastrophes in advance of the occurrence of such events, these events may cause volatility in the levels of its incurred losses and reserves, subject to the effects of reinsurance recoveries. This volatility may also be contingent upon political and legal developments after the occurrence of the event.

The Group uses a number of accepted actuarial methods to estimate and evaluate the amount of reserves recorded. The nature of the claim being reserved for and the geographic location of the claim influence the techniques used by the Group's actuaries. Additionally, the Group's Corporate Center actuaries perform periodic reserve reviews of the Group's businesses throughout the world. Management considers the results of these reviews and adjusts its reserves for losses and loss adjustment expenses, where necessary.

## Consolidated financial statements (continued)

In the UK, the Government mandates the discount rates to be applied to personal injury claims. Payment to claimants is either via a lump sum amount or a periodic payment option. The lump sum amount is calculated using Ogden tables defined by the Lord Chancellor of the UK Ministry of Justice. A critical component of the Ogden tables is the discount rate, currently 2.5%, which has been in effect since 2001 when the Ogden rate was last changed. The Ministry of Justice announced its intention to review the discount rate in December 2016. The outcome of the review is currently uncertain. The Group is reserved at an assumed discount rate of 1%, each further 1% reduction in the level of the discount rate used within the tables would add approximately USD 180 million to the reserves, but the effect is not linear.

### Life insurance

The reserves for future life policyholder benefits and policyholder contract deposits and other funds contain a number of assumptions regarding mortality or longevity, lapses, surrenders, expenses, discount rates and investment returns. These assumptions can vary by country, year of policy issuance and product type and are determined with reference to past experience adjusted for new trends, current market conditions and future expectations. As such the liabilities for future life policyholder benefits and policyholder contract deposits may not represent the ultimate amounts paid out to policyholders. For example:

- The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty arises because of the potential for pandemics and wide-ranging lifestyle changes, such as changes in eating, smoking and exercise habits, which could result in earlier deaths for age groups in which the Group has significant exposure to mortality risk.
- For contracts that insure the risk of longevity, such as annuity contracts, an appropriate allowance is made for people living longer. Continuing improvements in medical care and social conditions could result in further improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.
- Under certain contracts, the Group has offered product guarantees (or options to take up product guarantees), including fixed minimum interest rate or mortality rate returns. In determining the value of these options and/or benefits, estimates have been made as to the percentage of contract holders that may exercise them. Changes in investment conditions could result in significantly more contract holders exercising their options and/or benefits than has been assumed.
- Estimates are made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.
- Assumptions are determined with reference to current and historical client data, as well as industry data. Interest rate assumptions reflect expected earnings on the assets supporting the future policyholder benefits. The information used by the Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions, available experience studies and profitability analysis.

Deferred policy acquisition costs and PVFP are deferred only to the extent that they are recoverable from future policy income which also depends on the above assumptions. Recoverability is tested at contract inception and subsequently on a regular basis with reference to current expectations of future profits or margins.

See note 8 for further information on reserves for insurance contracts and note 11 for deferred policy acquisition costs. Also refer to the insurance risk section of the Risk review.

### b) Fair value measurement

In determining the fair values of financial debt instruments and equity instruments traded on exchanges and in OTC markets, the Group makes extensive use of independent, reliable and reputable third party pricing providers and only in rare cases places reliance on prices that are derived from internal models.

In addition, the Group's policy is to ensure that independently sourced prices are developed by making maximum use of current observable market inputs derived from orderly transactions and by employing widely accepted valuation techniques and models. When third party pricing providers are unable to obtain adequate observable information for a particular financial instrument, the fair value is determined either by requesting selective non-binding broker quotes or by using internal valuation models.

Valuations can be subject to significant judgment especially when the fair value is determined based on at least one significant unobservable input parameter; such items are classified within level 3 of the fair value hierarchy. See notes 6, 7 and 23 for further information regarding the estimate of fair value.





## Consolidated financial statements (continued)

### c) Impairment of assets

#### Financial assets

A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more occurred loss events that have an impact on the estimated future cash flows of the financial asset.

The evaluation of whether an available-for-sale debt security is impaired requires analysis of the credit standing of a particular issuer and involves management judgment. When assessing impairment of available-for-sale debt securities, the Group places emphasis on issuer specific factors, such as significant financial difficulty, default or delinquency on interest or principal payments. A credit rating downgrade, worsened liquidity or decline in fair value below the weighted-average cost is not by itself considered a loss event, but rather incorporated in the impairment analysis along with other available information.

The Group determines that there is objective evidence of impairment of an available-for-sale equity security, if at the reporting date:

- Its fair value is below the weighted-average cost by an amount significantly exceeding the volatility threshold determined quarterly for the respective equity market (such as North America, Asia Pacific, UK, Switzerland and other European countries), or
- Its fair value has been below the weighted-average cost for a prolonged period of 24 consecutive months or longer.

#### Goodwill and attorney-in-fact contracts (AIF)

Goodwill is allocated to a cash generating unit (CGU) as outlined in note 3. Based on consideration of Group organizational changes, the Group has redefined the CGUs according to regions, separating Property and Casualty (P&C) and Life businesses (see note 27). The CGUs under the new structure which carry the majority of goodwill and AIF are presented in table 4.1.

For goodwill impairment testing, the recoverable amount is the higher of its fair value less costs to sell and its value-in-use.

Fair value is determined, considering quoted market prices, current share values in the market place for similar publicly traded entities, and recent sale transactions of similar businesses.

Value-in-use is determined using the present value of estimated future cash flows expected to be generated from the CGU. Cash flow projections are based on financial budgets, which are approved by management, typically covering a three-year period or, if appropriate and adequately justified, a longer period, which may be necessary to more accurately represent the nature of the cash flows used to test the goodwill. Cash flows beyond this period are extrapolated using, amongst others, estimated perpetual growth rates, which typically do not exceed the expected inflation of the geographical areas in which the cash flows supporting the goodwill are generated. If cash flows are generated in different geographical areas with different expected inflation rates, weighted averages are used. The discount rates applied reflect the respective risk free interest rate adjusted for the relevant risk factors to the extent they have not already been considered in the underlying cash flows.

The discount rates used in the recoverable amount calculations for developed markets are based on the capital asset pricing model and consider government bond rates which are further adjusted for equity risk premium, appropriate beta and leverage ratio. In emerging markets, discount rates are based on the U.S. dollar discount rate taking into account inflation differential expectations and country risks. All input factors to the discount rates are based on observable market data.

The recoverable amounts of AIF contracts and goodwill are determined on the basis of value-in-use calculations. These calculations use cash flow projections based on business plans which are approved by management and typically cover a three-year period. The basis for determining the values assigned to the key assumptions are current market trends and earnings projections.

Table 4.1 sets out for the major CGUs the applied discount rates and the perpetual nominal growth rates beyond the projection period which are dependent on country specific growth rate and inflation expectations as of the date of valuation as well as the value of goodwill and AIF as of December 31, 2016. No impairment was identified.

Table 4.1

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

	Business	in USD millions	Discount rates in % 2016 <sup>1</sup>	Perpetual nominal growth rate in % 2016 <sup>2</sup>
Farmers	Farmers	1,845	9.1	–
North America	P&C	354	7.5	2.3
Europe, Middle East and Africa	P&C	339	6.7	1.8
Asia Pacific	P&C	46	7.1	2.1
Asia Pacific	Life	163	7.5	2.3
Latin America	P&C	69	15.1	5.4

<sup>1</sup> Discount rates used in 2015 are no longer applicable due to the change in CGU definition (see note 4 of the consolidated financial statements 2015).

<sup>2</sup> Perpetual growth rates used in 2015 are no longer applicable due to the change in CGU definition (see note 4 of the consolidated financial statements 2015).

Sensitivity tests have been performed on goodwill and AIF, and typically comprise of an analysis for either a decrease in cash flows of up to 30 percent, a decrease in the perpetual growth rate of up to 1.0 percentage point or an increase in the discount rate of up to 3.5 percentage points in order to capture potential future variations in market conditions. The recoverability of the Latin America P&C CGU goodwill is very sensitive to key assumptions such as macroeconomic conditions, industry and market growth considerations, and cost factors in particular in Brazil and Mexico.

#### Distribution agreements

A qualitative analysis has been performed on distribution agreements, typically comprised of an analysis of the current financial performance, any change in the conditions in the agreement and environment that would indicate an impairment. No impairment was identified.

See notes 3, 6, 13, 14 and 15 for further information on impairment of assets.

#### d) Deferred taxes

Deferred tax assets are recognized if sufficient future taxable income, including income from the reversal of existing taxable temporary differences and available tax planning strategies, is available for realization. The utilization of deferred tax assets arising from temporary differences between the Group's carrying amounts of assets and liabilities and their tax bases depends on the generation of sufficient taxable profits in the period in which the underlying asset or liability is recovered or settled. The utilization of deferred tax assets arising from unused tax losses or tax credits depends on the generation of sufficient taxable profits before the unused tax losses or tax credits expire. As of each balance sheet date, management evaluates the recoverability of deferred tax assets and, if it is considered probable that all or a portion of the deferred tax asset will not be utilized, then a valuation allowance is recognized.

See note 17 for further information on deferred taxes.

#### e) Employee benefits

The Group provides defined benefit plans and other post-employment plans. In assessing the Group's liability for these plans, critical judgments include estimates of mortality rates, rates of employment turnover, disability, early retirement, discount rates, future salary and pension increases and increases in long-term healthcare costs. Discount rates for significant plans are based on a yield curve approach. The Group sets the discount rate by creating a hypothetical portfolio of high quality corporate bonds for which the timing and amount of cash outflows approximate the estimated payouts of the defined benefit plan. These assumptions may differ from actual results due to changing economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in variability of pension income or expense recorded in future years.

See note 20 for further information on employee benefits.

## Consolidated financial statements (continued)

### 5. Acquisitions and divestments

#### Transactions in 2016

##### Acquisitions

##### *Cover-More Group Limited*

On December 11, 2016, the Group entered into a scheme implementation agreement with Cover-More Group Limited (Cover-More) to acquire Cover-More, an ASX listed provider of travel insurance and assistance solutions via a scheme of arrangement (Scheme). Under the transaction, the Group will acquire 100% of the issued share capital of Cover-More for AUD 1.95 cash per share, with the consideration valuing Cover-More's fully diluted equity at approximately USD 536 million. The final cash consideration payable to Cover-More shareholders under the Scheme will be reduced by the amount of any interim dividend or special dividend which is announced, declared, or paid by Cover-More prior to June 30, 2017. The implementation of the Scheme is subject to customary conditions including shareholder and court approvals, and is expected to be completed in the second quarter of 2017.

##### *Macquarie Life Insurance Business*

On October 1, 2016, the Group completed the acquisition of a part of the Australian Macquarie Life insurance business from the Macquarie Group, a financial group based in Australia. The transaction involved the transfer of Macquarie's retail life insurance protection business together with its assets, liabilities and employees for a total consideration of approximately USD 307 million subject to a price adjustment mechanism. Based on the initial purchase accounting the net tangible assets acquired amounted to USD 109 million and identifiable intangible assets, net of related deferred tax, amounted to USD 49 million consisting of the present value of profits of acquired insurance contracts. Goodwill amounted to USD 148 million and mainly reflects future growth opportunities.

##### *MAA Takaful Berhad*

On June 30, 2016, the Group completed the acquisition of 100 percent of MAA Takaful Berhad, a family and general takaful operator incorporated in Malaysia, from MAA Group Berhad (MAA) and Solidarity Group Holding BSC (Closed), for a total purchase price of approximately USD 118 million of which an amount of approximately USD 30 million will be retained by the Group for three years. Based on the initial purchase accounting the net tangible assets acquired amounted to USD 27 million and identifiable intangible assets, net of related deferred tax, amounted to USD 30 million consisting of the present value of profits of acquired takaful contracts. Goodwill amounted to USD 62 million and mainly reflects the takaful business know-how and future growth opportunities.

##### *Rural Community Insurance Services*

On March 31, 2016, the Group completed the acquisition of 100 percent of Rural Community Insurance Agency, Inc. (RCIA) and its fully owned subsidiary Rural Community Insurance Company (RCIC) from Wells Fargo & Company (Wells Fargo). RCIA and RCIC are collectively known as Rural Community Insurance Services (RCIS), a provider of agricultural insurance in the U.S. through a federal crop insurance program and other private crop insurance products.

The final purchase price amounted to USD 692 million. Based on the initial purchase accounting, the fair value of net tangible assets acquired amounted to USD 238 million and identifiable intangible assets estimated at USD 101 million which mainly consists of the valuation of agent relationships. Residual goodwill amounted to USD 354 million, which will be deductible for tax purposes. It represents the value of the RCIS workforce and management, the capabilities and related know-how of RCIS to participate in the federal crop insurance program and future growth opportunities. A 25 percent quota share reinsurance contract was in place between RCIS and the Group prior to completion of the transaction. The Group has assessed the fair value and the classification of assets and liabilities. Certain balances are presented net in receivables and other assets, as these balances will be settled on a net basis.

Table 5.1 shows the main balance sheet line items as of the acquisition date, representing the preliminary fair value of RCIS net tangible assets acquired, intangible assets and goodwill, excluding the impact of the 25 percent quota share reinsurance contract.

RCIS preliminary  
Balance Sheet as of  
the acquisition date

Table 5.1

in USD millions, as of March 31, 2016

	<b>Total</b>
Cash and cash equivalents	183
Reinsurers' share of reserves for insurance contracts	235
Receivables and other assets <sup>1</sup>	2,131
Deferred tax assets	8
Property and equipment	12
Goodwill	354
Other intangible assets	101
<b>Assets acquired</b>	<b>3,022</b>
Reserves for insurance contracts	289
Accrued liabilities	4
Other liabilities	2,036
<b>Liabilities acquired</b>	<b>2,329</b>
<b>Total acquisition costs</b>	<b>692</b>

<sup>1</sup> Includes USD 980 million of balances which will be settled net.

Table 5.2 shows the result for the nine months since the acquisition date as included in the Group consolidated income statement for the year ended December 31, 2016. Furthermore, the table shows information relating to the full twelve months period to December 31, 2016. This information is based on the local statutory accounts which includes a reinsurance contract with the Group which was eliminated in the consolidated figures.

The seasonal nature of crop insurance results in the majority of gross written premiums being written in the first six months of each year, however, the premiums are then earned during the second six months of that year.

Income statement  
information

Table 5.2

in USD millions, information for the nine months from acquisition ended December 31, 2016

	<b>Total</b>
Gross written premiums	1,702
Net income after taxes	122
in USD millions, local statutory information for the twelve months ended December 31, 2016	
Gross written premiums	1,676
Net income after taxes	24

For the year ended December 31, 2016, the Group incurred transaction related costs of USD 1 million included in other administrative expenses which have been excluded from BOP. For the year ended December 31, 2015, USD 6 million transaction related costs were included in other administrative expenses and were excluded from BOP.

*Kono Insurance Limited*

On January 29, 2016, the Group completed the acquisition of 100 percent of Kono Insurance Limited, a general insurance company incorporated in Hong Kong, for approximately USD 27 million. Based on the final purchase accounting, net tangible assets acquired amounted to USD 13 million and identifiable intangible assets amounted to USD 1 million. Residual goodwill of USD 13 million reflects expected future growth opportunities.

## Consolidated financial statements (continued)

### Loss of control

On February 12, 2016, the Group entered into a forward sale agreement, for its controlling interest of a UK based distributor of the Global Life business, for a fixed sales price of USD 1 to be completed by March 1, 2020 at the latest. Therefore, the Group is deemed to have lost control of this business from an accounting perspective and has derecognized the assets and liabilities at their carrying amount. A USD 47 million gain has been recorded within net gain/(loss) on divestments of businesses.

### Divestments

During the nine months ended September 30, 2016, the Group entered into various agreements to sell its insurance operations in Morocco, Taiwan, South Africa and the Middle East, mainly comprising of general insurance operations.

On December 31, 2016, the sale of the insurance operations in the Middle East and Taiwan were still subject to customary closing conditions (see note 29). The respective assets and liabilities were reclassified as held for sale as of June 30, 2016. As of December 31, 2016, the total assets and total liabilities reclassified were USD 456 million and USD 290 million, respectively. These transactions are expected to close in the first quarter of 2017.

On December 7, 2016, the Group closed the sale of its insurance business in South Africa to Fairfax Financial Holdings Limited. The contractually agreed sales price amounted to approximately USD 128 million and is subject to a purchase price adjustment. A pre-tax loss of USD 200 million has been recorded within net gain/(loss) on divestments of businesses.

On November 3, 2016, the Group closed the sale of its insurance business in Morocco to Allianz Group. The contractually agreed sales price amounted to approximately USD 290 million and is subject to a purchase price adjustment. A pre-tax gain of USD 101 million has been recorded within net gain/(loss) on divestments of businesses.

### Transactions in 2015

In September 2015, the Group increased its shareholding in Zurich Insurance Company South Africa Limited (ZICSA) from 84.05 percent to 100 percent for a total consideration of approximately USD 34 million. Subsequently the ZICSA shares were delisted from the Johannesburg Stock Exchange.

## 6. Group investments

Group investments are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features.

Table 6.1

### Net investment result on Group investments

in USD millions, for the years  
ended December 31

	Net investment income		Net capital gains/(losses) and impairments		Net investment result		of which impairments	
	2016	2015	2016	2015	2016	2015	2016	2015
Cash and cash equivalents	12	32	1	(1)	13	31	–	–
Equity securities	489	467	542	646	1,031	1,113	(168)	(162)
Debt securities	4,034	4,095	789	1,011	4,823	5,106	(12)	(4)
Investment property	547	512	408	131	956	642	–	–
Mortgage loans	222	266	5	(56)	227	210	5	(56)
Other loans	417	447	17	2	434	449	(1)	(2)
Investments in associates and joint ventures	3	8	3	31	6	39	–	–
Derivative financial instruments	–	–	(203)	127	(203)	127	–	–
Investment result, gross, for Group investments	5,726	5,827	1,561	1,891	7,287	7,718	(176)	(224)
Investment expenses for Group investments <sup>1</sup>	(241)	(256)	–	–	(241)	(256)	–	–
Investment result, net, for Group investments	5,484	5,572	1,561	1,891	7,045	7,462	(176)	(224)

<sup>1</sup> Rental operating expenses for investment property included in investment expenses for Group investments amounted to USD 88 million and USD 81 million for the years ended December 31, 2016 and 2015, respectively.

Table 6.2

### Details of Group investments by category

as of December 31

	2016		2015	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	7,197	3.8	8,159	4.3
<b>Equity securities:</b>				
Fair value through profit or loss	3,359	1.8	3,519	1.8
Available-for-sale	12,548	6.6	15,354	8.0
Total equity securities	15,908	8.4	18,873	9.9
<b>Debt securities:</b>				
Fair value through profit or loss	5,672	3.0	6,180	3.2
Available-for-sale	131,967	69.5	128,181	67.0
Held-to-maturity	2,543	1.3	3,369	1.8
Total debt securities	140,181	73.9	137,730	72.0
Investment property	10,562	5.6	9,865	5.2
Mortgage loans	6,794	3.6	7,024	3.7
Other loans	9,146	4.8	9,569	5.0
Investments in associates and joint ventures	20	0.0	18	0.0
<b>Total Group investments</b>	<b>189,808</b>	<b>100.0</b>	<b>191,238</b>	<b>100.0</b>

Investments (including cash and cash equivalents) with a carrying value of USD 6,809 million and USD 6,492 million are held to meet local regulatory requirements as of December 31, 2016 and 2015, respectively.

## Consolidated financial statements (continued)

Table 6.3

## Details of debt securities by category

in USD millions, as of December 31

	Fair value through profit or loss		Available-for-sale		Held-to-maturity		Total	Total
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Debt securities:</b>								
Government and supra-national bonds	3,041	3,373	60,941	56,458	2,342	3,146	66,325	62,976
Corporate securities	2,144	2,246	54,355	54,021	200	223	56,699	56,491
Mortgage and asset-backed securities	487	561	16,671	17,695	–	–	17,158	18,256
Redeemable preferred stock	–	–	–	6	–	–	–	6
<b>Total debt securities</b>	<b>5,672</b>	<b>6,180</b>	<b>131,967</b>	<b>128,181</b>	<b>2,543</b>	<b>3,369</b>	<b>140,181</b>	<b>137,730</b>

Table 6.4

## Debt securities maturity schedule

in USD millions, as of December 31

	Fair value through profit or loss		Available-for-sale		Held-to-maturity		Total	Total
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Debt securities:</b>								
< 1 year	561	501	8,398	6,831	367	788	9,325	8,120
1 to 5 years	1,283	1,621	36,716	37,986	259	544	38,258	40,150
5 to 10 years	1,106	1,064	32,573	31,145	804	819	34,483	33,028
> 10 years	2,235	2,434	37,610	34,523	1,112	1,218	40,957	38,175
Subtotal	5,185	5,619	115,296	110,485	2,543	3,369	123,023	119,473
<b>Mortgage and asset-backed securities:</b>								
< 1 year	–	–	27	351	–	–	27	351
1 to 5 years	109	132	1,708	2,995	–	–	1,816	3,127
5 to 10 years	56	46	2,319	3,809	–	–	2,375	3,855
> 10 years	322	383	12,618	10,540	–	–	12,940	10,923
Subtotal	487	561	16,671	17,695	–	–	17,158	18,256
<b>Total</b>	<b>5,672</b>	<b>6,180</b>	<b>131,967</b>	<b>128,181</b>	<b>2,543</b>	<b>3,369</b>	<b>140,181</b>	<b>137,730</b>

The analysis in table 6.4 is provided by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Table 6.5

## Investment property

in USD millions

	Total	
	2016	2015
As of January 1	9,865	8,784
Additions and improvements	938	1,460
Acquisitions/(divestments)	(28)	–
Disposals	(183)	(87)
Market value revaluation	281	132
Transfer from/to assets held for own use	(5)	28
Transfer to assets held for sale	(84)	(16)
Foreign currency translation effects	(222)	(436)
<b>As of December 31</b>	<b>10,562</b>	<b>9,865</b>

Investment property consists of investments in commercial, residential and mixed-use properties primarily located in Switzerland, Germany and the UK.



### Net unrealized gains/(losses) on Group investments included in equity

Table 6.6

in USD millions, as of December 31

	2016	2015
<b>Total</b> <sup>1</sup>	<b>3,228</b>	<b>2,850</b>
Equity securities: available-for-sale	1,341	1,219
Debt securities: available-for-sale	9,637	8,724
Other	468	366
Gross unrealized gains/(losses) on Group investments	11,447	10,309
Less amount of unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(6,500)	(5,814)
Life deferred acquisition costs and present value of future profits	(696)	(654)
Deferred income taxes	(1,006)	(968)
Non-controlling interests	(17)	(23)

<sup>1</sup> Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 418 million and USD 294 million as of December 31, 2016 and 2015, respectively.

### Securities lending, repurchase and reverse repurchase agreements

Table 6.7

in USD millions, as of December 31

	2016	2015
<b>Securities lending agreements</b>		
Securities lent under securities lending agreements <sup>1</sup>	3,465	4,527
Collateral received for securities lending	3,744	4,909
of which: cash collateral	126	93
of which: non-cash collateral <sup>2</sup>	3,619	4,815
Liabilities for cash collateral received for securities lending	126	93
<b>Repurchase agreements</b>		
Securities sold under repurchase agreements <sup>3</sup>	1,284	1,596
Obligations to repurchase securities	1,280	1,596
<b>Reverse repurchase agreements</b>		
Securities purchased under reverse repurchase agreements <sup>4</sup>	973	194
Receivables under reverse repurchase agreements	970	193

<sup>1</sup> The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 3,465 million and USD 4,527 million as of December 31, 2016 and 2015, respectively. The majority of these assets were debt securities.

<sup>2</sup> The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 3,317 million and USD 4,573 million as of December 31, 2016 and 2015, respectively.

<sup>3</sup> The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 724 million and USD 997 million as of December 31, 2016 and 2015, respectively. The majority of these assets were debt securities.

<sup>4</sup> The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 845 million and USD 99 million as of December 31, 2016 and 2015, respectively.

Under the terms of securities lending or repurchase agreements, the Group retains substantially all the risks and rewards of ownership of the transferred securities, and also retains contractual rights to the cash flows therefrom. These securities are therefore not derecognized from the Group's balance sheet. Cash received as collateral is recorded as an asset, and a corresponding liability is established. Interest expense is charged to income using the effective interest rate method over the life of the agreement.

Under a reverse repurchase agreement, the securities received are not recognized on the balance sheet, as long as the risk and rewards of ownership have not been transferred to the Group. The cash delivered by the Group is derecognized and a corresponding receivable is recorded within receivables and other assets. Interest income is recognized in income using the effective interest rate method over the life of the agreement.

## Consolidated financial statements (continued)

## 7. Group derivative financial instruments and hedge accounting

The Group uses derivative financial instruments mainly for economic hedging purposes in order to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates. Derivative financial instruments with a positive fair value are reported in receivables and other assets (see note 15) and those with a negative fair value are reported in other liabilities (see note 16).

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2016 and 2015. Whilst these notional amounts express the extent of the Group's involvement in derivative transactions, they do not, however, represent the amounts at risk.

Table 7.1

in USD millions, as of December 31

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

	Maturity by notional amount			Notional amounts	2016		2015		
	< 1 year	1 to 5 years	> 5 years		Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
<b>Interest rate contracts:</b>									
<b>OTC</b>									
Swaps	231	618	2,317	3,166	116	(19)	3,700	124	(18)
Swaptions	237	1,144	804	2,185	57	(23)	2,491	81	(26)
<b>Exchange traded</b>									
Futures	231	–	–	231	–	–	701	–	–
<b>Total interest rate contracts</b>	<b>699</b>	<b>1,762</b>	<b>3,121</b>	<b>5,582</b>	<b>174</b>	<b>(43)</b>	<b>6,892</b>	<b>206</b>	<b>(44)</b>
<b>Equity contracts:</b>									
<b>OTC</b>									
Swaps	–	–	–	–	–	–	48	–	–
Options	2,452	2,200	202	4,855	118	(79)	4,632	128	(80)
<b>Exchange traded</b>									
Options	–	–	–	–	–	–	27	–	–
Futures	358	–	–	358	3	–	397	–	(5)
<b>Total equity contracts</b>	<b>2,810</b>	<b>2,200</b>	<b>202</b>	<b>5,213</b>	<b>120</b>	<b>(79)</b>	<b>5,104</b>	<b>128</b>	<b>(84)</b>
<b>Foreign exchange contracts:</b>									
<b>OTC</b>									
Swaps and forwards	16,790	–	–	16,790	87	(75)	18,982	84	(115)
<b>Total foreign exchange contracts</b>	<b>16,790</b>	<b>–</b>	<b>–</b>	<b>16,790</b>	<b>87</b>	<b>(75)</b>	<b>18,982</b>	<b>84</b>	<b>(115)</b>
<b>Other contracts:</b>									
<b>OTC</b>									
Swaps	–	–	51	51	–	(6)	56	–	(5)
<b>Total other contracts</b>	<b>–</b>	<b>–</b>	<b>51</b>	<b>51</b>	<b>–</b>	<b>(6)</b>	<b>56</b>	<b>–</b>	<b>(5)</b>
<b>Total Group derivative financial instruments</b>	<b>20,299</b>	<b>3,962</b>	<b>3,375</b>	<b>27,636</b>	<b>381</b>	<b>(202)</b>	<b>31,034</b>	<b>417</b>	<b>(249)</b>

## Interest rate contracts

Interest rate contracts are used to hedge risks from changes in interest rates and to manage asset liability mismatches. Whenever possible the Group enters into exchange traded contracts, which are standardized and regulated. Furthermore, because of the structure of the exchanges, exchange traded contracts are not considered to carry counterparty risk. Over-the-counter (OTC) contracts are otherwise entered into and comprised of swaps and swaptions.

## Equity contracts

Equity contracts are entered into, either on a portfolio or on a macro level to protect equity investments against a decline in equity market prices or to manage the risk return profile of equity exposures. The majority of positions are for economic hedging purposes. Short positions are always covered and sometimes used to mitigate hedging costs.

### Foreign exchange contracts

Swaps and forward contracts are used to hedge the Group's foreign currency exposures and to manage balance sheet mismatches.

### Other contracts

Other contracts predominantly include stable value products (SVPs) issued to insurance company separate accounts in connection with certain life insurance policies (Bank Owned Life Insurance (BOLI) and Company Owned Life Insurance (COLI)) with an account value of USD 9.0 billion and USD 9.2 billion as of December 31, 2016 and 2015, respectively and with a market value of the underlying investments of USD 8.9 billion and USD 9.2 billion as of December 31, 2016 and 2015, respectively. The Group closely monitors the risk of surrender of these life insurance policies and includes the likelihood of surrender as one of the input parameters to determine the fair value of the SVPs which was nil as of December 31, 2016 and 2015.

In certain circumstances derivative financial instruments meet the requirements of an effective hedge for accounting purposes. Where this is the case, hedge accounting may be applied. Financial information for these instruments is set out in table 7.2.

Table 7.2

in USD millions, as of December 31

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

	Maturity by notional amount			Notional principal amounts	2016		2015		
	< 1 year	1 to 5 years	> 5 years		Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
<b>Fair value hedges:</b>									
Cross currency swaps	–	8	62	69	–	(59)	70	–	(56)
Interest rate swaps	–	1,231	906	2,137	96	(2)	1,770	99	–
Forex swaps and forwards	449	–	–	449	–	(2)	393	–	(3)
<b>Total fair value hedges</b>	<b>449</b>	<b>1,238</b>	<b>967</b>	<b>2,655</b>	<b>97</b>	<b>(63)</b>	<b>2,233</b>	<b>99</b>	<b>(59)</b>
<b>Cash flow hedges:</b>									
Interest rate swaptions	–	832	1,226	2,058	448	–	2,931	586	–
Cross currency swaps	–	93	171	264	12	–	43	–	–
Interest rate swaps <sup>1</sup>	26	11	517	555	9	–	96	12	–
Forwards bonds	–	264	–	264	11	(16)	272	–	(54)
<b>Total cash flow hedges</b>	<b>26</b>	<b>1,200</b>	<b>1,914</b>	<b>3,140</b>	<b>479</b>	<b>(16)</b>	<b>3,342</b>	<b>598</b>	<b>(54)</b>
<b>Net investment hedges:</b>									
Forex swaps and forwards	4,686	–	–	4,686	11	(64)	1,352	6	(1)
<b>Total net investment hedges</b>	<b>4,686</b>	<b>–</b>	<b>–</b>	<b>4,686</b>	<b>11</b>	<b>(64)</b>	<b>1,352</b>	<b>6</b>	<b>(1)</b>

<sup>1</sup> Includes USD 325 million notional principal amounts related to derivatives centrally cleared as of December 31, 2016.

### Fair value hedges

Designated fair value hedges consist of interest rate swaps used to protect the Group against changes in interest rate exposure and foreign currency exposure of debt issued by the Group.

Information on debt issuances designated as hedged items in fair value hedge relationships is set out in note 18.

The Group also has fair value hedge relationships consisting of cross currency swaps, forex swaps and forwards to protect the Group from foreign currency fluctuation of certain fixed income securities and hybrid equity securities denominated in a currency other than the functional currency of the reporting entity.

Changes in the fair value of the derivative financial instruments designated as fair value hedges and changes in the fair value of the hedged item in relation to the risk being hedged are both recognized in income.

## Consolidated financial statements (continued)

Table 7.3 sets out gains and losses arising from fair value hedges:

Table 7.3			
Gains/(losses) arising from fair value hedges	in USD millions, for the years ended December 31		
	Gains/(losses)	2016	2015
	<i>on hedging instruments<sup>1</sup></i>	(12)	(47)
	<i>on hedged items attributable to the hedged risk</i>	11	21

<sup>1</sup> Excluding current interest income, which is recognized as an offset on the same line as the interest expense of the hedged debt.

#### Cash flow hedges

Designated cash flow hedges, such as interest rate swaptions and forwards are used to protect the Group against variability of future cash flows due to changes in interest rates associated with expected future purchases of debt securities (during the years 2021 and 2026) required for certain life insurance policies. The effective portion of the gains and losses on these swaptions are initially recognized in OCI. Subsequently the gains or losses will be recycled to income within net investment income on Group investments over the period to December 31, 2036. The gains and losses relating to the ineffective portion of these hedges are recognized immediately in income within net capital gains/(losses) on investments and impairments.

The Group also uses interest rate swaps and cross currency swaps for cash flow hedging to protect against the exposure to variability of cash flows attributable to interest rate and currency risk. The hedging instrument is measured at fair value, with the effective portion of changes in its fair value recognized in OCI. The effective portion, related to spot rate changes in the fair value of the hedging instrument, is reclassified to income within administrative and other operating expense as an offset to foreign currency revaluation on the underlying hedged debt. The ineffective portion of the change in fair value is recognized directly in income within administrative and other operating expense.

As of December 31, 2016, there were no debt issuances designated as hedged items in a cash flow hedge relationship (see note 18).

The net change of gains/(losses) deferred in OCI on derivative financial instruments designated as cash flow hedges were USD 158 million and USD (22) million before tax for the years ended December 31, 2016 and 2015, respectively.

The Group recognized gains of USD 3 million and USD 12 million in the consolidated income statement within net investment income on Group investments for the years ended December 31, 2016 and 2015, respectively. The Group also recognized net gains/(losses) of USD 4 million and USD (40) million within administrative and other operating expense for the years ended December 31, 2016 and 2015, respectively, as an offset to the foreign currency revaluation on the underlying hedged items.

A nil amount for the years ended December 31, 2016 and 2015, respectively, was recognized in net capital gains/(losses) and impairments due to hedge ineffectiveness.

### Net investment hedges

The Group applies net investment hedge accounting in order to protect itself against the effects of changes in exchange rates in its net investments in foreign operations.

Measurement of hedge effectiveness is based on changes in forward rates. Gains and losses on the designated hedging derivative and non-derivative financial instruments relating to the effective portion of the hedge are recognized in OCI together with the translation gains and losses on the hedged net investment. The accumulated gains and losses in OCI are reclassified to income on disposal or partial disposal of the foreign operation.

The net change of gains/(losses) deferred in OCI were USD (58) million and USD (47) million before tax for the years ended December 31, 2016 and 2015, respectively as a result of a hedge relationship through foreign exchange forwards and swaps.

The Group has also designated certain debt issuances as hedging instruments on a non-derivative net investment hedge relationship. The notional amount of these financial instruments was USD 4.2 billion and 3.2 billion for the years ended December 31, 2016 and 2015, respectively. The net gains/(losses) deferred in OCI were USD (16) million and USD 4 million before tax for the years ended December 31, 2016 and 2015, respectively.

Information on debt issuances designated as hedging instruments in a net investment hedge relationship is set out in note 18.

No ineffectiveness of net investment hedges was recognized in net capital gains/(losses) and impairments for the years ended December 31, 2016 and 2015.

### Derivative financial instruments: offsetting of financial assets and liabilities

Table 7.4 shows the net asset and liability position of Group derivative financial instruments subject to enforceable master netting arrangements and collateral agreements. Master netting arrangements are used by the Group to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. These arrangements commonly create a right of offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or other circumstances which would not be expected to arise in the normal course of business.

Table 7.4

in USD millions, as of December 31

Group derivative  
financial instruments  
subject to  
enforceable  
master netting  
arrangements and  
collateral  
agreements

	Derivative assets		Derivative liabilities	
	2016	2015	2016	2015
Fair value	968	1,120	(345)	(362)
Related amounts not offset	(142)	(109)	141	110
Cash collateral (received)/pledged	(720)	(919)	79	55
Non-cash collateral (received)/pledged	(22)	(25)	22	62
<b>Net amount</b>	<b>84</b>	<b>67</b>	<b>(103)</b>	<b>(134)</b>

## Consolidated financial statements (continued)

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

Table 8.1

## Reserves for insurance contracts

in USD millions, as of December 31

	Gross		Ceded		Net	
	2016	2015	2016	2015	2016	2015
Reserves for losses and loss adjustment expenses <sup>1</sup>	61,155	62,971	(9,777)	(9,231)	51,378	53,739
Reserves for unearned premiums	16,416	16,230	(2,910)	(2,681)	13,507	13,549
Future life policyholder benefits <sup>2</sup>	72,440	71,952	(3,766)	(4,016)	68,674	67,935
Policyholder contract deposits and other funds	22,785	22,076	(1,958)	(1,956)	20,827	20,121
Reserves for unit-linked contracts	65,530	64,393	–	–	65,530	64,393
<b>Total reserves for insurance contracts<sup>3</sup></b>	<b>238,326</b>	<b>237,622</b>	<b>(18,411)</b>	<b>(17,885)</b>	<b>219,915</b>	<b>219,737</b>

<sup>1</sup> Includes on a net basis USD 2.5 billion of discounted reserves for losses and loss adjustment expenses as of December 31, 2016 and 2015, respectively.

<sup>2</sup> The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio with effect from April 1, 2015, supplemented with three further transfers of risk relating to additional annuity policies with effect from October 1, 2015, April 1, 2016 and October 1, 2016, respectively. The gain resulting from these transactions is being recognized on a linear basis over the lifetime of the underlying agreement, which is assumed to end on June 30, 2017.

<sup>3</sup> Total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 64 million and USD 111 million as of December 31, 2016 and 2015, respectively.

Table 8.2

## Development of reserves for losses and loss adjustment expenses

in USD millions

	Gross		Ceded		Net	
	2016	2015	2016	2015	2016	2015
As of January 1	62,971	64,472	(9,231)	(9,770)	53,739	54,703
Losses and loss adjustment expenses incurred:						
Current year	23,044	24,969	(4,081)	(3,256)	18,963	21,713
Prior years	(642)	(198)	214	347	(429)	149
Total incurred	22,402	24,771	(3,868)	(2,909)	18,534	21,862
Losses and loss adjustment expenses paid:						
Current year	(8,256)	(8,450)	873	654	(7,383)	(7,796)
Prior years	(14,145)	(15,028)	2,456	2,452	(11,690)	(12,576)
Total paid	(22,401)	(23,478)	3,329	3,107	(19,072)	(20,372)
Acquisitions/(divestments) and transfers <sup>1</sup>	(224)	(61)	(205)	(44)	(430)	(106)
Foreign currency translation effects	(1,592)	(2,733)	198	385	(1,393)	(2,349)
<b>As of December 31</b>	<b>61,155</b>	<b>62,971</b>	<b>(9,777)</b>	<b>(9,231)</b>	<b>51,378</b>	<b>53,739</b>

<sup>1</sup> The 2016 net movement of USD (430) million consists of USD 90 million relating to the acquisitions of RCIS, Kono Insurance Limited and Zurich Takaful Company Limited and USD (244) million relating to the sale of the Group's insurance operations in Morocco and South Africa. Additionally, USD (147) million are reclassified to assets and liabilities held for sale (see note 5) and USD (128) million relate to a reinsurance agreement which transferred the benefits and risks of some of the Group's non-core business portfolio to a third party. The 2015 net movement includes USD (44) million relating to a reinsurance agreement which transferred the benefits and risks of some of the Group's general insurance portfolio to a third party and USD (61) million relating to the sale of the Group's Dutch general insurance portfolio to a third party.

The Group establishes loss reserves, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates or judgments are reflected in the results of operations in the period in which estimates and judgments are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The reserves for losses and loss adjustment expenses are determined on the basis of information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

For the year ended December 31, 2016, the decrease of USD 2,361 million in net reserves for losses and loss adjustment expenses is driven by a net decrease of USD 430 million relating to acquisitions/(divestments) and transfers (see table 8.2) as well as a decrease of USD 1,393 million due to foreign currency translation effects. In addition, net favorable reserve development emerged from reserves established in prior years amounting to USD 429 million mainly relating to the following:

- In Europe, Middle East & Africa, favorable prior year development of USD 89 million for Swiss motor third party liability, as well as USD 85 million for UK property;
- In North America Commercial, favorable prior year development of USD 111 million for workers' injury;
- Favorable prior year development of USD 130 million for Global Corporate driven by property.

For the year ended December 31, 2015, the decrease of USD 964 million in net reserves for losses and loss adjustment expenses was mostly driven by the effect of foreign currency translation of USD 2,349 million. Excluding this effect, reserves for losses and loss adjustment expenses increased by USD 1,385 million. Underlying unfavorable reserve development arising from reserves established in prior years amounted to USD 149 million during the year ended December 31, 2015, and mainly related to the following:

- In North America, adverse prior year development of USD 264 million was driven by auto liability and certain lines of business;
- Favorable prior year development of USD 121 million driven by Swiss motor third party liability;
- Adverse prior year development of USD 110 million in Non-Core Businesses from latent diseases and other discontinued portfolios.

## Consolidated financial statements (continued)

Development of  
insurance losses,  
net

Table 8.3										
in USD millions, as of December 31										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gross reserves for losses and loss adjustment expenses	67,890	65,218	68,126	68,274	67,762	69,986	68,312	64,472	62,971	61,155
Reinsurance recoverable	(13,179)	(12,232)	(12,182)	(12,093)	(12,421)	(12,601)	(10,993)	(9,770)	(9,231)	(9,777)
Initial net reserves for losses and loss adjustment expenses	54,712	52,986	55,944	56,180	55,341	57,385	57,319	54,703	53,739	51,378
Cumulative paid as of December 31:										
One year later	(12,551)	(13,047)	(12,716)	(13,092)	(13,525)	(13,799)	(13,301)	(12,576)	(11,690)	
Two years later	(19,660)	(19,909)	(19,821)	(21,073)	(21,245)	(21,465)	(21,002)	(19,460)		
Three years later	(24,428)	(24,693)	(25,623)	(27,137)	(26,871)	(27,064)	(26,021)			
Four years later	(27,735)	(28,808)	(30,127)	(31,375)	(31,129)	(30,691)				
Five years later	(30,690)	(32,170)	(33,325)	(34,478)	(33,836)					
Six years later	(33,310)	(34,596)	(35,678)	(36,556)						
Seven years later	(35,188)	(36,480)	(37,324)							
Eight years later	(36,717)	(37,798)								
Nine years later	(37,793)									
Cumulative incurred as of December 31:										
One year later	(1,271)	(1,059)	(1,378)	(1,302)	(571)	(757)	(59)	149	(429)	
Two years later	(2,152)	(2,350)	(2,565)	(1,819)	(891)	(652)	(139)	3		
Three years later	(2,844)	(3,048)	(2,700)	(2,028)	(677)	(777)	(46)			
Four years later	(3,533)	(3,176)	(2,770)	(1,891)	(804)	(686)				
Five years later	(3,580)	(3,235)	(2,587)	(2,020)	(803)					
Six years later	(3,478)	(2,958)	(2,677)	(2,031)						
Seven years later	(3,215)	(2,973)	(2,610)							
Eight years later	(3,271)	(2,866)								
Nine years later	(3,183)									
Net reserves re-estimated as of December 31:										
One year later	53,441	51,927	54,565	54,878	54,770	56,628	57,259	54,852	53,310	
Two years later	52,559	50,637	53,379	54,361	54,450	56,734	57,180	54,706		
Three years later	51,868	49,939	53,243	54,152	54,664	56,609	57,273			
Four years later	51,179	49,810	53,173	54,289	54,537	56,700				
Five years later	51,131	49,752	53,357	54,160	54,538					
Six years later	51,234	50,028	53,267	54,149						
Seven years later	51,497	50,014	53,334							
Eight years later	51,441	50,121								
Nine years later	51,529									
Cumulative (deficiency)/redundancy of net reserves	3,183	2,866	2,610	2,031	803	686	46	(3)	429	
Cumulative (deficiency)/redundancy as a percentage of initial net reserves	5.8%	5.4%	4.7%	3.6%	1.5%	1.2%	0.1%	(0.0%)	0.8%	
Gross reserves re-estimated as of December 31										
Gross reserves re-estimated as of December 31	63,376	60,986	63,702	64,834	65,689	67,662	67,207	64,058	62,328	
Cumulative (deficiency)/redundancy of gross reserves	4,515	4,232	4,424	3,440	2,073	2,324	1,105	414	642	
Cumulative (deficiency)/redundancy as a percentage of initial gross reserves	6.7%	6.5%	6.5%	5.0%	3.1%	3.3%	1.6%	0.6%	1.0%	



Table 8.3 presents changes in the historical reserves for losses and loss adjustment expenses, net of reinsurance, that the Group established in 2007 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. Similarly, the cumulative incurred losses section details the sum of the cumulative paid amounts shown in the triangle above and the changes in loss reserves since the end of each financial year. The net reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2016. It is the difference between the initial net reserve estimate and the last entry of the diagonal in the net reserves re-estimated portion of the table. Conditions and trends that have affected the development of reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.3.

Table 8.4

**Development of reserves for losses and loss adjustment expenses for asbestos**

in USD millions

	2016		2015	
	Gross	Net	Gross	Net
<b>Asbestos</b>				
As of January 1	2,712	2,395	2,882	2,540
Losses and loss adjustment expenses incurred	(13)	(17)	16	5
Losses and loss adjustment expenses paid	(145)	(125)	(162)	(143)
Foreign currency translation effects	(345)	(299)	(23)	(7)
<b>As of December 31</b>	<b>2,209</b>	<b>1,954</b>	<b>2,712</b>	<b>2,395</b>

The Group has considered asbestos, including latent injury, claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Group continues to be advised of indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, together with increased medical diagnostic capabilities and awareness have often caused actual loss development to exhibit more variation than in other lines of business. Such claims require specialized reserving techniques and the uncertainty of the ultimate cost of these types of claims has tended to be greater than the uncertainty relating to standard lines of business.

For the year ended December 31, 2016, reserves for asbestos claims decreased by USD 503 million gross and USD 441 million net. The decrease in the gross reserve primarily arose from payments of USD 145 million mainly in the UK and North America, foreign currency translation effects of USD 345 million and favorable prior year development of USD 13 million mainly in the UK.

For the year ended December 31, 2015, reserves for asbestos claims decreased by USD 170 million gross and USD 145 million net. The decrease in the gross reserve primarily arose from payments of USD 162 million mainly in the UK and North America, foreign currency translation effects of USD 23 million and an adverse prior year development of USD 16 million in the UK and North America. Reserve adequacy improved during 2015 following a commutation settlement in Centre Group Holdings Limited related to asbestos claims.

## Consolidated financial statements (continued)

Table 8.5		Gross		Ceded		Net	
Development of future life policyholder benefits	in USD millions	2016	2015	2016	2015	2016	2015
		As of January 1	71,952	77,652	(4,016)	(2,441)	67,935
Premiums <sup>1</sup>	13,532	12,270	(820)	(2,449)	12,711	9,821	
Claims	(9,747)	(9,797)	625	629	(9,122)	(9,169)	
Fee income and other expenses	(3,694)	(3,652)	151	180	(3,543)	(3,472)	
Interest and bonuses credited to policyholders	2,177	2,239	(117)	(115)	2,060	2,125	
Changes in assumptions	168	153	(6)	4	162	158	
Acquisitions/(divestments) and transfers <sup>2</sup>	(55)	(668)	23	–	(32)	(668)	
Increase/(decrease) recorded in other comprehensive income	(12)	(335)	–	–	(12)	(335)	
Foreign currency translation effects	(1,879)	(5,910)	394	174	(1,486)	(5,736)	
<b>As of December 31</b>	<b>72,440</b>	<b>71,952</b>	<b>(3,766)</b>	<b>(4,016)</b>	<b>68,674</b>	<b>67,935</b>	

<sup>1</sup> The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio with effect from April 1, 2015, supplemented with three further transfers of risk relating to additional annuity policies with effect from October 1, 2015, April 1, 2016 and October 1, 2016, respectively. The gain resulting from these transactions is being recognized on a linear basis over the lifetime of the underlying agreement, which is assumed to end on June 30, 2017.

<sup>2</sup> The 2016 net movement of USD (32) million relates to acquisitions and divestments (see note 5). The 2015 net movement relates to USD (425) million transferred to Banco Santander S.A., which was previously managed on a fiduciary and ring-fenced basis, and USD (381) million reclassified to policyholder contract deposits and other funds, partially offset by USD 90 million reclassified from other liabilities and USD 48 million reclassified from reserves for unit-linked insurance contracts and liabilities for investment contracts.

Long-duration contract liabilities included in future life policyholder benefits result primarily from traditional participating and non-participating life insurance products. Short-duration contract liabilities are primarily accident and health insurance products.

Future life policyholder benefits are generally calculated by a net premium valuation. In terms of USD, the weighted average discount rate used in the calculation of future life policyholder benefits is 2.6 percent and 2.7 percent as of December 31, 2016 and 2015, respectively.

The amount of policyholder dividends to be paid is determined annually by each life insurance subsidiary. Policyholder dividends include life policyholder share of net income and unrealized appreciation of investments that are required to be allocated by the insurance contract or by local insurance regulations. Experience adjustments relating to future policyholder benefits and policyholder contract deposits vary according to the type of contract and the country. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

The net impact of changes in assumptions on future life policyholder benefits by type of assumption is shown in table 8.6.

Table 8.6		2016	2015
Effect of changes in assumptions for future life policyholder benefits	in USD millions, for the years ended December 31		
	Interest rates	152	276
	Investment return	8	(96)
	Changes in modeling	12	(2)
	Expense	6	10
	Morbidity	(10)	(1)
	Longevity	(10)	(28)
	Lapses	11	1
	Complaints rates	–	(1)
	Other	(6)	(1)
<b>Net impact of changes in assumptions</b>	<b>162</b>	<b>158</b>	

Table 8.7		12/31/16	12/31/15
Policyholder contract deposits and other funds gross	in USD millions, as of		
	Universal life and other contracts	12,126	12,120
	Policyholder dividends	10,658	9,957
	<b>Total</b>	<b>22,785</b>	<b>22,076</b>

Table 8.8							
Development of policyholder contract deposits and other funds	in USD millions	Gross		Ceded		Net	
		2016	2015	2016	2015	2016	
		2015				2015	
As of January 1		22,076	23,415	(1,956)	(1,994)	20,121	21,421
Premiums		1,105	1,118	(58)	(53)	1,046	1,065
Claims		(1,265)	(1,419)	137	172	(1,128)	(1,247)
Fee income and other expenses		(460)	(474)	(6)	(5)	(466)	(479)
Interest and bonuses credited to policyholders		1,002	1,561	(75)	(76)	927	1,485
Acquisitions/(divestments) and transfers <sup>1</sup>		6	381	–	–	6	381
Increase/(decrease) recorded in other comprehensive income		894	(987)	–	–	894	(987)
Foreign currency translation effects		(574)	(1,520)	–	–	(574)	(1,520)
<b>As of December 31</b>		<b>22,785</b>	<b>22,076</b>	<b>(1,958)</b>	<b>(1,956)</b>	<b>20,827</b>	<b>20,121</b>

<sup>1</sup> The 2016 net movement of USD 6 million relates to the acquisition and divestment in Malaysia and Morocco, respectively, (see note 5). The 2015 net movement relates to USD 381 million reclassified from future life policyholder benefits.

Tables 8.9a and 8.9b provide an analysis of the expected maturity profile of reserves for insurance contracts, net of reinsurance, based on expected cash flows without considering the surrender values as of December 31, 2016 and 2015. Reserves for unit-linked insurance contracts amounting to USD 65.5 billion and USD 64.4 billion as of December 31, 2016 and 2015, respectively, are not included, as policyholders can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are largely borne by the policyholders of unit-linked contracts.

Table 8.9a					
Expected maturity profile for reserves for insurance contracts, net of reinsurance – current period	in USD millions, as of December 31, 2016	Reserves for losses and loss adjustment expenses	Future life policyholder benefits	Policyholder contract deposits and other funds	Total
		< 1 year	13,889	9,015	1,491
1 to 5 years	21,222	17,184	1,641	40,047	
5 to 10 years	8,077	12,393	1,946	22,416	
10 to 20 years	5,769	14,228	2,414	22,410	
> 20 years	2,422	15,854	13,335	31,610	
<b>Total</b>		<b>51,378</b>	<b>68,674</b>	<b>20,827</b>	<b>140,878</b>

Table 8.9b					
Expected maturity profile for reserves for insurance contracts, net of reinsurance – prior period	in USD millions, as of December 31, 2015	Reserves for losses and loss adjustment expenses	Future life policyholder benefits	Policyholder contract deposits and other funds	Total
		< 1 year	14,842	8,364	1,702
1 to 5 years	22,392	16,529	1,706	40,627	
5 to 10 years	8,289	12,581	1,884	22,754	
10 to 20 years	5,793	14,442	2,406	22,641	
> 20 years	2,424	16,018	12,422	30,865	
<b>Total</b>		<b>53,739</b>	<b>67,935</b>	<b>20,121</b>	<b>141,795</b>

## Consolidated financial statements (continued)

## 9. Liabilities for investment contracts

Table 9.1

## Liabilities for investment contracts

in USD millions, as of December 31		2016	2015
Unit-linked investment contracts		60,233	62,245
Investment contracts (amortized cost)		506	754
Investment contracts with DPF		8,374	7,629
<b>Total</b>		<b>69,113</b>	<b>70,627</b>

Unit-linked investment contracts issued by the Group are recorded at a value reflecting the returns on investment funds which include selected equities, debt securities and derivative financial instruments. Policyholders bear the full risk of the returns on these investments.

The value of financial liabilities at amortized cost is based on a discounted cash flow valuation technique. The initial valuation of the discount rate is determined by the current market assessment of the time value of money and risk specific to the liability.

Table 9.2

## Development of liabilities for investment contracts

in USD millions		2016	2015
As of January 1		70,627	70,813
Premiums		9,818	9,791
Claims		(7,719)	(7,798)
Fee income and other expenses		(430)	(465)
Interest and bonuses credited to policyholders		8,149	3,277
Acquisitions/(divestments) and transfers <sup>1</sup>		(2,545)	(29)
Increase/(decrease) recorded in other comprehensive income		(12)	152
Foreign currency translation effects		(8,775)	(5,115)
<b>As of December 31</b>		<b>69,113</b>	<b>70,627</b>

<sup>1</sup> The 2016 movement relates to the sale of unit-linked Private Banking Solutions business in Luxembourg. The 2015 movement relates to USD (29) million reclassified to future life policyholder benefits.

Tables 9.3a and 9.3b provide an analysis of investment contract liabilities according to maturity, based on expected cash flows as of December 31, 2016 and 2015. The undiscounted contractual cash flows for investment contract liabilities are USD 69.1 billion and USD 70.8 billion as of December 31, 2016 and 2015, respectively. Liabilities for unit-linked investment contracts amounted to USD 60.2 billion and USD 62.2 billion as of December 31, 2016 and 2015, respectively. Policyholders of unit-linked investment contracts can generally surrender their contracts at any time, leading the underlying assets to be liquidated, risks arising from liquidation of unit-linked assets are borne by the policyholders. Certain non-unit-linked contracts also allow for surrender of the contract by the policyholder at any time. Liabilities for such contracts amounted to USD 633 million and USD 767 million as of December 31, 2016 and 2015, respectively. The Group actively manages the Global Life in-force business to improve persistency and retention.

Table 9.3a

## Expected maturity profile for liabilities for investment contracts – current period

in USD millions, as of December 31, 2016		Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year		2,629	187	245	3,062
1 to 5 years		6,692	151	1,330	8,173
5 to 10 years		7,651	88	1,501	9,240
10 to 20 years		8,560	55	1,067	9,683
> 20 years		34,700	25	4,230	38,955
<b>Total</b>		<b>60,233</b>	<b>506</b>	<b>8,374</b>	<b>69,113</b>

Table 9.3b

in USD millions, as of December 31, 2015

**Expected maturity  
profile for  
liabilities for  
investment  
contracts –  
prior period**

	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	2,785	178	333	3,296
1 to 5 years	7,177	387	1,242	8,806
5 to 10 years	8,201	98	1,353	9,653
10 to 20 years	9,127	64	1,083	10,274
> 20 years	34,955	26	3,617	38,598
<b>Total</b>	<b>62,245</b>	<b>754</b>	<b>7,629</b>	<b>70,627</b>

## Consolidated financial statements (continued)

## 10. Gross and ceded insurance revenues and expenses

Table 10.1

Insurance benefits  
and losses

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2016	2015	2016	2015	2016	2015
Losses and loss adjustment expenses	22,402	24,771	(3,868)	(2,909)	18,534	21,862
Life insurance death and other benefits	12,771	11,305	(814)	(2,422)	11,957	8,884
<b>Total insurance benefits and losses</b>	<b>35,173</b>	<b>36,076</b>	<b>(4,682)</b>	<b>(5,330)</b>	<b>30,491</b>	<b>30,746</b>

Table 10.2

Policyholder  
dividends and  
participation  
in profits

in USD millions, for the years ended December 31

	2016	2015
Change in policyholder contract deposits and other funds	856	1,439
Change in reserves for unit-linked products	5,776	3,241
Change in liabilities for investment contracts – unit-linked	7,930	3,092
Change in liabilities for investment contracts – other	230	191
Change in unit-linked liabilities related to UK capital gains tax	(273)	(101)
<b>Total policyholder dividends and participation in profits</b>	<b>14,519</b>	<b>7,863</b>

Table 10.3

Underwriting and  
policy acquisition  
costs

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2016	2015	2016	2015	2016	2015
Amortization of deferred acquisition costs	6,145	6,145	(620)	(529)	5,524	5,617
Amortization of deferred origination costs	75	98	–	–	75	98
Commissions and other underwriting and acquisition expenses <sup>1</sup>	3,325	3,553	(387)	(207)	2,938	3,346
<b>Total underwriting and policy acquisition costs</b>	<b>9,545</b>	<b>9,796</b>	<b>(1,007)</b>	<b>(735)</b>	<b>8,538</b>	<b>9,061</b>

<sup>1</sup> Net of additions related to deferred acquisition and origination costs.

Table 10.4

Change in reserves  
for unearned  
premiums

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2016	2015	2016	2015	2016	2015
<b>Change in reserves for unearned premiums</b>	<b>319</b>	<b>648</b>	<b>(168)</b>	<b>(352)</b>	<b>150</b>	<b>296</b>

## 11. Deferred policy acquisition costs and deferred origination costs

Table 11.1

### Development of deferred policy acquisition costs

in USD millions	General Insurance		Global Life		Other segments <sup>1</sup>		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	As of January 1	4,226	3,984	13,298	13,584	153	182	17,677
Acquisition costs deferred	4,466	4,286	1,689	1,862	425	450	6,580	6,598
Amortization	(3,831)	(3,817)	(1,278)	(1,314)	(413)	(483)	(5,522)	(5,614)
Impairments	(2)	(3)	–	–	–	–	(2)	(3)
Amortization (charged)/ credited to other comprehensive income	–	–	(40)	240	–	–	(40)	240
Acquisitions/(divestments) and transfers <sup>2</sup>	(24)	–	(16)	–	19	–	(21)	–
Foreign currency translation effects	(5)	(224)	(870)	(1,074)	(1)	3	(876)	(1,295)
<b>As of December 31</b>	<b>4,830</b>	<b>4,226</b>	<b>12,783</b>	<b>13,298</b>	<b>183</b>	<b>153</b>	<b>17,796</b>	<b>17,677</b>

<sup>1</sup> Net of eliminations from inter-segment transactions.

<sup>2</sup> The 2016 General Insurance movement of USD 24 million includes USD 12 million relating to the sale of businesses in South Africa and Morocco, USD 9 million reclassified to assets held for sale (see note 5) and a portfolio transfer of USD 3 million to Non-Core Businesses. The 2016 Global Life movement of USD 16 million relates to the portfolio transfer of Zurich Life Insurance Singapore Pte Ltd to Non-Core Businesses.

As of December 31, 2016 and 2015, deferred policy acquisition costs relating to non-controlling interests were USD 407 million and USD 326 million, respectively.

Table 11.2

### Development of deferred origination costs

in USD millions	2016	2015
As of January 1	506	595
Origination costs deferred	44	51
Amortization	(75)	(98)
Foreign currency translation effects	(50)	(41)
<b>As of December 31</b>	<b>426</b>	<b>506</b>

## Consolidated financial statements (continued)

## 12. Expenses

Table 12 shows expenses by functional area and by type of expense.

Table 12			
Expenses	in USD millions, for the years ended December 31	2016	2015
	Administrative and other operating expenses	7,478	8,659
	Other underwriting and policy acquisition costs <sup>1</sup>	2,291	2,406
	Claims handling expenses <sup>2</sup>	1,343	1,425
	Other investment expenses <sup>3</sup>	134	145
	<b>Total</b>	<b>11,246</b>	<b>12,637</b>
	of which:		
	Personnel and other related costs	5,445	5,715
	Amortization and impairments of intangible assets <sup>4</sup>	416	1,004
	Depreciation and impairments of property and equipment	174	198
	Building and infrastructure costs	553	582
	Brand and marketing expenses	401	439
	Life recurring commission	398	400
	Asset and other non-income taxes	82	81
	IT expenses	1,439	1,391
	Restructuring costs	309	457
	Outsourcing and professional services	876	1,078
	Foreign currency translation	(118)	(245)
	Other	1,270	1,537
	<b>Total</b>	<b>11,246</b>	<b>12,637</b>

<sup>1</sup> Included within commissions and other underwriting and acquisition expenses (see table 10.3).

<sup>2</sup> Included within losses and loss adjustment expenses (see table 10.1).

<sup>3</sup> Excludes expenses arising from investment property within investment expenses for Group investments (see table 6.1).

<sup>4</sup> Amortization and impairments of distribution agreements are included within underwriting and policy acquisition costs starting from 2016. They amounted to USD 206 million for the year ended December 31, 2015 (see note 14).



### 13. Property and equipment

Buildings held for own use and equipment are carried at cost less accumulated depreciation and any accumulated impairment loss. These assets are depreciated usually on a straight-line basis to income over the following estimated useful lives:

- Buildings 25 to 50 years;
- Furniture and fixtures 5 to 10 years; and
- Computer equipment 3 to 6 years.

Land held for own use is carried at cost less any accumulated impairment loss.

Table 13.1

Property and  
equipment –  
current period

in USD millions

	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
<b>Gross carrying value as of January 1, 2016</b>	<b>217</b>	<b>737</b>	<b>366</b>	<b>365</b>	<b>759</b>	<b>2,444</b>
Less: accumulated depreciation/impairments	(6)	(363)	(228)	(300)	(407)	(1,304)
<b>Net carrying value as of January 1, 2016</b>	<b>211</b>	<b>374</b>	<b>138</b>	<b>65</b>	<b>352</b>	<b>1,140</b>
Additions and improvements	–	21	62	37	87	207
Acquisitions	–	8	–	4	3	15
Disposals <sup>1</sup>	(19)	(42)	(6)	(3)	(24)	(94)
Transfers	(27)	(89)	–	–	–	(116)
Depreciation and impairments	–	(17)	(38)	(30)	(89)	(174)
Foreign currency translation effects	(3)	(4)	(3)	(5)	(10)	(25)
<b>Net carrying value as of December 31, 2016</b>	<b>162</b>	<b>251</b>	<b>154</b>	<b>67</b>	<b>319</b>	<b>953</b>
Plus: accumulated depreciation/impairments	6	176	225	246	408	1,061
<b>Gross carrying value as of December 31, 2016</b>	<b>168</b>	<b>427</b>	<b>378</b>	<b>313</b>	<b>727</b>	<b>2,013</b>

<sup>1</sup> Includes USD 24 million relating to the sale of businesses in South Africa and Morocco and USD 24 million reclassification to assets held for sale (see note 5).

Table 13.2

Property and  
equipment –  
prior period

in USD millions

	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
<b>Gross carrying value January 1, 2015</b>	<b>239</b>	<b>823</b>	<b>385</b>	<b>426</b>	<b>769</b>	<b>2,643</b>
Less: accumulated depreciation/impairments	(6)	(352)	(238)	(357)	(416)	(1,369)
<b>Net carrying value January 1, 2015</b>	<b>233</b>	<b>471</b>	<b>148</b>	<b>69</b>	<b>353</b>	<b>1,273</b>
Additions and improvements	–	10	31	30	113	184
Disposals	(1)	(8)	(1)	–	(20)	(31)
Transfers	(11)	(18)	(2)	(1)	2	(29)
Depreciation and impairments <sup>1</sup>	–	(57)	(29)	(28)	(83)	(198)
Foreign currency translation effects	(11)	(23)	(8)	(5)	(13)	(60)
<b>Net carrying value as of December 31, 2015</b>	<b>211</b>	<b>374</b>	<b>138</b>	<b>65</b>	<b>352</b>	<b>1,140</b>
Plus: accumulated depreciation/impairments	6	363	228	300	407	1,304
<b>Gross carrying value as of December 31, 2015</b>	<b>217</b>	<b>737</b>	<b>366</b>	<b>365</b>	<b>759</b>	<b>2,444</b>

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

## Consolidated financial statements (continued)

## 14. Attorney-in-fact contracts, goodwill and other intangible assets

Table 14.1

Intangible assets –  
current period

in USD millions	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
<b>Gross carrying value as of January 1, 2016</b>	<b>1,025</b>	<b>1,667</b>	<b>2,501</b>	<b>3,715</b>	<b>4,672</b>	<b>173</b>	<b>13,753</b>
Less: accumulated amortization/ impairments	–	(378)	(2,035)	(963)	(3,167)	(130)	(6,673)
<b>Net carrying value as of January 1, 2016</b>	<b>1,025</b>	<b>1,289</b>	<b>466</b>	<b>2,752</b>	<b>1,505</b>	<b>43</b>	<b>7,080</b>
Additions and acquisitions	–	576	106	112	395	101	1,291
Divestments and transfers	–	(33)	–	(5)	(15)	(3)	(56)
Amortization <sup>1</sup>	–	–	(23)	(188)	(343)	(8)	(563)
Amortization charged to other comprehensive income	–	–	(21)	–	–	–	(21)
Impairments	–	–	–	(2)	(41)	(1)	(44)
Foreign currency translation effects	–	(38)	(24)	45	(51)	(4)	(72)
<b>Net carrying value as of December 31, 2016</b>	<b>1,025</b>	<b>1,795</b>	<b>504</b>	<b>2,713</b>	<b>1,450</b>	<b>128</b>	<b>7,615</b>
Plus: accumulated amortization/ impairments	–	315	1,918	1,147	3,201	124	6,706
<b>Gross carrying value as of December 31, 2016</b>	<b>1,025</b>	<b>2,110</b>	<b>2,422</b>	<b>3,860</b>	<b>4,652</b>	<b>251</b>	<b>14,321</b>

<sup>1</sup> Amortization of distribution agreements is included within underwriting and policy acquisition costs.

As of December 31, 2016, intangible assets relating to non-controlling interests were USD 78 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,155 million for distribution agreements and USD 14 million for software.

As a result of the acquisition of RCIS intangible assets increased by USD 454 million of which USD 354 million related to goodwill and USD 101 million to other intangible assets. As a result of the Australian Macquarie Life insurance business acquisition, goodwill and PVFP increased by USD 148 million and USD 70 million, respectively. The Group completed the acquisition of MAA Takakful Berhad, resulting in an increase of goodwill of USD 62 million and of PVFP of USD 36 million. An additional increase of goodwill of USD 13 million relates to the acquisition of Kono Insurance Limited. For further details to these acquisitions, please refer to note 5.

For the year ended December 31, 2016, divestments and transfers include a USD 7 million reclassification to assets held for sale and remeasurements of goodwill and distribution agreements for Zurich Insurance Middle East of USD 33 million and USD 3 million, respectively (see note 5).

Following a review, software was identified, which was not utilized as originally expected, resulting in USD 41 million of impairments, primarily in General Insurance.

Table 14.2

Intangible assets  
by segment –  
current period

in USD millions, as of December 31, 2016	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
General Insurance	–	808	–	744	591	127	2,269
Global Life	–	168	504	1,969	390	1	3,032
Farmers	1,025	819	–	–	370	–	2,215
Other Operating Businesses	–	–	–	–	99	–	99
<b>Net carrying value as of December 31, 2016</b>	<b>1,025</b>	<b>1,795</b>	<b>504</b>	<b>2,713</b>	<b>1,450</b>	<b>128</b>	<b>7,615</b>

Table 14.3

Intangible assets –  
prior period

in USD millions	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
<b>Gross carrying value as of</b>							
<b>January 1, 2015</b>	<b>1,025</b>	<b>1,778</b>	<b>2,701</b>	<b>4,480</b>	<b>4,588</b>	<b>186</b>	<b>14,760</b>
Less: accumulated amortization/ impairments	–	(117)	(2,145)	(903)	(3,046)	(133)	(6,344)
<b>Net carrying value as of</b>							
<b>January 1, 2015</b>	<b>1,025</b>	<b>1,661</b>	<b>556</b>	<b>3,577</b>	<b>1,543</b>	<b>53</b>	<b>8,415</b>
Additions and acquisitions	–	8	–	9	480	4	501
Divestments and transfers	–	–	–	(11)	–	–	(11)
Amortization	–	–	(69)	(206)	(342)	(8)	(625)
Amortization charged to shareholders' equity	–	–	28	–	–	–	28
Impairments	–	(281)	–	(1)	(96)	–	(378)
Foreign currency translation effects	–	(99)	(48)	(618)	(79)	(5)	(849)
<b>Net carrying value as of</b>							
<b>December 31, 2015</b>	<b>1,025</b>	<b>1,289</b>	<b>466</b>	<b>2,752</b>	<b>1,505</b>	<b>43</b>	<b>7,080</b>
Plus: accumulated amortization/ impairments	–	378	2,035	963	3,167	130	6,673
<b>Gross carrying value as of</b>							
<b>December 31, 2015</b>	<b>1,025</b>	<b>1,667</b>	<b>2,501</b>	<b>3,715</b>	<b>4,672</b>	<b>173</b>	<b>13,753</b>

As of December 31, 2015, intangible assets relating to non-controlling interests were USD 89 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,221 million for distribution agreements and USD 14 million for software.

Additions to goodwill of USD 8 million relate to the acquisition of Tennyson Insurance Limited, which is a general insurance company based in the UK.

Following a review of subsidiaries in Global Life, the Group reassessed the recoverability of the goodwill and concluded that USD 281 million was fully impaired of which USD 232 million related to the goodwill of the Global Life Germany cash generating unit (CGU) as a result of the continued low interest rate environment in Germany.

Following restructuring decisions, mainly in Global Life, certain software will no longer be required, which resulted in an impairment of USD 67 million. In addition, software was identified, which was not utilized as originally expected, resulting in USD 30 million of impairments.

Table 14.4

Intangible assets  
by segment –  
prior period

in USD millions, as of December 31, 2015	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
General Insurance	–	465	–	713	629	42	1,849
Global Life	–	5	466	2,039	394	1	2,905
Farmers	1,025	819	–	–	353	–	2,197
Other Operating Businesses	–	–	–	–	129	–	129
<b>Net carrying value as of</b>							
<b>December 31, 2015</b>	<b>1,025</b>	<b>1,289</b>	<b>466</b>	<b>2,752</b>	<b>1,505</b>	<b>43</b>	<b>7,080</b>

## Consolidated financial statements (continued)

## 15. Receivables and other assets

Table 15		2016	2015
in USD millions, as of December 31			
<b>Receivables and other assets</b>	<b>Financial assets</b>		
	Group derivative assets	968	1,120
	Unit-linked derivative assets	26	7
	Receivables from policyholders	3,139	3,035
	Receivables from insurance companies, agents and intermediaries	4,860	4,877
	Receivables arising from ceded reinsurance	1,432	926
	Reverse repurchase agreements	970	193
	Amounts due from investment brokers	562	328
	Other receivables	2,053	1,918
	Allowance for impairments <sup>1</sup>	(230)	(249)
	Other assets	86	140
	<b>Non-financial assets</b>		
	Current tax receivables	640	742
	Accrued premiums	826	953
	Prepaid expenses	432	276
	Prepaid insurance benefits	331	327
	Other assets	339	337
	<b>Total receivables and other assets</b>	<b>16,434</b>	<b>14,930</b>

<sup>1</sup> December 31, 2016 and 2015 include USD 30 million and USD 38 million, respectively, for receivables arising from ceded reinsurance.

Receivables are carried at notional amounts, and are generally settled within one year. The notional and fair value amounts are not significantly different.

## 16. Other liabilities

Table 16.1			
Other liabilities	in USD millions, as of December 31		
		2016	2015
	<b>Other financial liabilities</b>		
	Group derivative liabilities	345	362
	Unit-linked derivative liabilities	9	7
	Amounts due to policyholders	694	730
	Amounts due to insurance companies, agents and intermediaries	1,141	1,022
	Amounts due to reinsurers	1,827	1,285
	Liabilities for cash collateral received for securities lending	126	93
	Amounts due to investment brokers	1,155	1,185
	Deposits from banking activities	22	141
	Collateralized bank financing for structured lease vehicles	541	736
	Liabilities for defined benefit plans <sup>1</sup>	4,317	3,248
	Other liabilities for employee benefit plans	130	127
	Other liabilities	3,667	3,662
	<b>Other non-financial liabilities</b>		
	Current tax payables	567	629
	Restructuring provisions	334	386
	Premium prepayments and other advances	866	864
	Other liabilities	698	572
	<b>Total other liabilities</b>	<b>16,437</b>	<b>15,051</b>

<sup>1</sup> See note 20

Table 16.2 shows the maturity schedule of other financial liabilities as of December 31, 2016 and 2015.

Table 16.2					
Maturity schedule – other financial liabilities <sup>1</sup>	in USD millions, as of December 31	2016		2015	
		Carrying value <sup>2</sup>	Undiscounted cash flows <sup>3</sup>	Carrying value <sup>2</sup>	Undiscounted cash flows <sup>3</sup>
	< 1 year	8,733	8,777	8,406	8,460
	1 to 2 years	58	96	146	198
	2 to 3 years	271	305	48	92
	3 to 4 years	170	238	347	388
	4 to 5 years	9	25	89	161
	> 5 years	413	757	315	631
	<b>Total</b>	<b>9,655</b>	<b>10,199</b>	<b>9,351</b>	<b>9,931</b>

<sup>1</sup> Excluding liabilities for defined benefit plans.

<sup>2</sup> Allocation to the time bands is based on the expected maturity date.

<sup>3</sup> Allocation to the time bands is based on the earliest contractual maturity.

## Consolidated financial statements (continued)

Table 16.3			
Restructuring provisions	in USD millions	2016	2015
		As of January 1	386
Provisions made during the period		257	467
Increase of provisions set up in prior years		90	11
Provisions used during the period		(355)	(181)
Provisions reversed during the period		(33)	(20)
Foreign currency translation effects		(10)	(15)
<b>As of December 31</b>		<b>334</b>	<b>386</b>

During the year ended December 31, 2016, restructuring programs were initiated with estimated costs of USD 257 million impacting General Insurance, Other Operating Businesses and Global Life. In addition, net adjustments were made of USD 57 million to provisions for restructuring programs initiated in prior years.

During the year ended December 31, 2015, restructuring programs were initiated with estimated costs of USD 467 million impacting mainly Europe, for both General Insurance and Global Life. In addition, net adjustments were made of USD (9) million to provisions for restructuring programs initiated in the years prior to 2015.

## 17. Income taxes

Table 17.1

### Income tax expense – current/deferred split

in USD millions, for the years, ended December 31		2016	2015
Current		1,487	1,270
Deferred		355	24
<b>Total income tax expense/(benefit)</b>		<b>1,843</b>	<b>1,294</b>

Table 17.2

### Expected and actual income tax expense

in USD millions, for the years ended December 31		Rate	2016	Rate	2015
Net income before income taxes			5,321		3,340
less: income tax (expense)/benefit attributable to policyholders			(304)		(110)
Net income before income taxes attributable to shareholders			5,017		3,230
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%		1,104	22.0%	711
Increase/(reduction) in taxes resulting from:					
<i>Tax rate differential in foreign jurisdictions</i>			322		287
<i>Tax exempt and lower taxed income</i>			(95)		(92)
<i>Non-deductible expenses</i>			121		41
<i>Tax losses not recognized</i>			3		165
<i>Prior year adjustments and other</i>			84		72
<b>Actual income tax expense attributable to shareholders</b>	<b>30.7%</b>		<b>1,539</b>	<b>36.6%</b>	<b>1,183</b>
plus: income tax expense/(benefit) attributable to policyholders			304		110
Actual income tax expense	34.6%		1,843	38.7%	1,294

Table 17.2 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

The Group is required to record taxes on policyholder earnings for life insurance policyholders in certain jurisdictions. Accordingly, the income tax expense or benefit attributable to these life insurance policyholder earnings is included in income tax expense. In certain jurisdictions an accrual for future policy fees that will cover the tax charge is included in insurance benefits and losses.

Taxes paid by certain of the Group's life insurance businesses are based on the investment result less allowable expenses. To the extent these taxes exceed the amount that would have been payable in relation to the shareholders' share of taxable profits, it is normal practice for certain of the Group's businesses to recover this portion from policyholders. While the relevant company has the contractual right to charge policyholders for the taxes attributable to their share of the investment result less expenses, the obligation to pay the tax authority rests with the company and therefore, the full amount of tax including the portion attributable to policyholders is accounted for as income tax. Income tax expense therefore includes an element attributable to policyholders. In addition, deferred tax on unrealized gains related to certain investment contracts with DPF is included as income tax expense recognized in OCI and an accrual for future policy fees to recover the tax charge is included in policy fee revenue.

## Consolidated financial statements (continued)

Deferred tax  
assets/(liabilities)  
analysis  
by source

Table 17.3

in USD millions, as of December 31

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
<b>Gross deferred tax</b>				
Deferred acquisition and origination costs	38	(1,017)	35	(846)
Depreciable and amortizable assets	25	(63)	31	(51)
Life policyholders' benefits and deposits <sup>1</sup>	1	(2)	2	(1)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	93	(277)	178	(383)
Accruals and deferred income	197	(8)	158	(2)
Reserves for losses and loss adjustment expenses	449	(229)	508	(178)
Reserves for unearned premiums	1,057	(24)	879	(1)
Pensions and other employee benefits	696	(48)	514	(58)
Other assets/liabilities	288	(45)	430	(44)
Tax loss carryforwards	667	–	617	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,512	(1,712)	3,352	(1,562)
Valuation allowance	(352)	–	(334)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,160	(1,712)	3,017	(1,562)
<b>Deferred tax assets</b>	<b>1,448</b>		<b>1,455</b>	
<b>Gross deferred tax</b>				
Deferred acquisition and origination costs	27	(2,189)	42	(2,282)
Depreciable and amortizable assets	113	(1,964)	129	(1,980)
Life policyholders' benefits and deposits <sup>1</sup>	1,350	(793)	1,286	(840)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	165	(1,038)	210	(1,029)
Accruals and deferred income	124	(92)	133	(119)
Reserves for losses and loss adjustment expenses	56	(85)	87	(87)
Reserves for unearned premiums	31	(40)	33	(90)
Deferred front-end fees	471	–	468	–
Pensions and other employee benefits	616	(319)	594	(269)
Other assets/liabilities	462	(1,546)	637	(1,504)
Tax loss carryforwards	92	–	107	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,505	(8,067)	3,725	(8,200)
Valuation allowance	–	–	(23)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,505	(8,067)	3,702	(8,200)
<b>Deferred tax liabilities</b>		<b>(4,562)</b>		<b>(4,498)</b>
<b>Net deferred tax liabilities</b>		<b>(3,114)</b>		<b>(3,042)</b>

<sup>1</sup> Includes reserves for unit-linked contracts

The Group's deferred tax assets and liabilities are recorded by its tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate. The first part of table 17.3 includes single taxpayers with a net deferred tax asset position and the second part includes single taxpayers with a net deferred tax liability position.

As of both December 31, 2016 and 2015, the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized amount to approximately USD 20 billion. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.



Table 17.4			
Development of net deferred tax liabilities	in USD millions		
		<b>2016</b>	2015
	As of January 1	(3,042)	(3,458)
	Net change recognized in the income statement	(355)	(24)
	Net change recognized in equity	208	217
	Net changes due to acquisitions/(divestments)	(12)	(1)
	Foreign currency translation effects	87	223
	<b>As of December 31</b>	<b>(3,114)</b>	<b>(3,042)</b>
	attributable to policyholders	(632)	(562)
	attributable to shareholders	(2,483)	(2,481)

The net deferred tax liabilities relating to non-controlling interests amounted to USD 338 million and USD 347 million as of December 31, 2016 and 2015, respectively.

Table 17.5			
Development of deferred income taxes included in equity	in USD millions		
		<b>2016</b>	2015
	As of January 1	149	(98)
	Net unrealized gains/(losses) on available-for-sale investments	(38)	397
	Cash flow hedges	(23)	(15)
	Revaluation reserve	(2)	(2)
	Net actuarial gains/(losses) on pension plans	272	(162)
	Foreign currency translation effects	(44)	29
	<b>As of December 31</b>	<b>313</b>	<b>149</b>

Table 17.6			
Tax loss carryforwards and tax credits	in USD millions, as of December 31		
		<b>2016</b>	2015
	<b>For which deferred tax assets have been recognized, expiring</b>		
	< 5 years	28	57
	5 to 20 years	412	408
	> 20 years or with no time limitation	1,056	814
	Subtotal	1,495	1,280
	<b>For which deferred tax assets have not been recognized, expiring</b>		
	< 5 years	62	64
	5 to 20 years	155	89
	> 20 years or with no time limitation	1,247	1,310
	Subtotal	1,464	1,464
	<b>Total</b>	<b>2,960</b>	<b>2,744</b>

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 23.0 percent and 23.0 percent as of December 31, 2016 and 2015, respectively.

The recoverability of the deferred tax asset for each taxpayer is based on the taxpayer's ability to utilize the deferred tax asset. This analysis considers the projected taxable income to be generated by the taxpayer, as well as its ability to offset the deferred tax asset against deferred tax liabilities.

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income projections and considers that the carrying values of the deferred tax assets as of December 31, 2016, are recoverable.

## Consolidated financial statements (continued)

## 18. Senior and subordinated debt

Table 18.1		2016	2015	
in USD millions, as of December 31				
<b>Senior and subordinated debt</b>	<b>Senior debt</b>			
	Zurich Insurance Company Ltd	Floating rate CHF 200 million notes, due June 2016 <sup>1</sup>	–	200
		2.25% CHF 500 million notes, due July 2017 <sup>1</sup>	492	498
		2.375% CHF 525 million notes, due November 2018 <sup>1</sup>	515	522
		1.50% CHF 400 million notes, due June 2019 <sup>1,2</sup>	405	415
		1.125% CHF 400 million notes, due September 2019 <sup>1,2</sup>	409	420
		0.625% CHF 250 million notes, due July 2020 <sup>1,2</sup>	254	259
		2.875% CHF 250 million notes, due July 2021 <sup>1</sup>	244	247
		3.375% EUR 500 million notes, due June 2022 <sup>1,2,3</sup>	564	587
		1.875% CHF 100 million notes, due September 2023 <sup>1,2</sup>	109	111
	1.750% EUR 500 million notes, due September 2024 <sup>1,2,3</sup>	538	545	
	1.500% CHF 150 million notes, due July 2026 <sup>1,2</sup>	163	164	
	Zurich Holding Comp. of America Inc	Euro Commercial Paper Notes, due in less than 3 months	399	400
	Zurich Santander Insurance America S.L.	7.5% EUR 61 million loan, due December 2035	44	74
	Other	Various debt instruments	24	29
	<b>Senior debt</b>	<b>4,162</b>	<b>4,471</b>	
	<b>Subordinated debt</b>			
	Zurich Insurance Company Ltd	4.25% CHF 700 million perpetual notes, first callable May 2016 <sup>1</sup>	–	698
		8.25% USD 500 million perpetual capital notes, first callable January 2018 <sup>1,3</sup>	499	498
		4.625% CHF 500 million perpetual notes, first callable May 2018 <sup>1</sup>	491	496
		7.5% EUR 425 million notes, due July 2039, first callable July 2019 <sup>1,3</sup>	447	460
		2.75% CHF 225 million perpetual capital notes, first callable June 2021 <sup>1</sup>	221	–
		2.75% CHF 200 million perpetual capital notes, first callable September 2021 <sup>1,2</sup>	205	209
		4.75% USD 1 billion perpetual notes, first callable January 2022 <sup>1,3</sup>	993	–
		4.25% EUR 1 billion notes, due October 2043, first callable October 2023 <sup>1,3</sup>	1,046	1,075
		4.25% USD 300 million notes, due October 2045, first callable October 2025 <sup>1,3</sup>	299	298
		5.625% USD 1 billion notes, due June 2046, first callable June 2026 <sup>1</sup>	996	–
		3.5% EUR 750 million notes, due October 2046, first callable October 2026 <sup>1,2</sup>	785	–
		6.625% GBP 450 million perpetual notes, first callable October 2022 <sup>1,4</sup>	551	658
	Zurich Finance (UK) plc	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065, first callable June 2016	–	680
	ZFS Finance (USA) Trust II	Series V 6.5% USD 501 million Trust Preferred Securities, due May 2067, first callable May 2017	501	501
	ZFS Finance (USA) Trust V	Other	16	41
	<b>Subordinated debt</b>	<b>7,050</b>	<b>5,614</b>	
	<b>Total senior and subordinated debt</b>	<b>11,212</b>	<b>10,086</b>	

<sup>1</sup> Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).

<sup>2</sup> The Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.

<sup>3</sup> These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.

<sup>4</sup> The holders of these notes benefit from the Replacement Capital Covenant which states that if Series V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trust V, are called before 2047, the Group will issue a replacement debt instrument with terms and provisions that will be as or more equity-like than the replaced notes.

None of the debt instruments listed in table 18.1 were in default as of December 31, 2016 or December 31, 2015.

To facilitate the issuance of debt, the Group has in place a Euro Medium Term Note Programme (EMTN Programme) allowing for the issuance of senior and subordinated notes up to a maximum of USD 18 billion. All issuances under this programme are either issued or guaranteed by Zurich Insurance Company Ltd. The Group has also issued debt instruments outside this programme.

Debt issued is recognized initially at fair value of the consideration received, net of transaction costs incurred, and subsequently carried at amortized cost using the effective interest rate method.

Table 18.2

Maturity schedule of  
outstanding debt

in USD millions, as of December 31

	2016		2015	
	Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
< 1 year	1,392	1,826	1,984	2,360
1 to 2 years	1,505	1,882	999	1,305
2 to 3 years	1,262	1,586	1,516	1,771
3 to 4 years	278	530	1,340	1,506
4 to 5 years	670	947	259	405
5 to 10 years	6,061	6,702	3,751	4,129
> 10 years	44	120	238	281
<b>Total</b>	<b>11,212</b>	<b>13,592</b>	<b>10,086</b>	<b>11,757</b>

Debt maturities reflect original contractual dates taking early redemption options into account. For call/redemption dates, see table 18.1. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 18.2. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2016 and 2015. All debt is assumed to mature within 20 years of the balance sheet date without refinancing. Floating interest rates are assumed to remain constant as of December 31, 2016 and 2015. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

**Credit facilities**

The Group has access to a multi-currency revolving credit facility of USD 3.2 billion that terminates in 2023 at the latest. It is guaranteed by Zurich Insurance Company Ltd.

The Group also has access to three other revolving credit facilities totaling USD 425 million, which will expire in 2019 at the latest.

No borrowings were outstanding under any of these facilities as of December 31, 2016 or 2015.

## Consolidated financial statements (continued)

## 19. Share capital and Earnings per Share

Table 19.1

## Share capital

	Share capital in CHF	Number of shares	Par value in CHF
<b>Issued share capital</b>			
As of December 31, 2014	14,963,684	149,636,836	0.10
New shares issued from contingent capital in 2015	76,813	768,128	0.10
As of December 31, 2015	15,040,496	150,404,964	0.10
New shares issued from contingent capital in 2016	20,244	202,442	0.10
As of December 31, 2016	15,060,741	150,607,406	0.10
<b>Authorized, contingent and issued share capital</b>			
As of December 31, 2015	17,129,526	171,295,259	0.10
As of December 31, 2016	17,129,526	171,295,259	0.10

**a) Authorized share capital**

Until March 30, 2018, the Board of Zurich Insurance Group Ltd is authorized to increase the share capital by an amount not exceeding CHF 1,000,000 by issuing up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the commencement of entitlement to dividends.

The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with a subsequent offer of those shares to current shareholders. The Board may allow the expiry of pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or withdraw the pre-emptive rights of shareholders and to allocate them to third parties if the shares are to be used for the take-over of an enterprise, or parts of an enterprise or of participations or if issuing shares for the financing including re-financing of such transactions, or for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges.

**b) Contingent share capital****Capital market instruments and option rights to shareholders**

The share capital of Zurich Insurance Group Ltd may be increased by an amount not exceeding CHF 1,000,000 by the issuance of up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each (i) by exercising conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Insurance Group Ltd or one of its subsidiaries in national or international capital markets; and/or (ii) by exercising option rights which are granted to current shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at the then current convertible bond or warrant issue conditions.

The conversion rights are exercisable during a maximum period of ten years and option rights for a maximum period of seven years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions whereby, for shares of Zurich Insurance Group Ltd, the quoted share price is to be used as a basis.

### Employee participation

During 2016 and 2015, 202,442 shares and 768,128 shares, respectively, were issued to employees from contingent share capital. The remaining contingent share capital, which can be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 68,785 and CHF 89,030 or 687,853 and 890,295 fully paid registered shares as of December 31, 2016 and 2015, respectively, with a nominal value of CHF 0.10 each. Pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board and takes into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

### c) Additional paid-in capital

This reserve is not ordinarily available for distribution. However, as of January 1, 2011, a Swiss tax regulation based on the Swiss Corporate Tax Reform II became effective, allowing for payments free of Swiss withholding tax to shareholders out of the capital contribution reserve, created out of additional paid-in capital. Therefore, amounts qualifying under this regulation can be paid out of additional paid-in capital.

### d) Treasury shares

Table 19.2

#### Treasury shares

number of shares, as of December 31	2016	2015
Treasury shares	1,203,523	1,243,931

Treasury shares comprise shares acquired in the market, primarily held to cover employee share and share option plans.

### e) Earnings per share

Table 19.3

#### Earnings per share

for the years ended December 31	Net income attributable to common shareholders (in USD millions)	Weighted average number of shares	Per share (USD)	Per share (CHF) <sup>1</sup>
<b>2016</b>				
<b>Basic earnings per share</b>	<b>3,211</b>	<b>149,285,218</b>	<b>21.51</b>	<b>21.18</b>
Effect of potentially dilutive shares related to share-based compensation plans		1,012,384	(0.14)	(0.14)
<b>Diluted earnings per share</b>	<b>3,211</b>	<b>150,297,601</b>	<b>21.36</b>	<b>21.04</b>
<b>2015</b>				
<b>Basic earnings per share</b>	<b>1,842</b>	<b>148,957,967</b>	<b>12.36</b>	<b>11.89</b>
Effect of potentially dilutive shares related to share-based compensation plans		362,170	(0.03)	(0.03)
<b>Diluted earnings per share</b>	<b>1,842</b>	<b>149,320,137</b>	<b>12.33</b>	<b>11.86</b>

<sup>1</sup> The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2016 and 2015.

Basic earnings per share is computed by dividing net income attributable to shareholders by the weighted average number of shares outstanding for the year, excluding the weighted average number of shares held as treasury shares. Diluted earnings per share reflects the effect of potentially dilutive shares.

## Consolidated financial statements (continued)

### 20. Employee benefits

The Group had 52,473 and 54,335 employees (full-time equivalents) as of December 31, 2016 and 2015, respectively. Personnel and other related costs incurred for the years ended December 31, 2016 and 2015, were USD 5,631 million and USD 5,986 million, including wages and salaries of USD 4,562 million and USD 4,790 million, respectively.

The Group operates a number of retirement benefit arrangements for employees, with the majority of employees belonging to defined benefit pension plans. Other employees participate in defined contribution plans, which provide benefits equal to the amounts contributed by both the employer and the employee plus investment returns.

Certain of the Group's operating companies also provide post-employment benefit plans covering medical care and life insurance, mainly in the U.S. Eligibility for these plans is generally based on completion of a specified period of eligible service and reaching a specified age. The plans typically pay a stated percentage of medical expenses subject to deductibles and other factors. The cost of post-employment benefits is accrued during the employees' service periods.

Governance of the Group's pension and post-employment benefit plans is the responsibility of the Group Pensions Committee. This committee is responsible for developing, reviewing and advising on the Group governance framework for matters relating to pension and benefit plans, including the relevant policies and processes. The committee provides oversight and guidance over the Group's principal pension and post-retirement benefit plans for benefit design, funding, investment purposes and accounting. This includes, but is not limited to:

- Oversight of the impact of the Group's principal defined benefit pension and post-retirement benefit plans in terms of cash, expense, and balance sheet accounting impact and capital implications
- Development and maintenance of policies on funding, asset allocation and assumption setting.

The Group Pensions Committee provides a point of focus and co-ordination on the topic of pensions and benefits at Group level for the supervision and exercise of company powers and obligations in relation to pension and benefit plans.

The Group's policy on funding and asset allocation is subject to local legal and regulatory requirements and tax efficiency.

#### a) Defined benefit pension plans

Employees of the Group's companies are covered by various pension plans, the largest of which are in Switzerland, the UK, the U.S. and Germany, which together comprise over 90 percent of the Group's total defined benefit obligation. The remaining plans in other countries are not individually significant, therefore no separate disclosure is provided.

Certain Group companies provide defined benefit pension plans, some of which provide benefits on retirement, death or disability related to employees' service periods and pensionable earnings. Others provide cash balance plans where the participants receive the benefit of the accumulated employer and employee contributions (where paid) together with additional cash credits in line with the rules of the plan. Eligibility for participation in the various plans is either immediate on commencement of employment or based on completion of a specified period of continuous service.

Most of the Group's defined benefit pension plans are funded through contributions by the Group and, in some cases also by employees, to investment vehicles managed by trusts or foundations independent of the Group's finances, or by management committees with fiduciary responsibilities. Where a trust or foundation exists, it is required by law or by articles of association to act in the interests of the fund and of all relevant beneficiaries to the plan, which can also include the sponsoring company, and is responsible for the investment policy with regard to the assets of the fund. The trust/foundation board or committee is usually composed of representatives from both employers and plan members. In these cases, the annual funding requirements are determined in accordance with the Group's overall funding policy and local regulation. Independent actuarial valuations for the plans are performed as required. It is the Group's general principle to ensure that the plans are appropriately funded in accordance with local pension regulations in each country.

The pension plans typically expose the company to risks such as interest rate, price inflation, longevity and salary risks. To the extent that pension plans are funded, the assets held mitigate some of the liability risk but introduce investment risk.

The overall investment policy and strategy for the Group's defined benefit pension plans is to achieve an investment return which, together with contributions, targets having sufficient assets to pay pension benefits as they fall due while also mitigating the various risks in the plans. The actual asset allocation is determined by reference to current and expected economic and market conditions and in consideration of specific asset class risk in the risk profile. The Group has a governance framework to ensure the trust/foundation board or committee considers how the asset investment strategy correlates with the maturity profile of the plan liabilities and the potential impact on the funding status of the plans, including short-term liquidity requirements. The investment strategies for each pension plan are independently determined by the governance body in each country, with oversight by the Group Pensions Committee. The pension assets are invested in diversified portfolios across geographical regions and asset classes to ensure diversified returns, also taking into account local pension laws. The investment strategies aim to mitigate asset-liability mismatches in the long run.

For post-employment defined benefit plans, total contributions to funded plans and benefits paid directly by the Group were USD 424 million for 2016 compared with USD 540 million for 2015. The estimated total for 2017 is USD 422 million (actual amount may differ).

#### *Swiss pension plan*

The plan provides benefits that exceed the minimum benefit requirements under Swiss pension law. It provides a lifetime pension to members at the normal retirement age of 65 (age 62 for Executive Staff). Participants can draw retirement benefits early from age 60 (age 58 for Executive Staff). Alternatively, the benefit can be taken as a lump sum payment at retirement. Contributions to the plan are paid by the employees and the employer, both for retirement savings and to finance risk benefits paid out in the event of death and disability. The accumulated balance on the pension account is based on the employee and employer pension contributions and interest accrued. The interest rate credited is defined annually by the plan's Board of Trustees which is responsible for the governance of the plans. The amount of pension payable on retirement is a result of the conversion rate applied on the accumulated balance of the individual participant's pension account at the retirement date. Although the Swiss plan operates like a defined contribution plan under local regulations, it is accounted for as a defined benefit pension plan under IAS 19 "Employee Benefits", because of the need to accrue interest on the pension accounts and the payment of a lifetime pension at a fixed conversion rate under the plan rules.

Actuarial valuations are completed regularly and if the plan becomes underfunded under local regulations, options for dealing with this include the Group paying additional contributions into the plan and/or reducing future benefits. At present, the plan is sufficiently funded, meaning that no additional contributions into the plans are expected to be required in the next year. The investment strategy of the Swiss plan is constrained by Swiss pension law including regulations relating to diversification of plan assets. Under IAS 19, volatility arises in the Swiss pension plan net liability because the fair value of the plan assets is not directly correlated to movements in the value of the plan's defined benefit obligation in the short-term.

#### *UK pension plan*

The major UK pension plan is a hybrid arrangement and benefits accrued to December 31, 2015 increase in line with salary increases. Normal retirement age for the plan is 60. The plan is split into distinct sections and the two defined benefit sections are closed to new entrants and, with effect from January 1, 2016, to future benefit accrual. All employees now participate in a defined contribution section within the same trust. The notes that follow consider only the defined benefit sections. The UK Pension Trustee Board is responsible for the governance of the plan. The employer contributions are determined based on regular triennial actuarial valuations which are conducted using assumptions agreed by the Trustee Board and the sponsoring company. A valuation was carried out during 2013 and the results were finalized on August 28, 2014. The local statutory valuation revealed a funding deficit and an asset-backed funding arrangement was agreed with the Trustee Board. The effective date of the next valuation is 30 June 2016 and it will be finalized during 2017.

The ongoing funding of the plan is closely monitored by the Trustee Board and a dedicated funding committee is made up of representatives from the Trustee Board and the Group. The plan rules and UK pension legislation set out maximum levels of inflationary increases applied to plan benefits. The plan assets are invested in diversified classes of assets and a portion are invested in inflation-linked debt securities, to provide a partial hedge against inflation. The Trustees have also implemented an interest rate swap contract which will provide partial protection against volatility in interest rates.

## Consolidated financial statements (continued)

### *U.S. pension plans*

There are two major pension plans in the U.S., the Zurich North America (ZNA) plan and the Farmers Group, Inc. (FGI) pension plan. These are both cash balance pension plans funded entirely by the participating employers. The ZNA plan is entirely cash balance and the FGI pension plan provides benefits on a cash balance pension formula for benefits accruing after January 1, 2009, except with respect to certain grandfathered participants. A final average pay defined benefit formula applies for the grandfathered participants. For both cash balance plans, an amount is credited to the cash balance plan each quarter, determined by an employee's age, service and their level of earnings up to and above the social security taxable wage base. The minimum annual interest earned on the account balance is 5 percent. The retirement account is available from age 65, or age 55 with five years of service. The benefit can be taken as a monthly annuity or as a lump sum. Both the ZNA plan and the FGI pension plan have fiduciaries as required under local pension laws. The fiduciaries are responsible for the governance of the plans. Actuarial valuations are completed regularly and the Group has historically elected to make contributions to the plans to maintain a funding ratio of at least 90 percent as valued under local pension regulations. The annual employer contributions are equal to the present value of benefits accrued each year, plus a rolling amortization of any prior underfunding. The FGI plan will be frozen with effect from December 31, 2018 following a decision late in 2016. The impact of this is reflected in the 2016 financial disclosures. Farmers Group employees will earn only defined contribution retirement benefits starting January 1, 2019.

### *German pension plans*

There are a number of legacy defined benefit plans in Germany, most of which were set up under works council agreements. In 2007, a contractual trust arrangement was set up to support all pension commitments of the employing companies in Germany. From this time, new contributions to the contractual trust arrangement relate to the pension payment refund of the employer companies. A separate arrangement was also established in 2010 to provide for retirement obligations that were in payment at that time. Consideration is given from time to time based on the fiscal efficiency of adding recent retirees to this arrangement and to adding assets to the contractual trust. There is currently no formal plan to pay any further contributions to the contractual trust arrangement. These defined benefit plans provide benefits on either a final salary, career average salary or a cash balance basis. These plans are now closed to new entrants, who instead participate in a new cash balance arrangement, which has the characteristics of a defined contribution arrangement with a capital guarantee on members' balances, which mirrors the capital guarantee given in a conventional life insurance arrangement in Germany.

Tables 20.1a and 20.1b set out the reconciliation of the defined benefit obligation and plan assets for the Group's post-employment defined benefit plans.



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

Table 20.1a

in USD millions

	Defined benefit obligation	Fair value of assets	Asset ceiling	Net defined benefit asset/ (liability)
<b>As of January 1, 2016</b>	<b>(20,945)</b>	<b>17,713</b>	<b>(17)</b>	<b>(3,248)</b>
<b>Net post-employment benefit (expense)/income:</b>				
Current service cost	(287)	–	–	(287)
Interest (expense)/income	(526)	442	–	(85)
Settlements gains/(losses)	3	–	–	3
Past service (cost)/credit	88	–	–	88
<b>Net post-employment benefit (expense)/income</b>	<b>(722)</b>	<b>442</b>	<b>–</b>	<b>(280)</b>
<b>Remeasurement effects included in other comprehensive income:</b>				
Return on plan assets excluding interest income	–	1,712	–	1,712
Experience gains/(losses)	(44)	–	–	(44)
Actuarial gains/(losses) arising from changes in demographic assumptions	19	–	–	19
Actuarial gains/(losses) arising from changes in financial assumptions	(3,307)	–	–	(3,307)
Change in asset ceiling	–	–	7	7
<b>Remeasurement effects included in other comprehensive income</b>	<b>(3,332)</b>	<b>1,712</b>	<b>7</b>	<b>(1,613)</b>
Employer contributions	–	404	–	404
Employer contributions paid to meet benefits directly	33	–	–	33
Plan participants' contributions	(54)	54	–	–
Payments from the plan (incl. settlements)	769	(769)	–	–
Foreign currency translation effects	2,060	(1,672)	–	388
<b>As of December 31, 2016</b>	<b>(22,191)</b>	<b>17,883</b>	<b>(9)</b>	<b>(4,317)</b>

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

Table 20.1b

in USD millions

	Defined benefit obligation	Fair value of assets	Asset ceiling	Net defined benefit asset/ (liability)
<b>As of January 1, 2015</b>	<b>(22,507)</b>	<b>18,461</b>	<b>–</b>	<b>(4,046)</b>
<b>Net post-employment benefit (expense)/income:</b>				
Current service cost	(398)	–	–	(398)
Interest (expense)/income	(640)	520	–	(120)
Settlements gains/(losses)	9	–	–	9
Past service (cost)/credit	(9)	–	–	(9)
<b>Net post-employment benefit (expense)/income</b>	<b>(1,038)</b>	<b>520</b>	<b>–</b>	<b>(518)</b>
<b>Remeasurement effects included in other comprehensive income:</b>				
Return on plan assets excluding interest income	–	(209)	–	(209)
Experience gains/(losses)	(116)	–	–	(116)
Actuarial gains/(losses) arising from changes in demographic assumptions	172	–	–	172
Actuarial gains/(losses) arising from changes in financial assumptions	797	–	–	797
Change in asset ceiling	–	–	(17)	(17)
<b>Remeasurement effects included in other comprehensive income</b>	<b>853</b>	<b>(209)</b>	<b>(17)</b>	<b>627</b>
Employer contributions	–	508	–	508
Employer contributions paid to meet benefits directly	31	–	–	31
Plan participants' contributions	(54)	54	–	–
Payments from the plan (incl. settlements)	870	(870)	–	–
Foreign currency translation effects	900	(750)	–	150
<b>As of December 31, 2015</b>	<b>(20,945)</b>	<b>17,713</b>	<b>(17)</b>	<b>(3,248)</b>

## Consolidated financial statements (continued)

Net post-employment benefit (expense)/income is recognized in other employee benefits, which is included within administrative and other operating expense.

Post-employment benefits are long-term by nature. However, short-term variations between long-term actuarial assumptions and actual experience may be positive or negative, resulting in actuarial gains or losses, which are recognized in full in the period in which they occur, and are included within other comprehensive income.

Table 20.2 provides a breakdown of plan assets by asset class.

Table 20.2								
Fair value of assets held in funded defined benefit pension plans								
in USD millions, as of December 31								
	2016				2015			
	Quoted in active markets	Other	Total	% of Total	Quoted in active markets	Other	Total	% of Total
Cash and cash equivalents	542	–	542	3%	472	–	472	3%
Equity securities	3,794	88	3,882	22%	3,726	69	3,795	21%
Debt securities	–	11,839	11,839	66%	–	11,929	11,929	67%
Investment property	–	1,318	1,318	7%	–	1,177	1,177	7%
Mortgage loans	–	295	295	2%	–	333	333	2%
Other assets <sup>1</sup>	–	7	7	–	–	7	7	–
<b>Total</b>	<b>4,336</b>	<b>13,547</b>	<b>17,883</b>	<b>100%</b>	<b>4,198</b>	<b>13,515</b>	<b>17,713</b>	<b>100%</b>

<sup>1</sup> UK annuity policies

For the classification of pension assets the Group follows the same principles as outlined in note 23 (Fair value measurement). Assets meeting the criteria of Level 1 are generally considered quoted in active markets, while assets meeting the criteria of Level 2 or Level 3 are generally considered other assets.

As a matter of policy, pension plan investment guidelines do not permit investment in any assets in which the Group or its subsidiaries have an interest, including shares or other financial instruments issued and own use property. Exceptions to the policy require approval by the Group Pension Committee.

Tables 20.3a and 20.3b provide a breakdown of the key information included in tables 20.1a and 20.1b for the main countries for the years ended December 31, 2016 and 2015 respectively.

Table 20.3a						
Key information by main country – current period						
in USD millions, as of December 31, 2016						
	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(5,094)	(11,049)	(3,530)	(1,260)	(1,257)	(22,191)
Fair value of plan assets	4,711	8,488	2,687	1,014	983	17,883
Impact of asset ceiling	–	(9)	–	–	–	(9)
<b>Net defined benefit asset/(liability)</b>	<b>(383)</b>	<b>(2,570)</b>	<b>(843)</b>	<b>(246)</b>	<b>(275)</b>	<b>(4,317)</b>
Net post-employment benefit (expense)/income <sup>1</sup>	(124)	(65)	(28)	(34)	(29)	(280)

<sup>1</sup> Following plan amendments in Farmers a one-off curtailment gain of USD 96 million has been reflected as a reduction in expenses.

Table 20.3b						
Key information by main country – prior period						
in USD millions, as of December 31, 2015						
	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(5,042)	(10,160)	(3,410)	(1,173)	(1,159)	(20,945)
Fair value of plan assets	4,615	8,705	2,495	965	932	17,713
Impact of asset ceiling	–	(17)	–	–	–	(17)
<b>Net defined benefit asset/(liability)</b>	<b>(427)</b>	<b>(1,471)</b>	<b>(915)</b>	<b>(208)</b>	<b>(227)</b>	<b>(3,248)</b>
Net post-employment benefit (expense)/income	(130)	(180)	(137)	(38)	(33)	(518)

Table 20.4 shows the key financial assumptions used to calculate the Group's post-employment defined benefit obligations and the Group's post-employment benefit expenses.

Key financial assumptions used for major plans	Table 20.4								
	as of December 31				2016				2015
	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany	
Discount rate	0.6%	2.6%	4.0%	1.7%	0.8%	3.8%	4.3%	2.2%	
Inflation rate (CPI) <sup>1</sup>	1.2%	2.2%	2.0%	1.8%	1.3%	2.1%	2.0%	1.6%	
Salary increase rate	1.5%	3.2%	4.5%	3.1%	1.6%	3.1%	4.4%	2.9%	
Expected future pension increases	0.7%	3.4%	n/a	1.8%	0.7%	3.4%	n/a	1.6%	
Interest crediting rate	0.6%	n/a	5.0%	n/a	0.8%	n/a	5.0%	n/a	

<sup>1</sup> In the UK part of the liability is linked to the inflation measure of the Retail Price Index (RPI), which is assumed to be 1.0 percent higher than the Consumer Price Index (CPI) as of both December 31, 2016 and 2015.

Tables 20.5a and 20.5b set out the life expectancies used in the valuation of the Group's major plans. The mortality assumptions in each country have been based on mortality tables in accordance with typical practice in that country.

Mortality tables and life expectancies for major plans – current period	Table 20.5a					
	in years, as of December 31, 2016		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
	Country	Mortality table for major plans	aged 65	aged 45	aged 65	aged 45
Switzerland	BVG 2015 Generational	22.38	24.26	24.43	26.29	
United Kingdom	PNXA00 with CMI_2015 projection with plan specific adjustments	22.82	24.12	24.82	26.32	
	RP 2014 with MP-2016 Generational projection and white collar adjustment	22.36	23.92	25.57	27.14	
United States	RP 2014 with plan specific adjustments	20.65	20.65	22.67	22.67	
Germany	Heubeck 2005G	19.13	21.77	23.19	25.70	

Mortality tables and life expectancies for major plans – prior period	Table 20.5b					
	in years, as of December 31, 2015		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
	Country	Mortality table for major plans	aged 65	aged 45	aged 65	aged 45
Switzerland	BVG 2010 Generational	21.49	23.24	23.96	25.67	
United Kingdom	PNXA00 with CMI_2015 projection	22.82	24.13	24.83	26.33	
	RP 2014 with MP-2015 Generational projection with plan specific adjustments	21.36	22.02	23.82	24.50	
United States	Heubeck 2005G	18.99	21.64	23.06	25.58	

Table 20.6 shows the expected benefits to be paid under the Group's major plans in the future. It should be noted that actual amounts may vary from expected amounts. Therefore future benefit payments may differ from the amounts shown.

## Consolidated financial statements (continued)

Maturity profile of  
future benefit  
payments for  
major plans

Table 20.6

as of December 31

	2016				2015			
	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany
Duration of the defined benefit obligation (in years)	16.0	21.7	13.2	14.7	16.4	21.0	13.6	14.7
<b>Maturity analysis of benefits expected to be paid (in USD millions):</b>								
< 1 year	213	219	215	45	151	253	195	47
1 to 5 years	856	996	907	197	650	1,178	839	192
5 to 10 years	1,085	1,602	1,168	257	929	1,913	1,176	256

Sensitivity analysis  
of significant  
actuarial  
assumptions

Table 20.7

in USD millions, as of December 31	Defined benefit obligation <sup>1</sup>	
	2016	2015
Discount rate +50 bps	1,897	1,742
Discount rate -50 bps	(2,190)	(1,997)
Salary increase rate +50 bps	(117)	(155)
Salary decrease rate -50 bps	109	148
Price inflation increase rate +50 bps	(1,167)	(1,322)
Price inflation decrease rate -50 bps	1,034	1,161
Cash balance interest credit rate +50 bps	(131)	(121)
Cash balance interest credit rate -50 bps	86	84
Mortality 10% increase in life expectancy	(1,881)	(1,527)
Mortality 10% decrease in life expectancy	1,815	1,557

<sup>1</sup> A negative number indicates an increase and a positive number indicates a decrease in the defined benefit obligation.

Table 20.7 sets out the sensitivity of the defined benefit obligation to changes in key actuarial assumptions. The effect on the defined benefit obligation shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. Whilst this table illustrates the overall impact on the defined benefit obligation of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the overall defined benefit obligation. In particular, the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for different plans. The sensitivity analysis is intended to illustrate the inherent uncertainty in the evaluation of the defined benefit obligation under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the overall defined benefit obligation. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Group's view of expected future changes in the defined benefit obligation. Any management actions that may be taken to mitigate the inherent risks in the post-employment defined benefit plans are not reflected in this analysis.

**b) Defined contribution pension plans**

Certain of the Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either immediate on commencement of employment or based on completion of a specified period of continuous service. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 10 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 190 million and USD 159 million for the years ended December 31, 2016 and 2015, respectively.

## 21. Share-based compensation and cash incentive plans

The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based compensation plans are based on the provision of Zurich Insurance Group Ltd shares.

### a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 447 million and USD 381 million for the years ended December 31, 2016 and 2015, respectively.

### b) Share-based compensation plans for employees and executives

The Group encourages employees to own shares in Zurich Insurance Group Ltd and has set up a framework based on the implementation of performance share programs. Actual plans are tailored to meet local market requirements.

The cost of share-based payments depend on various factors, including achievement of targets, and are subject to the discretion of the Remuneration Committee. Costs may therefore vary significantly from year to year. The net amounts of USD 98 million and USD 111 million for the years ended December 31, 2016 and 2015, respectively, reflect all aspects of share-based compensation, including adjustments made during the year.

The explanations below provide a more detailed overview of the main plans of the Group.

#### Employee share plans

##### *Share Incentive Plan for employees in the UK*

The Group established an Inland Revenue approved Share Incentive Plan and launched the Partnership Shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Insurance Group Ltd shares at the prevailing market price from their gross earnings. This plan was terminated in 2007. There were 75 and 99 participants in the plan as of December 31, 2016 and 2015, respectively.

A revised Partnership Share Scheme was launched in March 2013. Participants benefit from purchasing shares by making deductions from gross salary up to a maximum of GBP 1,800 or 10 percent of their year-to-date earnings. There were 848 and 883 active participants in the plan as of December 31, 2016 and 2015, respectively.

The Group also operates a profit-sharing element of the Share Incentive Plan (Reward Shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on business operating profit (BOP) after tax for the year achieved by the business unit of each participating employee. Individual awards are subject to a maximum of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,600. The total number of participating employees in Reward Shares as of December 31, 2016 and 2015 was 4,964 and 5,607, respectively.

A new Dividend Reinvest scheme was launched in 2014 which allows employees to reinvest their dividends from Partnership Shares and Reward Shares. As of December 31, 2016 and 2015, there were 346 and 303 participants in the scheme, respectively.

##### *Share Incentive Plan for employees in Switzerland*

Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is equivalent to CHF 3,500 per employee per annum. During 2016, 4,551 employees were eligible to participate in the share incentive plan, compared with 4,633 in 2015. For the years ended December 31, 2016 and 2015, 1,710 and 1,775 employees, respectively, purchased shares under the 2014 and 2013 share plans.

##### *The Group Long-Term Incentive Plan (LTIP)*

Participants in this plan are allocated a target number of performance shares as notional shares of Zurich Insurance Group Ltd in April each year (target shares). The number of target shares is calculated as a percentage of annual base salary of each participant.

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Target shares allocated in 2016 will vest after a period of three years following the year of allocation (three year cliff vesting), with the actual level of vesting between 0 percent and 200 percent of the target shares allocated, depending on the achievement of pre-defined performance criteria. The performance criteria used to determine the level of vesting are the Group's return on shareholders' equity (ROE), the position of its relative total shareholder return (TSR) measured against an international peer group of insurance companies, and the achievement of cash remittance targets. The three pre-defined performance criteria are each assessed over a period of three consecutive financial years starting in the year of allocation. One half of the shares that actually vest are sales-restricted for a further three years. To further align the participants with the interests of the shareholders, effective from January 1, 2014, the target shares are credited with dividend equivalent shares during the vesting period to compensate participants in LTIP for dividends paid to shareholders. As of December 31, 2016 and 2015, there were 1,203 and 1,268 participants in this plan, respectively.

The transition to three-year cliff-vesting has been phased in with transitional arrangements for shares allocated in 2014 and prior. Target shares allocated in 2014 are to be assessed for vesting one-third after two years in 2016 and two-thirds after 3 years in 2017. Further, for LTIP participants who joined the plan prior to 2014, additional performance shares were allocated in 2014 to maintain the same cumulative target earning opportunity for these participants during the transition period.

Table 21

for the years ended December 31

## Shares allocated during the period

	Number		Fair value at the allocation date (in CHF)	
	2016	2015	2016	2015
Shares allocated during the period	780,178	503,749	203	329

The shares allocated each year are based on target under the Group's LTIP. The level of vesting will depend on the level of achievements in the performance criteria. If the vesting level is different to target for non-market conditions, the actual costs of the share-based payments is adjusted accordingly in the year when the level of vesting is determined.

Prior to 2011, for selected senior executives, performance shares and options in shares of Zurich Insurance Group Ltd were allocated. All remaining share options will expire in 2017. The number of allocated shares options amount to 172,978 and 330,888 as of December 31, 2016 and 2015, respectively. For the years ended December 31, 2016 and 2015, 141,416 and 135,161 share options, respectively, were exercised.

## 22. Commitments and contingencies, legal proceedings and regulatory investigations

The Group has provided contractual commitments and financial guarantees to external parties, associates and joint ventures as well as partnerships. These arrangements include commitments under certain conditions to make liquidity advances to cover default principal and interest payments, make capital contributions or provide equity financing.

Table 22.1

Quantifiable commitments and contingencies	in USD millions, as of December 31		
		2016	2015
Remaining commitments under investment agreements		2,009	1,431
Guarantees and letters of credit <sup>1</sup>		799	895
Future operating lease commitments		1,962	1,512
Undrawn loan commitments		7	8
Other commitments and contingent liabilities		199	574

<sup>1</sup> Guarantee features embedded in life insurance products are not included.

### Commitments under investment agreements

The Group has committed to contribute capital to third parties that engage in making investments in direct private equity, private equity funds and real estate. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis.

### Guarantees and letters of credit

In 2016 and 2015, USD 586 million and USD 701 million, respectively, relate to guarantees in the aggregate amount of GBP 475 million which were provided to the directors of a wholly owned subsidiary in connection with the repatriation of capital. These guarantees have no expiry date.

The Group knows of no event of default that would require it to satisfy financial guarantees. Irrevocable letters of credit have been issued to secure certain reinsurance contracts.

The Group is active in numerous countries where insurance guarantee funds exist. The design of such funds varies from jurisdiction to jurisdiction. In some, funding is based on premiums written, in others the Group may be called upon to contribute to such funds in case of a failure of another market participant. In addition, in some jurisdictions the amount of contribution may be limited, for example, to a percentage of the net underwriting reserve net of payments already made.

The Group carries certain contingencies in the ordinary course of business in connection with the sale of its companies and businesses. These are primarily in the form of indemnification obligations provided to the acquirer in a transaction in which a Group company is the seller. They vary in scope and duration by counterparty and generally are intended to shift the potential risk of certain unquantifiable and unknown loss contingencies from the acquirer to the seller.

### Commitments under lease agreements

The Group has entered into various non-cancellable operating leases as lessee for office space and certain computer and other equipment. Lease expenses totalled USD 262 million and USD 254 million for the years ended December 31, 2016 and 2015, respectively.

Table 22.2

Future payments under non-cancelable operating leases with terms in excess of one year	in USD millions, as of December 31		
		2016	2015
< 1 year		262	277
1 to 2 years		218	216
2 to 3 years		196	180
3 to 4 years		157	155
4 to 5 years		135	122
> 5 years		994	564
<b>Total</b>		<b>1,962</b>	<b>1,512</b>

## Consolidated financial statements (continued)

### Other contingent liabilities

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

The Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA- by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available amounts to nil as of both December 31, 2016 and 2015.

In common with other insurance companies in Europe, the Group is faced with the continued trend towards enhanced consumer protection. Significant uncertainty exists regarding the ultimate cost of these consumer protection trends. The main areas of uncertainty concern court decisions as well as the volume of potential customer complaints related to sales activities and withdrawal rights, and their respective individual assessment.

### Pledged assets

The majority of assets pledged to secure the Group's liabilities relate to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 4,903 million and USD 6,208 million as of December 31, 2016 and 2015, respectively.

Terms and conditions associated with the financial assets pledged to secure the Group's liabilities are usual and standard in the markets in which the underlying agreements were executed.

### Legal, compliance and regulatory developments

In recent years there has been an increase in the number of legislative initiatives that require information gathering and tax reporting regarding the Group's customers and their contracts, including the U.S. Foreign Account Tax Compliance Act (FATCA) and the expected introduction of other automatic tax information exchange regimes based on the Common Reporting Standard (CRS). The Group's compliance activities in this area could result in higher compliance costs, remedial actions and other related expenses for its life insurance, savings and pension business. There has also been increased scrutiny by various tax and law enforcement officials into cross-border business activities, including in particular by U.S. government authorities looking into U.S. taxpayers with investments held outside the U.S. and the non-U.S. financial institutions that hold such investments.

The Group, on its own initiative, undertook an internal review of the life insurance, savings and pension business sold by its non-U.S. operating companies with relevant cross-border business to customers with a nexus to the U.S. The Group engaged outside counsel and other advisors to assist in this review, which was focused on assessing compliance with relevant U.S. tax laws. The review confirmed that the Group's cross-border business with U.S. persons was very limited and of a legacy nature, with the large majority of sales having occurred more than a decade ago. The review also confirmed that the Group's U.S. operating companies were not involved in or connected to those activities.

The Group has voluntarily disclosed the results of the review and the regulatory issues presented by sales to U.S. residents to the Swiss Financial Market Supervisory Authority (FINMA), the U.S. Department of Justice (DOJ) and other authorities. The Group is cooperating with these authorities.

While at this stage in the process, it is unclear whether the Group will have any liability related to these matters, the Group does not currently believe this matter will have a material adverse effect on the Group's business or the Group's consolidated financial condition.

### Legal proceedings and regulatory investigations

The Group's business is subject to extensive supervision, and the Group is in regular contact with various regulatory authorities. The Group is continuously involved in legal proceedings, claims and regulatory investigations arising, for the most part, in the ordinary course of its business operations. Specifically, certain companies within the Group are engaged in the following legal proceedings:



An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and were coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The plaintiffs, who were historical policyholders of the Home Insurance Company (Home), pleaded claims for, inter alia, fraudulent transfer, tortious interference, unfair competition, alter ego and agency liability relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs alleged that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets from Home without giving adequate consideration in return, and contend that this forced Home into liquidation. The plaintiffs further alleged that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses (Phase 1).

The Phase 1 trial commenced on November 1, 2010 and the court issued its Statement of Decision for Phase 1 on December 27, 2013. While the court found that the plaintiffs had established that Home transferred certain assets to one of the defendants in connection with the 1995 recapitalization transaction, it held that the plaintiffs' fraudulent transfer claims, which all related to transfers allegedly made as part of the 1995 recapitalization, were time-barred. The court further held that Home's liquidator had exclusive standing to bring fraudulent transfer claims involving Home's assets. In addition, the court accepted the defendants' arguments that the findings made by the regulators in approving the recapitalization transaction are binding on the plaintiffs in the Fuller-Austin Case.

Following a hearing to consider the effect of the initial decision on the plaintiffs' remaining claims, on February 27, 2015, the court issued its Statement of Decision for Phase 1A. The court ruled that all of the plaintiffs' fraudulent transfer causes of action were barred, and plaintiffs later confirmed on the record that their unfair competition claims were also barred as a result of the Decision for Phase 1A. The court allowed the plaintiffs' remaining claims to proceed, but held that the plaintiffs are bound by the insurance regulators' determinations that the 1995 recapitalization was fair and in the best interests of Home's policyholders, including the plaintiffs.

Beginning in early 2015, a number of plaintiffs voluntarily dismissed their claims with prejudice in exchange for an agreement that the defendants will not pursue them for litigation costs and such dismissals have been filed with the Court. As a result of these dismissals only one of the four coordinated actions remains pending, and only one plaintiff remains in that action. Apart from these dismissals, there has been no recent litigation activity in the remaining action. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously against the claims of the one plaintiff that remains in the case.

While the Group believes that it is not a party to, nor are any of its subsidiaries the subject of, any unresolved current legal proceedings, claims, litigation and investigations that will have a material adverse effect on the Group's consolidated financial condition, proceedings are inherently unpredictable, and it is possible that the outcome of any proceeding could have a material impact on results of operations in the particular reporting period in which it is resolved.

## Consolidated financial statements (continued)

### 23. Fair value measurement

To measure fair value, the Group gives the highest priority to quoted and unadjusted prices in active markets. In the absence of quoted prices, fair values are calculated through valuation techniques, making the maximum use of relevant observable market data inputs. Whenever observable parameters are not available, the inputs used to derive the fair value are based on common market assumptions that market participants would use when pricing assets and liabilities. Depending on the observability of prices and inputs to valuation techniques, the Group classifies instruments measured at fair value within the following three levels (the fair value hierarchy):

Level 1 – includes assets and liabilities for which fair values are determined directly from unadjusted current quoted prices resulting from orderly transactions in active markets for identical assets/liabilities.

Level 2 – includes assets and liabilities for which fair values are determined using significant inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable market inputs.

Level 3 – includes assets and liabilities for which fair values are determined using valuation techniques with at least one significant input not being based on observable market data. This approach is used only in circumstances when there is little, if any, market activity for a certain instrument, and the Group is required to develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability.

The governance framework and oversight of the Group standards and procedures regarding the valuation of financial instruments measured at fair value lies within the responsibility of Group Risk Management, Group Investment Management, Treasury Capital Management and Group Finance. Specialists from these departments ensure the adequacy of valuation models, approve methodologies and sources to derive model input parameters, provide oversight over the selection of third party pricing providers, and on a quarterly basis review the classification within the fair value hierarchy of the financial instruments in scope.

The Group makes extensive use of third party pricing providers to determine the fair values of its available-for-sale and fair value through profit or loss financial instruments, and only in rare cases places reliance on prices that are derived from internal models. Investment accounting, operations and process functions, are independent from those responsible for buying and selling the assets, and are responsible for receiving, challenging and verifying values provided by third party pricing providers to ensure that fair values are reliable, as well as ensuring compliance with applicable accounting and valuation policies. The quality control procedures used depend on the nature and complexity of the invested assets. They include regular reviews of valuation techniques and inputs used by pricing providers (for example, default rates of collateral for asset-backed securities), variance and stale price analysis, and comparisons with fair values of similar instruments and with alternative values obtained from asset managers and brokers.

Table 23.1 compares the fair value with the carrying value of financial assets and financial liabilities. Certain financial instruments are not included within this table as their carrying value is a reasonable approximation of their fair value. Such instruments include cash and cash equivalents, obligations to repurchase securities, deposits made under assumed reinsurance contracts, deposits received under ceded reinsurance contracts and other financial assets and liabilities. This table excludes financial assets and financial liabilities relating to unit-linked contracts.

Table 23.1				
in USD millions, as of December 31				
Fair value and carrying value of financial assets and financial liabilities	Total fair value		Total carrying value	
	2016	2015	2016	2015
<b>Available-for-sale securities</b>				
Equity securities	12,548	15,354	12,548	15,354
Debt securities	131,967	128,181	131,967	128,181
<b>Total available-for-sale securities</b>	<b>144,515</b>	<b>143,535</b>	<b>144,515</b>	<b>143,535</b>
<b>Fair value through profit or loss securities</b>				
Equity securities	3,359	3,519	3,359	3,519
Debt securities	5,672	6,180	5,672	6,180
<b>Total fair value through profit or loss securities</b>	<b>9,032</b>	<b>9,699</b>	<b>9,032</b>	<b>9,699</b>
<b>Derivative assets</b>	<b>968</b>	<b>1,120</b>	<b>968</b>	<b>1,120</b>
<b>Held-to-maturity debt securities</b>	<b>3,213</b>	<b>4,086</b>	<b>2,543</b>	<b>3,369</b>
<b>Investments in associates and joint ventures</b>	<b>20</b>	<b>18</b>	<b>20</b>	<b>18</b>
<b>Mortgage loans</b>	<b>7,330</b>	<b>7,603</b>	<b>6,794</b>	<b>7,024</b>
<b>Other loans</b>	<b>10,909</b>	<b>11,279</b>	<b>9,146</b>	<b>9,569</b>
<b>Total financial assets</b>	<b>175,987</b>	<b>177,341</b>	<b>173,016</b>	<b>174,335</b>
<b>Derivative liabilities</b>	<b>(345)</b>	<b>(362)</b>	<b>(345)</b>	<b>(362)</b>
<b>Financial liabilities held at amortized cost</b>				
Liabilities related to investment contracts	(637)	(913)	(506)	(754)
Liabilities related to investment contracts with DPF	(8,011)	(6,447)	(8,374)	(7,629)
Senior debt	(4,306)	(4,596)	(4,162)	(4,471)
Subordinated debt	(7,370)	(5,983)	(7,050)	(5,614)
<b>Total financial liabilities held at amortized cost</b>	<b>(20,325)</b>	<b>(17,940)</b>	<b>(20,092)</b>	<b>(18,468)</b>
<b>Total financial liabilities</b>	<b>(20,670)</b>	<b>(18,302)</b>	<b>(20,437)</b>	<b>(18,830)</b>

All of the Group's financial assets and financial liabilities are initially recorded at fair value. Subsequently, available-for-sale financial assets, fair value through profit or loss financial assets, and derivative financial instruments are carried at fair value as of the balance sheet date. All other financial instruments are carried at amortized cost and the valuation techniques used to determine their fair value measurement are described below.

Fair values of held-to-maturity debt securities and senior and subordinated debt are obtained from third party pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for identical assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. Such instruments are categorized within level 2.

Discounted cash flow models are used for mortgage loans and other loans. The discount yields in these models use interest rates that reflect the return a market participant would expect to receive on instruments with similar remaining maturities, cash flow patterns, currencies, credit risk and collateral. Such instruments are categorized within level 3.

Fair values of liabilities related to investment contracts and investment contracts with DPF are determined using discounted cash flow models. Such instruments are categorized within level 3 due to the unobservability of certain inputs used in the valuation.

## Consolidated financial statements (continued)

## Recurring fair value measurements of assets and liabilities

Table 23.2a					
in USD millions, as of December 31, 2016		Level 1	Level 2	Level 3	Total
Fair value hierarchy – non unit-linked – current period	<b>Available-for-sale securities</b>				
	Equity securities	9,237	2,395	917	12,548
	Debt securities	–	126,459	5,508	131,967
	<b>Total available-for-sale securities</b>	<b>9,237</b>	<b>128,853</b>	<b>6,425</b>	<b>144,515</b>
	<b>Fair value through profit or loss securities</b>				
	Equity securities	783	40	2,536	3,359
	Debt securities	–	5,575	97	5,672
	<b>Total fair value through profit or loss securities</b>	<b>783</b>	<b>5,615</b>	<b>2,633</b>	<b>9,032</b>
	Derivative assets	3	541	424	968
	Investment property	–	2,007	8,555	10,562
	Reinsurers' share of reserves for insurance contracts fair value option <sup>1</sup>	–	–	237	237
	<b>Total</b>	<b>10,023</b>	<b>137,016</b>	<b>18,275</b>	<b>165,314</b>
	Derivative liabilities	–	(281)	(63)	(345)
	Reserves for insurance contracts fair value option <sup>2</sup>	–	–	(2,720)	(2,720)
	<b>Total</b>	<b>–</b>	<b>(281)</b>	<b>(2,783)</b>	<b>(3,065)</b>

<sup>1</sup> Included within reinsurers' share of reserves for insurance contracts.

<sup>2</sup> Included within reserves for insurance contracts.

Table 23.2b					
in USD millions, as of December 31, 2015		Level 1	Level 2	Level 3	Total
Fair value hierarchy – non unit-linked – prior period	<b>Available-for-sale securities</b>				
	Equity securities	12,143	2,252	959	15,354
	Debt securities	495	121,724	5,962	128,181
	<b>Total available-for-sale securities</b>	<b>12,638</b>	<b>123,977</b>	<b>6,921</b>	<b>143,535</b>
	<b>Fair value through profit or loss securities</b>				
	Equity securities	1,017	82	2,419	3,519
	Debt securities	–	6,034	146	6,180
	<b>Total fair value through profit or loss securities</b>	<b>1,017</b>	<b>6,116</b>	<b>2,565</b>	<b>9,699</b>
	Derivative assets	1	591	529	1,120
	Investment property	–	2,037	7,828	9,865
	Reinsurers' share of reserves for insurance contracts fair value option <sup>1</sup>	–	–	270	270
	<b>Total</b>	<b>13,656</b>	<b>132,720</b>	<b>18,113</b>	<b>164,489</b>
	Derivative liabilities	(5)	(258)	(99)	(362)
	Reserves for insurance contracts fair value option <sup>2</sup>	–	–	(2,927)	(2,927)
	<b>Total</b>	<b>(5)</b>	<b>(258)</b>	<b>(3,027)</b>	<b>(3,289)</b>

<sup>1</sup> Included within reinsurers' share of reserves for insurance contracts.

<sup>2</sup> Included within reserves for insurance contracts.

Table 23.3a

Fair value hierarchy –  
unit-linked – current  
period

in USD millions, as of December 31, 2016

	Level 1	Level 2	Level 3	Total
<b>Fair value through profit or loss securities</b>				
Equity securities	92,232	20,684	446	113,362
Debt securities	–	7,168	30	7,198
Other loans	–	1,458	–	1,458
<b>Total fair value through profit or loss securities</b>	<b>92,232</b>	<b>29,309</b>	<b>476</b>	<b>122,018</b>
<b>Derivative assets</b>	<b>5</b>	<b>21</b>	<b>–</b>	<b>26</b>
<b>Investment property</b>	<b>–</b>	<b>–</b>	<b>3,138</b>	<b>3,138</b>
<b>Total investments for unit-linked contracts<sup>1</sup></b>	<b>92,236</b>	<b>29,331</b>	<b>3,614</b>	<b>125,182</b>
<b>Financial liabilities at FV through profit or loss</b>				
Liabilities related to unit-linked investment contracts	–	(60,233)	–	(60,233)
<b>Derivative liabilities</b>	<b>(4)</b>	<b>(5)</b>	<b>–</b>	<b>(9)</b>
<b>Total</b>	<b>(4)</b>	<b>(60,238)</b>	<b>–</b>	<b>(60,242)</b>

<sup>1</sup> Excluding cash and cash equivalents.

Table 23.3b

Fair value hierarchy –  
unit-linked – prior  
period

in USD millions, as of December 31, 2015

	Level 1	Level 2	Level 3	Total
<b>Fair value through profit or loss securities</b>				
Equity securities	89,414	22,093	336	111,844
Debt securities	951	7,198	43	8,192
Other loans	227	1,090	–	1,317
<b>Total fair value through profit or loss securities</b>	<b>90,592</b>	<b>30,381</b>	<b>380</b>	<b>121,353</b>
<b>Derivative assets</b>	<b>–</b>	<b>7</b>	<b>–</b>	<b>7</b>
<b>Investment property</b>	<b>–</b>	<b>–</b>	<b>4,341</b>	<b>4,341</b>
<b>Total investments for unit-linked contracts<sup>1</sup></b>	<b>90,592</b>	<b>30,388</b>	<b>4,721</b>	<b>125,701</b>
<b>Financial liabilities at FV through profit or loss</b>				
Liabilities related to unit-linked investment contracts	–	(62,245)	–	(62,245)
<b>Derivative liabilities</b>	<b>(1)</b>	<b>(6)</b>	<b>–</b>	<b>(7)</b>
<b>Total</b>	<b>(1)</b>	<b>(62,251)</b>	<b>–</b>	<b>(62,252)</b>

<sup>1</sup> Excluding cash and cash equivalents.

Within level 1, the Group has classified common stocks, exchange traded derivative financial instruments, investments in unit trusts that are actively traded in an exchange market and other highly liquid financial instruments.

Within level 2, the Group has classified government and corporate bonds, investments in unit trusts, agency mortgage-backed securities (MBS) and 'AAA' rated non-agency MBS and other asset-backed securities (ABS) where valuations are obtained from independent pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for similar assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. If such quoted prices are not available, then fair values are estimated on the basis of information from external pricing providers or internal pricing models (for example, discounted cash flow models or other recognized valuation techniques).

Over the counter derivative financial instruments are valued using internal models. The fair values are determined using dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for underlying instruments, time to expiry, yield curves and volatility of underlying instruments. Such instruments are classified within level 2 as the inputs used in pricing models are generally market observable or derived from market observable data.

Fair values of liabilities related to unit-linked investment contracts are usually determined by reference to the fair value of the underlying assets backing these liabilities. Such instruments are classified within level 2.

## Consolidated financial statements (continued)

Within level 3, the Group has classified:

- Unlisted stocks, private equity funds and certain hedge funds that are not actively traded. Such instruments are obtained from net asset value information and audited financial statements provided by the issuing hedge funds and private equity funds. Performance of these investments and determination of their fair value are monitored and reviewed closely by the Group's in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments.
- Non-agency MBS and ABS rated below 'AAA' that are valued by independent pricing providers using a variety of valuation techniques which may require use of significant unobservable input parameters such as asset prepayment rate, default rates and credit curves.
- Certain options and long-dated derivative financial instruments with fair values determined using counterparty valuations or calculated using significant unobservable inputs such as historical volatilities, historical correlation, implied volatilities from the counterparty or derived using extrapolation techniques.
- Certain investment properties for which fair value is based on valuations performed annually by internal valuation specialists and generally on a rotation basis at least once every three years by an independent qualified appraiser. The valuation methods applied are income capitalization, discounted cash flow analysis, and market comparables taking into account the actual letting status and observable market data. The majority of such investments have been categorized within level 3 because the valuation techniques used include significant adjustments to observable data of similar properties. Some of these investments have been categorized within level 2, where there are active and transparent markets and no significant adjustments to the observable data are required.
- Reinsurers' share of reserves and reserves for insurance contracts fair value option. The fair values are determined using discounted cash flow models. The discount factors used are based on derived rates for LIBOR swap forwards, spreads to U.S. Treasuries and spreads to U.S. Corporate A or higher rated bond segments for Financials, Industrials and Utilities. The liability projected cash flows use contractual information for premiums, benefits and agent commissions, administrative expenses under third party administrative service agreements and best estimate parameters for policy decrements. The primary unobservable inputs are the policy decrement assumptions used in projecting cash flows. These include disability claim parameters for incidence and termination (whether for recovery or death) and lapse rates.
- The Group's private debt holdings comprise certain private placements and other Collateralized Loan Obligations (CLO) which are valued by dedicated external asset managers applying a combination of expert judgment and other specific adjustments for which interest rates as well as credit spreads serve as input parameters.

The fair value hierarchy is reviewed at the end of each reporting period to determine whether significant transfers between levels have occurred. Transfers between levels mainly arise as a result of changes in market activity and observability of the inputs to the valuation techniques used to determine the fair value of certain instruments.

For the year ended December 31, 2016, the Group transferred USD 2,146 million of unit-linked equity securities out of level 2 into level 1 as a result of a review of the classification of certain mutual fund investments. No material transfers between level 1 and level 2 occurred for the year ended December 31, 2015.

Table 23.4a

in USD millions

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

	Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities	Investment property
	Equity securities	Debt securities	Equity securities	Debt securities			
As of January 1, 2016	959	5,962	2,419	146	529	(99)	7,828
Realized gains/(losses) recognized in income <sup>1</sup>	105	24	9	–	–	–	129
Unrealized gains/(losses) recognized in income <sup>1,2</sup>	(15)	(34)	154	–	(31)	(4)	236
Unrealized gains/(losses) recognized in other comprehensive income	(9)	24	–	–	59	38	9
Purchases	223	1,291	448	1	8	–	836
Settlements/sales/redemptions	(299)	(1,416)	(471)	(29)	(6)	–	(245)
Transfer from/to assets held for own use	–	–	–	–	–	–	(5)
Transfer to assets held for sale	–	–	–	–	–	–	(74)
Transfers into level 3	–	29	1	–	–	–	–
Transfers out of level 3	–	(228)	–	(6)	(130)	–	–
Acquisitions and divestments	(6)	–	–	–	–	–	–
Foreign currency translation effects	(42)	(145)	(25)	(15)	(5)	2	(159)
<b>As of December 31, 2016</b>	<b>917</b>	<b>5,508</b>	<b>2,536</b>	<b>97</b>	<b>424</b>	<b>(63)</b>	<b>8,555</b>

<sup>1</sup> Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements.<sup>2</sup> Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

For the year ended December 31, 2016, the Group transferred USD 228 million of available-for-sale debt securities out of level 3 into level 2. The transfers were mainly due to credit rating upgrades of certain asset-backed securities resulting in an increase in market activity of these instruments and a review of the classification of certain corporate bonds due to the observability of the inputs used in the valuation techniques to determine its fair value. The Group also transferred derivatives with a market value of USD 130 million out of level 3 into level 2. The transfers resulted from an increase in significance of certain observable input parameters used to derive the fair value.

Table 23.4b

in USD millions

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

	Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities	Investment property
	Equity securities	Debt securities	Equity securities	Debt securities			
As of January 1, 2015	929	2,764	2,417	185	375	(61)	6,818
Realized gains/(losses) recognized in income <sup>1</sup>	148	5	77	–	(2)	–	8
Unrealized gains/(losses) recognized in income <sup>1,2</sup>	(2)	(27)	(28)	(5)	(15)	13	97
Unrealized gains/(losses) recognized in other comprehensive income	(47)	(97)	–	–	59	(55)	12
Purchases	188	2,246	463	7	6	–	1,096
Settlements/sales/redemptions	(288)	(661)	(496)	(35)	(5)	1	(7)
Transfer from/to assets held for own use	–	–	–	–	–	–	22
Transfer to assets held for sale	–	–	–	–	–	–	(16)
Transfers into level 3	58	1,829	–	–	124	–	22
Transfers out of level 3	–	(20)	–	–	(4)	–	–
Foreign currency translation effects	(27)	(77)	(14)	(6)	(11)	3	(224)
<b>As of December 31, 2015</b>	<b>959</b>	<b>5,962</b>	<b>2,419</b>	<b>146</b>	<b>529</b>	<b>(99)</b>	<b>7,828</b>

<sup>1</sup> Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements.<sup>2</sup> Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

## Consolidated financial statements (continued)

For the year ended December 31, 2015, the Group transferred USD 1,829 million of available-for-sale debt securities out of level 2 into level 3 as a result of a review of the classification of certain collateralized loan obligations and privately placed securities. The fair value of these securities is obtained from third party pricing providers, who use significant unobservable inputs and expert judgment in their valuation model. The Group also transferred derivatives with a market value of USD 124 million out of level 2 into level 3. The transfers resulted from certain significant input parameters used to derive the fair value (such as volatility) becoming unobservable.

Table 23.5a			
in USD millions			
	Gross	Ceded	Net
Development of reserves for insurance contracts fair value option classified within level 3 – current period			
As of January 1, 2016	2,927	(270)	2,657
Premiums	77	(6)	71
Claims	(363)	44	(319)
Fee income and other expenses	(38)	10	(28)
Interest and bonuses credited to policyholders	60	(8)	52
Changes in assumptions	56	(7)	49
<b>As of December 31, 2016</b>	<b>2,720</b>	<b>(237)</b>	<b>2,483</b>

Table 23.5b			
in USD millions			
	Gross	Ceded	Net
Development of reserves for insurance contracts fair value option classified within level 3 – prior period			
As of January 1, 2015	3,594	(375)	3,219
Premiums	85	(7)	78
Claims	(618)	95	(523)
Fee income and other expenses	(172)	25	(147)
Interest and bonuses credited to policyholders	78	(11)	67
Changes in assumptions	(39)	3	(36)
<b>As of December 31, 2015</b>	<b>2,927</b>	<b>(270)</b>	<b>2,657</b>

Table 23.6a			
in USD millions			
	Fair value through profit or loss securities		
	Equity securities	Debt securities	Investment property
Development assets and liabilities classified within level 3 – unit-linked – current period			
As of January 1, 2016	336	43	4,341
Realized gains/(losses) recognized in income <sup>1</sup>	–	–	(4)
Unrealized gains/(losses) recognized in income <sup>1</sup>	11	(1)	(89)
Purchases	164	–	116
Sales/redemptions	(63)	(7)	(567)
Transfers into level 3	1	1	–
Foreign currency translation effects	(2)	(6)	(659)
<b>As of December 31, 2016</b>	<b>446</b>	<b>30</b>	<b>3,138</b>

<sup>1</sup> Presented as net investment result on unit-linked investments in the consolidated income statements.



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

Table 23.6b

in USD millions

	Fair value through profit or loss		
	Equity securities	Debt securities	Investment property
As of January 1, 2015	198	67	4,100
Realized gains/(losses) recognized in income <sup>1</sup>	–	1	26
Unrealized gains/(losses) recognized in income <sup>1</sup>	3	–	383
Purchases	230	–	213
Sales/redemptions	(91)	(22)	(147)
Transfers into level 3	1	–	–
Foreign currency translation effects	(6)	(3)	(235)
<b>As of December 31, 2015</b>	<b>336</b>	<b>43</b>	<b>4,341</b>

<sup>1</sup> Presented as net investment result on unit-linked investments in the consolidated income statements.

### Non-recurring fair value measurements of assets and liabilities

In particular circumstances, the Group may measure certain assets or liabilities at fair value on a non-recurring basis when an impairment charge is recognized.

### Sensitivity of fair values reported for level 3 instruments to changes to key assumptions

Within level 3, the Group classified non-agency ABS/MBS, CLOs, and private debt placements amounting to USD 5,605 million and USD 6,108 million for Group investments and USD 30 million and USD 43 million for investments for unit-linked contracts as of December 31, 2016 and December 31, 2015, respectively.

Within level 3, the Group also classified investments in private equity funds, certain hedge funds and other securities which are not quoted on an exchange amounting to USD 3,453 million and USD 3,378 million for Group investments and USD 446 and USD 336 million for investments for unit-linked contracts as of December 31, 2016 and December 31, 2015, respectively. These investments are valued based on regular reports from the issuing funds, and their fair values are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments.

The key assumptions driving the valuation of these investments include equity levels, discount rates, credit spread rates and prepayment rates. The effect on reported fair values of using reasonably possible alternative values for each of these assumptions, while the other key assumptions remain unchanged, is disclosed in tables 23.7.a and 23.7.b. While these tables illustrate the overall effect of changing the values of unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different terms and circumstances. Inter-relationships between those unobservable inputs are disclosed in tables 23.8.a and 23.8.b. The correlation is based on the historical correlation matrix derived from the risk factors which are assigned to each of the level 3 exposures (equity and debt securities). The main market drivers are equity markets and rate indicators and the impact of such changes on the other factors. The spread scenario analyzes the impact of an increase of borrowing cost for entities.

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments under current market conditions, and its results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of these investments. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Group's view of expected future changes in the fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

## Consolidated financial statements (continued)

Table 23.7a

as of December 31, 2016

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

	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
<b>Key assumptions</b>				
Equity levels	-20%	(691)	+20%	691
Discount rates	+20%	(68)	-20%	68
Spread rates	+20%	(68)	-20%	68
Prepayment rates	-20%	(1)	+20%	1

Table 23.7b

as of December 31, 2015

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

	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
<b>Key assumptions</b>				
Equity levels	-20%	(743)	+20%	743
Discount rates	+20%	(141)	-20%	152
Spread rates	+20%	(148)	-20%	159
Prepayment rates	-20%	(2)	+20%	2

Table 23.8a

as of December 31, 2016

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

Scenarios	Key assumptions				Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Equity levels +10%	+10.0%	+11.6%	+11.6%	+11.6%	321
Equity levels -10%	-10.0%	-11.5%	-11.5%	-11.5%	(323)
Discount rates +10%	-0.8%	+10.0%	+10.0%	-2.0%	(27)
Discount rates -10%	+0.8%	-10.0%	-10.0%	+2.0%	28
Spread rates +10%	-0.8%	+10.0%	+10.0%	+0.2%	(27)

Table 23.8b

as of December 31, 2015

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

Scenarios	Key assumptions				Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Equity levels +10%	+10.0%	-1.4%	-1.4%	-1.4%	343
Equity levels -10%	-10.0%	+1.3%	+1.3%	+1.3%	(342)
Discount rates +10%	+0.5%	+10.0%	+7.5%	-2.0%	(109)
Discount rates -10%	-0.4%	-10.0%	-7.5%	+2.0%	114
Spread rates +10%	+0.5%	+7.0%	+10.0%	+0.2%	(110)

Within level 3, the Group also classified:

- 
- Investment property amounting to USD 8,555 million and USD 7,828 million for Group investments and USD 3,138 million and USD 4,341 million for investments for unit-linked contracts as of December 31, 2016 and 2015, respectively. A large portion of this portfolio is valued using an internal income capitalization model. The model is asset specific and capitalizes the sustainable investment income of a property with its risk specific cap rate. This cap rate is an "all risk yield" with components such as asset class yield for core assets (lowest risk) plus additional premiums for additional risks, for example second tier location or deterioration risk. All cap rate components (risk premiums) are reviewed and, if necessary, adjusted annually before revaluations are performed. The model takes into consideration external factors such as interest rate, market rent and vacancy rate. The significant unobservable inputs which are outside this model, are estimated rental value, rental growth, long term vacancy rate and discount rate. Significant increases/(decreases) in rental value and rental growth, in isolation, would result in a significantly higher/(lower) fair value measurement. Significant increases/(decreases) in the long term vacancy rate and discount rate, in isolation, would result in a significantly lower/(higher) fair value measurement.
- 
- USD 237 million and USD 270 million for reinsurers' share of reserves fair value option and, USD 2,720 million and USD 2,927 million reserves for insurance contracts fair value option as of December 31, 2016 and 2015, respectively. The significant unobservable inputs used in the fair value measurement are the policy decrement assumptions used in projecting cash flows. Significant increases/(decreases) in claim incidence rates and significant decreases/(increases) in claim termination rates would result in a significantly higher/(lower) fair value measurement.
-

## Consolidated financial statements (continued)

## 24. Analysis of financial assets

Tables 24.1a and 24.1b provide an analysis, for non unit-linked businesses, of the age of financial assets that are past due but not impaired and of financial assets that are individually determined to be impaired.

Table 24.1a

in USD millions, as of December 31, 2016

Analysis of  
financial assets –  
current period

	Debt securities	Mortgage loans	Other loans	Receivables and other financial assets	Total
<b>Neither past due nor impaired financial assets</b>	<b>140,038</b>	<b>6,719</b>	<b>9,145</b>	<b>13,010</b>	<b>168,912</b>
<b>Past due but not impaired financial assets.</b>					
<b>Past due by:</b>					
1 to 90 days	–	38	–	1,156	1,194
91 to 180 days	–	10	–	252	262
181 to 365 days	–	5	–	184	189
> 365 days	–	8	–	181	189
<b>Past due but not impaired financial assets</b>	<b>–</b>	<b>60</b>	<b>–</b>	<b>1,773</b>	<b>1,834</b>
<b>Financial assets impaired</b>	<b>143</b>	<b>66</b>	<b>21</b>	<b>121</b>	<b>351</b>
<b>Gross carrying value</b>	<b>140,181</b>	<b>6,845</b>	<b>9,166</b>	<b>14,904</b>	<b>171,097</b>
<b>Less: impairment allowance</b>					
Impairment allowances on individually assessed financial assets	–	46	20	71	137
Impairment allowances on collectively assessed financial assets	–	5	–	159	164
<b>Net carrying value</b>	<b>140,181</b>	<b>6,794</b>	<b>9,146</b>	<b>14,675</b>	<b>170,796</b>

Table 24.1b

in USD millions, as of December 31, 2015

Analysis of  
financial assets –  
prior period

	Debt securities	Mortgage loans <sup>1</sup>	Other loans	Receivables and other financial assets	Total
<b>Neither past due nor impaired financial assets</b>	<b>137,414</b>	<b>6,965</b>	<b>9,568</b>	<b>11,203</b>	<b>165,150</b>
<b>Past due but not impaired financial assets.</b>					
<b>Past due by:</b>					
1 to 90 days	–	41	–	1,215	1,257
91 to 180 days	–	6	–	285	291
181 to 365 days	–	4	–	138	142
> 365 days	–	8	–	188	197
<b>Past due but not impaired financial assets</b>	<b>–</b>	<b>60</b>	<b>–</b>	<b>1,827</b>	<b>1,887</b>
<b>Financial assets impaired</b>	<b>316</b>	<b>106</b>	<b>21</b>	<b>136</b>	<b>579</b>
<b>Gross carrying value</b>	<b>137,730</b>	<b>7,130</b>	<b>9,589</b>	<b>13,166</b>	<b>167,616</b>
<b>Less: impairment allowance</b>					
Impairment allowances on individually assessed financial assets	–	98	20	85	204
Impairment allowances on collectively assessed financial assets	–	8	–	163	171
<b>Net carrying value</b>	<b>137,730</b>	<b>7,024</b>	<b>9,569</b>	<b>12,917</b>	<b>167,240</b>

<sup>1</sup> USD 97 million impaired mortgage loans relate to the run-off property loans at Dunbar Assets Ireland.

Tables 24.2a and 24.2b show how the allowances for impairments of financial assets in tables 24.1a and 24.1b developed during the periods ended December 31, 2016 and 2015, respectively.

Table 24.2a				
Development of allowance for impairments – current period	in USD millions	Mortgage		
		loans	Other loans	Receivables
	As of January 1, 2016	106	20	249
	Increase/(decrease) in allowance for impairments	(5)	2	33
	Amounts written-off	(47)	(2)	(19)
Acquisitions and divestments	–	–	(31)	
Foreign currency translation effects	(3)	(1)	(2)	
<b>As of December 31, 2016</b>	<b>51</b>	<b>20</b>	<b>230</b>	

Table 24.2b				
Development of allowance for impairments – prior period	in USD millions	Mortgage loans	Other loans	Receivables
	As of January 1, 2015	637	19	266
	Increase/(decrease) in allowance for impairments	44	1	61
	Amounts written-off <sup>1</sup>	(543)	–	(54)
	Foreign currency translation effects	(31)	–	(24)
<b>As of December 31, 2015</b>	<b>106</b>	<b>20</b>	<b>249</b>	

<sup>1</sup> Includes USD 542 million related to the run-off property loans at Dunbar Assets Ireland.

## Consolidated financial statements (continued)

## 25. Related party transactions

In the normal course of business, the Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the Group, either individually or in aggregate. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

Table 25 summarizes related party transactions with key personnel reflected in the consolidated financial statements. Key personnel includes members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd and members of the Executive Committee.

Table 25			
in USD millions, for the years ended December 31			
		2016	2015
Related party transactions – key personnel	<b>Remuneration of key personnel of the Group</b>		
	Cash compensation, current benefits and fees	21	27
	Post-employment benefits	4	4
	Share-based compensation	17	15
	Other remuneration	2	11
	<b>Total remuneration of key personnel</b>	<b>43</b>	<b>57</b>

As of December 31, 2016 and 2015, there were no loans, advances or credits outstanding from members of the Executive Committee. Outstanding loans and guarantees granted to members of the Board of Directors amounted to nil for the years ended December 31, 2016 and 2015. The terms “members of the Board of Directors” and “members of the Executive Committee” in this context include the individual as well as members of their respective households. The figures in table 25 include the fees paid to members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd, which were USD 5 million for both years ended December 31, 2016 and 2015, respectively.

Information required by art. 14–16 of the Swiss Ordinance against Excessive Compensation and art. 663c paragraph 3 of the Swiss Code of Obligations is disclosed in the Remuneration report.

The cash compensation, current benefits and fees are short term in nature.

## 26. Relationship with the Farmers Exchanges

Farmers Group, Inc. and its subsidiaries (FGI) provide certain non-claims administrative and management services to the Farmers Exchanges, which are managed by Farmers Group, Inc. a wholly owned subsidiary of the Group, including risk selection, preparation and mailing of policy documents and invoices, premium collection, management of the investment portfolios and certain other administrative and managerial functions. Fees for these management services are primarily determined as a percentage of gross premiums earned by the Farmers Exchanges. The finances and operations of the Farmers Exchanges are governed by independent Boards of Governors. In addition, the Group has the following relationships with the Farmers Exchanges.

### a) Certificates of contribution issued by the Farmers Exchanges

As of December 31, 2016 and 2015, FGI and other Group companies held the following certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 26.1			
Certificates of contribution	in USD millions, as of December 31		
		2016	2015
	6.15% certificate of contribution, due June 2021	707	707
	Various other certificates of contribution	23	23
	<b>Total</b>	<b>730</b>	<b>730</b>

Conditions governing payment of interest and repayment of principal are outlined in the certificates of contribution. Generally, repayment of principal and payment of interest may be made only when the issuer has an appropriate amount of surplus, and then only after approval is granted by the appropriate state insurance regulatory department in the U.S. Additionally, the approval by the issuer's governing board is needed for repayment of principal.

### b) Quota share reinsurance treaties with the Farmers Exchanges

The Farmers Exchanges cede risk through quota share reinsurance treaties to Farmers Reinsurance Company (Farmers Re Co), a wholly owned subsidiary of FGI, and to Zurich Insurance Company Ltd (ZIC). These treaties can be terminated after 90 days' notice by any of the parties.

The Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges provided for annual ceded premiums of USD 500 million in 2015. The APD agreement was not renewed in 2016.

The Farmers Exchanges participate in an All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Re Co and ZIC. The All Lines agreement provides for a cession of a quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied.

## Consolidated financial statements (continued)

Quota share reinsurance treaties	Table 26.2					
	in USD millions, for the years ended December 31					
	APD agreement		All Lines agreement		Total	
	2016 <sup>1</sup>	2015 <sup>2</sup>	2016 <sup>3</sup>	2015 <sup>4</sup>	2016	2015
Net earned premiums and policy fees	–	500	1,521	1,766	1,521	2,266
Insurance benefits and losses, net <sup>5</sup>	(1)	(365)	(1,084)	(1,223)	(1,085)	(1,588)
Total net technical expenses <sup>6</sup>	–	(139)	(487)	(565)	(487)	(704)
<b>Net underwriting result</b>	<b>(1)</b>	<b>(3)</b>	<b>(50)</b>	<b>(23)</b>	<b>(51)</b>	<b>(26)</b>

<sup>1</sup> The APD agreement was not renewed in 2016. Net underwriting result in 2016 reflects adverse development on prior year's business in run-off.

<sup>2</sup> Farmers Re Co assumed 7.0 percent and ZIC assumed 64.0 percent. The remaining 29.0 percent was assumed by a third party on the same terms as Farmers Re Co and ZIC.

<sup>3</sup> From January 1, 2016, ZIC assumed a 8.0 percent quota share. Another 12.0 percent was assumed by third parties. Subject to the approval of the California Department of Insurance, effective December 31, 2016, ZIC assumed an 8.0 percent quota share, while another 16.0 percent is assumed by third parties.

<sup>4</sup> From January 1, 2015, Farmers Re Co and ZIC assumed a 1.0 percent and 9.0 percent respective quota share. Another 4.0 percent was assumed by a third party. Effective December 31, 2015, ZIC assumed an 8.0 percent quota share, while another 12.0 percent is assumed by third parties. Farmers Re Co ceased its participation in the All Lines agreement, effective December 31, 2015.

<sup>5</sup> Under the All Lines agreement the Farmers Exchanges catastrophe losses are subject to a provisional maximum of USD 1.3 billion dependent on loss experience and recoveries at a specified rate for each year. Based on results for 2016, the total catastrophe recoveries subject to the All Lines agreement was USD 1.2 billion.

<sup>6</sup> Under the APD agreement the ceding commission for acquisition expenses was 27.7 percent and the ceding commission for unallocated loss adjustment expenses was 10.0 percent. Under the All Lines agreement, the Farmers Exchanges receive a ceding commission of 26.7 percent, 8.2 percent of premiums for unallocated loss adjustment expenses (8.4 percent in 2015) and 5.3 percent of premiums for other expenses.

### c) Farmers management fees and other related revenues

FGI through its attorney-in-fact (AIF) contracts with the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group, is permitted by policyholders to receive a management fee of up to 20 percent (up to 25 percent in the case of the Fire Insurance Exchange) of the gross premiums earned by the Farmers Exchanges.

FGI has historically charged a lower management fee than the amount allowed by policyholders. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 19,528 million and USD 18,885 million for the years ended December 31, 2016 and 2015, respectively.



## 27. Segment information

The Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both businesses and geography. The Group's reportable segments have been identified on the basis of the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. Segment information is presented accordingly. The Group's reportable segments are as follows:

**General Insurance** provides a variety of motor, home and commercial products and services for individuals, as well as small and large businesses.

**Global Life** pursues a strategy of providing market-leading unit-linked, protection and corporate propositions through global distribution and proposition pillars to develop leadership positions in its chosen segments.

**Farmers**, through Farmers Group, Inc. and its subsidiaries (FGI), provides certain non-claims administrative and management services to the Farmers Exchanges. This segment also includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S.

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

**Other Operating Businesses** predominantly consist of the Group's Holding and Financing and Headquarters activities. Certain alternative investment positions not allocated to business operating segments are included within Holding and Financing.

**Non-Core Businesses** include insurance and reinsurance businesses that the Group does not consider core to its operations and are therefore mostly managed to achieve a beneficial run-off. In addition, Non-Core Businesses includes the Group's management of property loans and banking activities. Non-Core businesses are mainly situated in the U.S., Bermuda, the UK and Ireland.

The Group also manages two of the three core segments on a secondary level.

General Insurance is managed based on market-facing businesses, including:

- Global Corporate
- North America Commercial
- Europe, Middle East & Africa (EMEA)
- Latin America
- Asia-Pacific

For external reporting purposes Latin America and Asia-Pacific are aggregated into International Markets.

Global Life is managed on a regional-based structure within a global framework, including:

- North America
- Latin America
- Europe, Middle East & Africa (EMEA)
- Asia-Pacific

## Consolidated financial statements (continued)

### **Change in the structure of the Group**

On June 10, 2016, Zurich announced a planned change in the structure of the Group, effective July 1, 2016, which will lead to a simpler, more customer-oriented structure and reduced complexity. The new business structure will be focused on geographic regions in our core businesses of Property and Casualty (P&C) and Life – Asia Pacific, Europe, Middle East and Africa (EMEA), Latin America and North America – as well as Farmers, Group Functions and Operations and Non-Core Businesses. On September 20, 2016, Zurich announced further changes to the business structure of the Group by creating a new unit, called Commercial Insurance, which will combine its Corporate and Commercial business into a single global business. The new reporting structure will be reflected in the consolidated financial statements in 2017.

### **Business operating profit**

The segment information includes the Group's internal performance measure, business operating profit (BOP). This measure is the basis on which the Group manages all of its business units. It indicates the underlying performance of the Group's business units, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and impairments on investments (except for the capital markets and property lending/banking operations included in Non-Core Businesses, investments in hedge funds, certain securities held for specific economic hedging purposes and policyholders' share of investment results for the life businesses) and non-operational foreign exchange movements. Significant items arising from special circumstances, including restructuring charges, charges for litigation outside the ordinary course of business, gains and losses on divestments of businesses, impairments of goodwill and the change in estimates of earn-out liabilities (with the exception of experience adjustments, which remain in BOP) are also excluded from BOP.

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## Consolidated financial statements (continued)

Business operating profit by segment	Table 27.1				
	in USD millions, for the years ended December 31				
	General Insurance		Global Life		
	2016	2015	2016	2015	
<b>Revenues</b>					
Direct written premiums	31,770	32,274	13,194	12,033	
Assumed written premiums	1,352	1,746	218	186	
Gross Written Premiums	33,122	34,020	13,413	12,220	
Policy fees	–	–	2,117	2,227	
Gross written premiums and policy fees	33,122	34,020	15,530	14,446	
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	
Net change in reserves for unearned premiums	(6)	(335)	(119)	(82)	
Net earned premiums and policy fees	26,102	28,051	14,537	11,876	
Farmers management fees and other related revenues	–	–	–	–	
Net investment result on Group investments	2,086	2,002	3,884	4,415	
Net investment income on Group investments	2,019	2,002	3,244	3,320	
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	
<b>Total BOP revenues</b>	<b>28,834</b>	<b>30,889</b>	<b>32,543</b>	<b>23,498</b>	
<i>of which: inter-segment revenues</i>	<i>(347)</i>	<i>(527)</i>	<i>(318)</i>	<i>(316)</i>	
<b>Benefits, losses and expenses</b>					
Insurance benefits and losses, net	17,394	20,152	11,510	8,612	
Losses and loss adjustment expenses, net	17,396	20,157	–	–	
Life insurance death and other benefits, net	(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	
Administrative and other operating expense (excl. depreciation/amortization)	2,963	3,636	2,396	2,463	
Interest credited to policyholders and other interest	104	112	455	445	
Restructuring provisions and other items not included in BOP	(321)	(372)	(277)	(435)	
<b>Total BOP benefits, losses and expenses</b>					
(before interest, depreciation and amortization)	25,912	29,437	30,785	21,355	
<b>Business operating profit</b>					
<b>(before interest, depreciation and amortization)</b>	<b>2,921</b>	<b>1,452</b>	<b>1,758</b>	<b>2,143</b>	
Depreciation and impairments of property and equipment	109	127	22	28	
Amortization and impairments of intangible assets	148	252	126	578	
Interest expense on debt	97	101	10	14	
Business operating profit before non-controlling interests	2,567	972	1,600	1,523	
Non-controlling interests	133	108	255	223	
<b>Business operating profit</b>	<b>2,435</b>	<b>864</b>	<b>1,344</b>	<b>1,300</b>	

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).

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	-	-	-	-	59	67	-	-	45,024	44,374
	1,587	2,145	48	47	80	90	(101)	(98)	3,184	4,116
	1,587	2,145	48	47	139	156	(101)	(98)	48,208	48,490
	-	-	-	-	290	281	-	-	2,407	2,508
	1,587	2,145	48	47	429	437	(101)	(98)	50,615	50,998
	-	-	(43)	(41)	(13)	(11)	101	98	(7,843)	(8,078)
	1,587	2,145	6	6	416	426	-	-	42,772	42,920
	(65)	120	-	-	40	-	-	-	(150)	(296)
	1,521	2,266	6	6	456	426	-	-	42,622	42,624
	2,867	2,786	-	-	-	-	-	-	2,867	2,786
	39	49	294	300	282	236	(401)	(427)	6,185	6,576
	39	49	294	300	289	328	(401)	(427)	5,484	5,572
	-	-	-	-	(6)	(91)	-	-	701	1,004
	-	-	-	-	315	70	-	-	13,613	6,238
	86	56	957	1,104	56	98	(1,380)	(1,685)	1,187	1,448
	4,513	5,156	1,257	1,411	1,109	830	(1,781)	(2,112)	66,475	59,671
	(26)	(16)	(1,086)	(1,222)	(5)	(33)	1,781	2,112		
	1,085	1,588	-	-	502	394	-	-	30,491	30,746
	1,085	1,588	-	-	54	118	-	-	18,534	21,862
	-	-	-	-	448	276	-	-	11,957	8,884
	-	-	-	-	398	154	-	-	14,519	7,863
	-	-	-	-	-	-	-	-	304	110
	487	703	-	-	11	7	(7)	(10)	8,538	9,061
	1,297	1,340	1,181	1,225	122	137	(1,072)	(1,342)	6,888	7,458
	-	-	120	136	78	89	(281)	(315)	475	467
	(2)	(14)	(65)	(75)	(1)	(10)	-	-	(666)	(906)
	2,867	3,618	1,236	1,286	1,110	770	(1,360)	(1,668)	60,549	54,799
	<b>1,647</b>	<b>1,538</b>	<b>21</b>	<b>125</b>	<b>-</b>	<b>60</b>	<b>(421)</b>	<b>(445)</b>	<b>5,926</b>	<b>4,872</b>
	33	36	9	7	-	-	-	-	174	198
	93	81	49	92	-	-	-	-	416	1,004
	-	-	727	751	10	9	(421)	(445)	423	431
	1,520	1,421	(763)	(726)	(11)	51	-	-	4,913	3,240
	-	-	(6)	(7)	-	-	-	-	382	324
	<b>1,520</b>	<b>1,421</b>	<b>(758)</b>	<b>(720)</b>	<b>(11)</b>	<b>51</b>	<b>-</b>	<b>-</b>	<b>4,530</b>	<b>2,916</b>

## Consolidated financial statements (continued)

Reconciliation of  
BOP to net income  
after income taxes

Table 27.2

in USD millions, for the years ended December 31

	General Insurance		Global Life	
	2016	2015	2016	2015
<b>Business operating profit</b>	<b>2,435</b>	<b>864</b>	<b>1,344</b>	<b>1,300</b>
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	499	466	167	240
Net gain/(loss) on divestments of businesses <sup>1</sup>	(134)	–	47	–
Restructuring provisions	(200)	(314)	(46)	(71)
Net income/(expense) on intercompany loans <sup>2</sup>	(12)	(17)	(15)	(17)
Impairments of goodwill	–	–	–	(281)
Change in estimates of earn-out liabilities	(29)	29	(89)	(21)
Other adjustments <sup>3</sup>	(80)	(70)	(127)	(44)
Add back:				
Business operating profit attributable to non-controlling interests	133	108	255	223
Net income before shareholders' taxes	2,610	1,066	1,537	1,328
Income tax expense/(benefit) attributable to policyholders	–	–	304	110
<b>Net income before income taxes</b>	<b>2,610</b>	<b>1,066</b>	<b>1,841</b>	<b>1,439</b>
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
<b>Net income after taxes</b>				
attributable to non-controlling interests				
attributable to shareholders				

<sup>1</sup> In 2016, USD 134 million of losses in General Insurance include USD (137) million relating to the sale of businesses in South Africa and Morocco and the remeasurements of assets held for sale and USD 47 million of gains in Global Life relate to a forward sale agreement of a UK based distributor (see note 5).

<sup>2</sup> The impact on Group level relates to foreign currency translation differences.

<sup>3</sup> For the year ended December 31, 2016, total Group includes non-operating charges of USD (169) million and accounting and other restructuring charges of USD (65) million. For the year ended December 31, 2015, total Group includes accounting and other restructuring charges of USD (199) million (of which USD (67) million relates to software impairments and USD (32) million to impairments of own use properties (see note 14 and 13, respectively) and USD 100 million of other restructuring related costs) relating to initiatives announced in 2015. In addition, it includes other adjustments amounting to USD 24 million.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	<b>1,520</b>	<b>1,421</b>	<b>(758)</b>	<b>(720)</b>	<b>(11)</b>	<b>51</b>	<b>4,530</b>	<b>2,916</b>
	8	20	23	152	164	8	860	887
	-	-	(2)	10	-	-	(89)	10
	(1)	(13)	(66)	(49)	(1)	(10)	(314)	(457)
	-	-	27	33	-	-	-	(1)
	-	-	-	-	-	-	-	(281)
	-	-	-	-	-	-	(119)	8
	(1)	(1)	(27)	(59)	-	-	(234)	(175)
	-	-	(6)	(7)	-	-	382	324
	1,526	1,427	(808)	(640)	151	48	5,017	3,230
	-	-	-	-	-	-	304	110
	<b>1,526</b>	<b>1,427</b>	<b>(808)</b>	<b>(640)</b>	<b>151</b>	<b>48</b>	<b>5,321</b>	<b>3,340</b>
							(1,843)	(1,294)
							(304)	(110)
							(1,539)	(1,183)
							<b>3,478</b>	<b>2,047</b>
							268	205
							3,211	1,842

## Consolidated financial statements (continued)

Table 27.3

Assets and  
liabilities by  
segment

in USD millions, as of December 31	General Insurance		Global Life	
	2016	2015	2016	2015
<b>Assets</b>				
Total Group Investments	81,271	82,669	104,805	103,223
Cash and cash equivalents	10,766	9,756	3,402	3,049
Equity securities	8,406	10,053	6,878	8,107
Debt securities	53,634	54,773	75,074	70,919
Investment property	4,016	3,611	6,295	5,844
Mortgage loans	1,285	1,329	5,508	5,695
Other loans	3,159	3,143	7,635	9,597
Investments in associates and joint ventures	5	4	13	11
Investments for unit-linked contracts	–	–	115,038	115,559
<b>Total investments</b>	<b>81,271</b>	<b>82,669</b>	<b>219,844</b>	<b>218,782</b>
Reinsurers' share of reserves for insurance contracts	11,852	11,073	3,447	3,657
Deposits made under assumed reinsurance contracts	142	90	82	63
Deferred policy acquisition costs	4,830	4,226	12,783	13,298
Deferred origination costs	–	–	426	506
Goodwill	808	465	168	5
Other intangible assets	1,461	1,384	2,864	2,900
Other assets	14,979	14,121	6,904	6,045
<b>Total assets (after cons. of investments in subsidiaries)</b>	<b>115,342</b>	<b>114,029</b>	<b>246,517</b>	<b>245,255</b>
<b>Liabilities</b>				
Liabilities for investment contracts	–	–	68,904	70,406
Reserves for insurance contracts, gross	71,910	73,502	143,667	140,799
Reserves for losses and loss adjustment expenses, gross	56,074	57,777	–	–
Reserves for unearned premiums, gross	15,781	15,664	–	–
Future life policyholder benefits, gross	33	36	68,428	67,717
Policyholder contract deposits and other funds, gross	22	25	20,579	19,858
Reserves for unit-linked contracts, gross	–	–	54,660	53,224
Senior debt	415	517	–	68
Subordinated debt	905	1,081	593	708
Other liabilities	21,545	18,566	16,042	15,787
<b>Total liabilities</b>	<b>94,776</b>	<b>93,666</b>	<b>229,206</b>	<b>227,769</b>
<b>Equity</b>				
Shareholders' equity				
Non-controlling interests				
Total equity				
<b>Total liabilities and equity</b>				
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	406	357	129	127



		Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
		2,366	3,253	21,357	19,957	9,230	9,847	(29,221)	(27,711)	189,808	191,238
		1,449	1,312	10,608	9,649	1,683	1,632	(20,711)	(17,240)	7,197	8,159
		18	43	492	572	115	98	-	-	15,908	18,873
		152	574	6,562	6,330	5,901	6,329	(1,142)	(1,195)	140,181	137,730
		21	74	10	10	220	325	-	-	10,562	9,865
		-	-	-	-	-	-	-	-	6,794	7,024
		726	1,249	3,685	3,396	1,309	1,460	(7,368)	(9,277)	9,146	9,569
		-	-	-	1	2	3	-	-	20	18
		-	-	-	-	10,868	11,169	-	-	125,907	126,728
		<b>2,366</b>	<b>3,253</b>	<b>21,357</b>	<b>19,957</b>	<b>20,098</b>	<b>21,016</b>	<b>(29,221)</b>	<b>(27,711)</b>	<b>315,715</b>	<b>317,966</b>
		-	-	-	-	3,113	3,127	(64)	(84)	18,347	17,774
		1,476	1,476	-	-	65	79	-	-	1,764	1,708
		167	149	-	-	15	-	1	3	17,796	17,677
		-	-	-	-	-	-	-	-	426	506
		819	819	-	-	-	-	-	-	1,795	1,289
		370	353	99	129	-	-	-	-	4,795	4,766
		1,562	1,528	982	987	1,689	1,400	(4,075)	(3,795)	22,042	20,287
		<b>6,760</b>	<b>7,578</b>	<b>22,439</b>	<b>21,074</b>	<b>24,980</b>	<b>25,623</b>	<b>(33,359)</b>	<b>(31,587)</b>	<b>382,679</b>	<b>381,972</b>
		-	-	-	-	209	221	-	-	69,113	70,627
		1,543	1,663	26	28	21,243	21,715	(64)	(84)	238,326	237,622
		918	1,103	22	23	4,200	4,142	(59)	(75)	61,155	62,971
		625	560	3	3	12	13	(4)	(10)	16,416	16,230
		-	-	2	2	3,978	4,198	-	-	72,440	71,952
		-	-	-	-	2,183	2,193	-	-	22,785	22,076
		-	-	-	-	10,870	11,169	-	-	65,530	64,393
		-	-	9,054	10,391	300	659	(5,608)	(7,164)	4,162	4,471
		-	-	7,741	6,374	-	23	(2,189)	(2,572)	7,050	5,614
		1,355	1,354	14,803	13,150	3,308	3,642	(25,497)	(21,765)	31,555	30,733
		<b>2,898</b>	<b>3,017</b>	<b>31,625</b>	<b>29,942</b>	<b>25,059</b>	<b>26,260</b>	<b>(33,358)</b>	<b>(31,586)</b>	<b>350,206</b>	<b>349,069</b>
										30,660	31,178
										1,813	1,725
										32,473	32,904
										<b>382,679</b>	<b>381,972</b>
		148	162	31	31	-	-	-	-	715	677

## Consolidated financial statements (continued)

General Insurance –  
Revenues and  
non-current assets  
by region

Table 27.4

in USD millions

	Gross written premiums and policy fees from external customers				Property, equipment and intangible assets	
	Total		of which		as of December 31	
	for the years ended		Global Corporate			
	December 31	December 31	for the years ended	for the years ended	2016	2015
2016	2015	2016	2015			
<b>North America</b>						
United States	14,166	13,363			763	254
Canada	559	744			11	13
Bermuda	4	10			13	16
North America	14,729	14,117	2,945	3,545	786	282
<b>Europe</b>						
United Kingdom	3,020	3,747			261	305
Germany	2,696	2,709			139	166
Switzerland	3,006	3,060			456	517
Italy	1,405	1,502			35	32
Spain	1,157	1,237			317	328
Austria	532	526			25	20
Ireland	353	306			45	47
Portugal	250	265			17	18
France	321	359			1	1
Rest of Europe	703	743			123	152
Europe	13,444	14,453	3,568	3,956	1,418	1,587
<b>Latin America</b>						
Argentina	422	469			6	9
Brazil	958	942			386	285
Chile	301	272			21	21
Mexico	574	620			145	178
Venezuela	57	211			1	–
Rest of Latin America	7	19			5	6
Latin America	2,319	2,533	418	348	564	499
<b>Asia-Pacific</b>						
Australia	581	740			42	44
Hong Kong	307	284			29	12
Japan	769	671			19	16
Taiwan	109	122			–	16
Malaysia	171	165			35	2
Rest of Asia-Pacific	265	259			4	5
Asia-Pacific	2,202	2,241	550	533	128	95
Middle East	122	232	107	181	–	37
<b>Africa</b>						
South Africa	208	311			–	13
Morocco	92	128			–	24
Africa	301	440	32	48	–	37
<b>Total</b>	<b>33,115</b>	<b>34,016</b>	<b>7,621</b>	<b>8,612</b>	<b>2,896</b>	<b>2,537</b>

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

Table 27.5

in USD millions

	Gross written premiums and policy fees from external customers		Life insurance deposits		Property, equipment and intangible assets	
					in USD millions, for the	
	for the years ended December 31		for the years ended December 31		years ended December	
	2016	2015	2016	2015	2016	2015
<b>North America</b>						
United States	1,024	983	389	434	113	140
North America	1,024	983	389	434	113	140
<b>Latin America</b>						
Chile	561	425	91	59	254	257
Argentina	141	165	61	66	24	31
Mexico	367	364	29	12	119	151
Venezuela	3	31	–	–	–	–
Brazil	1,177	1,118	1,915	1,565	498	421
Uruguay	9	8	–	–	–	–
Latin America	2,259	2,111	2,097	1,702	895	861
<b>Europe, Middle East &amp; Africa</b>						
United Kingdom	1,409	1,673	4,636	3,971	208	260
Germany	2,018	2,544	1,895	1,926	231	308
Switzerland	1,255	1,421	166	158	70	71
Ireland <sup>1</sup>	534	631	2,432	2,972	11	5
Spain	5,008	3,264	34	75	1,261	1,381
Italy	452	437	1,524	1,537	49	58
Zurich International Life <sup>2</sup>	333	279	1,308	1,479	21	30
Portugal	24	22	170	132	–	–
Austria	134	151	51	60	24	24
Luxembourg <sup>1</sup>	19	14	2	16	–	–
Europe, Middle East & Africa	11,186	10,439	12,218	12,327	1,874	2,138
<b>Asia Pacific</b>						
Hong Kong	62	68	30	36	–	–
Taiwan	–	–	–	–	–	–
Indonesia	20	11	–	–	1	1
Australia	363	309	37	38	205	–
Japan	191	112	–	1	17	16
Singapore	–	8	–	5	–	–
Malaysia	171	158	46	46	77	20
Asia Pacific	807	667	114	127	300	38
<b>Other</b>						
International Group Risk Solutions <sup>3</sup>	209	201	–	–	–	–
Other	209	201	–	–	–	–
<b>Total</b>	<b>15,484</b>	<b>14,400</b>	<b>14,817</b>	<b>14,591</b>	<b>3,183</b>	<b>3,177</b>

<sup>1</sup> Includes business written under freedom of services and freedom of establishment in Europe, and the related assets.

<sup>2</sup> Includes business written through licenses, mainly into Asia Pacific and Middle East, and the related assets.

<sup>3</sup> Includes business written through licenses into all regions.

## Consolidated financial statements (continued)

## 28. Interest in subsidiaries

Significant subsidiaries are defined as those subsidiaries, which either individually or in aggregate, contribute significantly to gross written premiums, shareholder's equity, total assets or net income attributable to shareholders.

Table 28.1

as of December 31, 2016

Significant  
subsidiaries –  
non-listed

	Registered office	Segment <sup>1</sup>	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
<b>Australia</b>						
Zurich Australia Limited	Sydney	Global Life	100	100	AUD	426.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
<b>Austria</b>						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance/ Global Life	99.98	99.98	EUR	12.0
<b>Brazil</b>						
Zurich Santander Brasil Seguros e Previdência S.A.	Sao Paulo	Global Life	51	51	BRL	1,659.2
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	General Insurance/ Global Life	100	100	BRL	3,109.6
<b>Chile</b>						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.99	98.99	CLP	24,484.0
Zurich Santander Seguros de Vida Chile S.A.	Santiago	Global Life	51	51	CLP	24,252.9
<b>Germany</b>						
Deutscher Herold Aktiengesellschaft	Bonn	Global Life	100	100	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	100	100	EUR	68.5
Zurich GI Management Aktiengesellschaft (Deutschland)	Frankfurt	General Insurance	100	100	EUR	10.0
<b>Ireland</b>						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	8.2
Zurich Financial Services EUB Holdings Limited	Dublin	Non Core Businesses	100	100	EUR	0.001
<b>Italy</b>						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	164.0
<b>Luxembourg</b>						
Zurich Eurolife S.A.	Bertrange	Global Life	100	100	EUR	35.5
<b>Malaysia</b>						
Zurich Insurance Malaysia Berhad	Kuala Lumpur	General Insurance/ Global Life	100	100	MYR	579.0
<b>Mexico</b>						
Zurich Santander Seguros México, S.A.2	Mexico City	General Insurance/ Global Life	51	51	MXN	190.0

Significant  
subsidiaries –  
non-listed  
(continued)

Table 28.1

as of December 31, 2016

	Registered office	Segment <sup>1</sup>	Voting rights %	Ownership interest %		Nominal value of share capital (in local currency millions)
<b>Spain</b>						
Bansabadell Pensiones, E.G.F.P, S.A. <sup>3</sup>	Barcelona	Global Life	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A. <sup>3</sup> de Seguros y Reaseguros	Barcelona	General Insurance	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros <sup>3</sup> y Reaseguros	Barcelona	Global Life	50	50	EUR	43.9
Zurich Latin America Holding S.L. - Sociedad Unipersonal	Barcelona	Other Operating Businesses	100	100	EUR	43.0
Zurich Santander Holding (Spain), S.L.	Madrid	Global Life	51	51	EUR	94.3
Zurich Santander Holding Dos (Spain), S.L.	Madrid	Global Life	51	51	EUR	40.0
Zurich Santander Insurance America, S.L.	Madrid	Global Life	51	51	EUR	177.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. - Sociedad Unipersonal	Madrid	Global Life	100	100	EUR	56.4
<b>Switzerland</b>						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	20.4
Zurich Finance Company AG	Zurich	Other Operating Businesses	100	100	CHF	0.2
Zurich Insurance Company Ltd <sup>4</sup>	Zurich	Other Operating Businesses	100	100	CHF	825.0
Zurich Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Zurich Life Insurance Company Ltd <sup>5</sup>	Zurich	Other Operating Businesses	100	100	CHF	60.0
Zürich Rückversicherungs-Gesellschaft AG	Zurich	General Insurance	100	100	CHF	11.7
<b>Taiwan</b>						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	100	TWD	2,000.0
<b>Turkey</b>						
Zurich Sigorta A.S.	Istanbul	General Insurance	100	100	TRY	168.9
<b>United Kingdom</b>						
Allied Zurich Holdings Limited	St. Hélier	Other Operating Businesses	100	100	GBP	90.8
Zurich Assurance Ltd	Cheltenham, England	Global Life	100	100	GBP	236.1
Zurich Employment Services Limited	Cheltenham, England	Global Life	100	100	GBP	154.0
Zurich Financial Services (UKISA) Limited	Cheltenham, England	Other Operating Businesses	100	100	GBP	1,692.1
Zurich Holdings (UK) Limited	Fareham, England	Other Operating Businesses	100	100	GBP	137.3
Zurich International Life Limited	Douglas, Isle of Man	Global Life	100	100	GBP	123.4
Zurich Project Finance (UK) Limited	Cheltenham, England	Other Operating Businesses	100	100	GBP	0.000001
Zurich (Scotland) Limited Partnership <sup>6</sup>	Edinburgh	Global Life	100	100	GBP	–
Zurich UK General Services Limited	Fareham, England	Other Operating Businesses	100	100	GBP	173.1

## Consolidated financial statements (continued)

Table 28.1

as of December 31, 2016

Significant  
subsidiaries –  
non-listed  
(continued)

	Registered office	Segment <sup>1</sup>	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
<b>United States of America</b>						
Farmers Group, Inc. <sup>7</sup>	Reno, NV	Farmers	100	100	USD	0.001
Farmers New World Life Insurance Company <sup>7</sup>	Mercer Island, WA	Global Life	100	100	USD	6.6
Farmers Reinsurance Company <sup>7</sup>	Woodland Hills	Farmers	100	100	USD	58.8
		Other Operating Businesses				
ZFS Finance (USA) LLC V <sup>6</sup>	Wilmington, DE	Businesses	100	100	USD	–
Zurich American Corporation	Wilmington, DE	Non-Core Businesses	100	100	USD	0.00001
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD	5.0
Rural Community Insurance Company	Anoka, MN	General Insurance	100	100	USD	5.0
		Global Life/Non-Core Businesses				
Zurich American Life Insurance Company	Schaumburg, IL	Businesses	100	100	USD	2.5
		Other Operating Businesses				
Zurich Holding Company of America, Inc. <sup>8</sup>	Wilmington, DE	Businesses	100	100	USD	–

<sup>1</sup> The segments are defined in note 27.<sup>2</sup> The controlling shareholder of this subsidiary is Zurich Santander Holding Dos (Spain), S.L.<sup>3</sup> Relates to Bansabadell insurance entities which are controlled by the Group.<sup>4</sup> The results of the operating activities are included in the General Insurance, Global Life and Farmers segments, whereas the Headquarters' activities are included in Other Operating Businesses.<sup>5</sup> The results of the operating activities are included in the Global Life segment, whereas the Headquarters' activities are included in Other Operating Businesses.<sup>6</sup> These entities are LLCs or partnerships and have no share capital.<sup>7</sup> The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of Zurich Insurance Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.<sup>8</sup> Shares have no nominal value in accordance with the company's articles of incorporation and local legislation.

Due to the nature of the insurance industry, the Group's business is subject to extensive regulatory supervision, and companies in the Group are subject to numerous legal restrictions and regulations. These restrictions may refer to minimum capital requirements or the ability of the Group's subsidiaries to pay dividends imposed by regulators in the countries in which the subsidiaries operate. These are considered industry norms, generally applicable to insurers who operate in the same markets.

For Zurich Santander Insurance America, S.L. and its subsidiaries, and the Bansabadell insurance entities, certain protective rights exist, which, amongst others, include liquidation, material sale of assets, transactions impacting the legal ownership structure, dividend distribution and capital increase, distribution channel partnerships and governance, which are not quantifiable.

For details on the Group's capital restrictions, see the capital management section in the Risk review, which forms an integral part of the consolidated financial statements.

Table 28.2 shows the summarized financial information for each subsidiary that has non-controlling interests that are material to the Group.

Table 28.2

in USD millions, as of December 31

	Zurich Santander Insurance America, S.L.			
	and its subsidiaries		Bansabadell insurance entities	
	2016	2015	2016	2015
Non-controlling interests percentage	49%	49%	50%	50%
Total Investments	12,952	9,031	8,760	6,825
Other assets	3,089	2,728	2,676	1,851
Insurance and investment contract liabilities <sup>1</sup>	13,203	9,231	9,335	6,564
Other liabilities	1,207	1,102	498	489
<b>Net assets</b>	<b>1,631</b>	<b>1,426</b>	<b>1,603</b>	<b>1,622</b>
<b>Non-controlling interests in net assets</b>	<b>799</b>	<b>699</b>	<b>802</b>	<b>811</b>
Total revenues	3,342	2,922	5,144	3,430
Net income after taxes	369	349	61	23
Other comprehensive income	101	(470)	(53)	(195)
<b>Total comprehensive income</b>	<b>470</b>	<b>(120)</b>	<b>7</b>	<b>(172)</b>
<b>Non-controlling interests in total comprehensive income</b>	<b>230</b>	<b>(59)</b>	<b>4</b>	<b>(86)</b>
Dividends paid to non-controlling interests	124	133	–	28

<sup>1</sup> Includes reserves for premium refunds, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees and reserves for insurance contracts.

## Non-controlling interests

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## Consolidated financial statements (continued)

### 29. Events after the balance sheet date

On January 17, 2017, the Group completed the sale of its general insurance operations in Taiwan to Hotai Motor Co., Ltd. for a sales price of approximately USD 214 million.



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# Report of the statutory auditor

## Report of the statutory auditor

To the General Meeting of Zurich Insurance Group Ltd, Zurich

### Report on the audit of the consolidated financial statements

#### Opinion

We have audited the consolidated financial statements of Zurich Insurance Group Ltd and its subsidiaries (the Group), which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements (pages 3 to 104 and the audited sections of the risk review on pages 5 to 35) for the year ended December 31, 2016.

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

#### Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

#### Our audit approach

#### Overview

<b>Materiality</b>	→ Overall Group materiality: USD 225 million
<b>Audit scope</b>	<ul style="list-style-type: none"> <li>→ We concluded full scope audit work at 20 business units in 10 countries.</li> <li>→ The full scope audit work addressed 70% and 81% of the Group's gross written premiums and policy fees (GWP) and total assets, respectively.</li> <li>→ In addition, specific procedures were performed on a further 19 business units in 11 countries representing a further 11% and 8% of the Group's GWP and total assets, respectively.</li> </ul>
<b>Key audit matters</b>	<p>The following are the key audit matters we have identified:</p> <ul style="list-style-type: none"> <li>→ Valuation of actuarially determined life insurance assets and liabilities</li> <li>→ Valuation of General Insurance reserves</li> <li>→ Recoverability of goodwill, distribution agreements and attorney-in-fact contracts</li> </ul>

#### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgments were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the business units by us, as the Group engagement team, or by component auditors from PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those business units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements of the Group as a whole.

The Group's business units vary significantly in size and we identified 20 which, in our view, required an audit of their complete financial information, due to their size or risk characteristics. Audits of these business units were performed using materiality levels lower than the materiality level for the Group as a whole, ranging from USD 20 million to USD 130 million, and established by reference to the size of, and risks associated with, the business concerned. Specific audit procedures on certain balances and transactions were performed at a further 19 business units. Together these accounted for 81% and 89% of Group GWP and total assets, respectively.

Our involvement included various site visits and component auditor working paper reviews across significant business units, together with discussions around audit approach and any issues arising from the work, and conference calls with the component audit teams.

#### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of any misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

### Materiality

<b>Overall group materiality</b>	Overall Group materiality: USD 225 million
<b>How we determined it</b>	We determined our materiality for the audit of the consolidated financial statements using quantitative and qualitative factors. Based on these factors we have selected a combined 3 year average of net income before income taxes (NIBIT) and business operating profit (BOP) as appropriate benchmarks for measuring materiality. We applied a 5% rule of thumb which resulted in an overall materiality of USD 225 million.
<b>Rationale for the materiality benchmark applied</b>	We chose NIBIT as a benchmark because, in our view, it is the benchmark against which the Group's performance is most commonly measured, and is a generally accepted benchmark. We also consider BOP as a benchmark because, in our view, BOP is a key indicator for analysts and external parties and may influence the users of the consolidated financial statements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above USD 20 million as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

## Report of the statutory auditor (continued)

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of actuarially determined life insurance assets and liabilities

#### Key audit matter

The Group's valuation of the actuarially determined life insurance assets (including deferred policy acquisition costs, deferred origination costs, and present value of future profits) and liabilities (reserves for insurance contracts and deferred front-end fees) is based on complex actuarial methodologies and models and involves comprehensive assumption setting processes with regards to future events. Actuarial assumptions selected by the Group with respect to interest rates, investment returns, mortality, morbidity, longevity, persistency, expenses, stock market volatility and future policyholder behavior and the underlying methodologies and assumptions used may result in material impacts on the valuation of actuarially determined life insurance assets and liabilities.

Specifically, the continued low interest rate environment results in reduced investment returns creating a risk of accelerated amortization of deferred policy acquisition costs and a strain on the sufficiency of reserves for traditional life insurance contracts and also influences policyholders' behaviors

Refer to Notes 4 and 8 to the consolidated financial statements.

#### How our audit addressed the key audit matter

We assessed and tested the design and operating effectiveness of selected key controls over actuarial methodology, integrity of data used in the actuarial valuation, and the assumptions setting processes used by management related to the valuation of actuarially determined life insurance assets and liabilities.

In relation to the particular matters set out above, our substantive testing procedures included the following:

- Tested the completeness and accuracy of underlying data to source documentation.
- Involved our life insurance actuarial specialists to independently test management's methodology and the assumptions used, with particular consideration of industry studies, the Group's experience and management's liability adequacy testing procedures.
- Assessed the consistency of the life actuarial methods used across the Group's business units.
- Challenged the Group's methodology and assumptions, focusing on changes to life actuarial methodology and assumptions during the year, by applying our industry knowledge and experience to compare whether the methodologies are in compliance with recognized actuarial practices as well as regulatory and reporting requirements.

Based on the work performed we determined the methodologies and assumptions used in the valuation of actuarially determined life insurance assets and liabilities are reasonable and in line with financial reporting requirements and industry accepted practice.

### Valuation of General Insurance reserves

#### *Key audit matter*

The valuation of general insurance loss reserves involves a high degree of subjectivity and complexity. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses at a given date. The Group uses a range of actuarial methodologies to estimate these provisions. General insurance loss reserves require significant judgment relating to factors and assumptions such as inflation, claims development patterns and regulatory changes.

Specifically, long-tail lines of business, which often have low frequency, high severity claims settlements, are generally more difficult to project and subject to greater uncertainties than short-tail, high frequency claims. Further, not all catastrophic events can be modeled using actuarial methodologies, which increases the degree of judgment needed in estimating general insurance loss reserves.

Refer to Notes 4 and 8 to the consolidated financial statements.

#### *How our audit addressed the key audit matter*

We assessed and tested the design and operating effectiveness of selected key controls over actuarial methodology, integrity of data used in the actuarial valuation, and the assumptions setting and governance processes used by management related to the valuation of general insurance reserves.

In relation to the particular matters set out above, our substantive testing procedures included the following:

- Tested the completeness and accuracy of underlying claims data utilized by the Group's actuaries in estimating general insurance loss reserves.
- Utilized information technology audit techniques to analyze claims through claims data plausibility checks and recalculation of claims development patterns.
- Involved our actuarial specialists to independently test management's general insurance loss reserve studies and evaluate the reasonableness of the methodology and assumptions used against recognized actuarial practices and industry standards.
- Performed independent re-projections on selected product lines, particularly focusing on the largest and most uncertain general insurance reserves. For these product lines our actuarial specialists compared their re-projected reserves to those recorded by the Group, and sought to understand any significant differences.
- Performed sensitivity testing and evaluated the appropriateness of any significant adjustments made to management's general insurance reserve estimates.

Based on the work performed we determined the methodology and assumptions used in the valuation of general insurance reserves are reasonable and in line with financial reporting requirements and industry accepted practice.

## Report of the statutory auditor (continued)

### Recoverability of goodwill, distribution agreements and attorney-in-fact contracts

#### *Key audit matter*

As detailed in Notes 4 and 14 of the consolidated financial statements, the Group's goodwill is allocated to cash generating units (CGUs) that are identified generally at a segment level. The valuation and recoverability of significant goodwill, distribution agreements and attorney-in-fact contracts involves complex judgments and estimates, including projections of future income, terminal growth rate assumptions, and discount rates. These assumptions and estimates can have a material impact on the valuations and impairment decisions reflected in the consolidated financial statements of the Group.

Refer to Notes 3, 4 and 14 to the consolidated financial statements.

#### *How our audit addressed the key audit matter*

We assessed and tested the design and operating effectiveness of selected key controls over projections of future income, terminal growth rate assumptions, and discount rates related to the recoverability of goodwill, distribution agreements and attorney-in-fact contracts.

In relation to the particular matters set out above, our substantive testing procedures included the following:

- Corroborated the justification of the CGUs defined by management for goodwill allocation.
- Tested the principles and integrity of the Group's discounted cash flow model that supports the value-in-use calculations in order to assess the appropriateness of the methodology applied in the Group's annual impairment assessment.
- Tested the reasonableness of the methodology and assumptions used including projections on future income (including forecast to actual results), terminal growth rate assumptions, discount rates and sensitivity analyses to determine the impact of those assumptions.
- Engaged our internal valuation experts to assist in the testing of key assumptions and inputs.

We determined that the assumptions used in the valuation of the significant goodwill, distribution agreements and attorney-in-fact contracts were reasonable.

### Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of Zurich Insurance Group Ltd, the audited sections of the risk review on pages 5 to 35, the Remuneration report of Zurich Insurance Group Ltd and our auditor's reports thereon. Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provision of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTSuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

**Report on other legal and regulatory requirements**

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Mark Humphreys  
Audit expert  
Auditor in charge

Stephen O'Hearn  
Global relationship partner

Zurich, February 8, 2017

## Disclaimer & cautionary Statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives of Zurich Insurance Group Ltd or the Zurich Insurance Group (the Group). Forward-looking statements include statements regarding the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding the Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Insurance Group Ltd or the Group to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of a global economic downturn; (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; and (viii) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of Zurich Insurance Group Ltd and its Group and on whether the targets will be achieved. Zurich Insurance Group Ltd undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

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. Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the Farmers Exchanges and in that capacity provide certain non-claims administrative and management services to the Farmers Exchanges. Neither Farmers Group, Inc., nor its parent companies, Zurich Insurance Company Ltd and Zurich Insurance Group Ltd, have any ownership interest in the Farmers Exchanges. Financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Reinsurance Company.

It should be noted that past performance is not a guide to future performance.

Persons requiring advice should consult an independent advisor.

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