Zurich Insurance Group

Annual Report 2016

Highlights

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

USD 4.5 bn
Business operating profit (BOP)[1]

USD 3.2 bn
Net income attributable to shareholders (NIAS)

11.6%
Business operating profit after tax return on equity (BOPAT ROE)[2]

USD 10.4 bn
Cash remittances over 2014–2016 period

USD 67.2 bn
Total revenues

USD 190 bn
Total Group investments

Z-ECM 122%
Zurich Economic Capital Model ratio[3] estimated as of December 31, 2016

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

Our cover

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

Note on terminology

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

1 Business operating profit indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables. Total Group business volumes comprises gross written premiums, policy fees, insurance deposits and management fees generated within General Insurance, Global Life and Farmers.
2 Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.
3 The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy and reflects midpoint estimates with an error margin of +/–5 ppts.

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

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Message from our Chairman

Looking to the future, building on our strengths

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

Tom de Swaan
Chairman of the Board of Directors

USD 30.7bn
Shareholders' equity

CHF 17.00
Proposed dividend per share

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

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

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

Our ability to reduce costs and increase efficiency is implicit within achieving the strategy. We are pleased that expenses fell significantly in 2016, reflecting actions taken during the year. We will continue to focus on achieving net savings over the years to come in line with our targets. Zurich's encouraging 2016 results show that our new strategy and organizational structure already are beginning to take effect. We achieved underlying improvements in our General Insurance business, a continued strong performance of our Global Life business, and in Farmers.

Focusing on sustainability

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

Challenges and opportunities

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

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

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

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

Tom de Swaan
Chairman of the Board of Directors

Our business segments

General Insurance

Property and casualty insurance and services, risk insights.

USD 2.4 bn
Business operating profit

USD 33.1 bn
Gross written premiums and policy fees

Pages 152 to 156

Global Life

Protection, savings and investment solutions.

USD 1.3 bn
Business operating profit

USD 30.3 bn
Gross written premiums, policy fees and insurance deposits

Pages 157 to 160

Farmers

Management services related to property and casualty insurance.

USD 1.5 bn
Business operating profit

USD 2.9 bn
Management fees and other related revenues

Pages 161 to 162

Message from our Group CEO

Our strategic aims

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

Mario Greco
Group Chief Executive Officer

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

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

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

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

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

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

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

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

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

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

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

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

Enhancing our commercial capabilities

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

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

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

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

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

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

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

Timeline of events

March 2016
Mario Greco is appointed Group Chief Executive Officer, returning to Zurich where from 2007 to 2012 he served first as head of Zurich's Global Life business, then as head of its property and casualty (General Insurance) business.

April 2016
A new Strategy Task Force is formed. By late June, the team of 40 individuals is at work with 12 senior leaders, supported by experts and other employees, drafting plans for Zurich's future.

July 2016
Zurich introduces a simpler, more customer-oriented approach, supporting our global and local businesses.

September 2016
As part of its process to simplify and strengthen its organization, Zurich announces that it will combine its Global Corporate and Commercial businesses into a single global business: Commercial Insurance.

November 2016
Zurich unveils its new strategy; built on qualities that include financial strength, a trusted brand and talented people, Zurich also sets financial targets for 2017–2019.

February 2017
Zurich reports business operating profit of USD 4.5 billion and net income attributable to shareholders of USD 3.2 billion for 2016. It also proposes a dividend of CHF 17 per share.

Message from our Group CEO (continued)

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

Strengthening our retail position in key markets

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

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

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

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

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

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

Focusing on transformation and efficiency

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

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

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

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

Mario Greco
Group Chief Executive Officer

A strategy designed by Zurich

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

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

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

+ Pages 10 to 11 ›

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

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

Learn more about our strategy at www.zurich.com/strategy

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

Eric Chandler
Senior corporate counsel in Zurich North America


Task force members discuss strategy

40 Number of Task Force Members	**18** Number of languages spoken
34 Average age	**6** Average years at Zurich
9 Average years in the insurance industry	**17** Different nationalities
12 Senior leaders	**203** Senior leaders' combined years of insurance industry experience

Business environment

A changing global environment

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

Twelve key emerging technologies

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

3D printing

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

Advanced materials and nanomaterials

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

Artificial intelligence and robotics

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

Biotechnologies

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

Global Risks Report 2017, World Economic Forum

Energy capture, storage and transmission

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

Blockchain and distributed ledger

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

Geoengineering

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

Ubiquitous linked sensors

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

Neurotechnologies

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

New computing technologies

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

Space technologies

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

Virtual and augmented realities

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

Globalization versus retrenchment, slower growth

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

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

Addressing the challenges of companies and aging societies

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

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

Risks of being interconnected

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

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

New technologies, new opportunities

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

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

Better equipped to deal with the 'sharing economy'

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

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

Regulations that protect insurance customers

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

Strategic overview

Our strategy

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

Building on our strengths

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

Our strategic aspiration

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

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

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

Strategic targets

Long term

Our strategy to deliver long-term competitive advantage focuses on continuing to increase profitability and consolidating the Group's position as a leading global underwriter for property and casualty (P&C) and life insurance. The Group will expand customer relationships, simplify the business and significantly reduce costs. At the operating level, Zurich will continue to reduce complexity and improve accountability. Zurich will enhance technical excellence and strengthen its go-to-market-approach for commercial customers. It will also seek to enhance its offerings to individuals by monitoring and aiming to increase customer satisfaction and retention. The Farmers Exchanges[1] will continue to focus on improving customer satisfaction and retention rates.

2017–2019

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

[1] The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of Zurich Insurance Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.
[2] Business operating profit (after-tax) return on shareholders' equity. Excludes unrealized gains and losses.
[3] The Zurich Economic Capital Model (Z-ECM) is an internal measure of capital adequacy.
[4] Cumulative net cash remittances to Zurich Insurance Company Ltd, after deducting central costs, in 2017 to 2019.

Our actions

We will deliver on our strategic aspiration by:

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

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

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

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

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

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

Our strengths

Our global reach

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

Our unique footprint

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

Our solid financial position

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

Our balanced portfolio

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

Our trusted brand

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

Our talented people

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

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

Business review 2016

Making a difference to our customers

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

Getting closer to multinational customers

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

A unified approach to commercial insurance

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

"We now have a consistent approach to providing products and risk management services to all our customers," says James Shea, CEO Commercial Insurance. "One good example is our international programs proposition. We will expand this platform to address the growing needs of smaller and medium-sized companies with operations overseas."

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

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

Our customers include multinationals that depend on us.

Understanding our global risks

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

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

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

Helping businesses to find the best life and pensions solutions

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

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

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

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

Wendy Liu

Making benefits programs easier for multinationals

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

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

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

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

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

Making things simpler for retail customers

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

Organizing around retail customers' needs

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

To gain more in-depth knowledge about customers' needs, we are applying a common metric called the Net Promoter Score (NPS) to measure whether customers not only choose to stay with us, but also recommend us to others. The Farmers Exchanges[1] are an excellent example of what can be achieved. By implementing and tracking customer metrics like the NPS, the Farmers Exchanges have focused on areas to improve, for example, customer retention and satisfaction (see story on opposite page).

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

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

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

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


Putting our customers' needs first

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

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

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

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


Protecting incomes and families

Helping to offset financial worries due to disability

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

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

Zurich sets industry standard in transparency

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

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

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

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

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

The Farmers Exchanges[1] continue to focus on customer loyalty. They are also improving products and services. One way the Farmers Exchanges did this in 2016 was by upgrading their online services and making these services more accessible via mobile devices. The Farmers Exchanges also used feedback from customers to redesign the digital 'storefronts' that customers use to contact local agents.

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

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

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

Innovations that help our customers

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

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

Using satellites and drones to assess hazardous claims

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

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

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

Helping a mid-size pension fund control risk

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

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

Innovations helping customers in Switzerland and Germany

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

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

Using technology to make a difference to crop insurance

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


We're helping customers to identify risks

An online 'Advisor' for businesses

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

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

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

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

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

Robert Gremli
Global Chief Risk Engineering Officer,
Zurich Risk Engineering

>2,750
downloads of our award-winning Zurich Risk Advisor application

>900
risk engineering specialists helping business customers to assess risks

Business review 2016 (continued)

Gaining more from our businesses

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

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

Focusing on profitable markets

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

We are also building on our position in Asia Pacific. We have announced plans to acquire Cover-More, a major travel insurance provider based in Australia, which has strong market positions in New Zealand, India and the U.S. In Australia, we also finished acquiring a portfolio of active life policies (in-force life business) from the Macquarie Group. In Malaysia, we completed acquiring MAA Takaful Berhad, a family and general takaful (Sharia-compliant) insurer. We also acquired Kono Insurance Limited, a general insurance company incorporated in Hong Kong.

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

Employing capital in a disciplined way

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

Our data center in London

Efficiency that benefits customers and Zurich

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

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

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

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

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

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

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

Kristof Terryn
Group Chief Operating Officer

Increasing the value of our in-force business

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

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

A sustainable way of doing business

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

A more targeted approach to CR

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

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

Recognizing Zurich's progress in corporate responsibility

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

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

Investing responsibly

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

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

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

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

KPIs

Responsible investment KPIs

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

1 The United-Nations supported Principles for Responsible Investment (PRI).
2 Including assets managed by Zurich.
3 Impact investments in 2016 consisted of: green bonds (USD 1.39 billion); investments committed to private equity funds (USD 105 million, thereof 28 percent drawn down); and other investments (USD 199 million).

Working to improve flood resilience in Peru

Working together to reduce flood risk

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

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

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

A local and global approach with the Z Zurich Foundation

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

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

Promoting sound, sustainable leadership

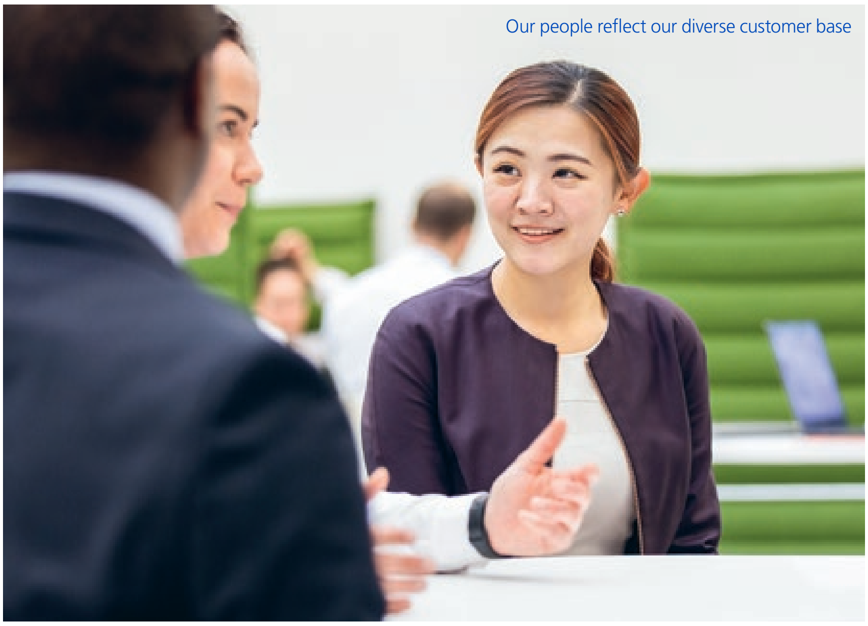
We adhere to sound and sustainable principles of corporate governance. Zurich, as a strategic partner of the World Economic Forum, supports the WEF's 'Compact for Responsive and Responsible Leadership.' The Compact encourages global businesses and investors to focus on sustainability and the long-term goals of society. Our Board and Executive Committee also take an active role in overseeing and implementing our approach to corporate responsibility. Zurich is a signatory to the United Nations Global Compact, which commits us to aligning our strategy, culture and day-to-day operations with the Global Compact's 10 principles. And we are a signatory of the Principles for Responsible Investment (PRI). You can read more about our approach to corporate governance starting on page 26.

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

Business review 2016 (continued)

Ensuring diversity and a merit-based approach

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



Our people reflect our diverse customer base

Recognizing the advantages of diversity in our businesses

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

To achieve our aims, we became the first global company in the insurance industry to receive 'EDGE' (Economic Dividends for Gender Equality) certification. Our decision to apply for EDGE certification demonstrates our aim to improve gender equality within all areas of our business, starting in 2015 with Germany, Hong Kong, Italy, Spain, Switzerland and the UK. Building on our success, in 2016 we received certification in Australia, Austria, Brazil, Ireland, Japan and Mexico. These 12 businesses represent over 28,000 employees.

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

Reinforcing a merit-based approach to jobs

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

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

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

Returning veterans to the workforce

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

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

www.zurichna.com/en/careers/veterans

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

KPIs

Our people – operational KPIs

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

KPIs

Building talent KPIs

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

Training new leaders

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

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

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

Preparing tomorrow's insurers

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

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

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

Strengthening our governance structure

We strengthened Zurich and our governance structure in 2016. Our new, simplified structure will help us to better serve our customers. Good governance supports us in our aim to create sustainable value for all our stakeholders.

Governance

Corporate governance report

Chairman's statement on corporate governance

Good corporate governance enables Zurich to create sustainable value for its shareholders, customers, employees and other stakeholders.

The corporate governance report describes the work of Zurich's Board of Directors (the Board) and management and its committees.

Tom de Swaan
Chairman of the Board of Directors

Dear Shareholder

We strengthened Zurich and our governance structure in 2016. In the process, we have given the business more power to make decisions and have enhanced internal processes and policies.

We have further reviewed and monitored our remuneration structure, about which you can find further information in the remuneration report, which follows this section of our Annual Report.

Board and Executive Committee changes

At the Annual General Meeting on March 30, 2016, you elected Jeffrey Hayman and David Nish as new members of the Board of Directors. Don Nicolaisen, Rafael del Pino and Thomas K. Escher did not stand for re-election.

The Board proposes to the shareholders that they re-elect all current members of the Board at the Annual General Meeting on March 29, 2017 and that they elect Catherine P. Bessant as new member.

As of March 7, 2016, Mario Greco was appointed Group Chief Executive Officer and member of the Executive Committee (ExCo). Gary Shaughnessy, CEO Global Life and member of the ExCo since January 1, 2016, was appointed CEO EMEA (Europe, Middle East & Africa) as of July 1, 2016. Robert Dickie stepped down as Chief Operations and Technology Officer and member of the ExCo as of July 1, 2016 and Kristof Terryn, who was CEO General Insurance up to that date, was appointed Group Chief Operating Officer. As of October 1, 2016, Claudia Dill was appointed member of the ExCo in her function as CEO Latin America, Jack Howell was appointed CEO Asia Pacific and member of the ExCo, and James Shea was appointed CEO Commercial Insurance and member of the ExCo.

I served as Chief Executive Officer ad interim up to March 7, 2016. During this time, Fred Kindle, Vice-Chairman of the Board, took on additional responsibilities to ensure continued good governance.

"We have reorganized ourselves to mirror how we serve our customers."

New organizational structure and strategy

We communicated our Group strategy for 2017 through 2019 on November 17, 2016. We shall consolidate our position as a leading global underwriter for property and casualty, and life business and will focus on increasing profitability in a difficult market environment. Based on our trusted brand, we will further build on our customer relationships and simplify the business to be able to serve our customers even better. Our goal is to ensure that our employees, particularly those dealing directly with our customers, are empowered to take decisions and understand their role in securing new business, delivering profitability and facilitating our success. Our new operational Group structure provides an important basis to help us achieve this.

Corporate responsibility

At Zurich, doing business responsibly is at the core of our culture. Corporate responsibility is a driver of sustainable value creation for all our stakeholders. We also proactively determine ways to address environmental, social and governance issues in our day-to-day activities. The Zurich flood resilience program is a concrete example of how corporate responsibility can help create new customer solutions, initiate public policy discussions and advance awareness.

The ExCo and the Board take an active role in our approach to corporate responsibility. In 2016, the Governance and Nominations Committee's mandate was extended to include corporate responsibility more broadly, reviewing and approving the Group's corporate responsibility strategy and objectives. It was renamed the Governance, Nominations & Corporate Responsibility Committee.

Zurich Stakeholders

It is important for Zurich to engage in dialogue with all our stakeholders. This includes our shareholders at institutional investors' meetings, at our Investor Day and at our Annual General Meeting. I'd like to encourage you to attend this year's AGM on March 29, 2017 and to thank you for your continued support and engagement.

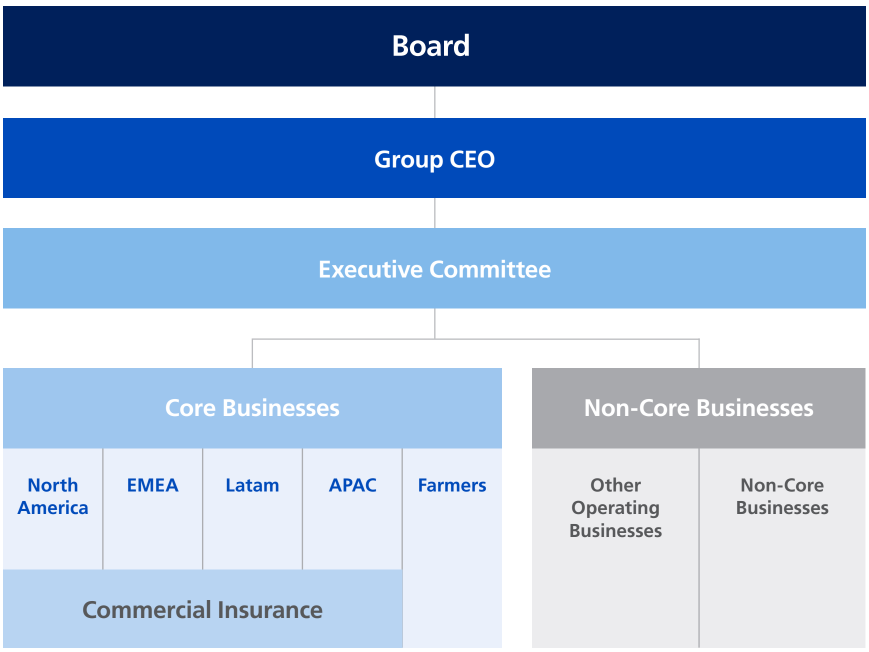
Tom de Swaan
Chairman of the Board of Directors

New Operational Group Structure

We have reorganized to mirror how we serve our customers. The Executive Committee is now composed of all heads of the regional businesses in North America; Europe, the Middle East and Africa; Latin America; and Asia Pacific as well as the heads of our Commercial Insurance and Farmers businesses. In addition, the Group CIO, CFO, CRO and COO are members of the Executive Committee.

+ Pages 31 to 33 >

Simplified new operational Group structure
as of second half 2016



Corporate governance report

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Introduction

The Zurich Insurance Group consisting of Zurich Insurance Group Ltd and its subsidiaries (the 'Group' or 'Zurich'), is committed to effective corporate governance for the benefit of its shareholders, customers, employees and other stakeholders based on the principles of fairness, transparency and accountability. Structures, rules and processes are designed to provide proper organization and conduct of business within Zurich and to define the powers and responsibilities of its corporate bodies and employees.

This report describes the Group's approach to corporate governance and illustrates the key elements of corporate governance within the Group. It includes the information required under the following rules, with which Zurich complies:

- Directive on Information Relating to Corporate Governance of the SIX Exchange Regulation (as of September 1, 2014).
- Swiss Code of Best Practice for Corporate Governance (Swiss Code of Best Practice), issued in 2002 by economiesuisse, as amended in October 2007 and in August 2014.

The shares of Zurich Insurance Group Ltd are listed on the SIX Swiss Exchange. Certain Group companies have listed debt issued under its Euro Medium Term Note Program and other financial instruments.

Zurich is subject to insurance group supervision by the Swiss Financial Market Supervisory Authority (FINMA). As set out in its decree of December 28, 2011, FINMA stated that Zurich is subject to insurance group supervision according to art. 64 et seq. of the Swiss Insurance Supervision Act (ISA) and no longer qualified as a conglomerate. The Joint Committee of the European Supervisory Authorities has also designated the Group as an insurance group and not as an insurance conglomerate because of the small size of its non-insurance activities. The ISA requires Swiss insurance companies and groups to establish and maintain strong governance and risk management systems as well as effective internal control systems that are appropriate to their business activities. It prescribes the calculation of a risk-based solvency margin on a Group wide basis and at legal entity level pursuant to the Swiss Solvency Test (SST) and, to the extent this is required by state treaties between Switzerland and other countries, also a Solvency I margin. All major intra-group transactions must be reported to FINMA. In addition to the group supervision exercised by FINMA and its supervision of the legal entities Zurich Insurance Company Ltd, Zurich Life Insurance Company Ltd, Zurich Reinsurance Company Ltd and Orion Rechtsschutz-Versicherung AG, the insurance subsidiaries and remaining financial services entities of the Group are supervised by relevant regional and local supervisory authorities.

The principles of corporate governance and the standards described above are incorporated and are reflected in a number of corporate documents, in particular the Articles of Incorporation, the Organizational Rules and the Charter of the Committees of the Board of Directors of Zurich Insurance Group Ltd. The Governance, Nominations and Corporate Responsibility Committee of the Board of Directors of Zurich Insurance Group Ltd regularly reviews the Group's corporate governance against best practice standards and ensures compliance with corporate governance requirements.

An effective structure is in place providing for cooperation between the Board of Directors of Zurich Insurance Group Ltd, management and internal control functions. This structure establishes checks and balances and is designed to provide for institutional independence of the Board from the Group Chief Executive Officer (CEO) and the Executive Committee (ExCo) who together are responsible for managing the Group on a day-to-day basis. Before December 1, 2015, the Board was composed entirely of non-executive members independent from the management. The roles of Chairman of the Board and CEO were split, until the Chairman of the Board, Tom de Swaan, took over the role of Chief Executive Officer ad interim on December 1, 2015. In January 2016, Mario Greco was appointed Group CEO, effective March 7, 2016, when the roles of Chairman and CEO were again split so that the Board consists, as before, entirely of non-executive members from March 7, 2016. While the Chairman of the Board served as Chief Executive Officer ad interim, Fred Kindle, Vice-Chairman of the Board, has taken on certain additional responsibilities to ensure continued good governance.

Corporate governance report (continued)

This report essentially follows the recommended structure outlined in the Directive on Information Relating to Corporate Governance of the SIX Exchange Regulation. The information on compensation, shareholdings and loans to Board members and members of the ExCo is contained in a separate report, the remuneration report (see pages 74 to 111), which supplements this corporate governance report and also includes the information as required by the Circular 2010/1 on remuneration schemes (minimum standards for remuneration schemes of financial institutions) issued by FINMA on October 21, 2009 as amended on June 1, 2012 and December 3, 2015 as well as the Ordinance against Excessive Compensation (Ordinance AEC) as of November 20, 2013.

Key governance developments in 2016 – at a glance

as of December 31, 2016

Board of Directors

Election

- Jeffrey Hayman, elected as a new member (as of March 30, 2016)
- David Nish, elected as a new member (as of March 30, 2016)

Resignations

- Thomas K. Escher (as of March 30, 2016)
- Don Nicolaisen (as of March 30, 2016)
- Rafael del Pino (as of March 30, 2016)

Executive Committee*

New appointments

- Mario Greco, Group Chief Executive Officer (as of March 7, 2016)
- Claudia Dill, CEO Latin America (as of October 1, 2016)
- Jack Howell, CEO Asia Pacific (as of October 1, 2016)
- Gary Shaughnessy, CEO EMEA (Europe, Middle East & Africa) as of July 1, 2016, former CEO Global Life (as of January 1, 2016)
- James Shea, CEO Commercial Insurance (as of October 1, 2016)

Change of role

- Kristof Terryn, Group Chief Operating Officer (as of July 1, 2016), former CEO General Insurance

Resignations

- Robert Dickie, Group Chief Operations and Technology Officer (as of July 1, 2016)

* As of July 1, 2016, the Group General Counsel and the Group Human Resources Officer were no longer members of the ExCo. The Group General Counsel attends all ExCo meetings ex officio.

Group structure and shareholders

Operational Group structure

Zurich Insurance Group Ltd, the Group's holding company, is a Swiss corporation organized in accordance with the laws of Switzerland. Zurich's business is focused on providing best-in-class general and life insurance products and services to individuals, small businesses and mid-sized and large companies.

During 2016, the following changes to the operational group structure were implemented:

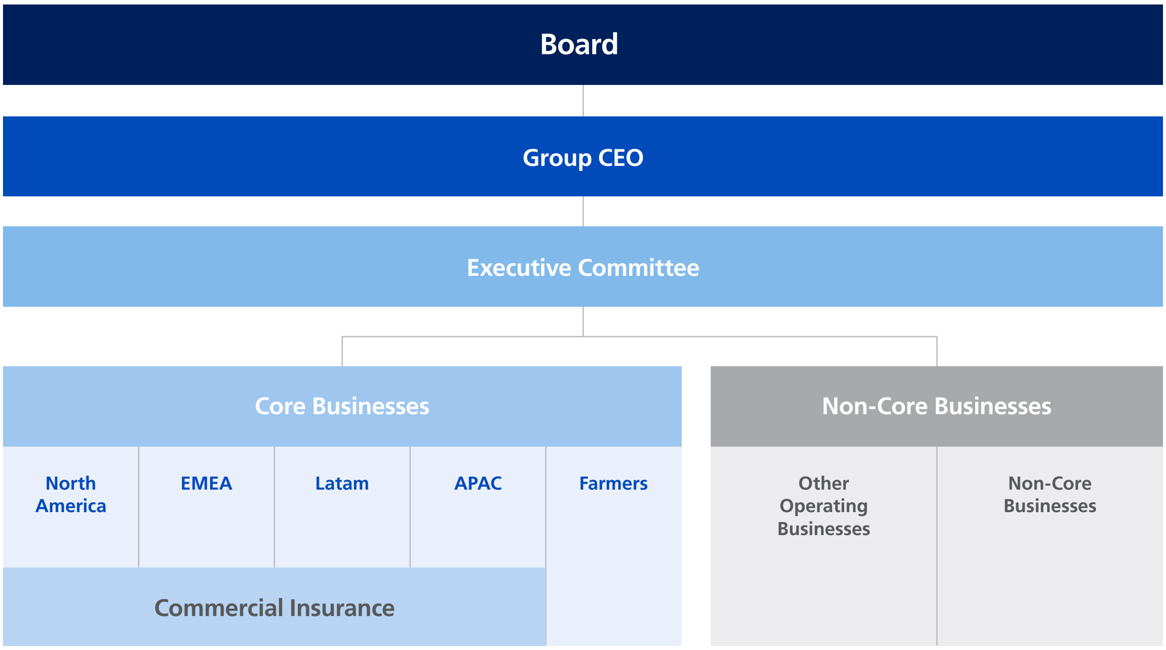
- → The previous segment structure (General Insurance and Global Life) was abolished on July 1, 2016 and a new structure was created by combining life and non-life insurance businesses.
- → On October 1, 2016 the Group combined its corporate and commercial businesses into a single global business called Commercial Insurance.
- → The new structure is organized on a regional basis with the countries as the main business units.

The following two charts visualize the change in the operational group structure in 2016, which will become fully effective in 2017.

Previous operational Group structure

Corporate governance report (continued)

Simplified new operational Group structure
as of second half 2016



The Group pursues a customer-centric strategy and is managed by regions with the addition of the Farmers and Commercial Insurance businesses. The ExCo is headed by the Group CEO. Six members of the ExCo fully represent the Group's businesses: the CEOs of the regions (CEO North America, CEO EMEA, CEO Latin America, CEO Asia Pacific), the CEO Farmers and the CEO Commercial Insurance. Four members represent Group functions: the Group Chief Financial Officer (CFO), the Group Chief Investment Officer (CIO), the Group Chief Risk Officer (CRO) and the Group Chief Operating Officer (COO). The Group COO function combines responsibility for operations and technology with underwriting, claims, actuarial and pricing, creating a unified sense of purpose and responsibility for technical excellence, efficiency and business transformation across all parts of the business. In addition, the Group CFO is newly responsible for re-insurance life and non-life. For further information on the ExCo see pages 56 to 66.

The previous segment structure (General Insurance and Global Life) was abolished on July 1, 2016 and a new structure was created by combining the life and non-life insurance businesses, applying a unified go-to-market approach. On October 1, 2016 the Group combined its corporate and commercial businesses into a single global business called Commercial Insurance as part of its process to simplify and strengthen its organization. The Commercial Insurance business unit brings together corporate and commercial insurance expertise worldwide under a single umbrella. The Group's operating structure reflects the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. The new operational group structure is being phased in and becomes fully effective in the financial year 2017. The Group's reportable business units for 2016 are as follows:

- General Insurance is the segment through which the Group 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 with market-leading propositions in unit-linked and protection products as well as fee-based solutions managed through three global pillars (Bank Distribution, Corporate Life & Pensions and other Retail) to develop leading positions in its target markets.
- Farmers provides, through Farmers Group, Inc. (FGI) and its subsidiaries, non-claims related, administrative and management services to the Farmers Exchanges as attorney-in-fact. FGI receives fee income for the provision of services to the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc. a wholly owned subsidiary of the Group. 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.

The other businesses are:

- Other Operating Businesses predominantly consist of the Group's headquarters and Holding and Financing activities. In addition, certain alternative investment positions not allocated to business operating segments are included within Holding and Financing.
- Non-Core Businesses include insurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. Non-Core Businesses also include the Group's remaining banking activities. Non-core businesses are mainly situated in the U.S., Bermuda, the United Kingdom and Ireland.

From 2017 onwards the Group considers the Regions and Farmers to be its core businesses.

- Regions (EMEA, North America, LATAM and APAC): business units through which the Group provides a variety of property and casualty and life products to retail and commercial customers. Commercial Insurance brings together corporate and commercial insurance expertise worldwide under a single umbrella.
- Farmers (unchanged)

A detailed review of the results of the business segments as reported for 2016 can be found in the operating and financial review starting on page 148. Furthermore, an overview of the Group's business strengths and activities is contained in the Annual Review, available on Zurich's website www.zurich.com (www.zurich.com/en/investor-relations/results-and-reports).

A list of the Group's significant subsidiaries can be found on pages 264 to 266. For further information on the share listing of Zurich Insurance Group Ltd, see the shareholder information on pages 294 to 297.

Significant shareholders

According to the rules regarding the disclosure of significant shareholdings of Swiss companies listed in Switzerland, disclosure has to be made if certain thresholds starting at three percent are reached or if the shareholding subsequently falls below those thresholds. Call options and other financial instruments are added to any share position, even if they allow for cash settlement only. Disclosure must be made separately for purchase positions (including shares, long call options and short put options) and sale positions (including long put options and short call options). The percentage thresholds are calculated on the basis of the total amount of voting rights according to the number of shares issued as disclosed in the commercial register.

Zurich Insurance Group Ltd is obliged to announce shareholdings by third parties in its shares when notification is received from a third party that a threshold has been reached. During 2016, the Group received one new notification from Norges Bank (the Central Bank of Norway), Oslo that they exceeded the threshold of three percent.

As of December 31, 2016, Zurich Insurance Group Ltd is not aware of any person or institution, other than BlackRock, Inc., New York (> 5%) and Norges Bank, Oslo (> 3%), which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd representing three percent or more of its issued shares.

The announcements related to these notifications can be found via the search facility on the SIX Disclosure Office's platform: https://www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html.

Zurich Insurance Group Ltd is not aware of any person or institution which, as of December 31, 2016, directly or indirectly, alone or with others, exercised or was a party to any arrangements to exercise control over Zurich Insurance Group Ltd.

Corporate governance report (continued)

Overview on shareholder structure

Number of shares held

as of December 31, 2016	Number of registered shareholders	% of registered share capital
1–500	120,618	14.7
501–1,000	5,595	4.6
1,001–10,000	4,334	11.7
10,001–100,000	421	13.0
100,001+	67	56.0
Total registered shares[1]	**131,035**	**100.0**

[1] of registered shareholders.

Registered shareholders by type

as of December 31, 2016	Registered shareholders in %	Registered shares in %[1]
Individual shareholders	95.9	29.1
Legal entities	3.9	27.0
Nominees, fiduciaries	0.2	43.9
Total	**100.0**	**100.0**

[1] of registered shareholders.

Registered shareholders by geography

as of December 31, 2016	Registered shareholders in %	Registered shares in %[1]
Switzerland	94.2	49.7
UK	0.4	26.2
North America	0.7	9.8
Asia	0.2	0.7
Latin America	0.1	0.0
Rest of the World	4.4	13.6

[1] of registered shareholders.

Cross-shareholdings

Zurich Insurance Group Ltd has no interest in any other company exceeding five percent of the voting rights of that other company, where such other company has an interest in Zurich Insurance Group Ltd exceeding five percent of the voting rights in Zurich Insurance Group Ltd.

Capital structure

Share capital

As of December 31, 2016, the ordinary share capital of Zurich Insurance Group Ltd amounted to CHF 15,060,740.60 divided into 150,607,406 fully paid registered shares with a nominal value of CHF 0.10 each. The Board will propose to the shareholders at the Annual General Meeting on March 29, 2017 a dividend of CHF 17 per share. It is planned that the dividend payment will be partially made from the capital contribution reserve, which part will be exempt from Swiss withholding tax.

Authorized and contingent share capital

As of December 31, 2016, as specified in Article 5bis(1) of the Articles of Incorporation, the Board is authorized to increase the share capital of Zurich Insurance Group Ltd by up to CHF 1,000,000 representing 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each until March 30, 2018. The contingent share capital of Zurich Insurance Group Ltd, as specified in Article 5ter(1a) of the Articles of Incorporation, may be increased 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 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 Group companies in national or international capital markets and/or option rights which are granted to the shareholders. Moreover, there is an additional contingent share capital of CHF 68,785.30 as specified in Article 5ter(2a) of the Articles of Incorporation, representing 687,853 fully paid registered shares with a nominal value of CHF 0.10 each, which may be issued to employees of the Group. For further information on the capital structure and the authorized and contingent share capital, see the audited consolidated financial statements, note 19 on pages 224 to 225.

Changes to share capital during 2016

During 2016, a total of 202,442 shares were issued to employees out of contingent capital. As a result, on December 31, 2016, the share capital amounted to CHF 15,060,740.60 (150,607,406 shares) and both the authorized capital and the contingent share capital (as specified in Article 5bis(1) and in Article 5ter(1a) of the Articles of Incorporation, respectively) amounted to CHF 1,000,000 (10,000,000 shares) and the other contingent share capital (as specified in Article 5ter(2a) of the Articles of Incorporation) amounted to CHF 68,785.30 (687,853 shares).

Changes to share capital during 2015

During 2015, a total of 768,128 shares were issued to employees out of contingent capital. As a result, on December 31, 2015, the share capital amounted to CHF 15,040,496.40 (150,404,964 shares) and both the authorized share capital and the contingent share capital (as specified in Article 5bis(1) and in Article 5ter(1a) of the Articles of Incorporation, respectively) amounted to CHF 1,000,000 (10,000,000 shares) and the other contingent share capital (as specified in Article 5ter(2a) of the Articles of Incorporation) amounted to CHF 89,029.50 (890,295 shares).

Summary of changes in the ordinary share capital over the last two years

	Share capital in CHF	Number of shares	Nominal value in CHF
As of December 31, 2014	14,963,683.60	149,636,836	0.10
Newly issued shares from contingent capital	76,812.80	768,128	0.10
As of December 31, 2015	15,040,496.40	150,404,964.00	0.10
Newly issued shares from contingent capital	20,244.20	202,442	0.10
As of December 31, 2016	15,060,740.60	150,607,406	0.10

For information on changes of share capital during 2014, see the Annual Report 2015 of Zurich Insurance Group, page 30, pages 166 to 167 and pages 214 to 215.

Shares and participation certificates

Zurich Insurance Group Ltd's shares are registered shares with a nominal value of CHF 0.10 each. The shares are fully paid in. Pursuant to article 14 of the Articles of Incorporation, each share carries one vote at shareholders' meetings and entitles the registered holder to exercise all other membership rights in respect of that share.

Some interests in shares are held by investors in the form of American Depositary Receipts (ADRs)[1]. As of December 31, 2016, investors held 23,582,820 ADRs (representing 2,358,282 Zurich Insurance Group Ltd shares).

Profit-sharing certificates

Zurich Insurance Group Ltd has not issued any profit-sharing certificates.

Limitations on transferability and nominee registrations

The Articles of Incorporation do not provide for any limitations on transferability except for the following:

Registration as a shareholder requires a declaration that the shareholder has acquired the shares in his or her own name and for his or her own account. Nominees holding Zurich Insurance Group Ltd shares may for the benefit of, or as nominee for another person be registered for up to 200,000 shares with voting rights notwithstanding that the nominee does not disclose the identity of the beneficial owner. A nominee, however, is entitled to be registered as a shareholder with voting rights of more than 200,000 shares if the nominee undertakes to disclose the identity of each beneficial owner and to inform the beneficial owners about corporate actions, to consult as to the exercise of voting rights and pre-emptive rights, to transfer dividends and to act in the interests of and in accordance with the instructions of the beneficial owner.

There are special provisions relating to the registration and exercise of rights attached to shares by The Bank of New York Mellon Corporation in connection with the Zurich Insurance Group Ltd ADR program.

Convertible bonds and options

Zurich Insurance Group Ltd had no public convertibles or options outstanding as of December 31, 2016. For information on employee share option plans, see the audited consolidated financial statements, note 21 on pages 233 to 234.

[1] Zurich Insurance Group Ltd has established an American Depositary Share, or ADS, level 1 program in the U.S. Under this program, The Bank of New York Mellon Corporation issues the ADSs. Each ADS represents the right to receive one-tenth of one share of Zurich Insurance Group Ltd. Each ADS also represents securities, cash or other property deposited with The Bank of New York Mellon Corporation but not distributed to ADS holders. Zurich's ADSs are traded over the counter (OTC) and are evidenced by American Depositary Receipts, or ADRs. Since 1st July 2010, Zurich's ADRs have been traded on "OTCQX", an electronic platform operated by OTC Markets Group Inc. under the symbol ZURVY. ADS holders are not treated as shareholders of Zurich Insurance Group Ltd and are not able to directly enforce or exercise shareholder rights. Only The Bank of New York Mellon Corporation as Depositary of the level 1 program may exercise voting rights with respect to instructions received from beneficial owners of ADRs.

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Board of Directors

A diverse and effective Board

The governance structure that controls relations between our Board and our management is designed to help both bodies to fulfill their mandates. This structure provides checks and balances including the institutional independence of the Board of Directors from the Group Chief Executive Officer and the Executive Committee.

Tom de Swaan

Chairman

Nationality: Dutch

Born: 1946

Committee membership:
Governance, Nominations and Corporate Responsibility Committee (chairperson), Remuneration Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

+ Page 42 >

Fred Kindle

Vice-Chairman

Nationality: Swiss

Born: 1959

Committee membership:
Governance, Nominations and Corporate Responsibility Committee, Remuneration Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

+ Page 42 >

Christoph Franz

Member of the Board of Directors

Nationality: Swiss and German

Born: 1960

Committee membership:
Governance, Nominations and Corporate Responsibility Committee, Remuneration Committee (chairperson)

Other directorships within the Group:
Zurich Insurance Company Ltd

+ Page 43 >

Jeffrey Hayman

Member of the Board of Directors

Nationality: USA

Born: 1960

Committee membership:
Risk and Investment Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

+ Page 44 >

Joan Amble
Member of the Board of Directors

Nationality: USA
Born: 1953

Committee membership:
Audit Committee (chairperson),
Risk and Investment Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

+ Page 42 ›

Susan Bies
Member of the Board of Directors

Nationality: USA
Born: 1947

Committee membership:
Audit Committee,
Risk and Investment Committee (chairperson)

Other directorships within the Group:
Zurich Insurance Company Ltd,
Zurich American Insurance Company

+ Page 43 ›

Dame Alison Carnwath
Member of the Board of Directors

Nationality: British
Born: 1953

Committee membership:
Governance, Nominations and Corporate Responsibility Committee, Risk and Investment Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

+ Page 43 ›

Monica Mächler
Member of the Board of Directors

Nationality: Swiss
Born: 1956

Committee membership:
Audit Committee, Risk and Investment Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

+ Page 44 ›

Kishore Mahbubani
Member of the Board of Directors

Nationality: Singapore
Born: 1948

Committee membership:
Remuneration Committee,
Risk and Investment Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

+ Page 44 ›

David Nish
Member of the Board of Directors

Nationality: British
Born: 1960

Committee membership:
Audit Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

+ Pages 45 ›

Corporate governance report (continued)

Board of Directors

The Board, under the leadership of the Chairman, is responsible for determining the overall strategy of the Group and the supervision of senior management. It holds the ultimate decision-making authority for Zurich Insurance Group Ltd, except for decisions on matters reserved for the shareholders.

Board of Directors and its Committees
as of December 31, 2016

Board of Directors

Tom de Swaan*
Fred Kindle
Joan Amble
Susan Bies
Dame Alison Carnwath
Christoph Franz
Jeffrey Hayman
Monica Mächler
Kishore Mahbubani
David Nish

Governance, Nominations & Corporate Responsibility Committee

Tom de Swaan*
Dame Alison Carnwath
Christoph Franz
Fred Kindle

Remuneration Committee

Christoph Franz*
Tom de Swaan
Fred Kindle
Kishore Mahbubani

Audit Committee

Joan Amble*
Susan Bies
Monica Mächler
David Nish

Risk and Investment Committee

Susan Bies*
Joan Amble
Dame Alison Carnwath
Jeffrey Hayman
Monica Mächler
Kishore Mahbubani

* Chairman of Board or Chairperson of Board Committee, respectively.

The members of the Board are elected by the shareholders at the AGM. The Board constitutes itself in its first meeting after the AGM, except for the Chairman and the members of the Remuneration Committee who, as required by the Ordinance Against Excessive Compensation (AEC), in force since January 1, 2014, are elected by the shareholders.

The term of office of a Board member ends after completion of the next AGM. As a consequence, each member of the Board must be re-elected at the AGM each year.

All Directors of Zurich Insurance Group Ltd are also members of the Board of Directors of Zurich Insurance Company Ltd. Mr. de Swaan also serves as Chairman of that board. Ms. Bies is a member of the Board of Directors of Zurich American Insurance Company. With the exception of Ms. Bies, the Directors have no further board memberships within the Group.

Fritz Gerber is the Honorary Chairman of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd. He was Chairman of Zurich Insurance Company Ltd between 1977 and 1995 and its Chief Executive Officer between 1977 and 1991. In recognition of his leadership and services to that company, he was appointed Honorary Chairman. Such designation does not confer Board membership or any Director's duties or rights, nor does it entitle him to any Directors' fees.

Board Composition

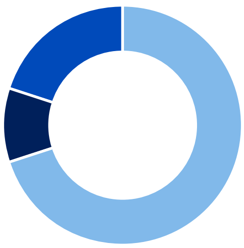
Diversity is a key success factor in today's fast-changing global environment. Zurich's Board consists of individuals with wide-ranging relevant backgrounds, experiences, skills and knowledge resulting in a favorable balance that enables the Board as a group to exercise its tasks and responsibilities while fully taking into account contemporary business needs.

As of December 31, 2016, the Board included members of six nationalities. The Board members gained their business experience in a broad range of jurisdictions resulting in a profound collective knowledge of international business practices. The Board also benefits from the broad cultural, educational and professional backgrounds of its members, which collectively include financial services, manufacturing, engineering, as well as legal and regulatory experience.

The current composition as of December 31, 2016 in terms of length of tenure and gender representation is as follows:

Board by length of tenure

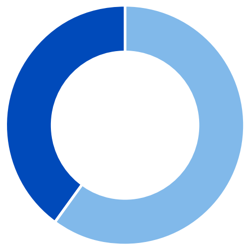
%, as of December 31, 2016



Less than 5 years	70
Between 5 and 10 years	10
More than 10 years	20

Board by gender

%, as of December 31, 2016



Male	60
Female	40

Corporate governance report (continued)

Biographies

Tom de Swaan
Chairman

Skills and experience
Tom de Swaan has served in the banking industry of the Netherlands for over 40 years. He joined De Nederlandsche Bank N.V. in 1972 and from 1986 until 1998 he was a member of the governing board. In January 1999, he became a member of the managing board and chief financial officer of ABN AMRO Bank. He retired from ABN AMRO in May 2006, but continued as an adviser to the managing board until June 2007. Between 1987 and 1988, Mr. de Swaan was chairman of the Amsterdam Financial Center and from 1995 to 1997, chairman of the banking supervisory sub-committee of the European Monetary Institute. He was also a member of the Basel Committee on Banking Supervision from 1991 to 1996, its chairman from 1997 to 1998, and a non-executive director on the board of the UK's Financial Services Authority from January 2001 until the end of 2006. From 2006 until May 2015 he was a non-executive member of the board of GlaxoSmithKline Plc. From 2008 until February 2016, Mr. de Swaan was a member of the supervisory board of Van Lanschot NV, the holding company of F. van Lanschot Bankiers, an independent Dutch bank. He also served as its chairman until December 2015. He has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2006. In March 2012 he was elected vice-chairman, acting as chairman from August 2013. He was elected chairman of the Board in September 2013. In addition Mr. de Swaan served as Chief Executive Officer a.i. from December 2015 to early March 2016.

Committee membership
Governance, Nominations and Corporate Responsibility Committee (chairperson), Remuneration Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. de Swaan is vice-chairman of the supervisory board of Royal DSM, a Netherlands-based global life sciences and material sciences group.* In addition, Mr. de Swaan is chairman of the board of the Netherlands Cancer Institute, chairman of the board of trustees of the Van Leer Jerusalem Institute and acts as director of certain other non-profit organizations. He is also a member of the IIF Board of Directors, the European Financial Services Round Table (EFR) and the advisory board of the China Banking Regulatory Commission in Beijing.

Educational background
Mr. de Swaan graduated from the University of Amsterdam with a master's degree in economics.

* While serving as Chief Executive Officer a.i., Mr. de Swaan held his mandates with this listed company in abeyance.

Fred Kindle
Vice-Chairman

Skills and experience
Fred Kindle worked at Hilti AG in Liechtenstein from 1984 until 1986. From 1988 until 1992 he was a consultant with McKinsey & Company in New York and Zurich. He then joined Sulzer AG in Switzerland, where he held several management positions. In 1999 he was appointed CEO of Sulzer Industries and in 2001 he became CEO of Sulzer AG. After joining ABB Ltd in 2004, Mr. Kindle was appointed CEO of ABB Group, a position he held until 2008. From 2008 to 2015 he was a partner of Clayton, Dubilier & Rice LLP, a private equity firm based in New York and London. In 2016 he took on the role of operating adviser to that company. He has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2006. He was elected vice-chairman in September 2013.

Committee membership
Governance, Nominations and Corporate Responsibility Committee, Remuneration Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
In his capacity as a partner of Clayton, Dubilier & Rice, Mr. Kindle served from 2008 until 2015 as chairman of the board of Exova plc, UK, and as a member of Exova's board since 2016. Mr. Kindle has been a member of the board of VZ Holding Ltd, Zurich since 2002, and was elected chairman in April 2014. He has served on the board of privately-held Stadler Rail AG since 2008 and has been a member of the board of Schneider Electric since 2016.

Educational background
Mr. Kindle graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a master's degree in engineering and holds an MBA from Northwestern University, Evanston.

Joan Amble
Member of the Board of Directors

Skills and experience
Joan Amble has substantial financial industry experience. She started her professional career as an accountant with Ernst & Young in 1977. From 1984 to 1989 she served at the Financial Accounting Standards Board (FASB), specializing in pensions, derivatives and other financial instruments. She then spent 14 years with General Electric Company (GE) in various leadership roles, including CFO GE Real Estate, COO and CFO GE Capital Markets, and as vice president and chief accounting officer GE Financial Services. From 2004 to May 2011, Ms. Amble served as executive vice president and principle accounting officer, and until the end of 2011 as executive vice president, Finance, of the American Express Company. In December 2011, Ms. Amble completed a four-year term as a member of the Financial Accounting Standards Advisory Council (FASAC). She has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2015.

Committee membership
Audit Committee (chairperson), Risk and Investment Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
She is a member of the board of Sirius XM Satellite Radio, where she chairs the audit committee. In addition, she is a member of the board and the audit committee at Booz Allen Hamilton. In January 2015, Ms. Amble was appointed to the Public Company Accounting Oversight Board's Standing Advisory Group, which advises on the development of auditing and professional practice standards. Since October 2016, Ms. Amble has been an adviser to the Risk Committee of the Executive Committee of the U. S. affiliate of Société Générale S.A., a French multinational banking and financial services company. She is also involved in several organizations focused on the development of women in business, including chair emeritus and co-founder of W.O.M.E.N in America Inc.

Educational background
Ms. Amble received a Bachelor of Science in accounting from The Pennsylvania State University, and later became a certified public accountant (currently inactive).

Susan Bies
Member of the Board of Directors

Skills and experience
Susan Bies began her career in 1970 as regional and banking structure economist with the Federal Reserve Bank of St. Louis, Missouri. In 1972, she became assistant professor of economics at Wayne State University, Detroit, Michigan. In 1977, she moved to Rhodes College, Memphis, Tennessee, in a similar role and in 1979 joined First Tennessee National Corporation in Memphis, where she remained until 2001. Her areas of responsibility included tactical planning and corporate development. In 1984 she became chief financial officer and chairman of the asset/liability committee. In 1995, she became executive vice president of risk management and auditor and chairman of the risk management committee, as well as continuing her duties with the asset/liability committee. From 2001 until 2007, she was a member of the Board of Governors of the Federal Reserve System. Between 1996 and 2001, Ms. Bies was a member of the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB). She has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2008.

Committee membership
Audit Committee, Risk and Investment Committee (chairperson)

Other directorships within the Group
Zurich Insurance Company Ltd,
Zurich American Insurance Company

External appointments
Ms. Bies has served as a member of the board of directors of The Bank of America Corporation since June 2009, and joined the board of directors of Merrill Lynch International, London, a subsidiary of Bank of America Corporation, in 2013. She has also been a member of the senior advisory board of Oliver Wyman since 2009.

Educational background
Ms. Bies graduated with a B.S. degree from the State University College at Buffalo, New York and with an M.A. degree from Northwestern University, Evanston, where she later gained a Ph.D.

Dame Alison Carnwath
Member of the Board of Directors

Skills and experience
Dame Alison Carnwath has substantial financial industry experience. She began her career with Peat Marwick Mitchell, now KPMG, where she practiced as a chartered accountant from 1975 to 1980. From 1980 to 1982, she worked as a corporate financier for Lloyds Bank International. From 1982 to 1993, she was assistant director, then director, at J. Henry Schroder Wagg & Co in London and New York. From 1993 to 1997, Ms. Carnwath was a senior partner at the financial advisory firm Phoenix Partnership. The firm was taken over by Donaldson, Lufkin & Jenrette (DLJ) in late 1997; she continued working for DLJ until 2000. Ms. Carnwath has held several board offices. From 2000 to 2005, she was the chairman of the board of Vitec Group plc, from 2001 to 2006 a director of Welsh Water, from 2004 to 2007 of Friends Provident plc, from 2004 to 2007 of Gallaher Group and from 2007 to 2010, she was the independent chairman of MF Global Inc. She also served on the boards of directors of Barclays from 2010 to 2012, and of Man Group plc from 2001 to 2013. She has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since March 2012. She was made a Dame of the British Empire (DBE) for services to business in the 2014 New Year Honours List in the UK.

Committee membership
Governance, Nominations and Corporate Responsibility Committee, Risk and Investment Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Ms. Carnwath has been a senior advisor of Evercore Partners since 2011. She has been chairman of the board of Land Securities Group plc since 2008 and a member of the board of PACCAR Inc. since 2005. In September 2013, she was appointed to the advisory council of the St. George's Society of New York. Since May 2014 she has been a member of the supervisory board of BASF SE and Chairman of the Audit Committee of BASF SE.

Educational background
Ms. Carnwath graduated in economics and German from the University of Reading. She was awarded honorary doctorates (LLB) from the University of Reading and the University of Exeter.

Christoph Franz
Member of the Board of Directors

Skills and experience
Christoph Franz started his professional career in 1990 at Deutsche Lufthansa AG. From 1994 until 2003 he held different executive functions at Deutsche Bahn AG, including as member of the executive board and CEO of the passenger transport division. In 2004 he became CEO of Swiss International Air Lines Ltd, and in 2009 was promoted to the role of deputy chairman of the executive board of Deutsche Lufthansa AG and CEO Passenger Airlines. From 2011 to 2014, Mr. Franz was chairman of the executive board and CEO of Deutsche Lufthansa AG. He became a member of the boards of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd in April 2014.

Committee membership
Governance, Nominations and Corporate Responsibility Committee, Remuneration Committee (chairperson)

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. Franz was elected chairman of the board of Roche Holding Ltd in March 2014. He is also a member of the board of directors of Stadler Rail. Mr. Franz serves as a member of the board of trustees of the Ernst-Goehner-Foundation, of Avenir Suisse and of the Lucerne Festival and is a member of the advisory board of the University of St. Gallen (HSG).

Educational background
Mr. Franz studied industrial engineering at the Technical University Darmstadt (Germany) and completed his studies with a Ph.D. in economic sciences (Dr. rer. pol.) at the same university. He also studied at the Ecole Centrale de Lyon (France) and conducted post-doctorate research at the University of California, Berkeley.

Corporate governance report (continued)

Biographies (continued)

Jeffrey Hayman
Member of the Board of Directors

Skills and experience
Mr. Hayman began his career as a claims representative in the property and casualty department of Travelers Companies in the U.S. in 1983, where he later held several positions. In 1998 he joined AIG as regional vice president, personal lines at AIU Far East in Japan. Beginning in 2003, he held various leadership positions within AIG, including as chairman of AIU Insurance Company in Japan and president and CEO of AIU Far East Holdings, Japan and Korea. From 2009 to 2011, Mr. Hayman served as senior vice president and chief administrative officer, and from 2011 to 2013 as executive vice president and CEO, Global Consumer Insurance, at AIG. In 2013 he served as president of international insurance operations at Starr Companies. He then became an independent consultant and advisor. He has been a member of the boards of Zurich Insurance Group Ltd and of urich Insurance Company Ltd since March 2016.

Committee membership
Risk and Investment Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
None

Educational background
Mr. Hayman holds an MBA in finance from the University of Hartford, Barney School of Business and Public Administration, West Hartford, and a bachelor's degree in arts, economics and political science from Saint Olaf College, Northfield. He is a chartered life underwriter and a chartered financial consultant.

Monica Mächler
Member of the Board of Directors

Skills and experience
Monica Mächler has substantial legal, regulatory and governance expertise in a national and international context. She served as vice-chair of the board of directors of the integrated Swiss Financial Market Supervisory Authority (FINMA) from 2009 to 2012, after having been the director of the Swiss Federal Office of Private Insurance from 2007 to 2008. From 2010 to 2012, Ms. Mächler chaired the Technical Committee of the International Association of Insurance Supervisors (IAIS). She assumed the roles of Group General Counsel and Head of the Board Secretariat of Zurich Insurance Group from 1999 to 2006 and was appointed a member of the Group Management Board in 2001 after joining in 1990. During the years 1985 to 1990 she was in private practice specializing in banking and business law. Ms. Mächler has been a member of several Swiss federal expert commissions on regulatory projects and regularly speaks, lectures and publishes on matters related to international business law and regulation, and their impact. She has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2013.

Committee membership
Audit Committee,
Risk and Investment Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Ms. Mächler has been a member of the supervisory board of directors of Deutsche Börse AG since May 2012 and since April 2015 a member of the board of directors of Cembra Money Bank AG. She also chairs the advisory board of the International Center for Insurance Regulation at the Goethe University Frankfurt am Main and serves on the board of the Stiftung für schweizerische Rechtspflege.

Educational background
Ms. Mächler earned her J.D. at the University of Zurich's Law School and complemented her studies by attending programs on UK, U.S. and private international law. She is admitted to the bar of the Canton of Zurich.

Kishore Mahbubani
Member of the Board of Directors

Skills and experience
Kishore Mahbubani began his career as a diplomat with the Singapore Foreign Service in 1971 in which he served until 2004, with postings in Cambodia, Malaysia, Washington D.C. and New York. He served two postings as Singapore's ambassador to the UN and as President of the UN Security Council in January 2001 and May 2002. Mr. Mahbubani was permanent secretary of the Foreign Ministry from 1993 to 1998. He has spoken and published globally on geopolitical and economic issues. His latest book, The Great Convergence: Asia, the West and the Logic of One World, was selected by the Financial Times as one of the best books of 2013. He has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2015.

Committee membership
Remuneration Committee,
Risk and Investment Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. Mahbubani is dean and professor in the practice of public policy at the Lee Kuan Yew School of Public Policy of the National University of Singapore. In January 2016 he also became an independent director of the board of Wilmar International Limited, Singapore. In addition, he serves on boards and councils of several institutions in Singapore, Europe and North America, including Yale's President's Council on International Activities (PCIA), the University of Bocconi International Advisory Committee, the World Economic Forum's Global Agenda Council on Geo-economics, and as chairman of the Lee Kuan Yew World City Prize Nominating Committee.

Educational background
Mr. Mahbubani graduated with a first-class honors degree in philosophy from the University of Singapore and an M.A. in philosophy from Dalhousie University, Canada, where he was also awarded an honorary doctorate.

David Nish
Member of the Board of Directors

Skills and experience
Mr. Nish started his professional career in 1981 at Price Waterhouse (now PWC) in the UK, where he served as an audit and transaction partner from 1993 to 1997. In 1997, he joined ScottishPower plc as deputy finance director, and in 1999 he was promoted to group finance director, a role he held until 2005 when he became executive director responsible for the division operating ScottishPower's regulated transmission and distribution business. In 2006, Mr. Nish became group finance director at global investment management and life insurance group Standard Life plc, and was promoted to group CEO of Standard Life plc in 2010, a position he held until 2015. He has also served as deputy chairman of the Association of British Insurers, and as a member of TheCityUK board advisory committee, and as a member of the financial services advisory board of the Scottish government. He has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since March 2016.

Committee membership
Audit Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
David Nish is a non-executive director of HSBC Holdings plc, Vodafone Group plc, London Stock Exchange Group plc and of the UK Green Investment Bank plc, a company wholly owned by the UK government, where he chairs the audit committee. He is a member of the Council of the Institute of Chartered Accountants of Scotland. His former appointments include non-executive directorships at HDFC Life (India), Northern Foods plc, Thus plc, and the Royal Scottish National Orchestra.

Educational background
Mr. Nish holds a bachelor's degree in accountancy from the University of Glasgow and is a chartered accountant with the Institute of Chartered Accountants of Scotland.

The business address for each Board member is Mythenquai 2, 8002 Zurich, Switzerland.

Independence of the members of the Board of Directors

Zurich considers the independence of its Board members to be an essential feature of good corporate governance. Zurich's independence criteria comply with applicable laws and reflect best-practice standards such as the SIX Exchange Regulation Directive on Information relating to Corporate Governance and the Swiss Code of Best Practice. Up to December 1, 2015 the Board consisted entirely of Directors who are non-executive, independent from the management and who – except for Ms. Mächler – have never held an executive position in the Group. Ms. Mächler held an executive position until 2006 and was elected in 2013 as a non-executive board member. According to the guidelines of the Swiss Code of Best Practice, she is considered independent.

The roles of Chairman and CEO were separated up to December 1, 2015 and were separated again from March 7, 2016, when Mario Greco took over the role of Chief Executive Officer. For the interim period during which the Chairman of the Board, Tom de Swaan, served as Chief Executive Officer ad interim, Fred Kindle, Vice-Chairman of the Board, took on certain additional responsibilities to ensure continued good governance. The Board, with the exception of this period, consists entirely of non-executive members and there is no requirement for a lead director to be appointed under the Swiss Code of Best Practice.

The Governance, Nominations and Corporate Responsibility Committee reviews the independence of the Board members annually and reports its findings to the Board for final determination. Board members are also subject to rules and regulations to avoid conflicts of interest and the use of inside information.

External Mandates

In line with the Ordinance AEC, art. 33 of Zurich's Articles of Incorporation, contains rules regarding the number of mandates members of the Board and of the ExCo are permitted to hold, as shown in the table below. Board and ExCo members' individual mandates, which are in line with those rules, are shown in their respective biographies.

Art. 33, para. 1, of the Articles of Incorporation sets forth the following, generally applicable, maximum limits:

	Board of Directors	Executive Committee
Additional mandates for listed companies	3 maximum	1 maximum
Mandates for non-listed companies	5 maximum	3 maximum

Exempted from this general limit are the following categories of mandates (art. 33, para. 2, of the Articles of Incorporation):

	Board of Directors	Executive Committee
Mandates for Group subsidiaries	No limit	
Mandates on behalf of the Group	5 maximum	5 maximum
Mandates for associations, charitable organizations, foundations or pension funds	5 maximum	5 maximum

Multiple mandates for different companies under unified control are counted as a single mandate. The maximum limits set forth in the Articles of Incorporation do not discharge the members of the Board or Executive Committee from their generally applicable duties to act with due care and to protect Group interests. As in the past, the assumption of additional mandates is possible only where, upon assumption of such mandates, sufficient time and resources remain available for performance of the office held in the Group.

Size of Board and tenure

The Articles of Incorporation require that the Board shall consist of not less than seven and not more than thirteen members. According to the Group's internal guidelines, in general, the maximum tenure of Board members may not exceed twelve years and no individual of 72 years of age or older shall be nominated or stay in office as a Director, although exceptions may be made under special circumstances.

Elections

As required by Swiss law, directors are elected annually. Directors are elected by a majority of the votes cast.

At the AGM on March 30, 2016, all Board members were re-elected for another one-year term. Mr. Jeffrey Hayman and Mr. David Nish were newly elected. The shareholders elected Mr. Tom de Swaan as Chairman. As members of the Remuneration Committee, they elected Mr. Christoph Franz, Mr. Tom de Swaan, Mr. Fred Kindle and Mr. Kishore Mahbubani. As independent voting rights representative, the shareholders elected Mr. lic. iur. Andreas G. Keller, Attorney at Law. Mr. Don Nicolaisen, Mr. Rafael del Pino and Mr. Thomas K. Escher did not stand for re-election.

The Board proposes to the shareholders that they re-elect all current members of the Board at the AGM, which will take place on March 29, 2017, and that they elect Catherine P. Bessant as new member.

The Board proposes to the shareholders that they elect or re-elect as follows:

→ As members: Mr. Tom de Swaan, Mr. Fred Kindle, Ms. Joan Amble, Ms. Susan Bies, Dame Alison Carnwath, Mr. Christoph Franz, Mr. Jeffrey Hayman, Ms. Monica Mächler, Mr. Kishore Mahbubani, Mr. David Nish and Catherine P. Bessant.

→ As Chairman: Mr. Tom de Swaan.

→ As members of the Remuneration Committee: Mr. Christoph Franz, Mr. Tom de Swaan, Mr. Fred Kindle and Mr. Kishore Mahbubani.

→ As independent voting rights representative: Mr. lic. iur. Andreas G. Keller, Attorney at Law.

Internal organizational structure and responsibilities

The Board is chaired by the Chairman, or in his absence by the Vice-Chairman. The Vice-Chairman is appointed by the Board. The Board also appoints its Secretary. The Board has a program of topics that is presented at its meetings throughout the year. It is regularly informed of developments relevant to the Group and is provided with timely information in a form and of a quality appropriate to the discharge of its duties in accordance with the standards of care set out in Article 717 of the Swiss Code of Obligations.

The Group CEO attends Board meetings ex officio. Members of the ExCo are regularly invited by the Board to attend meetings. Other executives also attend meetings from time to time at the invitation of the Board. Most Board meetings include private sessions of the Board without the participation of management.

The Board is required to meet at least six times each year. During 2016 it held twelve meetings (of which seven were partly attended by tele-/videoconference and five were held over two days). One meeting was fully dedicated to the discussion of strategy. Six meetings lasted four or more hours during the course of a day, two meetings took about three hours on average and four meetings lasted less than three hours. In addition, the Board approved eight circular resolutions.

In 2016, average attendance at Board meetings was 93 percent. In fulfillment of their duties, the members of the Board spent additional time participating in Board Committee meetings and preparing for meetings.

Corporate governance report (continued)

Overview of meeting attendance

Overview of meeting attendance

as of December 31, 2016	Board of Directors	Governance, Nominations and Corporate Responsibility Committee	Audit Committee	Remuneration Committee	Risk and Investment Committee
No. of meetings held	12	4	9	5	11
No. of members[1]	10	4	4	4	6
Meeting attendance, in %	93	94	94	100	95

[1] Until March 30, 2016, the Board had 11 and the Audit Committee, the Remuneration Committee and the Risk and Investment Committee each 5 members.

The Board is responsible for the ultimate management of Zurich Insurance Group Ltd and of the Group as a whole as well as for the supervision of management. In particular, it is responsible for taking actions in the following areas:

- **Group strategy:** The Board regularly reviews and discusses in particular the Group's business portfolio including its target market, acquisitions, customer and intermediaries strategy and its human resources strategy;
- **Finance:** The Board particularly approves the financial and operating plan annually, establishes guidelines for capital allocation and financial planning. Further, the Board reviews and approves the annual and interim (half year and quarterly) consolidated financial statements of the Group. Above certain thresholds, the Board approves major lending and borrowing transactions;
- **Structure and organization of the Group:** The Board determines and regularly reviews the basic principles of the Group's structure and major changes in the Group's management organization including major changes of management functions. In this respect, the Board particularly discusses the Group's corporate governance framework and its remuneration system. The Board also adopts and regularly reviews the Group's basic principles of conduct, compliance and risk management. Further, as part of its duty to convene the shareholders' meeting and submit proposals to the shareholders' meeting, it discusses the dividend policy and the Board's proposal for the payment of dividends. Within its authorities the Board also makes resolutions on capital increases and the certification of capital increases and respective amendments to the articles of incorporation;
- **Business Development:** Above certain thresholds, the Board regularly discusses and approves acquisitions and disposals of businesses and assets, investments, new businesses, mergers, joint ventures, co-operations and restructurings of business units or books of businesses.

In 2016, the Board specifically focused on the following topics:

- Group CEO succession;
- Reorganization of Group structure and ExCo composition;
- 2014–2016 strategy implementation and execution including a detailed General Insurance review;
- Development of new strategy for 2017 and forwards;
- Detailed reviews of various regional business operations;
- Customer trends, structural industry changes and disruptive technologies;
- Merger & acquisition transactions;
- Board external assessment and resulting recommendations.

The Board may establish committees for specific topics, terms of reference and rules with respect to delegated tasks, responsibilities and reporting to the Board. Except for the Remuneration Committee, the Board constitutes such committees from among its members at its own discretion. The members of the Remuneration Committee are elected by the shareholders' meeting. The committees assist the Board in performing its duties. They discuss and propose matters to the Board in order that it may take appropriate actions and pass resolutions unless they are authorized to take resolutions in specific areas on their own. In 2016, committee meetings lasted over an hour on average.

External assessment

An external assessment of the full Board and its committees is carried out every three years. In 2016 it considered the following key aspects of the effectiveness of the Board and its committees: a) the Board and committee environment (culture and composition, skill set and definition and delineation of tasks); b) the work of the Board and its committees (strategy, risk and control, and performance management); and c) the use of time and process (planning and allocation). A detailed report identifying key strengths and challenges was produced for, and considered by the Board. A respective action plan decided by the Board is currently being implemented.

Committees of the Board of Directors

The Board has the following standing committees, which regularly report to the Board and submit proposals for resolution by the Board:

Governance, Nominations & Corporate Responsibility Committee

Composition and membership: The Governance, Nominations & Corporate Responsibility Committee consists of at least four Board members. Currently, Tom de Swaan (Chairperson), Dame Alison Carnwath, Christoph Franz and Fred Kindle serve on this committee.

Key tasks and responsibilities: In general, the Governance, Nominations & Corporate Responsibility Committee:

- oversees the Group's governance and measures it against best practice with a view to ensuring that the rights of shareholders are fully protected;
- develops and proposes guidelines to the Board for corporate governance and reviews them from time to time;
- ensures compliance with corporate governance disclosure requirements as well as legal and regulatory requirements;
- is entrusted with succession planning for the Board, the Group CEO and members of the ExCo. In this regard, it proposes the principles for the nomination and ongoing qualification of members of the Board and makes proposals to the Board on the composition of the Board, the appointment of the Chairman, the Vice-Chairman, the Group CEO and members of the ExCo. Final decisions for nominations and appointments are made by the Board, subject to shareholder approval, where required. When identifying and proposing candidates as new Board members, the preservation and improvement of the Board's diversity is a key factor. This includes diversity in many respects, such as gender, culture, technical and interpersonal skills, education and viewpoints, experience, geographical origins and a variety of complementary backgrounds, which should enable the Board to meet the Group's current and future challenges. Notwithstanding the specific profile, every individual candidate should possess integrity, be of good standing, and be capable and available to fulfill his or her duty of care by serving, in close collaboration with the other Board members, in the best interests of the Group's stakeholders;
- reviews the system for management development and supervises progress made in respect of succession planning;
- reviews and approves the Group's corporate responsibility strategy and objectives.

Activities 2016: During 2016, in particular the following topics were discussed:

- Group CEO succession;
- ExCo composition;
- Board and management succession planning;
- developments with regard to corporate governance-related matters, including the implementation of legislative and regulatory changes on Swiss and international levels;
- adapting corporate governance documents to new organizational structure, review of independence of Board members.

The Governance, Nominations & Corporate Responsibility Committee meets at least twice in each year. In 2016 it met four times.

Corporate governance report (continued)

Remuneration Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Remuneration Committee to consist of at least four independent non-executive Board members. Currently, Christoph Franz (Chairperson), Tom de Swaan, Fred Kindle and Kishore Mahbubani serve on this committee.

Key tasks and responsibilities: In general, the Remuneration Committee:

- regularly evaluates the Group's remuneration system and Zurich's remuneration rules and proposes amendments to the Board, which is responsible for the design, implementation and monitoring of the Group's remuneration framework (further details of the Group's remuneration framework, including the remuneration philosophy and the remuneration governance are set out in the remuneration report on pages 74 to 111);
- reviews and proposes to the Board annually the terms of remuneration of the members of the Board;
- based on Zurich's remuneration rules, reviews and proposes to the Board the terms and conditions of employment of the Group CEO and reviews those of other members of the ExCo, as proposed by the Group CEO, before submitting them to the Board for approval;
- liaises with the Group CEO on other important employment, salary and benefit matters;
- reviews and proposes to the Board the total variable remuneration pool and reviews the performance relating to short-term and long-term incentive plans (STIP and LTIP), and also makes a qualitative assessment of the performance, reviews and makes proposals to the Board for submission to the Annual General Meeting (AGM) on the approval of the Board's and ExCo's remuneration;
- and prepares the remuneration report annually in accordance with applicable laws and regulations.

Activities 2016: During 2016, in particular the following topics were discussed:

- the performance of the Group, the segments and the ExCo as well as the approval of the STIP award level and the LTIP vesting level in 2016 including the approval of the total variable remuneration pool for 2015;
- the regulatory environment regarding remuneration and its implications for Zurich as well as external developments;
- the Ordinance AEC with respect to the implementation of its requirements, in particular on the amounts of total remuneration for the Board and the ExCo presented to the vote of the shareholders at the AGM on March 30, 2016, including the results thereof;
- in the annual joint meeting with the Risk and Investment Committee, risk management aspects of the Group's remuneration architecture, as well as key activities with respect to identified Key Risk Taker (KRT) positions, e.g. risk-based assessment of KRTs;
- the remuneration report and the Board of Directors report on the approval of the remuneration of the Board of Directors and the ExCo;
- Zurich's remuneration rules and the Committees Charter were revised and approved by the Board of Directors;
- the Board's and ExCo's compensation;
- activities of the Group Pensions Committee;
- the new STIP architecture for 2017 onwards.

The Remuneration Committee has retained its own independent advisors, Meridian Compensation Partners, LLC and New Bridge Street, to assist in its review of the remuneration structures and practices.

The Remuneration Committee meets at least twice in each year. In 2016 it met five times.

Audit Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Audit Committee to consist of at least four non-executive Board members, independent from management. Currently, Joan Amble (Chairperson), Susan Bies, Monica Mächler and David Nish, all of whom meet the relevant requirements for independence and qualification, serve on this committee.

The Charter for the Committees of the Board of Directors of Zurich Insurance Group Ltd (Committees Charter) provides that the Audit Committee, as a whole, should have (i) an understanding of IFRS and financial statements, (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience in preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those of Zurich Insurance Group Ltd and the Group, or experience in actively supervising one or more persons engaged in these activities, (iv) an understanding of internal controls and procedures for financial reporting, and (v) an understanding of audit committee functions.

To facilitate an ongoing exchange of information between the Risk and Investment Committee and the Audit Committee, the Chairperson of the Audit Committee is a member of the Risk and Investment Committee and at least one member of the Risk and Investment Committee is a member of the Audit Committee. The Chairman of the Board regularly participates in both the Audit and Risk and Investment Committees meetings as a guest.

The external auditors, the internal auditors, appropriate members of the ExCo and other executives attend its meetings in order to, inter alia, discuss auditors' reports, review and assess the auditing concept and the examination process and to assess the activities of both external and internal auditors. Private sessions with external and internal auditors are scheduled at the majority of Audit Committee meetings to enable discussion without the presence of management.

For more information on the supervision and control of the external audit process, see pages 70 to 71.

Key tasks and responsibilities: In general, the Audit Committee:

- serves as a focal point for communication and oversight regarding financial accounting and reporting, internal control, actuarial practice, and financial and regulatory compliance;
- reviews the Group's auditing process (including establishing the basic principles relating to and making proposals for the audit of Zurich Insurance Group Ltd and the Group);
- at least annually, reviews the standards of internal control, including activities, plans, organization and quality of Group Audit and Group Compliance;
- reviews the annual, half-year and quarterly financial reporting of the Group before submission to the Board.

Activities 2016: During 2016, in particular the following topics were discussed:

- quarterly reporting with a strong focus on accounting and reserving matters;
- the effectiveness of the internal control framework, including SOX;
- Group Audit work plans, Group Audit findings and management implementation of remedial actions;
- the work of the external auditors, the terms of their engagement and the external auditor's findings on key judgments and estimates in financial statements;
- the annual Group Compliance Plan, against which it monitored progress during the year, and compliance issues and trends, such as evolving regulatory expectations.

The Audit Committee meets at least four times in each year. In 2016 it met nine times, including joint meetings of the Audit Committee and Risk and Investment Committee.

Risk and Investment Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Risk and Investment Committee to consist of at least four non-executive Board members independent from management. Currently, Susan Bies (Chairperson), Joan Amble, Dame Alison Carnwath, Jeffrey Hayman, Monica Mächler and Kishore Mahbubani serve on this committee.

To facilitate an ongoing exchange of information between the Risk and Investment Committee and the Audit Committee, the Chairperson of the Audit Committee is a member of the Risk and Investment Committee and a member of the Risk and Investment Committee is a member of the Audit Committee.

Key tasks and responsibilities: In general, the Risk and Investment Committee:

- oversees the Group's risk management, in particular the Group's risk tolerance, including agreed limits that the Board regards as acceptable for Zurich to bear, the aggregation of agreed limits across the Group, the measurement of adherence to agreed risk limits and the Group's risk tolerance in relation to anticipated capital levels;
- further oversees the Group's enterprise-wide risk governance framework, including risk management and control, risk policies and their implementation and the risk strategy and the monitoring of operational risks;
- reviews the methodologies for risk identification;
- oversees the impact of various risk types on economic and regulatory capital;
- reviews, with business management and the Group risk management function, the Group's general policies and procedures and satisfies itself that effective systems of risk management are established and maintained;
- receives periodic reports from the Group risk management function and assesses whether significant issues of a risk management and control nature are being appropriately addressed by management in a timely manner;
- oversees the investment process;
- reviews transactions above the pre-defined threshold;
- receives updates on the Group's annual strategic asset allocation, market risk consumption relative to allocated market risk capital and limit and major market risk drivers, accounting investment result, economic investment return relative to liabilities, as well as updates on the performance of asset managers;
- assesses the independence and objectivity of the risk management function and reviews the activities, plans, organization and the quality of the risk management and investment management functions.

Activities 2016: From an enterprise risk management perspective, during 2016 the Risk and Investment Committee particularly discussed the following topics:

- revised Enterprise Risk Management (ERM) approach, including Group risk appetite;
- new Group Risk Management strategy;
- results of the Group Total Risk Profiling™ (TRP) assessment including an update regarding risk ownership and mitigation actions;
- the Group's Own Risk and Solvency Assessment 2016;
- the Group's Recovery Plan 2016;
- the Group's risk profile and economic and regulatory capital, including development of the internal capital model and risk-based capital limits;
- revision plans for the Zurich Risk Policy (ZRP);
- Swiss Solvency Test (SST) internal model approval project;
- Operational Risk Framework;
- regulatory risk updates;
- in the annual joint meeting with the Remuneration Committee, risk management aspects of the Group's remuneration architecture;
- macroeconomic developments; investment and asset/liability management, market and credit risks and controls including reports on derivatives; and performance of asset managers;
- non-life insurance risks and controls, accumulation management, underwriting reviews and reinsurance;
- life insurance risks, including an assessment of the low interest rate environment on the business performance and longevity risk.

For further information on risk governance, see the risk review on pages 114 to 147.

The Risk and Investment Committee meets at least four times in each year. In 2016 it met eleven times.

Areas of responsibility of the Board and management

The Board decides on the strategy of the Group, supervises senior management and addresses key matters in the area of strategy, finance, and organization. In particular, the Board approves the Group's strategic plan and the annual financial plans developed by management and reviews and approves the annual, half-year and quarterly financial statements of the Group and the annual financial statements of Zurich Insurance Group Ltd. For more details with regard to the responsibilities of the Board see pages 47 to 48.

Subject to the powers reserved to the Board, the Board has delegated the management of the Group to the Group CEO and, under his supervision, to the ExCo and its members. The Group CEO is the highest executive officer of the Group and has responsibility and accountability for the management and performance of the Group. He represents the overall interests of the Group towards third parties to the extent such interests are not represented by the Board. The Group CEO is responsible for the development and implementation of the strategic and financial plans approved by the Board. He has specific powers and duties relating to strategic, financial and organizational matters and manages, supervises and coordinates the activities of the members of the ExCo and of his other direct reports.

Information and control instruments vis-à-vis the Executive Committee

The Board supervises management and monitors its performance through reporting and controlling processes. Regular reporting by the Group CEO and other executives to the Board provides for appropriate information and updates, including key performance indicators and other relevant financial data of the Group, existing and emerging risks, and updates on developments in important markets and on peers and other significant events. During 2016, the Chairman of the Board regularly met with the Group CEO. He meets from time to time with other ExCo members and management outside regular Board meetings. The other members of the Board do so as well, especially with the Group Chief Financial Officer and the Group Chief Risk Officer. While the Chairman of the Board served as CEO ad interim, the Vice-Chairman of the Board has taken on certain additional responsibilities to ensure continued good governance.

The Group has an information and financial reporting system. The annual plan for the Group, which includes a summary of financial and operational metrics, is reviewed by the ExCo in detail and approved by the Board. Full-year forecasts are revised if necessary to reflect changes in sensitivities and risks that may affect the results of the Group. Action is taken, where appropriate, when variances arise. This information is reviewed regularly by the ExCo and the Board.

The Group has adopted and implemented a coordinated, formalized and consistent approach to risk management and control. Information concerning the Group's risk management and internal control processes is included in the risk review starting on page 114. The internal audit function, the external auditors and the compliance function also assist the Board in exercising its controlling and supervisory duties. Information on these functions' major areas of activity is set out on pages 70 to 72.

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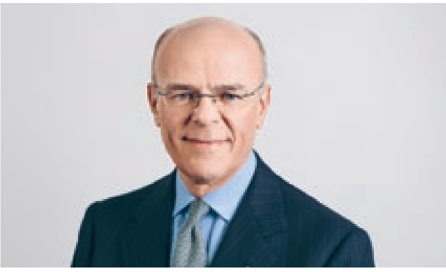
Executive Committee

A focused and customer-oriented Executive Committee

We will consolidate our position as a leading global underwriter for property and casualty and life business and will focus on increasing profitability in a difficult market environment.



Mario Greco
Group Chief Executive Officer

Nationality: Italian
Born: 1959

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Urban Angehrn
Group Chief Investment Officer

Nationality: Swiss
Born: 1965

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Jeff Dailey
CEO of Farmers Group, Inc.

Nationality: USA
Born: 1957

Page 62 ›

George Quinn
Group Chief Financial Officer

Nationality: British
Born: 1966

Page 64 ›

Cecilia Reyes
Group Chief Risk Officer

Nationality: Swiss and Philippine
Born: 1959

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Gary Shaughnessy
CEO EMEA (Europe, Middle East & Africa)

Nationality: British
Born: 1966

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Claudia Dill
CEO Latin America

Nationality: Swiss
Born: 1966

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Mike Foley
CEO North America

Nationality: USA
Born: 1962

Page 63

Jack Howell
CEO Asia Pacific

Nationality: USA
Born: 1970

Page 63

James Shea
CEO Commercial Insurance

Nationality: Canadian
Born: 1965

Page 65

Kristof Terryn
Group Chief Operating Officer

Nationality: Belgian
Born: 1967

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Group Management

Executive Committee

Group Management
as of December 31, 2016

Board of Zurich Insurance Group Ltd

Group Chief Executive Officer

Executive Committee

Management Committees

Group Balance Sheet Committee (GBSC)	Group Risk Committee (GRC)
Chair: Group Chief Financial Officer	Chair: Group Chief Risk Officer

Technical Committees

Asset/Liability Management Investment Committee	Group Pensions Committee	Disclosure Committee
Chair: Group Chief Investment Officer	Chair: Chief Executive Officer EMEA	Chair: Group Controller

To the extent not reserved to the Board, management is delegated to the Group CEO. The Group CEO has overall responsibility and accountability for the management and the performance of the Group. The Executive Committee (ExCo) serves the Group CEO as the core management team with regard to strategic, financial and business policy issues of Group-wide relevance, including consolidated performance, capital allocation and mergers and acquisitions.

The ExCo is chaired by the Group CEO. As of December 31, 2016, members of the ExCo included the Group CFO, the Group CIO, the Group COO and the Group CRO; and in order to reflect both lines of business and geography, the CEO EMEA (Europe, Middle East & Africa), the CEO North America, the CEO Latin America, the CEO Asia Pacific, the CEO of Farmers Group Inc. and the CEO Commercial Insurance are also members of the ExCo.

Changes to the ExCo

On March 7, 2016, Mario Greco was appointed Group CEO and member of the ExCo. Gary Shaughnessy, CEO Global Life and member of the ExCo since January 1, 2016, was appointed CEO EMEA (Europe, Middle East & Africa) on July 1, 2016. Robert Dickie stepped down as Chief Operations and Technology Officer and member of the ExCo on July 1, 2016 and Kristof Terryn, who was CEO General Insurance up to that date, was appointed Group COO. On October 1, 2016, Claudia Dill was appointed member of the ExCo in her function as CEO Latin America, Jack Howell was appointed CEO Asia Pacific and member of the ExCo, and James Shea was appointed CEO Commercial Insurance and member of the ExCo. As of July 1, 2016, the Group General Counsel and the Group Human Resources Officer were no longer members of the ExCo. The Group General Counsel attends all ExCo meetings ex officio.

For key areas, the following cross-functional committees have been established to facilitate the coordination and alignment of recommendations to the Group CEO for approval on specific subjects.

Management Committees

Following the review of Group governance, effective November 1, 2016, the existing Management Committees (Finance Committee and Risk and Control Committee) were replaced by the Group Balance Sheet Committee and the Group Risk Committee.

Group Balance Sheet Committee (GBSC)

Members: Group CFO (Chairperson), Group CEO, Group CRO, Group CIO. The Group General Counsel attends ex officio but is not a voting member.

Key tasks and responsibilities: The GBSC acts as a cross-functional advisory body for matters that could materially affect the balance sheets of Zurich and/or the Group as a whole. The committee issues recommendations to the Group CEO. Core topics are:

- capital management on capital allocations and lending and borrowing decisions;
- balance sheet planning on liquidity, solvency, investment and asset/liability management strategies and associated capital allocation, including changes to investment strategy;
- business development matters on corporate transactions with third parties, internal restructuring, investments, including real estate, and entry into new types of business and markets;
- material group reinsurance strategy and reinsurance programs;
- other topics and matters that may have a material impact on the balance sheet of the Group as determined by the Chairperson.

The Group Risk Committee (GRC)

Members: Group CRO (Chairperson), Group CFO, Group CIO, Group COO, Group General Counsel. The Head of Group Audit is invited ex officio, but is not a voting member. The Head of Group Compliance attends ex officio on the request of the Group General Counsel without voting right.

Key tasks and responsibilities: The GRC's main function is to review, and provide recommendations to the Group CEO regarding the activities related to the Group's overall risk profile, including insurance, financial market, credit, operational and strategic risks.

The GRC reviews and recommends such topics as:

- the overall Group risk appetite, risk tolerance and risk limits, including exceptions to limits over specified thresholds;
- requests to enter new lines of insurance business or types of insurance coverage that would have a significant impact on the risk profile of the Group;
- changes to the Group Policy Framework and the Zurich Risk Policy (ZRP);
- regulatory developments impacting the risk management of the Group, as well as the Group's regulatory reporting;
- the Group TRP assessment and related actions;
- prospective changes to capital models and methodologies that have a significant impact on economic solvency ratios;
- the Group's model validation policy, and validation findings related to capital models and significant valuation models, including remedial actions;
- market and credit risk internal model consumption relative to the Group's capital allocation, including remedial actions;
- significant deviations from established target solvency levels of subsidiaries and proposes remedial actions.

Technical Committees

In addition to the management committees the Group governance structure provides for committees of a more technical nature to support further aspects of Zurich's business activities.

The Asset/Liability Management Investment Committee, chaired by the Group CIO, acts as a cross-divisional body and has primary responsibility for monitoring and reviewing the Group's asset/liability management and the strategic asset allocation of Zurich's invested assets.

The Group Pensions Committee, chaired by the CEO EMEA, is responsible for developing, reviewing and advising on the Group governance framework for matters relating to retirement benefit arrangements and post-employment benefits, including the relevant policies and processes. It provides oversight and guidance over the Group's retirement benefit arrangements and post-retirement benefits for benefit design, funding, investment and accounting purposes and provides recommendations to the GBSC in terms of material pension-related matters.

The Disclosure Committee, chaired by the Group Controller, is responsible for reviewing all external communications and disclosures with information material to the financial position and/or performance of the Group. In particular it reviews quarterly, half-year and year-end IFRS financial results and related documents, e.g. related news releases and analysts' information. It reviews other external communications with material information as to the financial position and performance of the Group, proposals from Group Compliance regarding projects that have an impact on the Group and respective dealing restrictions as well as controls and procedures regarding the effectiveness of the Group's internal controls over financial reporting. It makes recommendations to the Group CFO.

Panels

To enhance its understanding and assessment of the challenges and risks Zurich may face, the Group continues to seek external expertise and perspective. As of December 31, 2016, the Group had access to two panels of leading academics and experts from business and industry which provide feedback and insight. They are not corporate bodies of the Group and have no decision-making powers. These panels provide expertise and advice to senior management or certain functions of the Group. The Investment Management Advisory Council offers feedback on Zurich's investment results and strategy and on achieving superior risk-adjusted returns relative to liabilities for the Group's invested assets. The Natural Catastrophe Advisory Council provides insight into the patterns of occurrence, predictability and destructiveness of catastrophes and feedback about Zurich's approach to such catastrophes in order to help improve the effectiveness of its underwriting and reinsurance purchasing.

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Corporate governance report (continued)

Biographies

Mario Greco
Group Chief Executive Officer

Skills and experience
Mario Greco has broad experience in the insurance industry, having successfully served in senior executive positions for more than 20 years. He joined Zurich in March 2016 as Group Chief Executive Officer and member of the Executive Committee.

Mr. Greco started his professional career in management consulting, working in McKinsey & Company's Milan office from 1986 until 1994, where he became a partner in 1992 and subsequently a partner leader in the insurance segment. In 1995, he joined RAS (Allianz Group) in Milan as head of the claims division. He became general manager in charge of the insurance business the following year. In 1998, he was appointed managing director and in 2000, he became the company's CEO. At the end of 2004, Mr. Greco joined Allianz AG's executive board, with responsibility for France, Italy, Spain, Portugal, Greece and Turkey. In April 2005, he joined the Sanpaolo IMI Group in Milan as CEO of EurizonVita and in October 2005, he was appointed CEO of Eurizon Financial Group. From 2007 to 2012, he served at Zurich, first as CEO Global Life and from 2010, as CEO General Insurance. In 2012, he was appointed CEO of Generali.

External appointments
Mr. Greco is a board member of The Geneva Association and a member of the board of trustees of the Lucerne Festival.

Educational background
Mr. Greco holds a bachelor's degree in economics from the University of Rome and a master's degree in international economics and monetary theory from Rochester University.

Urban Angehrn
Group Chief Investment Officer

Skills and experience
Urban Angehrn joined the Executive Committee as Group Chief Investment Officer in July 2015. Before taking his current position he served as Head of Alternative Investments and prior to that, from 2010 to 2012, as Head of Strategy Implementation in Investment Management. He joined Zurich in 2007 as Regional Investment Manager Europe. Before joining Zurich he held various positions in capital markets-related roles in the insurance and investment banking industries, including as Head of Allocation & Strategy in asset management at the Winterthur Group. He also served as an adviser to Swiss institutional clients in the use of derivatives, and held positions in derivatives marketing and fixed income sales at Credit Suisse and J.P. Morgan.

External appointments
Mr. Angehrn is the Chairman of the Board of Trustees of the Zurich Insurance Group Swiss Pension Plan.

Educational background
Mr. Angehrn holds a Ph.D. in mathematics from Harvard University and a Master of Science in theoretical physics from the Swiss Federal Institute of Technology (ETH) in Zurich.

Jeff Dailey
CEO of Farmers Group, Inc.

Skills and experience
Jeff Dailey began his career in 1980 with Mutual Service Insurance Company. He also worked for Progressive Insurance Company. He went on to form Reliant Insurance Company, an auto insurance start-up owned by Reliance Group Holdings, which was sold to Bristol West Holdings, Inc. in 2001. From 2001 until 2003 Mr. Dailey was Chief Operating Officer (COO) of Bristol West Holdings, Inc. and, in 2003 he was named President and COO of Bristol West Holdings, Inc., in conjunction with the firm's initial public offering (IPO) on the New York Stock Exchange. In 2006, he became CEO of Bristol West Holdings, Inc. Mr. Dailey joined Farmers Group, Inc. in 2007 as Vice President when Farmers acquired Bristol West Holdings, Inc., and he was promoted in 2008 to Executive Vice President of Personal Lines. In January 2011, he was promoted to the position of President and COO of Farmers Group, Inc. He became a member of the Board of Farmers Group, Inc. in February 2011 and has been its Chairman since October 2015. Mr. Dailey was appointed to his current role of CEO of Farmers Group, Inc. and became a member of the Executive Committee in January 2012.

External appointments
Mr. Dailey is a member of The Institutes Board of Trustees.

Educational background
Mr. Dailey graduated from the University of Wisconsin-Madison with a bachelor's degree in economics and has an MBA from the University of Wisconsin-Milwaukee.

Claudia Dill

CEO Latin America

Skills and experience

Claudia Dill has more than 25 years of experience in the banking and insurance sectors and has held a range of senior international positions. Ms. Dill joined Credit Suisse as an internal auditor in 1990. She moved to Japan in 1992, where she worked as an auditor for Deutsche Bank and Commerzbank. Ms. Dill spent most of 1994 working as an external auditor for Coopers & Lybrand in Moscow, before returning to Switzerland. She resumed working for Credit Suisse from the end of 1994 until 1999 in various roles in the credit risk management department. Ms. Dill joined Zurich in 1999 as Financial Controller of Group Reinsurance and in 2001 was promoted to Chief Financial Officer (CFO) for Group Reinsurance. In 2003, she was appointed CFO for the business division Continental Europe and was promoted in 2004 to CFO of the European Region and European General Insurance business division. In 2007 she was appointed Chief Operating Officer (COO) for the same business area. In 2009, Ms. Dill took on the role of CEO and President for the North America Shared Services Platform (ZFUS) and was promoted in 2010 to Head of Global Business Services, both roles based in the U.S. From 2012 until 2015, Ms. Dill served as COO for the General Insurance business, based in Switzerland. In 2015, she was named CEO Latin America General Insurance, based in Brazil, and was appointed CEO Latin America in 2016. She became a member of the Executive Committee in October 2016.

External appointments

None.

Educational background

Ms. Dill holds an MBA from the Universities of Rochester in the U.S. and Bern, Switzerland, and a master's degree in economics from the University of St. Gallen, Switzerland.

Mike Foley

CEO North America

Skills and experience

Mike Foley joined the financial management training program of Armtek Corporation in 1984. After graduating from J.L. Kellogg Graduate School of Management in 1989, Mr. Foley joined the Deerpath Group in Lake Forest, Illinois. He later became vice president responsible for managing a portfolio of equity investments in various acquired businesses. In 1993 he joined Electrocal, Inc. in Connecticut as president. In 1996, Mr. Foley joined McKinsey & Company, where he later became a principal and led its North American property & casualty insurance practice. He joined Zurich in 2006 as Chief Operating Officer of its North America Commercial business division and in January 2008 was appointed CEO of that division and a member of the Executive Committee. Mr. Foley is Chairman of the Board of Zurich Holding Company of America, Inc.

External appointments

Mr. Foley is a member of the Board of the American Insurance Association.

Educational background

Mr. Foley graduated with a Bachelor of Science in mathematics and economics from Fairfield University, Connecticut in 1984 and received a master's degree from the J.L. Kellogg Graduate School of Management at Northwestern University, Evanston, in 1989.

Jack Howell

CEO Asia Pacific

Skills and experience

Jack Howell has more than 20 years' experience in the financial services sector, of which more than 10 have been in various senior leadership positions for insurance companies in Asia. Prior to his appointment at Zurich, Mr. Howell was the regional officer for Asia for Assicurazioni Generali based in Hong Kong. He joined Generali from Prudential plc Group, where he briefly served as CEO and President Director for PT Prudential Life Assurance, Indonesia and for almost six years as CEO of Prudential Vietnam Assurance. Before Prudential, he held various positions in AIG in the Philippines, Hong Kong and New York, co-founded a boutique investment bank called TwentyTen, and spent several years as a consultant, including in The Boston Consulting Group. Mr. Howell joined Zurich in September 2016 as CEO Asia Pacific and became a member of the Executive Committee in October 2016.

External appointments

None.

Educational background

Mr. Howell holds an MBA from the University of Chicago and a Bachelor of Science in quantitative economics from Tufts University in Massachusetts.

Corporate governance report (continued)

Biographies (continued)

George Quinn
Group Chief Financial Officer

Skills and experience
George Quinn started his career at KPMG 1988 in London, where he held several positions working with the insurance and reinsurance industry. He joined Swiss Re in 1999 as Group Chief Accounting Officer based in Zurich and later served as Chief Financial Officer (CFO) for Swiss Re Group's financial services. Mr. Quinn became the Regional CFO for Swiss Re Americas based in New York in 2005. In March 2007 he became Swiss Re Group's CFO. Mr. Quinn joined Zurich in May 2014 as Group CFO and is a member of the Executive Committee.

External appointments
Mr. Quinn is a member of the board of trustees of the Zurich International School and a member of the finance chapter of the Swiss-American Chamber of Commerce.

Educational background
Mr. Quinn holds a degree in engineering from the University of Strathclyde. He is also a member of the Institute of Chartered Accountants in England and Wales.

Cecilia Reyes
Group Chief Risk Officer

Skills and experience
Cecilia Reyes has over 20 years' experience in international financial markets. Ms. Reyes worked from 1990 until 1995 for Credit Suisse in Zurich in various roles in asset management, global treasury and securities trading. In 1995, she started working with ING Barings in London and in 1997 she became a director and head of quantitative risk analysis. She moved to Amsterdam in 2000 as the Head of Risk Analytics for ING Asset Management to develop risk management methods for the asset management operation. Ms. Reyes joined Zurich in 2001 as Head of Group Investments for North America and became Head of Group Investments for Europe/International Businesses in 2004. From March 2006 until March 2010 she was Head of Investment Strategy Implementation. Ms. Reyes was appointed Chief Investment Officer and member of the Executive Committee effective April 2010. In July 2015 she assumed her current role as Group Chief Risk Officer.

External appointments
Ms. Reyes has been a member of the advisory board of the Department of Banking and Finance at the University of Zurich since 2011. In 2014 she became a member of the Board of Governors of the Asian Institute of Management.

Educational background
Cecilia Reyes holds a Ph.D. in finance from the London Business School, an MBA in finance from the University of Hawaii and a Bachelor of Science in management/industrial engineering from the Ateneo de Manila University.

Gary Shaughnessy
CEO EMEA (Europe, Middle East & Africa)

Skills and experience
Gary Shaughnessy was appointed CEO EMEA (Europe, Middle East & Africa) in July 2016, after joining the Executive Committee in January 2016 as CEO Global Life. Before his promotion to the Executive Committee, he was CEO of Zurich UK Life, a role he held from June 2012. In 2014 he assumed the additional role of Country Head for Zurich in the UK. Prior to joining Zurich, Mr. Shaughnessy was at Fidelity Worldwide Investment, where he was managing director for the UK defined contribution and retail business. His previous experience includes nearly a decade in senior roles within the Prudential Group, including the role of UK managing director, retail life & pensions and CEO UK retail at M&G Investments. Mr. Shaughnessy's background is in marketing and distribution, with previous roles spanning the broad financial services market at AXA, the Automobile Association and the Bank of Scotland.

External appointments
None.

Educational background
Mr. Shaughnessy studied sports science at Liverpool John Moores University in the UK.

James Shea

CEO Commercial Insurance

Skills and experience

James Shea began his insurance career at AIG in 1994 as a financial lines underwriter in New York. He joined the American International Underwriters (AIU) division in 1996, where he held several senior underwriting and general management positions. These included senior vice president of International Financial Lines, regional president for Central Europe and the Commonwealth of Independent States and managing director of AIG UK. In 2011 he was appointed president of Global Specialty Lines and in 2012 his role was expanded to CEO of Commercial Insurance for AIG in Asia Pacific. Most recently he was President of Global Financial Lines based in New York. During his career, he has worked in Canada, the U.S., UK, France, Japan and Singapore. Mr. Shea joined Zurich in September 2016 as CEO Commercial Insurance and as a member of the Executive Committee effective October 2016.

External appointments

None.

Educational background

Mr. Shea holds a Bachelor's Degree in political science from McGill University, Canada.

Kristof Terryn

Group Chief Operating Officer

Skills and experience

Kristof Terryn began his career in 1993 in the banking industry, where he worked in capital markets. In 1997, he joined McKinsey & Company where he held various positions within the financial services practice in Brussels and Chicago. He joined Zurich in 2004 in the Finance department. In 2007, he became Chief Operating Officer (COO) for the Global Corporate business division and in January 2009 was named COO for General Insurance. Mr. Terryn became a member of the Executive Committee in 2010 upon his appointment as Group Head Operations. In September 2013 he was appointed CEO Global Life, and after becoming CEO General Insurance in October 2015, continued to serve as CEO Global Life on an ad interim basis until the end of December 2015. He was appointed Group Chief Operating Officer effective July 2016.

External appointments

None.

Educational background

Mr. Terryn holds a law degree and a degree in economics from the University of Leuven, Belgium, as well as an MBA from the University of Michigan.

Changes to the ExCo since January 1, 2017

There have been no changes to the ExCo since January 1, 2017.

Management contracts

Zurich Insurance Group Ltd has not transferred key parts of management by contract to other companies (or individuals) not belonging to (or employed by) the Group.

Shareholders' participation rights

Voting rights restrictions and representation

Each share entered into the share register entitles the holder to one vote. There are no voting rights restrictions.

A shareholder with voting rights can attend shareholders' meetings of Zurich Insurance Group Ltd in person. He or she may also authorize, in writing, another shareholder with voting rights or any person permitted under the Articles of Incorporation and a more detailed directive of the Board to represent him or her at the shareholders' meeting. Based on the Articles of Incorporation, minors or wards may be represented by their legal representatives, married persons by their spouses and a legal entity may be represented by authorized signatories or other authorized representatives, even if such persons are not shareholders.

In accordance with the Ordinance AEC and reflected in article 13 of our Articles of Incorporation, authority of representation may also be given to the independent voting rights representative. The AGM elects the independent voting rights representative. The term of office ends with the conclusion of the next AGM. The independent voting rights representative may be re-elected. The shareholders may give voting instructions to the independent voting rights representative either in writing or via the online platform Sherpany.

Zurich Insurance Group Ltd may under certain circumstances authorize the beneficial owners of shares that are held by professional persons as nominees (such as a trust company, bank, professional asset manager, clearing organization, investment fund or another entity recognized by Zurich Insurance Group Ltd) to attend shareholders' meetings and exercise votes as proxy of the relevant nominee. For further details, see page 36 of this report.

In accordance with Swiss law and practice, Zurich Insurance Group Ltd informs all shareholders at the beginning of the shareholders' meeting of the aggregate number of shares represented by shareholders and the number of shares represented by the independent voting rights representative. Zurich Insurance Group Ltd provided electronic voting devices to its shareholders for all the resolutions taken at the AGM on March 30, 2016.

Statutory quora

Pursuant to the Articles of Incorporation, the AGM constitutes a quorum irrespective of the number of shareholders present and shares represented. Resolutions and elections generally require the approval of a simple majority of the votes cast, excluding abstentions, blank and invalid votes, unless respective provisions in the Articles of Incorporation (of which there are currently none) or mandatory legal provisions stipulate otherwise. Article 704 of the Swiss Code of Obligations provides for a two-thirds majority of votes represented and an absolute majority of the nominal value of shares represented for certain important matters, such as a change of the company's purpose or domicile, a dissolution of the company and certain matters relating to capital increases.

Convening of shareholders' meetings

Shareholders' meetings are convened by the Board or, if necessary, by the auditors and other bodies in accordance with the provisions set out in articles 699 and 700 of the Swiss Code of Obligations. Shareholders with voting rights representing at least 10 percent of the share capital may call a shareholders' meeting, indicating the matters to be discussed and the corresponding proposals. The invitation to shareholders is mailed at least 20 calendar days before the meeting is held and, in addition, is published in the Swiss Official Gazette of Commerce and in several newspapers.

Agenda

The Board is responsible for setting the agenda and sending it to shareholders. Shareholders with voting rights who together represent shares with a nominal value of at least CHF 10,000 may request in writing, no later than 45 days before the day of the meeting, that specific items be included in the agenda.

Registrations in the share register

With a view to ensuring an orderly process, shortly before the AGM the Board determines the date on which a shareholder needs to be registered in the share register in order to exercise his or her participation rights by attending the shareholders' meeting. That date is published, together with the invitation to the shareholders' meeting, in the Swiss Official Gazette of Commerce and in several newspapers.

Information Policy

As of December 31, 2016, Zurich Insurance Group Ltd had 131,035 shareholders registered in its share register, ranging from private individuals to large institutional investors. Each registered shareholder receives an invitation to a shareholders' meeting. A Letter to Shareholders provides an overview of the Group's activities as the year progresses and outlines its financial performance. A more comprehensive Annual Review, the Annual Report and half-year reports are available on Zurich's website www.zurich.com (www.zurich.com/en/investor-relations) and the Annual Review and the Annual Report are also available in printed form on request. Information on the quarterly results reporting is also available on Zurich's website.

Zurich Insurance Group Ltd maintains a regular dialogue with investors through its Investor Relations department and responds to questions and issues raised by institutional and private individual shareholders. In addition, Zurich Insurance Group Ltd organizes investor days for institutional investors and analysts to provide comprehensive information on its businesses and strategic direction. Such presentations can be followed via webcast or conference call. In 2016, an Investor Day was held in London on November 17. A wide range of information on the Group and its businesses, including results reporting documents and the documentation from the Investor Day are available on the Investor Relations section of Zurich's website www.zurich.com (www.zurich.com/en/investor-relations).

Zurich Insurance Group Ltd will hold its Annual General Meeting on March 29, 2017. The meeting will be conducted in the Hallenstadion in Zurich-Oerlikon. An invitation setting out the agenda for this meeting and an explanation of the proposed resolutions is issued to shareholders at least 20 days before the meeting.

For addresses and further upcoming important dates, see shareholder information starting on page 294 (Financial Calendar on page 297).

Employees

The Group is committed to providing equal opportunities when recruiting and promoting people, whereby ability, experience, skills, knowledge, integrity and diversity are guiding principles. The Group actively encourages employee involvement in its activities through printed and online publications, team briefings and regular meetings with employees' representatives. Further, the Group is party to an agreement with employee representatives of the Group's companies in Europe. For further information on the Group's people management activities, see page 23 of the Annual Report and a longer report on Zurich's website www.zurich.com/en/corporate-responsibility/doing-business-responsibly/our-people.

In some countries, the Group has established broad-based employee share compensation and incentive plans to encourage employees to become shareholders of the Group.

Changes of control and defense measures

Duty to make an offer

The Articles of Incorporation of Zurich Insurance Group Ltd do not provide for opting out or opting up in the meaning of articles 125 and 135 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading. Therefore, mandatory offers have to be submitted when a shareholder or a group of shareholders acting in concert exceed 33 1⁄3 percent ownership of the issued and outstanding share capital of Zurich Insurance Group Ltd.

Clauses on changes of control

Employment agreements have been entered into with members of the ExCo, setting out the terms and conditions on which they are employed. The longest notice period for members of the ExCo is 12 months. No other benefits are provided in the case of a change of control.

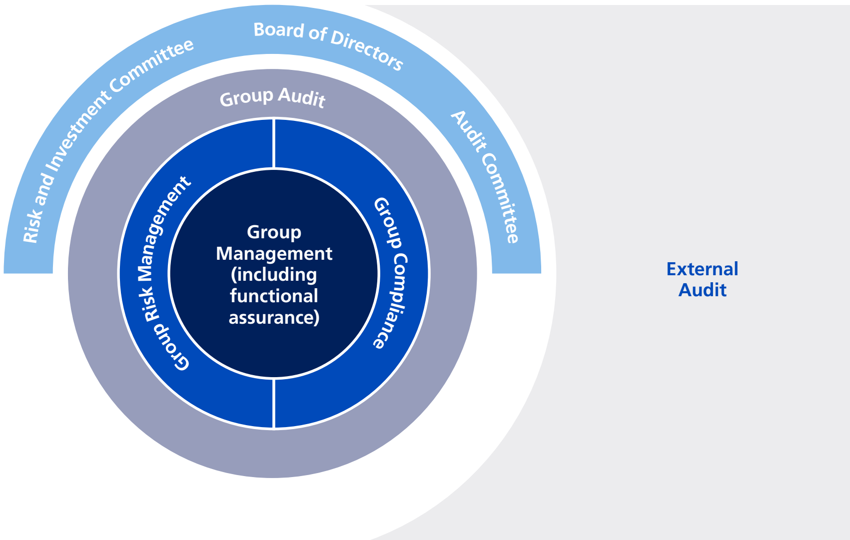
The Group's share-based compensation programs include regulations regarding the impact of a change of control. These regulations provide that in the case of a change of control, the Plan Administrator (the Remuneration Committee or the Group CEO, as applicable) has the right to roll over the existing share obligations into new share rights or to provide consideration for such obligations that are not rolled over. Participants who lose their employment as a result of a change of control have the right to the vesting of share obligations. No other benefits are provided to members of the Group's senior management in case of a change of control.

No benefits are provided for the members of the Board in case of a change of control.

Assurance at Zurich Insurance Group

At Zurich, various governance and control functions help to ensure that risks are identified and appropriately managed and internal controls are in place and operating effectively. This coordination is referred to as 'integrated assessment and assurance'. The Board is ultimately responsible for the supervision of these assurance activities. Although each assurance provider maintains its distinct mandate and responsibilities, the assurance providers are closely aligned and co-operate with each other through a regular exchange of information, planning and other activities. This approach supports management in its responsibilities and provides confidence that risks are appropriately addressed and that adequate mitigation actions are implemented.

Assurance at Zurich Insurance Group
as of December 31, 2016



- **Group Management**
  Group Management owns processes, controls and technical reviews related to assurance activities. This includes and is supported by assurance work provided by the management's review functions (e.g., underwriting, actuarial, claims) and the legal and finance functions.
- **Oversight**
  Group Risk Management is responsible for Zurich's Enterprise Risk Management framework. The Group Chief Risk Officer regularly reports risk matters to the Group CEO, senior management committees and the Risk and Investment Committee of the Board.

  Group Compliance is responsible for providing assurance to management that compliance risks within its mandate are appropriately identified and managed. The Group Compliance Officer regularly reports to the Audit Committee and has also an additional reporting line to the Chairperson of the Audit Committee and appropriate access to the Chairman of the Board.
- **Independent Assurance**
  Group Audit is responsible for auditing risk management, control and governance processes. The Head of Group Audit regularly meets with the Chairman of the Board and the Chairperson of the Audit Committee and attends each meeting of the Audit Committee.

  External Audit is responsible for auditing the Group's financial statements and for auditing Zurich's compliance with specific regulatory requirements. The Audit Committee regularly meets with the External Auditors.
- **Board – Audit Committee and Risk and Investment Committee**
  The Board is ultimately responsible for the supervision of the assurance activities. Its Audit and Risk and Investment Committees receive regular updates from Group Risk Management, Group Audit, External Audit and Group Compliance throughout the year.

External Auditors

Duration of the mandate and term of office of the auditor-in-charge

PricewaterhouseCoopers AG (PwC), Birchstrasse 160, in 8050 Zurich, is Zurich Insurance Group Ltd's external auditor.

PwC assumes all auditing functions which are required by law and by the Articles of Incorporation of Zurich Insurance Group Ltd. The external auditors are appointed by the shareholders of Zurich Insurance Group Ltd annually. At the Annual General Meeting on March 30, 2016, PwC was re-elected by the shareholders of Zurich Insurance Group Ltd. The Board proposes that PwC be re-elected at the Annual General Meeting on March 29, 2017 as external auditors for the business year 2017. PwC fulfills all necessary requirements under the Swiss Federal Act on the Admission and Oversight of Auditors and has been admitted as a registered auditing company by the Federal Audit Oversight Authority.

PwC and its predecessor organizations, Coopers & Lybrand and Schweizerische Treuhandgesellschaft AG, have served as external auditors of Zurich Insurance Group Ltd and its predecessor organizations since May 11, 1983. In 2000 and 2007, the Group conducted tender processes, inviting all major auditing firms to submit their work program and tender offers. After a thorough review, on both occasions the Board came to the conclusion that PwC's work program and offer prevailed and therefore proposed PwC for re-election.

Mark Humphreys of PwC is the lead auditor and auditor in charge for regulatory and statutory audit work since the business year 2014. Mr. Stephen O'Hearn, the Global Relationship Partner, co-signs the auditors' report for 2016.

Audit fees

Total audit fees (including expenses and value added taxes) charged by PwC in the year 2016 amounted to USD 48.8 million (USD 47.2 million in 2015).

Non-audit fees

Total fees (including expenses and value added taxes) in the year 2016 for additional services, such as tax advice and services, internal control advice or special audits required by local law or regulatory bodies performed by PwC and parties associated with them for Zurich Insurance Group Ltd or a Group company amounted to USD 9.3 million (USD 10.3 million in 2015). Non-audit fees were as follows:

Audit and non-audit fee amounts

in USD millions, as of December 31	**2016**	2015
Total audit fees	**48.8**	**47.2**
Total non-audit fees	**9.3**	**10.3**
– Tax advice	1.7	1.6
– Audit-related advice, including MCEV	6.9	5.6
– Other	0.7	3.2

Supervision and control over the external audit process

The Audit Committee regularly meets with the external auditors, at least four times a year. During 2016, the Audit Committee met with the external auditors eight times. The external auditors regularly have private sessions with the Audit Committee without management present. Based on written reports, the Audit Committee and the external auditors discuss the quality of the Group's financial and accounting function and any recommendations that the external auditors may have. Topics considered during such discussions include strengthening of internal financial controls, applicable accounting principles and management reporting systems. In connection with the audit, the Audit Committee obtains from the external auditors a timely report relating to the audited financial statements of Zurich Insurance Group Ltd and the Group.

The Audit Committee oversees the work of the external auditors. It reviews, at least annually, the qualification, performance and independence of the external auditors and reviews any matters that may impair their objectivity and independence based on a written report by the external auditors describing the firm's internal quality control procedures, any material issues raised and all relationships between the external auditors and the Group and/or its employees that could be considered to bear on the external auditors' independence. The Audit Committee evaluates the performance of the external auditors during their audit examination. It elicits the comments of management regarding the auditors' performance (based on criteria such as their understanding of Zurich's business, technical knowledge and expertise, etc.) and the quality of the working relationship (responsiveness of the external auditors to the needs of Zurich Insurance Group Ltd and the Group and the clarity of communication). The Audit Committee reviews, prior to the commencement of the annual audit, the scope and general extent of the external audit and suggests areas requiring special emphasis.

The Audit Committee proposes the external auditors to the Board for appointment by the shareholders and is responsible for approving the audit fees. A proposal for fees for audit services is submitted to management by the external auditors and validated, before it is submitted to the Audit Committee for approval. The proposal is mainly based on an analysis of existing reporting units and expected changes to the legal and operational structure during the year.

The Audit Committee has approved a written policy on the use of external auditors for non-audit services, which sets out the rules for providing such services and related matters (including a list of prohibited services). Allowable non-audit services may include tax advice, comfort and consent letters, certifications and attestations, and due diligence and audit support in proposed transactions, to the extent that such work complies with applicable legal and regulatory requirements and does not compromise the independence or objectivity of the external auditors. In order to avoid conflicts of interest, all allowable non-audit services need pre-approval from the Audit Committee (Chairperson), the Group CFO, the Group Controller or the local CFO, depending on the level of the expected fee. This policy further requires, among other things, an engagement letter specifying the services to be provided.

Group Audit

The Group's internal audit function (Group Audit) is tasked with providing independent and objective assurance to the Board, the Audit Committee, the Group CEO and management and to the boards and audit committees of subsidiary companies. This is accomplished by developing a risk-based plan, which is updated continuously as the risks faced by the business change. The plan is based on the full spectrum of business risks including concerns and issues raised by the Audit Committee, management and other stakeholders. Group Audit executes the plan in accordance with defined operating standards, which incorporate and comply with the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA). Key issues raised by Group Audit are communicated to the responsible management function, the Group CEO and the Audit Committee using a suite of reporting tools.

The Audit Committee, boards and audit committees of subsidiary companies and Group CEO are regularly informed of important audit findings, including ineffective opinions, mitigation actions and attention provided by management. Group Audit is responsible for ensuring that issues identified by Group Audit, that could have an impact on the Group's operations are brought to the attention of the Audit Committee and appropriate levels of management and that timely follow-up action occurs. This is supported by the attendance of the Head of Group Audit at each meeting of the Audit Committee.

Group Audit is authorized to review all areas of the Group and has unrestricted access to all Group activities, accounts, records, property and personnel necessary to fulfill its duties. In the course of its work, Group Audit takes into consideration the work of other assurance functions. In particular, Group Audit co-ordinates its activities with the external auditors, sharing risk assessments, work plans, audit reports and updates on audit actions. Group Audit and the external auditors meet regularly at all levels of the organization to optimize assurance provision and efficiency.

The Audit Committee assesses the independence of Group Audit and reviews its activities, plans and organization, the quality of its work and its cooperation with the external auditors. As required by the Institute of Internal Auditors (IIA) International Standards, the Internal Audit function is quality-reviewed at least every five years by an independent qualified assessor. This review was conducted most recently in 2016. The results confirmed that Group Audit's practices conform with all IIA Standards.

The Audit Committee approves the Group Audit Plan annually, and reviews reports from the function on its activities and significant risk, control and governance issues, at least three times per annum. The Head of Group Audit reports functionally to the Chairperson of the Audit Committee and administratively to the Group CEO, and meets regularly with the Chairman of the Board and the Chairperson of the Audit Committee. Group Audit has no operational responsibilities over the areas it reviews and, to ensure independence, all Group Audit staff report (via audit managers) to the Head of Group Audit. In some instances, country audit managers also have a reporting line to the local CEO to comply with regulatory requirements.

Group Compliance

The Group's core values are founded on the principle that it acts lawfully and seeks to do what is right. Sound compliance in everything the Group does, helps to protect Zurich's reputation and supports the achievement of the Group's ambitious goals.

The Group's compliance function provides policies and guidance, business advice, training and assurance of appropriate compliance controls within its mandate. The compliance function also supports Zurich's management in maintaining and promoting a culture of compliance and ethics consistent with Zurich Basics, the Group's code of conduct. This compliance framework relies on an ongoing global compliance risk assessment to support a risk-based monitoring regime. The results of this assessment underpin the compliance function's strategic planning which is conducted in consultation with business partners. The compliance plan is presented annually to the Audit Committee. Through a comprehensive program, the compliance function implements, embeds and monitors internal compliance policies and guidance. As part of that program, compliance officers introduce new employees to applicable rules and are involved in the integration of newly acquired companies. To help employees understand their responsibilities under Zurich Basics and internal compliance policies, all employees receive yearly ethical and compliance training, focusing on Zurich's five basic values and twelve key rules of conduct. Local business units may supplement this module with additional training courses and high-risk compliance topics, as appropriate. In addition, the Group's compliance function spearheads internal awareness campaigns on ethical and regulatory conduct. Each year all Zurich employees confirm their understanding of and compliance with Zurich Basics and internal policies. Zurich encourages its employees to speak up and report improper conduct that they believe is illegal, unethical, or violates Zurich Basics or our Group's policies. Employees are free to report their concerns to management, Human Resources, the Group's legal department, its compliance function, or through the Zurich Ethics Line (or similar service provided locally), a phone and web-based service run by an external specialized provider. Zurich does not tolerate retaliation against any employee who reports such concerns in good faith.

The Group's compliance function, which consists of compliance professionals around the world, is overseen by the Group Compliance Officer, who reports to the Group General Counsel and regularly provides reports to the Group's Audit Committee. The Group Compliance Officer has an additional reporting line to the Chairperson of the Audit Committee and appropriate access to the Chairman of the Board.

Risk Management and Internal Control Statement

For information regarding the Group's risk management and internal control framework, see the Risk review of this Annual Report 2016 on pages 114 to 147. The Group no longer separately describes risk management and internal control information in this governance report.

Going concern

The Directors are satisfied that, having reviewed the performance of the Group and forecasts for the forthcoming year, the Group has adequate resources to enable it to continue in business for the foreseeable future. For this reason, the Directors have adopted the going concern basis for the preparation of the consolidated financial statements.

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Remuneration report

Chairman of the Remuneration Committee statement on remuneration

As the new Chairman of the Remuneration Committee, I am pleased to share with you the remuneration report for 2016.

Christoph Franz
Chairman of the Remuneration Committee

Dear Shareholder

Following the Annual General Meeting (AGM) in March 2016, I took over the role as Chairman of the Remuneration Committee of the Board of Directors (Remuneration Committee) from Thomas Escher. I would like to take the opportunity to thank Thomas on behalf of the Committee for his leadership during his time as Chairman, Dame Alison Carnwath and Rafael del Pino for their contributions to the Remuneration Committee and welcome Fred Kindle and Kishore Mahbubani as new members.

Performance 2016

The overall financial results in 2016 were good across all businesses after a difficult year in 2015. With the significant dedication and accomplishments of the employees, the transformation of the business and the simplification of the organizational structure, this helped to improve profitability resulting in a net income attributable to shareholders of USD 3.2 billion (plus 74 percent compared to USD 1.8 billion in 2015) and a business operating profit of USD 4.5 billion (plus 55 percent compared to USD 2.9 billion in 2015).

With regard to the variable incentive plans, the overall assessment of business profitability in 2016 leads to an average award under the Group short-term incentive plan (STIP) of 109 percent of target, relative to an average award of 65 percent of target for 2015. Under the Group long-term incentive plan (LTIP), the overall vesting level is 121 percent of target reflecting the achievements on the three pre-defined performance criteria over the three-year performance period 2014 to 2016. This compares to a vesting level of zero percent of target last year.

“Our strong pay for performance alignment leads to higher variable remuneration awards.”

Details on the payments under STIP and the LTIP vesting level are set out in this remuneration report.

The aggregate amount of variable remuneration for 2016 for the entire Group is determined based on the Group's long-term economic performance and resulted in USD 691 million (plus 37 percent compared to USD 505 million in 2015).

Achievements in 2016

Following the appointment of Mario Greco as the new Group Chief Executive Officer (Group CEO), Zurich communicated during 2016 the new strategic direction, including the changes to the organizational structure and composition of the Executive Committee (ExCo). The Group moved to a simpler, more customer-oriented structure, reducing complexity, creating greater accountability and empowering teams to deliver products and services to customers in a unique and differentiated way.

In light of this, we have taken the opportunity to make changes to align and simplify our STIP architecture with our strategic direction for 2017. The key changes are outlined in more detail in the 2017 outlook section of the report.

AGM 2017

Finally, I would like to thank shareholders and other stakeholders for their input and engagement during my first year as Chairman of the Committee, especially at the Corporate Governance Roadshows held throughout the year. I welcome all shareholders' feedback on this report.

Details on the binding remuneration votes of the Board of Directors (Board) and of the ExCo are included in the 2017 Board of Directors Report of Zurich Insurance Group Ltd (Board of Directors Report), which is istributed with the invitation to the AGM 2017.

We look forward to receiving your support for the remuneration votes at the AGM on March 29, 2017.

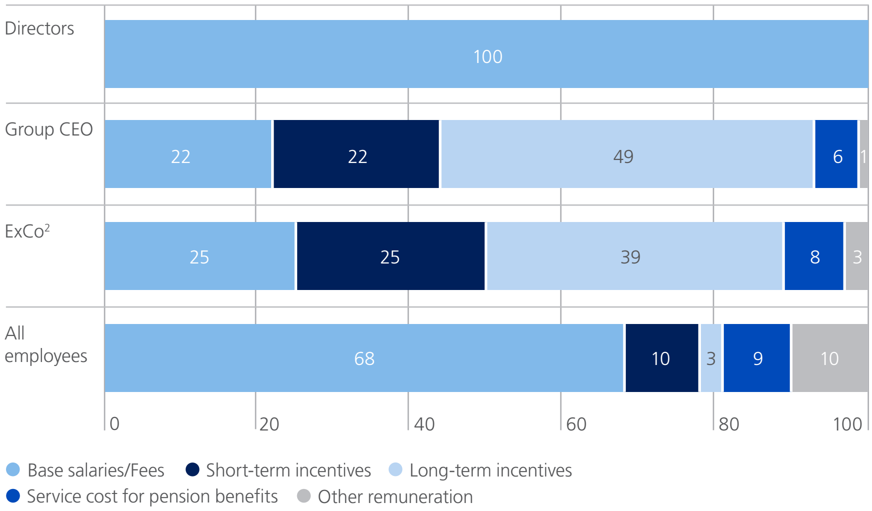
Christoph Franz
Chairman of the Remuneration Committee

Remuneration structure

Zurich's remuneration architecture is structured in a way that puts more emphasis on variable remuneration elements, with a higher weighting on average towards the long-term for our most senior employees. The variable remuneration is largely determined by the achievements against pre-defined financial measures which are aligned with the Group's strategy.

2016 Remuneration structure and weighting of elements[1]

%



[1] At target, as a percentage of total remuneration.
[2] Including the Group CEO.

Remuneration report

Contents

2016 remuneration summary

This summary provides an overview of the 2016 remuneration of Zurich Insurance Group Ltd (Group or Zurich), including details regarding the link between business performance and variable pay decisions for 2016.

Note on terminology

Effective July 1, 2016 the name of the Group Executive Committee (GEC) was changed to the Executive Committee (ExCo). In the remuneration report 2016 the abbreviation GEC is no longer used and in all instances it has been replaced by the abbreviation ExCo.

Zurich's remuneration

Zurich operates a balanced and effectively managed remuneration system which ensures competitive total remuneration opportunities, for which the resulting awards are based on the results achieved. It is an important element of the Group's risk management framework and is designed to not encourage inappropriate risk-taking.

The members of the Board receive fixed remuneration as an annual fee, of which the basic fee is paid half in cash and half in five-year sales-restricted shares which are not subject to the achievement of any specific performance conditions. Total remuneration for employees including the members of the ExCo comprises, as applicable, fixed remuneration consisting of base salaries, pensions and employee benefits, as well as variable remuneration consisting of short- and long-term incentive awards. The Group short- and long-term incentive plans (STIP and LTIP) aim to align the remuneration architecture with the achievement of the Group's key financial objectives, the execution of the business strategy, the risk management framework and the operational plans (see the remuneration framework section for more information on the elements of Zurich's remuneration).

2016 remuneration in light of the business results

Expenditure on remuneration is considered in the context of Zurich's overall revenues, capital base and profitability. As can be seen from the metrics in the following table, relative to Zurich's overall revenues and shareholders' equity, expenditure on variable remuneration remains relatively small, also in relation to the amount of dividends payable to shareholders. The key financial figures reflect data for 2016 and 2015 and show the increase in the total variable remuneration pool in 2016 compared to 2015, as an outcome of the increase in overall business profitability.

Key financial figures

in USD millions, for the years ended December 31	**2016**	2015
Gross written premiums and fees[1]	53,482	53,784
Business operating profit (BOP)	4,530	2,916
Net income attributable to shareholders (NIAS)	3,211	1,842
Shareholders' equity	30,660	31,178
Return on common shareholders' equity (ROE)	11.8%	6.4%
Dividends paid to shareholders[2]	2,643	2,705
Total variable remuneration pool for all employees gross before tax[3]	691	505
– as a percentage of gross written premiums and fees	1%	1%
– as a percentage of shareholders' equity	2%	2%
– as a percentage of dividends paid to shareholders	26%	19%

[1] Consists of USD 50,615 million gross written premiums and policy fees as well as USD 2,867 million Farmers management fees and other related revenues.
[2] Dividend at transaction day exchange rate in 2016 and 2015, respectively.
[3] This excludes the value of target performance share allocations made in 2015 from transition arrangements which amount to USD 6 million.

Remuneration report (continued)

The following table provides details regarding the overall STIP award and LTIP vesting level in relation to the performance achievements under each plan and the aggregated amount of variable remuneration for the entire Group. For further information on STIP and LTIP, see the remuneration elements described later in the report.

Remuneration in light of business performance

Short-term incentive	Average award as a percentage of target 2016	2015
Context		
The key factors driving individual awards are: → The Group's NIAS for members of the Leadership Team, the Control Functions, Investment Management, Support Functions and Group Operations. → The overall business operating profit results for General Insurance and Global Life respectively. → Specific growth and profitability measures for Farmers. In 2016 we saw good results, with an overall increase in business profitability compared to 2015. As a result, the average award for the plan participants across the Group (more than 41,600) is significantly higher than the corresponding amount for 2015.	109%	65%

Long-term incentive	Vesting level as a percentage of target in 2017	2016
Context		
The key factors driving the vesting level in 2017 are: → Group's relative total shareholder return (TSR) against an international peer group of insurance companies → NIAS ROE → Cash remittance Based on the achievements under the three pre-defined performance criteria, TSR, NIAS ROE and Cash remittance over the three-year period 2014 to 2016, the calculated vesting level in 2017 is 121 percent, compared to a zero percent vesting last year. All three performance criteria met the threshold levels of performance required for vesting to occur. No discretionary adjustment was made to the calculated vesting level.	121%	0%

Total variable remuneration pool	Aggregate amount is USD million of variable remuneration for the entire Group 2016	2015
Context		
In determining the amount of the total variable remuneration pool for all employees, the Board considers the long-term economic performance of the Group as well as other relevant factors. The average economic profit is calculated by subtracting the required return on economic capital, based on the weighted average cost of capital, from the adjusted BOP after tax. In this respect, the Group has continued to generate economic profit over the long-term which exceeds the actual expenditure on variable pay.	691	505

The total variable remuneration pool includes the following elements:

- → The total expenditure on cash incentives to be paid for the performance year comprising the amount of the aggregated funding pools under the STIP, and the amounts to be paid under local short-term incentive plans.
- → The value of the target share allocations made in 2016 on the assumption that the allocations will vest at 100 percent of the target level in 2019 for performance over the three years 2016, 2017 and 2018.
- → The total amount of sign-on payments[1] committed in 2016, regardless of when the payments are due, for people taking up their employment in 2016.
- → The total amount of severance payments[2] committed in 2016, regardless of when the payments are due.
- → Commission payments made to employed sales agents are not included in the variable remuneration pool.

For 2016, the remuneration amounts were as follows:

Remuneration amounts

in USD millions, for the years ended December 31	**Base salary/ Fees**[1]	**Short-term incentives**[2]	**Long-term incentives**[3]	**Other remuneration**	**Total remuneration 2016**[4]	Total remuneration 2015[4]
Directors	4.7	–	–	–	4.7	4.8
ExCo	10.0	12.8	17.2	4.9	44.9	40.1
All employees[5]	3,722	532	148	1,088	5,490	5,624

[1] Includes the portion paid in sales-restricted shares to Directors.
[2] The cash incentives earned for the year for all employees.
[3] Represents the value of the target share allocations made in 2016, which assume vesting levels in 2019 at 100 percent of target.
[4] Actual, gross and for cash amounts based on the accrual principle.
[5] For all employees the Other remuneration includes Sign-on and Severance Payments committed in cash and/or in shares for comparison reasons.

[1] Payments (whether paid immediately or over time) that are agreed on the completion of an employment contract. Sign-on Payments can include compensation made prior to a person joining the company and providing any services (Payments in Advance) or compensation for benefits foregone with a previous employer (Replacement Payments). Payments in Advance are prohibited to be paid to members of the Board and the ExCo.
[2] Payments that are provided in connection with the termination of an employment relationship. Zurich does not include under the term Severance Payments, garden leave or similar payments for employees in jurisdictions where such payments are required by applicable law, or where they are based on contractual notice periods which conform with recognized market practice, or where they are non-contractual but in line with recognized market practice. However, Zurich does include garden leave or similar payments that go beyond recognized market practice, irrespective of whether these are provided pursuant to an agreement or are ex gratia. Severance Payments are prohibited to be paid to members of the Board and the ExCo.

Remuneration report (continued)

Outlook summary for 2017

Proposed changes effective from January 2017

Development	Purpose
STIP architecture: The STIP architecture is aligned with the new organizational structure along reporting lines and accountabilities which results in a simpler structure and a significant reduction in the number of pools and sub-pools.	The new STIP architecture is aligned with the new organizational structure and accountabilities.
STIP pool architecture: Funding for each pool is based primarily on BOP ensuring that the funding criteria are consistent across the Group. In determining the final awards under each pool, there is a qualitative assessment of the performance achievements and the awards are also considered in relation to the overall Group results. There are pools at the Group level for members of the Leadership Team, Control Functions and employees working for the Group or Region, pools for Commercial Insurance, Investment Management and Farmers, and country pools. Funding is required for any pay-out to be made.	The financial metrics for determining the funding of each pool have been reviewed and the key focus throughout STIP is to support the achievement of the BOP targets.
Performance management calibration: Calibration ensures consistency and comparability of ratings across the Group by aligning ratings to Zurich's global target distribution guideline (calibration curve).	Individual performance assessments are calibrated across relevant populations within the pool.
LTIP performance objectives: The LTIP vesting grid has been reviewed and cash remittance has been recalibrated in order to align with the targets set out at the Investor Day in November 2016. This applies to LTIP allocations made in 2017 and thereafter. Details on the adjusted vesting grid can be found under LTIP performance objectives 2017–2019 cycle on page 108.	To align with strategic goals set out at the Investor Day.

Remuneration framework

Legal and regulatory requirements

This remuneration report provides all the information that is required by the following rules, with which Zurich complies:

- Chapter 5 of the Directive on Information Relating to Corporate Governance of the SIX Exchange Regulation (as of September 1, 2014).
- The Swiss Code of Best Practice for Corporate Governance (Swiss Code of Best Practice), issued in 2002 by economiesuisse, as amended in October 2007 and in August 2014.
- Articles 14–16 of the Ordinance Against Excessive Compensation (AEC) (replacing the information in the notes to the consolidated financial statements according to Article 663bbis of the Swiss Code of Obligations).
- Information as required by Article 663c para 3 of the Swiss Code of Obligations.
- Requirements of the Circular 2010/1 on minimum standards for remuneration schemes of financial institutions, issued by the Swiss Financial Market Supervisory Authority (FINMA) on October 21, 2009 as amended on June 1, 2012 and December 3, 2015, as well as further guidance issued on January 19, 2011 (FINMA Circular on Remuneration Schemes).

Zurich's approach to implementing the requirements of the Ordinance AEC

The Ordinance AEC came into effect on January 1, 2014 with a two-year transition period. During this time Zurich has amended its Articles of Incorporation as approved by shareholders at the AGM in 2014. Since the AGM in 2015, shareholders are authorized to vote and approve the maximum total amount of remuneration for the Board for the one-year period from AGM to AGM and the maximum total amount of remuneration for the ExCo for the subsequent financial year (Article 18 para 1 Articles of Incorporation).

According to the Ordinance AEC and Article 18 para 4 Articles of Incorporation, the Group and/or its subsidiaries are authorized to make payments to any member who joins the ExCo during a period for which the AGM has already approved the remuneration of the ExCo, of a supplementary amount for the period(s) in question, where the total amount already approved for such remuneration is not sufficient. The sum of all supplementary amounts may not exceed, during any one remuneration period, 30 percent of the respective total amount of approved maximum remuneration of the ExCo. Details on the votes on pay, on performance related remuneration for the ExCo, allocation of shares as well as the approach regarding loans and credits can be found in Articles 18, 28 and 34 of the Articles of Incorporation.

Further, the information provided according to Articles 14–16 of the Ordinance AEC contained in the remuneration report has been externally audited following the audit requirements of the Ordinance AEC (Article 13 para 1 and Article 17 of the Ordinance AEC) and the information subject to audit is marked in the respective sections of the remuneration report.

Remuneration philosophy

The remuneration philosophy is an integral part of the overall employment offering to employees. Zurich operates a balanced and effectively-managed remuneration system, which is aligned with risk considerations and provides for competitive total remuneration opportunities that attract, retain, motivate and reward employees to deliver outstanding performance.

Total remuneration for an individual employee is influenced by factors including the scope and complexity of the role, business performance and affordability, individual performance, internal relativities, external competitiveness, geographic location and legal requirements. Target opportunities are benchmarked to median levels in clearly defined markets and take into account the internal remuneration structures. Depending on the role, the relevant market can be global, regional or local and reflecting practices in either insurance, financial services or general industry. Remuneration is delivered through an overall framework overseen by the ExCo, the Remuneration Committee and the Board itself. Reward decisions are made on the basis of merit – performance, skills, experience, qualifications and potential – and are free from discrimination toward or against particular diverse backgrounds. The remuneration system and practices ensure all employees have equal opportunities.

In addition, Zurich has a clearly defined global performance management process which supports the achievement of the overall business strategy and operating plans, and links individual pay with business and individual performance. Actions of Zurich employees with regard to customers, people, shareholders and communities continue to be guided by the Zurich Basics and the Zurich Commitment. In order to support this undertaking, all Zurich employees have an objective with respect to what they do to actively care for and add value to the stakeholder groups. Moreover, performance management objectives are also assessed in terms of how they are achieved according to the values and behaviors underlying the Zurich Basics.

Guiding principles of the remuneration philosophy

The guiding principles of the remuneration philosophy as set out in Zurich's Remuneration Rules are as follows:

- → The remuneration architecture is simple, transparent and can be put into practice.
- → Remuneration is tied to long-term results for individuals who have a material impact on the Group's risk profile.
- → The structure and level of total remuneration are aligned with the Group's risk policies and risk-taking capacity.
- → A high performance culture is promoted by differentiating total remuneration based on the relative performance of businesses and individuals.
- → Expected performance is clearly defined through a structured system of performance management and this is used as the basis for remuneration decisions.
- → Variable remuneration awards are linked to key performance factors which include the performance of the Group, the business segments, business units, functions, as well as individual achievements.
- → The Group's STIP and LTIP, used for variable remuneration, are linked to appropriate performance criteria and the overall expenditure on variable pay is considered in connection with the Group's long-term economic performance.
- → The structure of the LTIP links remuneration with the future development of performance and risk by including features for deferred remuneration.
- → Employees are provided with a range of benefits based on local market practices, taking into account the Group's risk capacity on pension funding and investments.

Governance framework

Remuneration governance framework

The Board is responsible for the design and implementation of Zurich's remuneration principles and remuneration rules (together Zurich's Remuneration Rules). To support the Board in performing these duties, the Board has established a Remuneration Committee. Under the Ordinance AEC and as reflected in the Articles of Incorporation, the AGM elects the members of the Remuneration Committee individually. Their term of office ends with the conclusion of the next AGM with re-election being possible. The Remuneration Committee consists of at least three members of the Board, all of whom are experienced in the area of remuneration. As of the AGM in 2016 there are four members in the Committee. On an annual basis the Remuneration Committee evaluates the remuneration architecture and Zurich's Remuneration Rules, and if appropriate, proposes amendments to the Board.

In reviewing remuneration structures and practices on a regular basis, the Remuneration Committee and the Board receive independent advice from the executive compensation practices at Meridian Compensation Partners LLC (Meridian) and New Bridge Street, part of Aon Corporation (Aon Hewitt). The Remuneration Committee reviews the mandates and fees, and evaluates ongoing performance. Both Meridian and New Bridge Street provide advice to the Board, with the lead consultant employed by Meridian. Meridian does not provide any other services to the Group. Although certain practice areas within Aon Hewitt – a large, international brokerage and human resources firm – undertake work for the Group from time to time, the Remuneration Committee does not consider the independence and integrity of the advice it receives from New Bridge Street to be compromised by these separate assignments.

The remuneration approval framework is set out as follows:

Approval framework

Subject	Recommendation from	Final approval from
Overall remuneration architecture	Remuneration Committee and Risk and Investment Committee based on proposal by the Group CEO.	Board
Organizational Rules (Annex A – Charter of the Committees, Chapter 7: Remuneration Committee)	Remuneration Committee	Board
Zurich's Remuneration Rules	Remuneration Committee	Board
Remuneration report	Remuneration Committee	Board and consultative, non-binding vote by the shareholders.
Remuneration payable to Directors (including Chairman and Vice-Chairman)	Remuneration Committee	Board and ultimately from shareholders via a vote as an aggregate maximum amount.
Remuneration to the Group CEO	Remuneration Committee	Board and ultimately from shareholders via a vote as an aggregate maximum amount.
Remuneration to the ExCo	Group CEO	
Total variable remuneration pool	Remuneration Committee	Board
STIP funding pools	Remuneration Committee based on proposals by the Group CEO taking into account a risk assessment by Group Risk Management.	Board
Vesting levels under the LTIP	Remuneration Committee based on proposals by the Group CEO taking into account a risk assessment by Group Risk Management.	Board

The STIP and the LTIP designs are regularly reviewed by the Remuneration Committee and the Board. Moreover, the Board reviews the implementation of the plans on a regular basis. The incentive plans are discretionary and can be terminated, modified, changed or revised at any time.

The results of benchmarking studies are taken into account in setting the fee levels for Directors and the remuneration structure and levels for the Group CEO and the other members of the ExCo. In analyzing the results of the benchmarking studies, market practices in the various countries and internal relativities between positions are taken into account. Overall positioning of target remuneration packages is toward the median levels. Management is supported in these activities by a variety of firms operating in the field of international executive compensation.

Remuneration report (continued)

At Remuneration Committee and Board meetings where decisions are made on the individual remuneration of the Chairman, the Chairman is not present. In making decisions on the individual remuneration of the Group CEO, the Group CEO is not present. Where decisions are made on the individual remuneration of other members of the ExCo, those members are also not present at the meetings. See page 50 in the Corporate Governance Report for further details on the Remuneration Committee's responsibilities.

Remuneration and risk

The Remuneration and Risk and Investment Committees meet jointly once a year to discuss a risk review of the remuneration architecture and the remuneration governance framework. Group Risk Management evaluated the remuneration architecture in 2016 and reported that the remuneration architecture is consistent with effective risk management and does not encourage inappropriate risk-taking that exceeds the Group's level of tolerated risk. Group Risk Management has also played an active part in reviewing the remuneration architecture for 2017 which is outlined in further detail in the Outlook 2017 section later in the report.

To help align remuneration with the Group's risk-taking capacity, Group Risk Management consulted with other control, governance and assurance functions to provide the Group CEO with a review of risk factors to consider when assessing overall performance for the annual funding of incentive awards. The Group Chief Risk Officer (Group CRO) is available to discuss these findings with the Remuneration Committee and the Board. The Group CEO takes into account Group Risk Management's assessment, among other factors, when proposing the STIP awards to the Remuneration Committee, which in turn makes its recommendation to the Board for final approval.

Group Risk Management reviews the processes and criteria for identifying the key risk taker roles annually. The criteria are based on factors that materially affect risk-taking within the Group, such as overall governance, capital consumption for each risk type as determined by the internal model, strategy and reputation. The criteria are then applied to those who take, and those who control, the specific risks at the level of the Group where the risks are most material. All key risk taker roles for the Group were reviewed and in 2016 the number of key risk taker roles increased by a small amount. Group Risk Management, together with other control and assurance functions, provides risk and compliance information about each key risk taker as part of the annual individual performance assessment. The remuneration for key risk taker positions includes STIP and LTIP with a greater emphasis toward long-term, and therefore deferred remuneration.

The variable remuneration of employees in control functions is structured to avoid conflicts of interest, by referring to Group profitability rather than the profitability of the business controlled by such functions.

Group Audit regularly assesses the operational implementation of Zurich's Remuneration Rules to verify that the remuneration architecture is implemented across the Group.

Share ownership guidelines

To align the interests of the Board and the ExCo with those of shareholders, Directors and members of the ExCo are required to meet certain levels of share ownership as follows:

- → Members of the Board: at the level of one times the basic annual fee.
- → Group CEO: vested awards at the level of five times base salary.
- → Other members of the ExCo: vested awards at two-and-a-half times base salary.

Directors achieve this requirement through part of their fee being made in five-year sales-restricted shares and market purchases. Members of the ExCo achieve this through their participation in the LTIP and market purchases. Directors, the Group CEO and other members of the ExCo have a period of five years to meet their ownership requirements and the Remuneration Committee monitors compliance with these guidelines on an annual basis.

As of December 31, 2016, Directors held 39,909 shares and members of the ExCo held 78,786 vested shares and 47,885 vested options. At the end of 2016, all Directors and all members of the ExCo, who have served at least five years on the Board or the ExCo respectively, have met the required share ownership level.

Share dilution

Zurich meets the share obligations arising from compensation plans either by issuing new shares from the contingent capital that has been authorized by shareholders or by using Zurich shares purchased in the market. The share dilution impact is considered moderate and is in line with market practice.

Share dilution as of December 31

		2016	2015
Share dilution	Registered shares eligible for dividends as of December 31	150,607,406	150,404,964
	shares issued during the year	202,442	768,128
	– as percentage of share capital based on the registered shares	0.13%	0.51%
LTIP	Total number of unvested target shares[1]	1,614,185	1,267,179
	– as percentage of share capital based on the registered shares	1.07%	0.84%
	Total number of vested but unexercised options	172,978	330,888
	– as percentage of share capital based on the registered shares	0.11%	0.22%

[1] Given the vesting level of 121 percent for the tranches vesting in 2017 and assuming 100 percent vesting in 2018 and 2019. For 2015 the figure represents a zero vesting in 2016 and assuming 100 percent vesting in 2017 and 2018.

Remuneration report (continued)

Remuneration elements

Total remuneration

Target total remuneration is set around the relevant market median and includes the following elements:

Remuneration elements

	Fixed remuneration	Variable remuneration[1]		Fixed benefits
	Base salary	Short-term incentives	Long-term incentives[2]	Pensions and employee benefits
Description	Fixed pay for the role performed to attract and retain employees and is reviewed annually. Overall base salary structures are positioned to manage salaries around the relevant market medians.	Discretionary incentive awards to reward achievement of key financial and individual objectives during the year.	Annual performance based target share allocations, subject to vesting according to pre-defined performance criteria. Designed to support Zurich's longer term goals, encourage participants to operate the business in a sustainable manner and align the Group's long term interests with those of shareholders.	Employee benefits are provided to attract and retain employees, in line with market practices and positioned toward the market median. Pension plans are designed and managed in line with the Group guidelines.
Drivers and/or performance metrics	Scope and complexity of the role, level of responsibility and geographic location.	Award is driven by: – Group and/or segment and/or country profitability achievements. – Individual performance on personal objectives and behavior in line with Zurich's basic values as assessed through the performance management process.	Vesting is determined based on (i) the position of the TSR compared with an international peer group of insurance companies derived from the Dow Jones Titan Insurance Index, (ii) the NIAS ROE and (iii) cash remittance.	Market practice and Group guidelines.
Duration	n.a.	1 year.	3–6 years (target shares subject to three-year cliff vesting and one-half of the vested shares are sales-restricted for an additional three years).	n.a.
Range of opportunity	Generally paid within an 80–120 percent range around the relevant market median.	Award of 0 to 200 percent of an individual's target amount.	Vesting level of 0–200 percent of the individual target shares allocated.	n.a.
Eligibility	All employees.	Country specific (more than 41,600 plan participants in 2016).	Members of the ExCo and a defined group of the most senior positions of the Group, including key risk takers.	Country-specific.
Delivery	Fixed cash.	Performance-based cash.	Performance-based shares.	Country-specific fixed benefits.
Clawback, malus and hedging	n.a.	Clawback framework established for members of the ExCo to allow for recovery, forfeiture and/or clawback, subject to specific conditions. Malus conditions to reduce or eliminate awards applicable to all STIP participants.	Clawback framework established for members of the ExCo to allow for recovery, forfeiture and/or clawback, subject to specific conditions. Malus conditions to reduce or eliminate awards applicable to all LTIP participants. Individual hedging of share-based remuneration prohibited.	n.a.

[1] The total variable remuneration pool includes short- and long-term incentives, and Sign-on and Severance Payments provided in cash and/or shares to employees who either joined or who left Zurich in 2016. However, it excludes the value of target share allocations from transition arrangements.
[2] Includes target share allocations from transition arrangements, however note that with regard to the total variable remuneration pool, such allocations are excluded.

Base salary

See the remuneration elements table for information regarding base salaries.

Variable remuneration

Incentive plans are designed to provide a range of award opportunities linked to levels of performance. Business and individual performance may result in remuneration levels above target for superior performance, and reduced levels that are below target for performance below expectations. Variable remuneration opportunities are provided in markets where this is the norm, to motivate employees to achieve key short-term and long-term business goals to increase shareholder value. Variable remuneration opportunities may include both short-term and long-term incentives.

Short-term incentives

Short-term (one-year) incentives are performance-driven based on the following design:

Short-term incentives support employees to focus their performance during the year on the achievement of key financial and individual objectives set at the beginning of the year. The final individual STIP award is determined from the STIP target award, the financial performance, the resulting STIP award structure and the individual performance as set out in the following illustration.

Financial performance

Key financial figures per STIP pool

Group NIAS or the respective segment BOP or Farmers growth and profitability

Key driver for determining the individual STIP award structure for the STIP pool is the relevant financial performance during the year, including a qualitative assessment of the results.

STIP award structure

Overall financial performance together with a qualitative assessment determines the funding and the range of potential STIP awards for various levels of individual performance.

Individual performance

Objectives and key achievements

1 Individual objective A

2 Individual objective B

3 Etc.

4 Zurich Commitment

Individual objectives relevant to the role of the employee are defined and agreed at the beginning of the year. The line manager assesses the performance achievements during and at the end of the year, supported by the Group performance management process.

STIP award

Paid in cash and capped at 200 percent of individual STIP target.

Remuneration report (continued)

A detailed description of the STIP design is laid out below:

Vehicle and target award
STIP awards are paid in cash.

Each participant has a STIP target award level established for the performance year, which is determined by the base salary and the STIP target percentage. The participant is allocated to one of the STIP pools. Unless otherwise approved by the Board, the maximum STIP target award level is set at 100 percent of the base salary at the end of the performance year.

Financial performance
The STIP pool architecture is reviewed and approved by the Board annually and is aligned with the organizational structure of Zurich. In 2016 there were a number of STIP pools based on the NIAS result for members of the Leadership Team, the Control Functions, Investment Management, Support Functions and Group Operations. In addition, there were segment pools based on the overall BOP results of General Insurance and Global Life and based on specific growth and profitability measures for Farmers.

At year-end the key financial figures are evaluated in relation to the business plan which has been approved by the Board in the December prior to the relevant performance year. A qualitative assessment of the financial performance takes place to ensure a holistic evaluation of performance including the remuneration review by the Group CRO. The ultimate size of the STIP pools can vary between 0 percent and 175 percent of target, but typically the STIP pools vary in size in the range of 80 percent to 120 percent of target.

The Group CEO makes recommendations to the Remuneration Committee on the proposed size of the various STIP pools and on the aggregate amount required for STIP award payments across the Group. Following review and analysis, the Remuneration Committee discusses their final recommendations with the Board and seeks the Board's approval.

STIP award structure
The financial performance defines the funding available for each STIP pool and the resulting range of potential STIP awards for each level of individual performance. If the financial performance meets expectations then the award structure for an individual that successfully achieves his or her individual objectives, is set at the target level. If the financial performance only partially meets expectations however, then the STIP award for an individual who successfully achieves his or her individual objectives will be set at a level lower than target and can be zero percent. Within General Insurance and Global Life, there are a number of sub-pools, for example at the country level, where the award structure is specifically defined to reflect the overall results of the segment and also the sub-pool.

Individual performance
At the beginning of the year each individual jointly, with his or her line manager defines and agrees on annual objectives. The individual performance achievements are then assessed during and at the end of the year through the Group performance management process. This process utilizes a rating scale between 1 and 5, with 5 being the highest rating. There is a target distribution and payout guideline for each of the ratings. Any violations of internal or external rules or requirements by an individual are taken into account in the individual performance rating.

STIP award
The financial performance, the resulting STIP award structure together with the individual performance are then utilized to determine the final individual STIP award for the year which can vary between 0 percent and 200 percent of the target award level. In this way, STIP awards are differentiated based on the financial performance and individual performance. The funding and potential award structure of the STIP pool is based fully on financial performance. Given the resulting award structure, the final STIP award is based on individual performance.

Short-term incentives are delivered primarily through STIP, although there are also local plans in a small proportion of countries. The Group plan is utilized across the organization and in many countries covers all employees in the respective country who are selected to participate. In other countries, based on market practice, only the most senior individuals participate in STIP. Where local plans exist, they are following broadly the same principles as STIP.

Long-term incentives

Long-term (three- to six-year) incentives are performance-driven based on the following design:
To support the achievement of the Group's longer term financial goals, long-term incentives are utilized for a defined group of executives and the most senior roles whose specific focus is on the performance drivers of long-term shareholder value. This group contains the individuals with the highest levels of total remuneration, as well as those individuals whose activities have a significant influence on the risk profile of the Group. In addition, the LTIP aligns the incentives and behaviors with the interests of the Group and its shareholders. To further support this purpose, the individual hedging of any shares of Zurich Insurance Group Ltd is prohibited.

In alignment with the Group's risk profile and business strategy and taking into account best practice principles among insurance companies, views from proxy advisors and shareholders, long-term incentives are provided with a deferral element that takes into account material risks and their time horizon. Such deferred remuneration is structured to promote the risk awareness of participants and to encourage participants to operate the business in a sustainable manner. Certain transition arrangements were implemented. An illustrative example of the underlying plan is set out below.

Financial performance

Vesting grid

Performance criteria	0% vesting	50% vesting	100% vesting	150% vesting	200% vesting
Relative TSR position	13th – 18th	10th – 12th	7th – 9th	4th – 6th	1st – 3rd
NIAS ROE	<9.75% pa	9.75% pa	12% pa	13.125% pa	≥14.25% pa
Cash remittance	<USD 8.0 billion	USD 8.0 billion	USD 9.0 billion	USD 9.5 billion	≥USD 10.0 billion

The vesting grid is based on pre-defined performance criteria and used to assess the overall vesting level.

Vesting level

The calculated vesting level is applied to all LTIP participants and defines the percentage of target shares that will ultimately vest. Half of the vested shares are sales restricted for an additional three-year period after the date of vesting.

LTIP award

Allocations are made in the form of target shares. In no circumstances can the final LTIP award for an individual be more than 200 percent of the aggregate number of target shares and dividend equivalent shares.

Remuneration report (continued)

A detailed description of the LTIP is set out below:

Vehicle and target amount
Allocations are made in the form of target shares on the third working day in April.

Each participant has an annual target amount (target amount) established for the year of allocation which is determined as a percentage of the annual base salary. The number of target shares is calculated by dividing the target amount by the closing share price on the day prior to the allocation.

Financial performance
The financial performance is determined by the assessment of the performance criteria as per the vesting grid, which are set and reviewed by the Board annually in order to ensure alignment with the strategy.

The performance criteria for the period 2016 to 2018 comprise:

(i) The position of the TSR compared with an international peer group of insurance companies derived from the Dow Jones Titan Insurance Index. The Remuneration Committee reviews the peer companies to be included in the relative TSR assessment regularly to ensure that the peer group exhibits a strong TSR correlation and reflects the Group's business profile and geographic spread. The resulting industry peer group includes the following companies: AIG, Allianz, Allstate, Aviva, AXA, Chubb, Generali, Legal & General, Manulife Financial Corp., MetLife, Munich Re, Progressive Ohio, Prudential Plc, QBE, Swiss Re, The Hartford and Travelers Cos. Inc.,

(ii) NIAS ROE and

(iii) Cash remittance.

Each performance metric is assessed independently over a three-year period starting at the beginning of the calendar year when the target shares are allocated. Each metric has a one third equal weighting. The vesting level is defined according to the vesting grid.

Vesting level
The vesting level defines the percentage of target shares that will vest. The target shares will not vest if all three performance criteria do not meet their respective minimum thresholds.

The vesting level is proposed by the Group CEO to the Remuneration Committee and ultimately approved by the Board. The Board may exercise discretion to prevent unreasonable outcomes, or to reflect the financial impact of decisions taken to implement strategy, or to deal with exceptional circumstances. An adjustment of +/–25 percent to the calculated vesting level may be applied and this can be positive or negative.

Exceptional individual adjustments
The right to modify awards to reflect individual circumstances is reserved for the Group CEO except for modifications regarding members of the ExCo where this right is reserved for the Remuneration Committee and the Board. An adjustment of +/–25 percent to the calculated final vesting level may be applied on an individual level prior to vesting. However, if performance under exceptional or unusual circumstances warrants it exceptions to the +/–25 percent adjustment may be made. In this respect Zurich reserves the right to adjust and even set the vesting level to zero percent for an individual to reflect specific circumstances (e.g., in connection with a breach of internal or external rules) during the period prior to vesting but any such adjustment is reserved exclusively for the Remuneration Committee and the Board.

The final vesting level, which may include exceptional individual adjustments, is then used to assess the number of shares for vesting.

LTIP award

The LTIP award is distributed to participants on the third of April three years after the target shares were allocated to the participant. In no circumstances can the LTIP award for an individual be more than 200 percent of the aggregate number of target shares and dividend equivalent target shares noted below.

One-half of any vested shares are sales-restricted for a further three-year period following the date of vesting. This takes the overall vesting and sales restriction period to a six year holding period for this part of the award.

Dividend equivalent shares

To further align plan participants with the interests of shareholders, effective from January 1, 2014 onwards, the target shares are credited with dividend equivalent target shares. The number of dividend equivalent target shares takes into account the actual dividends paid to shareholders prior to vesting (vesting period). Each year during the vesting period, the dividend amount is calculated on the number of target shares provided at the date of allocation and this amount is subsequently converted into dividend equivalent target shares based on the closing share price on the day prior to the dividend payment. At the vesting date, the number of target shares plus the dividend equivalent target shares will in aggregate be assessed for vesting against the performance criteria as per the LTIP vesting grid. In this way only the number of shares vesting from the target shares will be eligible for accrual of dividend equivalent target shares. Further, no dividends will accrue on the dividend equivalent target shares. The vested dividend equivalent target shares are subject to the same sales restriction periods as the vested target shares.

LTIP transition

The transition to the three-year cliff vesting as of January 1, 2014 resulted in a reduction in the total target earning opportunity during the transition period compared to the previous vesting system for all LTIP participants who were members of the plan prior to 2014. Transition arrangements have been applied to allow the possibility for relevant participants to maintain their total target earning opportunity during the transition period.

The transition allocation, equal in value to the 2014 year's regular LTIP allocation value, was assessed for vesting in equal amounts in 2015, 2016 and 2017 with the same vesting level as the regular allocations. To enhance the long-term and retentive nature of the allocation for the ExCo, the transition allocation was made in up to three installments with vesting in annual tranches over a three-year period. The holding period for performance shares under the regular LTIP also applies to the shares of the transition allocation and no dividend equivalent target shares accrue on the transition allocation.

The transition to three-year cliff vesting including the performance criteria and performance period is now complete.

LTIP vesting levels

To increase transparency for the reader, a table with the vesting levels under the regular LTIP is provided below.

Vesting percentages for LTIP

		Vesting level as percentage of target in						
		2012	2013	2014	2015	2016[2]	2017	Average[3]
Year of LTIP allocation	2011	110%	97%	50%				86%
	2012		97%	50%	139%			95%
	2013			50%	139%	0%		63%
	2014				n.a.	0%	121%	81%
	2015[1]					n.a.	n.a.	n.a.
	2016[1]						n.a.	n.a.

[1] For the 2015 and 2016 allocations, the vesting level will be known in 2018 and 2019 respectively.
[2] The calculated vesting level in 2016 of zero percent of target also applies to the relevant parts of the transition allocations made in 2014 and 2015, which were assessed for vesting in 2016.
[3] The calculated average for the allocation made in 2014 is based on a weighted average of the vesting levels in 2016 and 2017, at one third and two thirds respectively.

Remuneration report (continued)

Pensions

The Group provides a range of pension benefits to employees, which are designed to reflect local market practices. Benefit levels are positioned toward the relevant market median. The Group Pensions Committee oversees the management of the Group's pension arrangements within the de-risking frameworks established for benefit design, investments, funding and accounting. On a regular basis, the Group Pensions Committee and the local countries assess the competitive environment with regard to pensions. In recent years, there has been a significant shift away from final salary defined benefit pension arrangements such that almost all new employees are now enrolled in defined contribution and/or cash balance-type arrangements.

Other remuneration including employee benefits

The Group also provides a range of other relevant employee benefits in line with the local market, for example life insurance, medical coverage and flexible benefits. Further, the Group operates a number of mobility related policies to facilitate the movement of people across the organization.

Audited

The information provided according to Articles 14–16 of the Ordinance AEC contained in the remuneration report needs to be externally audited following the audit requirements of the Ordinance AEC (Article 13 para 1 and Article 17 of the Ordinance AEC). In addition, the information according to Article 663c of the Swiss Code of Obligations is being audited and disclosed as such in the remuneration report. All audited sections have been highlighted accordingly.

This 'audited' symbol indicates that the information contained within the shaded panel is audited and forms an integral part of the holding company financial statements.

2016 remuneration and shareholdings

The following section sets out the remuneration and shareholdings of Directors and of members of the ExCo, as well as the remuneration of all employees.

Directors

Directors' fees

As a global insurance provider, Zurich's Directors' fees need to be established at a level which enables the Group to attract and retain high caliber individuals with diverse backgrounds. To assist in determining Board remuneration, an independent adviser carries out benchmarking studies on a regular basis. Zurich aims to set the remuneration of its members of the Board at the relevant median levels using the Swiss Market Index (SMI) as a basis. Based on the role and the fee structure, fee levels are established for each member of the Board. Fees are paid in cash and in shares, with approximately half of the basic fee provided in five-year sales-restricted Zurich shares. The fees paid to Directors (including the portion provided in sales restricted shares) are not subject to the achievement of any specific performance conditions.

The following table sets out the fee structure and levels for the Chairman, the Vice-Chairman and the members of the Board, as well as committee fees and chair fees for the four committees.

All Directors of Zurich are also members of the Board of Directors of Zurich Insurance Company Ltd, and the fees cover the duties and responsibilities under both boards.

Fee structure for members of the Board[1]

	Fee elements in cash (CHF 000)	Fee elements in sales restricted shares (CHF 000)	Total fees in 2016 effective April 1, 2016 (CHF 000)	Total fees in 2015 (CHF 000)
Basic fee for the Chairman of the Board[2]	750	750	1,500	1,500
Basic fee for the Vice-Chairman of the Board[2]	200	200	400	400
Basic fee for a Member of the Board	120	120	240	240
Committee fee[3]	60	–	60	60
Chair fee for the Audit Committee	80	–	80	80
Chair fee for the Remuneration Committee	60	–	60	60
Chair fee for the Risk and Investment Committee	60	–	60	60
Chair fee for the Governance, Nominations and Corporate Responsibility Committee[4]	60	–	60	60

[1] Table excludes other fees for board memberships of subsidiary Boards of Zurich (AGM to AGM).
[2] Neither the Chairman nor the Vice-Chairman receive any additional fees for their committee work on the Board of Zurich.
[3] Amount remains the same irrespective of the number of committees on which a member of the Board serves.
[4] For 2016 and 2015 no such fees were paid as the Chairman of the Board has been chairing the Governance, Nominations and Corporate Responsibility Committee.

Remuneration report (continued)

The committees on which the Directors serve are set out in the Corporate Governance Report on page 38. Up until December 2015, the Board consisted entirely of non-executive Directors who are independent from management. As of December 1, 2015 and until March 6, 2016, Tom de Swaan was appointed as Chief Executive Officer ad interim in addition to his function as Chairman of the Board. To ensure continued good governance, Fred Kindle, Vice-Chairman of the Board, took on certain additional responsibilities for this interim period. Since March 2016, the Board again consists entirely of non-executive Directors independent from management.

Where a Director is also a member of one or more subsidiary boards of Zurich, the Director is entitled to an additional fee of CHF 50,000 in 2016 (CHF 50,000 in 2015) per annum plus CHF 10,000 in 2016 (CHF 10,000 in 2015) per annum if he or she also chairs an audit committee of such a board. The fee structure for subsidiary boards can be modified if certain circumstances, for example, the additional time commitment to discharge the duties of a board member, warrant it.

Based on this structure, the total aggregate fees allocated to the Directors of Zurich and Zurich Insurance Company Ltd for the calendar year ended December 31, 2016, amounted to CHF 4,607,500. This included CHF 2,697,500 in cash and a value at the allocation date of CHF 1,910,000 in five-year sales-restricted shares. The share price at the allocation date was CHF 222.90. The corresponding amount for 2015 was CHF 4,816,625, which comprised CHF 2,786,625 in cash and a value at the allocation date of CHF 2,030,000 in five-year sales-restricted shares. The share price at the allocation date in 2015 was CHF 287.10. The Directors' fees are not pensionable.

The following tables set out the actual fees paid to the Directors for 2016 and 2015 in Swiss francs. In 2016, eight members served for the full year and five members served for part of the year. In 2015, nine members served for the full year and two members served for part of the year.

Audited

Directors' fees 2016

in CHF	2016[1]						
	Fee elements in cash					Total sales	
	Basic fee	Committee fee[2]	Chair fee[3]	Other fees[4]	Total cash	restricted shares[5,6]	Total fees
T. de Swaan, Chairman[7,8]	750,000	n/a	n/a	–	750,000	750,000	1,500,000
F. Kindle, Vice-Chairman[7,9]	200,000	n/a	n/a	–	200,000	200,000	400,000
J. Amble, Member	120,000	60,000	60,000	–	240,000	120,000	360,000
S. Bies, Member	120,000	60,000	60,000	50,000	290,000	120,000	410,000
A. Carnwath, Member	120,000	60,000	–	–	180,000	120,000	300,000
R. del Pino, Member[9]	30,000	15,000	–	–	45,000	–	45,000
Th. Escher, Member[9]	30,000	15,000	15,000	–	60,000	–	60,000
Ch. Franz, Member	120,000	60,000	45,000	–	225,000	120,000	345,000
J. Hayman, Member[9]	90,000	45,000	–	–	135,000	120,000	255,000
M. Mächler, Member	120,000	60,000	–	–	180,000	120,000	300,000
K. Mahbubani, Member[9]	120,000	60,000	–	–	180,000	120,000	300,000
D. Nicolaisen, Member[9]	30,000	15,000	20,000	12,500	77,500	–	77,500
D. Nish, Member[9]	90,000	45,000	–	–	135,000	120,000	255,000
Total in CHF[10]	**1,940,000**	**495,000**	**200,000**	**62,500**	**2,697,500**	**1,910,000**	**4,607,500**

Audited

Directors' fees 2015

in CHF	2015[1]						
	Fee elements in cash						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fees[4]	Total cash	Total sales restricted shares[5,11]	Total fees
T. de Swaan, Chairman[7,8]	729,125	n/a	n/a	–	729,125	750,000	1,479,125
F. Kindle, Vice-Chairman[7]	212,500	n/a	n/a	–	212,500	200,000	412,500
J. Amble, Member[12]	90,000	45,000	–	–	135,000	120,000	255,000
S. Bies, Member	130,000	57,500	52,500	50,000	290,000	120,000	410,000
A. Carnwath, Member	130,000	57,500	–	–	187,500	120,000	307,500
R. del Pino, Member	130,000	57,500	–	–	187,500	120,000	307,500
Th. Escher, Member	130,000	57,500	52,500	–	240,000	120,000	360,000
Ch. Franz, Member[12]	130,000	45,000	–	–	175,000	120,000	295,000
M. Mächler, Member	130,000	57,500	–	–	187,500	120,000	307,500
K. Mahbubani, Member[12]	90,000	45,000	–	–	135,000	120,000	255,000
D. Nicolaisen, Member	130,000	57,500	70,000	50,000	307,500	120,000	427,500
Total in CHF[10]	**2,031,625**	**480,000**	**175,000**	**100,000**	**2,786,625**	**2,030,000**	**4,816,625**

1 The remuneration shown in the tables is gross, based on the accrual principle and does not include any business-related expenses incurred in the performance of the Directors' services.
2 Members of a committee receive a cash fee of CHF 60,000 (CHF 60,000 in 2015) for all committees on which they serve, irrespective of the number. The committees on which the Directors serve are set out in the Corporate Governance Report.
3 Committee chairs receive an annual fee of CHF 60,000 (CHF 60,000 in 2015) and the chair of the Audit Committee receives an additional CHF 20,000 (CHF 20,000 in 2015). The committees on which the Directors serve and the chairs are set out in the Corporate Governance Report.
4 In addition to the fees received as Directors of Zurich Insurance Company Ltd, Susan Bies and Don Nicolaisen earned fees for their board memberships of the subsidiary board Zurich American Insurance Company.
5 The shares allocated to the Directors are not dependent on the achievement of performance criteria and are sales-restricted for five years.
6 As of June 16, 2016, Tom de Swaan was allocated 3,364 shares, Fred Kindle was allocated 897 shares, and the other members of the Board were allocated 538 shares. The share price (CHF 222.90) as of June 15, 2016 was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash.
7 Neither the Chairman nor the Vice-Chairman receive any additional fees for their committee work on the Board of Zurich.
8 Tom de Swaan was appointed Chief Executive Officer a. i. effective December 1, 2015. In 2015 no payments were made to Tom de Swaan for this role nor as a member of the ExCo. In 2016, the Board decided that additional remuneration will be paid to Tom de Swaan to recognize the period where he held the Chief Executive Officer a. i. This remuneration is disclosed as compensation for management and included in the maximum total amount of remuneration approved for the Executive Committee by shareholders at the AGM in 2015 or in accordance with Article 18 para. 4 of the Articles of Incorporation. Further details can be found in the section Executive Committee – Remuneration of the ExCo.
9 At the AGM on March 30, 2016, Jeffrey Hayman and David Nish were elected to the Board, and Rafael del Pino, Thomas Escher and Don Nicolaisen retired from the Board. Fred Kindle and Kishore Mahbubani were elected as members of the Remuneration Committee.
10 In line with applicable laws, Zurich paid the company related portion of contributions to social security systems, which amounted to CHF 293,471 in 2016. The corresponding contributions amounted to CHF 92,129 in 2015. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above. Swiss-based Directors are eligible for selected employee benefits.
11 As of June 16, 2015, Tom de Swaan was allocated 2,612 shares, Fred Kindle was allocated 696 shares, and the other members of the Board were allocated 417 shares. The share price (CHF 287.10) as of June 15, 2015 was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash.
12 At the AGM on April 1, 2015, Joan Amble and Kishore Mahbubani were elected to the Board, and Christoph Franz was elected as a member of the Remuneration Committee.

Remuneration report (continued)

Audited

Special payments and termination arrangements, additional honoraria and remuneration and personal loans for Directors

Severance Payments and Payments in Advance are prohibited for members of the Board according to the Ordinance AEC. At the AGM on March 30, 2016, Jeffrey Hayman and David Nish, were elected as new members of the Board. No Replacement Payments or other benefits were provided. Further, Thomas Escher, Rafael del Pino and Don Nicolaisen did not stand for re-election. No termination payments (i.e. golden parachutes) were made and no other benefits such as waiver of lock-up periods for equities or additional contributions to occupational pension schemes were provided to leaving members of the Board.

None of the Directors received additional honoraria or any remuneration or benefits-in-kind from the Group or from any of the Group's companies other than as set out above.

Remuneration and personal loans for former Directors

No benefits (or waiver of claims) or loans have been provided to former Directors during the year 2016 at conditions which are not at arm's length, nor were any provided during the year 2015.

Related parties to the Directors or to former Directors

No benefits (or waiver of claims) have been provided to related parties of the Directors or related parties of former members of the Board during the years 2016 and 2015, nor had any related party of the Directors or of former members of the Board any outstanding loans, advances or credits as of December 31, 2016 and 2015.

Share plans and shareholdings of Directors

The shareholdings of the Directors who held office at the end of 2016, in shares of Zurich Insurance Group Ltd are shown in the following table. All interests shown include the portion of shares allocated to the Directors as part of their fee, shares acquired in the market by the Directors and shares held by parties related to the Directors.

Directors' shareholdings

Number of Zurich Insurance Group Ltd shares[1] as of December 31	Ownership of shares	
	2016	2015
T. de Swaan, Chairman	9,829	6,465
F. Kindle, Vice-Chairman	19,310	18,413
J. Amble, Member	955	417
S. Bies, Member	3,220	2,682
A. Carnwath, Member	1,880	1,342
R. del Pino, Member	n/a	1,342
Th. Escher, Member	n/a	10,520
Ch. Franz, Member	1,181	643
J. Hayman, Member	538	n/a
M. Mächler, Member	1,503	965
K. Mahbubani, Member	955	417
D. Nicolaisen, Member	n/a	1,436
D. Nish, Member	538	n/a
Total	**39,909**	**44,642**

[1] None of the Directors together with parties related to them held more than 0.5 percent of the voting rights of Zurich Insurance Group Ltd shares as of December 31, 2016 or 2015, respectively.

Executive Committee

Remuneration of the ExCo

A number of key elements are in place to provide a well-balanced and effectively managed remuneration architecture. These elements include a Group-wide remuneration philosophy, robust short-term and long-term incentive plans, effective governance, and strong links to the business planning and risk policies of the Group.

To assist decisions on the remuneration of the ExCo, the Board conducts benchmarking studies on a regular basis. The remuneration structures and practices of a selected industry peer group of the largest insurance companies are analyzed based on relevant companies in the Dow Jones Insurance Titans 30 Index. This index is comprised of the largest insurance companies throughout the world, predominantly in Europe and in the U.S.

The core peer group consists of the following insurance and reinsurance firms:

AIG, Allianz, Allstate, Aviva, AXA, Chubb, Generali, Legal & General, Manulife Financial Corp., MetLife, Munich Re, Progressive Ohio, Prudential Plc, QBE, Swiss Re, The Hartford and Travelers Cos. Inc.

The Remuneration Committee reviews this peer group regularly. This analysis is supplemented by additional benchmarking studies as appropriate, e.g., by reviewing practices of large SMI companies in Switzerland or similarly sized companies in other countries. The Remuneration Committee regularly reviews the benchmarking approach.

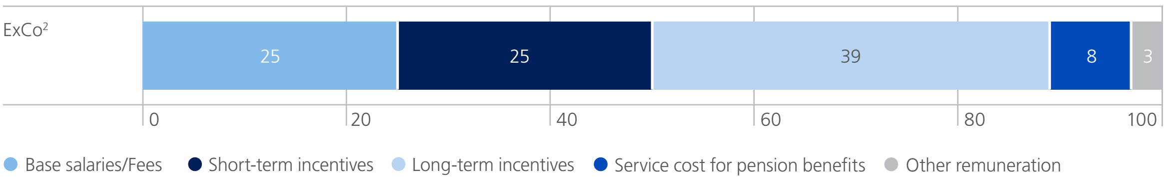
The remuneration structure and the mix of the individual remuneration elements for members of the ExCo are determined by taking into account relevant market practices and internal relativities.

The total remuneration of the members of the ExCo for 2016 comprised the value of base salaries, short-term cash incentives, the target share allocations made under the LTIP in 2016, pensions and other remuneration including employee benefits.

The distribution of the total remuneration in 2016 for the ExCo between the individual remuneration elements is set out in the following chart and is based on the target values for the performance-related remuneration.

2016 Remuneration structure and weighting of elements[1]

%



[1] At target, as a percentage of total remuneration.
[2] Including the Group CEO.

As shown in the chart above, there is an appropriate balance of remuneration elements with a significant emphasis on performance-related remuneration through both STIP and LTIP. The distribution of the target values between short- term (one-year) and long-term incentives (three- to six-years) reflects an emphasis on long-term incentives.

Remuneration report (continued)

Elements and amounts of remuneration for the ExCo

The individual remuneration elements and the corresponding amounts are described in more detail below (the amounts for the highest-paid executive and comparative figures for 2015 are also included).

Elements and amounts of remuneration for the ExCo

	Description	Amount
Base salaries paid during the year	See remuneration elements, page 86.	The total amount of base salaries for all members of the ExCo paid in 2016 was USD 10.0 million compared to USD 11.6 million in 2015.
Cash incentive awards earned for the year (under STIP)	For members of the ExCo the STIP target percentages for 2016 vary between 75 percent and 100 percent of the base salary. The maximum STIP award for all members of the ExCo is 200 percent of the individual target amount. Further information regarding STIP is set out below.	The total amount of annual cash incentive awards to be paid in 2017 for the 2016 performance year for all members of the ExCo was USD 12.8 million compared to USD 5.9 million for 2015. The annual cash incentive awards are determined individually and are performance-based.
Value of target share allocations made during the year (under LTIP)	In 2016, each member of the ExCo received an annual allocation of target shares under the LTIP for the three-year performance cycle 2016–2018. For members of the ExCo the LTIP target percentages in 2016 vary between 90 percent and 225 percent of base salary. As in previous years, the allocations of target shares for 2016 were based on the closing share price from the second working day in April, i.e. on April 4, 2016. The value of target share allocations does not include dividend equivalent target shares or transition allocations. The maximum vesting level, to be assessed in 2019, is 200 percent of the target number of shares allocated.	The total number of target shares allocated in 2016 to members of the ExCo was 81,146 which reflects a value of USD 17.2 million on the second working day in April. This is based on the assumption of 100 percent vesting in 2018, a share price of CHF 203.20 (2015: CHF 330.50) and an exchange rate of CHF 1 = USD 1.04215. This compares with 50,771 target shares allocated in 2015 and a respective value of USD 17.5 million for the allocations made in 2015.
Service costs for pension benefits during the year	Members of the ExCo participate in the pension plan arrangements of the entities where they are employed. The Group's philosophy is to provide pension benefits through cash balance and/or defined contribution plans where funds are accumulated throughout a career to provide retirement benefits. The majority of members of the ExCo participate in such plans and over time, all future members of the ExCo will participate in such plans. The remaining members of the ExCo participate in defined benefit plans that provide retirement benefits based on final pensionable earnings and the number of years of service. Normal retirement ages vary from 60 to 65.	The total value of pension benefits accruing to members of the ExCo during 2016, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles, was USD 3.5 million (compared to USD 3.9 million in 2015). Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans take the amount of the company contribution paid during the year.
Value of other remuneration including employee benefits during the year	Members of the ExCo received other remuneration in 2016 in relation to employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under each member's employment contract.	The total value of other remuneration in 2016 was USD 1.4 million (compared to USD 1.2 million in 2015). Benefits-in-kind have been valued using market rates.

ExCo STIP performance assessment

This section provides further insights into the assessment of the individual STIP awards of the members of the ExCo.

The individual STIP award is determined in a similar way to all employees, taking into account financial performance, the resulting STIP award structure and individual performance.

For the ExCo, the key financial metric for determining the award structure is the Group's NIAS performance during the year. In evaluating the NIAS performance, an overall qualitative assessment of the results is carried out. NIAS for 2016 was USD 3.2 billion reflecting a 74 percent increase compared to 2015. With regard to the assessment of individual performance, the Group CEO set clear targets for 2016 for all ExCo member relating to their area of responsibility. A substantial portion of these targets reflects the key financial goals. In addition, each member was set qualitative goals relating to the execution of the strategy. For competitive reasons, Zurich does not disclose more detail on the individual objectives of the members of the ExCo. In a rigorous process, the Remuneration Committee reviews the individual performance achievements of each member of the ExCo in relation to the targets set for the year. The Remuneration Committee and the Board also review the performance of the Group CEO using a similar process at the year-end. As a result of this rigorous process, individual STIP awards for each member of the ExCo are determined and approved by the Board.

Replacement Payments for members of the ExCo appointed in 2016

In extraordinary circumstances payments may be made to new hires to replace forfeitures under the incentive plans of the previous employer. In these circumstances, the payments mirror the type and timing of the forfeited payments and can include cash payments and/or awards of restricted or performance shares. Where payments are made in cash, there is typically a clawback period if the employee leaves the company voluntarily during the first two years of employment. Restricted share allocations typically vest over three to five years following the date of allocation and are forfeited if the holder of such share allocations leaves the company voluntarily before the vesting date and the employment relationship terminates.

Replacement Payments were made to the new members of the ExCo who took up their employment with the Group during 2016. The payments comprise a cash payment of CHF 2.5 million, restricted share allocations with a value of CHF 1.4 million and performance share allocation in the 2016 to 2018 LTIP with a value of CHF 4.0 million. The restricted share allocations vest in 2017, 2018 and 2019 and the performance share allocations vest in 2019. The overall value of Replacement Payments made in 2016 was therefore CHF 7.9 million, or USD 8.1 million when translated into U.S. dollars at the exchange rates at the time they were made.

No Replacement Payments or allocations in restricted shares, were made in 2015 to members of the ExCo.

Value of target share allocations from transition arrangements for the ExCo

No transition allocations were made in 2016.

Summary of total remuneration (excluding Replacement Payments and allocations from transition arrangements)

The following table shows that the total remuneration of the members of the ExCo, comprising base salaries, cash incentive awards earned for the year, the value of target share allocations for 2016 (to be assessed for vesting in 2019), pensions and the value of other remuneration including employee benefits amounted to USD 44.9 million. In 2015, the corresponding figure was USD 40.1 million. Below the total amounts, the values of any one-time remuneration awards and the amounts of contractually agreed remuneration after stepping down from the ExCo and during the notice period are disclosed. The amounts for these items are outlined above and also shown separately in the following table.

Remuneration report (continued)

Audited

All members of the ExCo (incl. the highest-paid)

in USD millions, for the years ended December 31	**2016[1,2]**	2015[1,3]
Base salaries	10.0	11.6
Cash incentive awards earned for the year	12.8	5.9
Value of target performance share allocations	17.2	17.5
Service costs for pension benefits	3.5	3.9
Value of other remuneration[4]	1.4	1.2
Total in USD[5,6]	**44.9**	**40.1**
Total in CHF[5,6,7]	**44.2**	**38.7**
in USD millions, for the years ended December 31	**2016[1,2]**	2015[1,3]
Value of target share allocations from transition arrangements[8]	0.0	5.7
Other payments and share allocations[9]	10.1	0.0
Contractually agreed remuneration after stepping down and during notice period in the respective year[10]	3.7	4.6

1 The remuneration shown in the table is gross, based on the accrual principle, for the time employees are members of the ExCo during the year and does not include any business-related expenses incurred in the performance of the members' services.
2 On the basis of 15 (including Tom de Swaan in his position as CEO a.i.) members and former members of the ExCo, of whom 7 served during the full year 2016.
3 On the basis of 13 members of the ExCo, of whom 9 served during the full year 2015.
4 Includes remuneration of Tom de Swaan for his time in the position of Chief Executive Officer a. i. which amounted to USD 304,602 or CHF 300,000 applying the respective FX rate.
5 In line with applicable laws where the executives are employed, Zurich paid the company-related portion of contributions to social security systems, which amounted to USD 1.2 million in 2016 and USD 2.2 million in 2015. Since the contributions are based on full earnings, whereas benefits are capped, there is no direct correlation between the costs paid to the social security system and the benefits received by the executives.
6 Excludes the value of target share allocations from transition arrangements for all members of the ExCo.
7 The amounts have been translated from USD to CHF at the relevant exchange rates throughout the year and the cash incentive to be paid in 2017 has been translated at the year-end rate in 2016.
8 To maintain the target earning opportunities during the LTIP transition period, an allocation of supplementary performance shares was made to all current LTIP participants in 2014. To ensure that the members of the ExCo further align their long-term interests with those of shareholders, the transition allocation was provided in two installments for the members of the ExCo (2014 and 2015). No transition allocations were made in 2016.
9 Other payments and share allocations are extraordinary and include payments and share allocations to compensate incentive plan forfeitures with previous employers.
10 The amount relates to contractually agreed remuneration for the period of employment in 2016 after stepping down from the ExCo and during the notice period. Such remuneration includes pro-rated base salaries, cash incentives and LTIP target allocations for the financial year 2016.

Based on these figures, the value of the total remuneration for all members of the ExCo comprises 33 percent (42 percent in 2015) in fixed remuneration (comprising base salaries, service costs for pension benefits and other remuneration including employee benefits) and 67 percent (58 percent in 2015) in performance related elements (comprising the cash incentive awards under the STIP and the value of the target share allocations under the LTIP). The emphasis within variable remuneration lies on the deferred part, with 57 percent represented by target performance shares under the LTIP and 43 percent as cash incentive awards under the STIP. The total amount of remuneration of USD 44.9 million increased compared to last year's amount due to the improved overall business performance in 2016.

With regard to the LTIP, the amount included in the total of USD 44.9 million above is the value of target share allocation of USD 17.2 million allocated in 2016 and assumed to vest at 100 percent of target in 2019. As mentioned above, the vesting level for the allocations from previous years vesting in 2017 is 121 percent (compared to zero percent last year), reflecting the performance levels under the three performance metrics over the three-year performance period. The value of the shares vesting in 2017 from the regular LTIP allocations made in prior years to all members of the ExCo who served in full or for part of the year is USD 7.1 million. As a result, the actual earned total remuneration for the period ending December 31, 2016 was USD 34.8 million compared to the total remuneration of USD 44.9 million shown above.

Chief Executive Officer a. i. remuneration for Tom de Swaan, the Chairman of the Board of Directors

With effect from December 1, 2015 until March 6, 2016, Tom de Swaan also served as Chief Executive Officer ad interim (a.i.) in addition to his function as Chairman of the Board. The Board decided to recognize his time in this role with a cash payment in 2016 of CHF 300,000. In the table above, this payment has been included in other remuneration.

Member of the ExCo with the highest remuneration

The highest-paid individual in 2016 was Mario Greco, Group CEO since March 7, 2016. The remuneration comprises a total of CHF 7.8 million representing the base salary, cash incentive awards earned for the year, the value of the target shares allocated in 2016 under the LTIP, the value of pension benefits and other remuneration including employee benefits. In addition there is a Replacement Payment in cash and performance shares vesting in 2019 with an aggregate value of CHF 4.2 million to compensate for the forfeiture of his incentive plan rights with his previous employer.

Audited

Highest-paid executive, Mario Greco in 2016 (started on March 7, 2016) and comparison with former CEO Martin Senn's remuneration in 2015[1]

in CHF millions, for the years ended December 31	2016[2]	2015[2]
Base salary	1.3	1.6
Cash incentive awards earned for the year	2.6	0.4
Value of target share allocations	3.4	3.6
Service costs for pension benefits	0.4	0.4
Value of other remuneration	0.1	0.1
Total in CHF[3]	**7.8**	**6.1**
Total in USD[3,4]	**7.9**	**6.3**
in CHF millions, for the years ended December 31	**2016[2]**	2015[2]
Value of target share allocations from transition arrangements[5]	0.0	1.2
Other payments and share allocations[6]	4.2	n/a

[1] The remuneration for Mario Greco is disclosed on a pro rata basis reflecting his start date in the position as Group CEO with Zurich on March 7, 2016. Martin Senn stepped down on December 1, 2015 as CEO, however the table shows twelve months of remuneration for Martin Senn in 2015.
[2] The remuneration shown in the table is gross, based on the accrual principle and does not include any business-related expenses incurred in the performance of the CEO's services.
[3] This excludes the value of target share allocations from transition arrangements.
[4] The remuneration is paid in Swiss francs. The amounts have been translated from Swiss francs to U.S. dollars at the relevant exchange rates throughout the year and the cash incentive paid in 2017 and 2016 has been translated at the year-end rate in 2016 and 2015 respectively.
[5] To maintain the target earning opportunities during the transition period an allocation of supplementary target shares was made.
[6] Other payments and share allocations are extraordinary and were made to compensate incentive plan forfeitures with previous employer. Included in the amount of CHF 4.2 million is a value of CHF 4.0 million which was allocated as additional target performance shares in the 2016–2018 LTIP, to be assessed for vesting in 2019.

With regard to the LTIP, the amount included in the total of CHF 7.8 million above is the value of target share allocation of CHF 3.4 million allocated in 2016 and assumed to vest at 100 percent of target in 2019. There are no shares vesting in 2017 from prior allocations and therefore the actual earned total remuneration for the period ending December 31, 2016 was CHF 4.4 million compared to the total remuneration of CHF 7.8 million shown above.

Audited

Special payments and termination arrangements, additional honoraria and remuneration, and personal loans for members of the ExCo

During 2016, two new members were appointed to the ExCo as internal appointments, and three new members, including the Group CEO, were external appointments. Four members, including Tom de Swaan in his role as Chief Executive Officer a. i., relinquished their responsibilities as members of the ExCo.

Payments in Advance and Severance Payments are prohibited for members of the ExCo according to the Ordinance AEC. There were no termination payments (golden parachutes) made and no other benefits, such as agreements concerning special notice periods or longer term employment contracts (exceeding 12 months in duration), waiver of lock-up periods for equities, shorter vesting periods or additional contributions to occupational pension schemes, were provided.

None of the members of the ExCo received any remuneration from the Group or from any of the Group's companies in 2016 and 2015 other than as set out in the tables above.

As of December 31, 2016 and 2015, there were no loans, advances or credits outstanding for members of the ExCo.

Remuneration report (continued)

Audited

Remuneration and personal loans for former members of the ExCo

Former members of the ExCo are eligible to continue their mortgage loans following retirement on similar terms to those when they were employed, in line with the terms available to employees in Switzerland. As of December 31, 2016 and 2015, no former member of the ExCo had any outstanding loans, advances or credits.

No former member of the ExCo received remuneration in 2016, other than disclosed in the remuneration report 2016.

Related parties to members or former members of the ExCo

No benefits (or waiver of claims) have been provided to related parties of members of the ExCo or related parties of former members of the ExCo during the years 2016 and 2015. No party related to members of the ExCo or former members of the ExCo had outstanding loans, advances or credits as of December 31, 2016 and 2015.

Share and share option holdings of the members of the ExCo

This section provides a summary of total outstanding share commitments under the LTIP, transition arrangements, restricted share allocations and the total outstanding share options for members of the ExCo as at December 31, 2016.

Target share allocations under LTIP including transition arrangements and restricted share allocations

As of December 31, 2016, the total number of unvested target share allocations under LTIP was 175,114 (102,196 as of December 31, 2015). Further, the total number of unvested target share allocations under the LTIP transition arrangement was 11,755 and the number of unvested restricted shares was 18,170 in 2016 (18,950 in 2015).

A summary of the unvested target share allocations as at December 31, 2016 under the LTIP, the transition arrangement and the restricted shares is set out in the following table:

Summary of unvested target share allocations for the ExCo as of December 31

		Year of vesting				
	Year of allocation	2017	2018	2019	2020	Total
LTIP[1,2]	2014	22,889	–	–	–	22,889
	2015	–	28,886	–	–	28,886
	2016	–	–	96,547	–	96,547
LTIP transition[3]	2014	4,537	–	–	–	4,537
	2015	2,543	2,547	–	–	5,090
Restricted shares[4]	2014	6,611	–	–	–	6,611
	2016	4,716	4,542	2,299	1,935	13,492

[1] With effect from January 1, 2014, the Board approved the transition to three-year cliff vesting. To transition to three-year cliff vesting, the 2014 LTIP allocation vests one-third after two years (i.e. 2016), and two-thirds after three years (i.e. 2017).
[2] As of 2014, dividend equivalent target shares are credited within the regular LTIP. At the vesting date, the original number of target shares plus the dividend equivalent target shares will be assessed for vesting in aggregate based on the performance achievements against the vesting grid. No dividends will accrue on the dividend equivalent target shares.
[3] To maintain the target earning opportunities during the transition period an allocation of supplementary target shares was made to all current LTIP participants. To ensure members of the ExCo further align their long-term term interests with those of shareholders, the transition allocation is provided in two installments for the ExCo.
[4] No performance conditions are applicable for vesting.

Within the context of the regular LTIP allocations made in 2016, these performance based share allocations will be considered for vesting in 2019 and one-half of the resulting vested shares are sales-restricted for a further three-year period.

The actual level of vesting is determined in accordance with the remuneration principles and vesting criteria set out in this report.

Audited

Share option allocations

Under the share option program for senior management, the Group issued share options in the past to individuals within defined rules. From 2011, share option allocations were no longer made. Prior to this, the option allocations were made each year on the third working day in April. Further, the exercise price for the options allocated in the past was set at the market price on the day prior to the date of allocation. The performance-based option allocations were considered for vesting in one-third installments during the three years after the allocation.

In order to prevent executives from potentially losing the value of their options on the expiry date, the Board approved in 2011 an automatic exersale for all options being in the money at the end of the exercise period. A loss would otherwise occur if the executive was prohibited from dealing due to being in possession of price-sensitive information.

Under the share option program, the total number of shares under option for members of the ExCo as at December 31, 2016, and 2015, respectively, is set out in the following tables.

Summary of unexercised options, 2016

as of December 31, 2016

Year of allocation	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2010	47,885	–	47,885	259.90	2017
Total	**47,885**	**–**	**47,885**		

Summary of unexercised options, 2015

as of December 31, 2015

Year of allocation	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2010	132,562	–	132,562	259.90	2017
2009	26,223	–	26,223	198.10	2016
Total	**158,785**	**–**	**158,785**		

All options shown above entitle the holder to purchase one share of Zurich Insurance Group Ltd at the exercise price stated with normal voting and dividend rights.

Remuneration report (continued)

Audited

Share and share option holdings of members of the ExCo

The following table sets out the actual share and share option holdings of each member of the ExCo as of December 31, 2016 and 2015. In addition to any shares acquired in the market, the numbers include vested shares, whether sales restricted or not, and vested share options received under the LTIP. However, the table does not include the share interests of the members of the ExCo through their participation in the currently unvested target shares or unvested restricted shares.

All interests include shares or share options held by related parties to members of the ExCo.

Share and vested share option holdings of the members of the ExCo[1]

Number of vested shares and vested share options, as of December 31	2016		2015	
	Shares	Vested options[2]	Shares	Vested options[2]
M. Greco, Group CEO[3]	–	–	n.a.	n.a.
U. Angehrn, Group Chief Investment Officer	3,811	6,272	4,211	6,272
J. Dailey, CEO of Farmers Group, Inc.	7,216	9,231	7,216	12,515
R. Dickie, former Chief Operations and Technology Officer[4]	n.a.	n.a.	1,909	–
C. Dill, CEO Latin America	10,258	–	n.a.	n.a.
M. Foley, CEO North America[5]	12,188	23,601	12,188	23,601
Y. Hausmann, Group General Counsel[4]	n.a.	n.a.	10,712	10,193
J. Howell, CEO Asia Pacific	–	–	n.a.	n.a.
G. Quinn, Group Chief Financial Officer	12,855	–	6,623	–
C. Reyes, Group Chief Risk Officer	15,421	–	15,401	21,716
J. Shea, CEO Commercial Insurance	–	–	n.a.	n.a.
G. Shaughnessy, CEO EMEA[5]	8,259	–	n.a.	n.a.
K. Terryn, Group Chief Operating Officer[5]	8,778	8,781	8,778	13,570
I. Welton, former Chief Human Resources Officer[4]	n.a.	n.a.	3,916	–
Total	**78,786**	**47,885**	**70,954**	**87,867**

[1] None of the members of the ExCo, together with parties related to them, held more than 0.5 percent of the voting rights as at December 31, 2016 or 2015, either directly or through share options.
[2] The distribution of vested options according to the allocations identified in the tables Summary of unexercised options.
[3] Mario Greco was appointed Group CEO effective March 7, 2016.
[4] Robert Dickie, Yannick Hausmann and Isabelle Welton stepped down from the ExCo effective June 30, 2016.
[5] Mike Foley was appointed CEO North America effective July 1, 2016, Kristof Terryn was appointed Group Chief Operating Officer effective July 1, 2016 and Gary Shaughnessy was appointed CEO EMEA effective July 1, 2016.

Audited

The following tables show how the totals of the vested share options owned by members of the ExCo are distributed according to the allocations identified in the tables labeled Summary of unexercised options as of December 31, 2016 and 2015, respectively.

Distribution of vested share options of members of the ExCo 2016

Number of vested share options as of December 31, 2016	Year of allocation 2010	Total
M. Greco[1]	–	–
U. Angehrn	6,272	6,272
J. Dailey	9,231	9,231
M. Foley[1]	23,601	23,601
J. Howell	–	–
G. Quinn	–	–
C. Reyes	–	–
G. Shaughnessy[1]	–	–
J. Shea	–	–
K. Terryn[1]	8,781	8,781
Total	**47,885**	**47,885**

[1] Mario Greco was appointed Group CEO effective March 7, 2016, Mike Foley was appointed CEO North America effective July 1, 2016, Gary Shaughnessy was appointed CEO EMEA effective July 1, 2016 and Kristof Terryn was appointed Group Chief Operating Officer effective July 1, 2016.

Distribution of vested share options of members of the ExCo 2015

Number of vested share options as of December 31, 2015	Year of allocation		
	2010	2009	Total
M. Senn	54,883	16,035	70,918
U. Angehrn[1]	6,272	n/a	6,272
J. Dailey	9,231	3,284	12,515
R. Dickie	–	–	–
M. Foley	23,601	–	23,601
Y. Hausmann	10,193	–	10,193
G. Quinn	–	–	–
C. Reyes[1]	19,601	2,115	21,716
K. Terryn[1]	8,781	4,789	13,570
I. Welton	–	–	–
Total	**132,562**	**26,223**	**158,785**

[1] Urban Angehrn was appointed Chief Investment Officer effective July 1, 2015, Cecilia Reyes was appointed Chief Risk Officer effective July 1, 2015 and Kristof Terryn was appointed Chief Executive Officer General Insurance effective October 1, 2015.

Trading plans

To facilitate the sale of shares and the exercise of options for members of the ExCo, the Board approved the implementation of trading plans under a pre-defined transaction program effective as of 2008. The terms and conditions of the transactions have to be defined and they cannot be changed. All trading plans require the approval of the Chairman of the Board. The establishment of a trading plan by an ExCo member is reported to the SIX Swiss Exchange according to the rules on disclosure of management transactions. As of December 31, 2016, there were no trading plans in place. Further, no trading plans were entered into in 2016 or 2015.

Remuneration report (continued)

Remuneration of all employees

Please refer to the remuneration framework section on page 81 for the key elements of remuneration and the benchmarking approach for all employees. Also note that the benchmarking analysis is mainly carried out and approved at the local level. The Group had 52,473 full-time equivalent employees as of December 31, 2016 (2015: 54,335).

The following section includes information regarding the total remuneration earned by employees for the financial year 2016 across the Group, including remuneration for members of the ExCo.

Total remuneration for all employees

in USD millions, for the years ended December 31		2016	2015
Fixed compensation	Base salaries	3,722	3,922
	Value of other remuneration including employee benefits[1]	601	641
	Service costs for pension benefits[2]	477	556
Variable remuneration	Cash incentive awards earned for the year[3]	542	363
	Value of target share allocations made in the year[4]	148	142
Total remuneration		**5,490**	**5,624**
	Value of target share allocations from transition arrangements	–	6

[1] Includes employee benefits like health and dental insurance and other fringe benefits.
[2] This represents the present value of the defined benefits from pension and post-retirement benefits plans, plus employers' contributions to defined contribution plans, arising from employee service over the accounting period. The amount included in this figure for defined benefit plans is calculated using actuarial factors and can vary year on year as economic conditions change. These numbers are explained in greater detail in note 21 of the Consolidated Financial Statements.
[3] Includes Sign-on and Severance Payments in cash.
[4] Includes Sign-on Payments in shares.

Value of outstanding deferred remuneration

The Group's remuneration system includes instruments for the deferral of remuneration, and the following table provides an overview of the overall value of the outstanding deferred remuneration as of December 31, 2016 and 2015:

Value of outstanding deferred remuneration for all employees

in USD millions, for the years ended December 31	2016	2015
Unvested target share allocations[1]	380	307
Unvested restricted share allocations	17	14
Vested but sales-restricted allocations	117	167
Value of overall outstanding deferred remuneration	**514**	**488**

[1] This excludes the value of target share allocations made in 2014 and 2015 from transition arrangements which amounts to USD 75 million of which USD 23.6 million is still unvested.

The value of the deferred remuneration has been determined by multiplying the number of outstanding shares by the relevant share price at the original date of allocation and reflects the assumption of a 100 percent future vesting level.

Impact on net income in 2016 and 2015 from remuneration made in prior years

Under the LTIP, the vesting level is used to determine the actual number of shares to be awarded to participants relative to the target shares initially allocated. Differences in value between the target shares allocated and the actual shares vesting is reflected in the consolidated income statement in the year of vesting in line with the accounting principles. For shares vesting in 2017 and 2018 there was no adjustment to the expense recognized in the 2016 income statement to reflect actual performance compared to original estimates. In 2015, a USD 65 million reduction in expense was recognized.

Key risk takers

With regard to the disclosure of Sign-on and Severance Payments for individuals considered to be key risk takers for the Group, the following definition and principles for Sign-on and Severance Payments apply.

- Sign-on Payments are payments that are agreed on the execution of an employment contract (whether paid immediately or over time). Sign-on Payments may include compensation made prior to a person joining the company and providing any services (Payments in Advance) or compensation for benefits foregone with a previous employer (Replacement Payments). According to the Ordinance AEC, Payments in Advance are prohibited to be paid to members of the Board and the ExCo. Any Replacement Payments for members of the ExCo including the Group CEO have to be approved by the Board based on a proposal by the Remuneration Committee.
- Severance Payments are provided in connection with the termination of an employment relationship. Zurich does not include under the term Severance Payments garden leave or similar payments for employees in jurisdictions where such payments are required by applicable law, or where they are based on contractual notice periods which conform with recognized market practice, or where they are non-contractual but in line with recognized market practice. Zurich does include garden leave or similar payments however, that go beyond recognized market practice, irrespective of whether these are provided pursuant to an agreement or are ex gratia. Severance Payments are prohibited to be paid to members of the Board and the ExCo.

The Group as a principle does not make any Sign-on or Severance Payments, however if circumstances in the Group's interest warrant such payments, these can be approved through a clear governance process. Any such payment with a value of CHF 1 million or more is approved by the Chair of the Remuneration Committee prior to the time the employment offer is made or prior to the time the Severance Payment is committed to.

The following table discloses Sign-on and Severance Payments committed to key risk takers. For the key risk taker roles where the incumbent is a member of the ExCo, no Payments in Advance and/or Severance payments have been made. There were no Replacement Payments for the ExCo in 2015; however Replacement Payments for the ExCo in 2016 are included.

Sign-on and Severance Payments for key risk takers

in USD millions, for the years ended December 31	2016		2015	
	Amount (USD m)	**Number of beneficiaries**	Amount (USD m)	Number of beneficiaries
Sign-on Payments/number of beneficiaries[1]	11.2	6	2.7	6
Severance Payments/number of beneficiaries[2]	0.4	1	0.4	3

[1] Payments (whether paid immediately or over time) that are agreed on the execution of an employment contract. Sign-on Payments may include compensation made prior to a person joining the company and providing any services (Payments in Advance) or compensation for benefits foregone with a previous employer (Replacement Payments). Payments in Advance are prohibited to be paid to members of the Board and the ExCo.
[2] Payments that are provided in connection with the termination of an employment relationship. Zurich does not include under the term Severance Payments garden leave or similar payments for employees in jurisdictions where such payments are required by applicable law, or where they are based on contractual notice periods which conform with recognized market practice, or where they are non-contractual but in line with recognized market practice. However, Zurich does include garden leave or similar payments that go beyond recognized market practice, irrespective of whether these are provided pursuant to an agreement or are ex gratia. Severance Payments are prohibited to be paid to members of the Board and the ExCo.

2017 outlook

As outlined in last year's report, the remuneration architecture was reviewed during 2016 to ensure alignment with the new strategy and organizational structure. Following this review, the main changes are in the STIP architecture and the LTIP vesting grid in relation to cash remittance.

STIP architecture for 2017

The key change is the elimination of the segment STIP pools and sub-pools to be replaced by a number of country STIP pools. The overall STIP pool architecture for 2017 is as follows:

- → Group pools: covering Leadership Team, Control Functions and Group and Region employees.
- → Investment Management pool.
- → Commercial Insurance pool.
- → Country pools.
- → Farmers: including a pool for Farmers New World Life.
- → Joint Venture pools.

STIP pool funding metrics for 2017

Funding for each STIP pool is based primarily on BOP, ensuring that the funding criteria are consistent across the Group. Previously the funding metric for the Leadership Team, Control Functions, Group Operations, Investment Management and Support Functions was Group NIAS. In determining the final awards under each STIP pool, there will continue to be a qualitative assessment of the performance achievements and the awards will also be considered in relation to the overall Group results.

LTIP performance objectives 2017–2019 cycle

The only change in the LTIP is to recalibrate the cash remittance goals to be in line with the targets set out at the Investor Day held in November 2016, such that the vesting grid for the 2017–2019 performance cycle is as follows:

Financial performance

Vesting grid

Performance criteria	0% vesting	50% vesting	100% vesting	150% vesting	200% vesting
Relative TSR position	13th – 18th	10th – 12th	7th – 9th	4th – 6th	1st – 3rd
NIAS ROE	<9.75% pa	9.75% pa	12% pa	13.125% pa	≥14.25% pa
Cash remittance	<USD 8.5 billion	USD 8.5 billion	USD 9.5 billion	USD 10.0 billion	≥USD 10.5 billion

The vesting grid is based on pre-defined performance criteria and used to assess the overall vesting level.

Vesting level

The calculated vesting level is applied to all LTIP participants and defines the percentage of target shares that will ultimately vest. Half of the vested shares are sales restricted for an additional three-year period after the date of vesting.

LTIP award

Allocations are made in the form of target shares. In no circumstances can the final LTIP award for an individual be more than 200 percent of the aggregate number of target shares and dividend equivalent shares.

As in 2016, shareholders will receive the Board of Directors Report 2017. This includes information regarding the two remuneration votes on the total maximum amounts of remuneration for the Board and for the ExCo, which will take place at the AGM on March 29, 2017. The votes allow shareholders to have a say on the prospective remuneration for the Board and for the ExCo arising from Zurich's remuneration policies. Shareholders will also be given the opportunity to express their opinion on our remuneration report, through a consultative, non-binding vote at the AGM on the remuneration report 2016.

The Remuneration Committee will continue to seek the dialogue with investors and proxy advisors in 2017. Further, the Committee will ensure that the remuneration framework is aligned with the strategy, is embedded in the risk framework and complies with legal and regulatory requirements. As in previous years, the Committee enforces the governance framework and carefully monitors the link between key performance factors and variable remuneration awards.

Report of the Statutory Auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Insurance Group Ltd on the remuneration report 2016

We have audited the sections on pages 93 to 96 and pages 100 to 105 of the accompanying remuneration report of Zurich Insurance Group Ltd for the year ended December 31, 2016.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Remuneration report complies with Swiss law and articles 14–16 of the Ordinance .

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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

Opinion

In our opinion, the remuneration report of Zurich Insurance Group Ltd for the year ended December 31, 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Mark Humphreys
Audit expert
Auditor in charge

Peter Bieri
Audit expert

Zurich, February 8, 2017

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Our risk framework rated very strong

Our enterprise risk management (ERM) framework supports us in achieving the Group's strategy, while helping to protect capital, liquidity, earnings and reputation. In 2016, Standard & Poor's upgraded its rating of Zurich's ERM to 'very strong.'

Group performance review

Risk review

Message from our Group Chief Risk Officer

Taking risk is inherent to the insurance business, but such risk taking needs to be made in an informed and disciplined way, and within a pre-determined risk appetite and tolerance. This is the primary objective of Zurich's risk management.

Cecilia Reyes
Group Chief Risk Officer

Enterprise risk management

Our enterprise risk management framework (ERM) supports achievement of the Group's strategy and helps protect capital, liquidity, earnings and reputation.

In 2016, we expanded our risk appetite statement to cover additional dimensions, enhanced our governance of model risk, and deepened our technical risk expertise. With that expertise, our risk function has improved its ability to independently challenge the business and to strengthen analyses of such topics as inflation risk and risk accumulations.

Also in 2016, Standard & Poor's upgraded its rating of Zurich's ERM from 'strong' to 'very strong,' noting a positive view of our risk management culture, risk controls, emerging risk management, risk models and strategic risk assessment.

External and internal challenges

The external environment continues to present challenges, including political uncertainty, market volatility and increasing cyber risk across all sectors. Our financial plan is primarily driven by internal efforts, relying on our staff's technical skills and capabilities, with a strong focus on cost discipline. The plan does not rely on factors Zurich does not control.

We use our Total Risk Profiling™ process to stay on top of both external and internal risks to our strategy and financial plan. Among the risks we identified in 2016 are the uncertainties regarding the path of Brexit, inflation risk, cyber risk, and risks to execution of our transformation.

"Understanding risks is a way to embrace change."

Own Risk and Solvency Assessment

In 2016, we produced our second Own Risk and Solvency Assessment, as required by the Swiss regulator, FINMA. We strengthened analysis of our risk profile and forward-looking scenarios, based on our extended risk appetite framework. Multi-year scenarios address causality across time, geography, products and risk. Our risk analysis shows that the main driver of capital-at-risk is market risk, while premium and reserve risks contribute most to volatility of earnings. These risks are recognized and closely managed as part of our enterprise risk management framework. Actions, both preventative and, if necessary, reactive, are in place at the level of the organization where they are ost appropriate.

Financial condition tested under stressed perspective

Stress scenarios demonstrate the capital resilience of the Group. Zurich uses sensitivity and scenario analyses to assess the potential impact of conditions under stress.

The Group identifies plausible threat scenarios, and quantifies their potential impact on financial resources, or capital required, or both. Depending on the outcome, the Group then develops, implements and monitors appropriate actions.

In this report, we present a Z-ECM ratio sensitivity analysis to seven market- and credit-risk scenarios, and three natural catastrophe scenarios. The Z-ECM ratio would remain within the 'AA' range for most scenarios. One market-risk sensitivity would cause the Z-ECM ratio to drop below the Group's risk tolerance under a capital perspective.

Cecilia Reyes
Group Chief Risk Officer

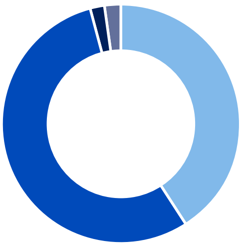
Economic risk profile

As of July 1, 2016, market risk, including investment credit risk, contributed 55% of the Z-ECM capital required, and insurance risk contributes 41%. Other credit risk and operational risk each contribute 2%. The increase in market risk from 49% in the previous year was the result of higher risk-taking in the first half of 2016 in light of market conditions. In the second half of the year, the Group adopted a strategy to reduce the market risk.

+ Pages 120 to 123 ›

Total Z-ECM capital required: USD 33.9 billion

%, as of July 1, 2016



Insurance risk	**41%**
Market risk, including investment credit risk	**55%**
Other credit risk	**2%**
Operational risk	**2%**

Highlights by risk type

→ **Insurance risk:** The Group diversifies its sources of revenue by geography, line of business, product and customer, and therefore is not exposed to concentrations of insurance risk beyond our risk appetite.

+ Pages 126 to 132 ›

→ **Market risk:** The Group began implementing a strategy to reduce market risk in order to reduce the risk of pro-cyclical behavior, mainly by reducing equity investments.

+ Pages 133 to 140 ›

→ **Other credit risk:** The high and stable credit quality of our reinsurance assets portfolio allows Z-ECM capital required for this risk type to remain stable, with little volatility.

+ Pages 141 to 143 ›

Operational risk: By mitigating and responding to cyber risks and threats to data security, we are better able to protect data and information in a rapidly evolving external environment.

+ Pages 144 to 146 ›

Risk review

Contents

The risk review is an integral part of the consolidated financial statements (only the information marked 'audited').

Audited

This 'audited' symbol indicates that the information contained within the shaded panel is audited and forms an integral part of the consolidated financial statements.

Audited

Risk and capital management

Objectives of risk management

Taking risk is inherent to the insurance business, but such risk-taking needs to be made in an informed and disciplined manner, and within a pre-determined risk appetite and tolerance.

The major risk management objectives at Zurich Insurance Group (Zurich, or the Group) are to:

- Support achievement of the Group strategy and protect capital, liquidity, earnings and reputation by monitoring that risks are taken within the Group's risk tolerance
- Enhance value creation by embedding disciplined risk taking in the company culture and contributing to an optimal risk-return profile where risk reward trade-offs are transparent, understood, and risks are appropriately rewarded
- Efficiently and effectively diversify risk and mitigate unrewarded risks
- Encourage openness and transparency to enable effective risk management
- Support decision-making processes by providing consistent, reliable and timely risk information
- Protect Zurich's reputation and brand by promoting a sound culture of risk awareness, and disciplined and informed risk taking

Risk management framework

The risk management framework is based on a governance process that sets forth clear responsibilities for taking, managing, monitoring and reporting risks.

The Zurich Risk Policy is the Group's main risk governance document; it specifies the Group's risk tolerance, risk limits and authorities, reporting requirements, procedures to approve any exceptions and procedures for referring risk issues to senior management and the Board of Directors. Limits are specified per risk type. Ongoing assessments verify that requirements are met.

The Group regularly reports on its risk profile at local and Group levels. The Group has procedures to refer risk issues to senior management and the Board of Directors in a timely way. To foster transparency about risk, the Board receives quarterly risk reports and risk updates. In 2016, reporting was enhanced with in-depth risk insights into historical large losses and risk selection and pricing, and into the potential effects on Zurich of such topical issues as the Brexit vote in the UK, cyber risk, climate risk, and the Zika virus.

The Group assesses risks systematically and from a strategic perspective through its proprietary Total Risk Profiling™ (TRP) process, which allows Zurich to identify and evaluate the probability and severity of a risk scenario. The Group then develops, implements and monitors improvements. The TRP process is integral to how Zurich deals with change, and is particularly suited to evaluate strategic risks as well as risks to Zurich's reputation. At Group level, this process is ongoing, with regular reviews with senior management.

In 2016, S&P upgraded its rating of Zurich's enterprise risk management (ERM) from 'strong' to 'very strong', reflecting its positive view of Zurich's risk management culture, risk controls, emerging risk management and strategic risk assessment. The 'very strong' ERM assessment is also a result of the 'good' rating of the Group economic capital model (Z-ECM).

Risk review (continued)

Audited

In 2016, the Group extended its risk appetite statement with additional capital, liquidity, earnings volatility and non-financial metrics. The primary metric used to steer business remains the Z-ECM.

Group's Z-ECM overall risk appetite and tolerance

<90%	90–100%	100–120%	120–140%	>140%
Z-ECM ratio below Group risk tolerance level, requiring appropriate remedial actions	Position may be tolerated for a certain length of time depending on the risk environment	'AA' target range No action required as within stated objective and equivalent to 'AA' rating	Consider increased risk taking or remedial actions	Z-ECM ratio indicating over capitalization, requiring implementation of mitigating actions

Z-ECM ratio

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

Risk-based remuneration

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

Risk governance and risk management organization

For information on the Group's overall governance, including the Board of Directors and Group executive level, see the 'corporate governance report (unaudited).'

Risk management organization

The CRO leads the Group Risk Management function, which provides risk governance mechanisms to assess and manage risks effectively and efficiently with clear accountabilities, roles and responsibilities that enable disciplined risk taking throughout the Group. The Group CRO is responsible for oversight of risks across the Group, regularly reporting risk matters to the Group Chief Executive Officer, executive management committees and the Risk and Investment Committee of the Board.

The Group Risk Management function is a global function. It consists of teams at the Group, regional and business unit levels. Staff at Group level focus on model risk management; quantitative assessments of insurance, credit and operational risks; risk management frameworks, tools and methodologies; risk reporting; and risk governance. Chief Risk Officers at the business unit level focus on implementing Zurich's risk management framework locally, including early identification of risks with follow-up monitoring and mitigation actions. They report to the regional Heads of Risk, who in turn report to the Group's Chief Risk Officer. The CROs for the Group's largest business units report directly to the Group Chief Risk Officer.

The Group has committees covering oversight activities that encompass major business areas. The committees review certain risk management matters for their respective areas. At the local level, these oversight activities are conducted through risk and control committees.

Audited

Objectives of capital management

The Group manages its capital to maximize long-term shareholder value while maintaining financial strength within its 'AA' target range, and meeting regulatory, solvency and rating agency requirements. In particular, the Group endeavors to manage its shareholders' equity under IFRS to balance maximization of shareholder value and constraints from its economic framework, rating agencies and regulators. Shareholders' equity of USD 30.7 billion and subordinated liabilities of USD 7.1 billion as of December 31, 2016 are part of the capital available in the Group's economic framework. Further adjustments usually include such items as intangible assets, deferred tax assets and liabilities, or allowing for discounting of liabilities and the value of in-force business. For more information, see 'analysis of the Group's Z-ECM available financial resources (unaudited).'

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

Capital management framework

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

Zurich's policy is to allocate capital to businesses earning the highest risk-adjusted returns, and to pool risks and capital as much as possible to operationalize its risk diversification.

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

Capital management program

The Group's capital management program comprises various actions to optimize shareholders' total return and to meet capital needs, while enabling Zurich to take advantage of growth opportunities. Such actions include dividends, capital repayments, share buy-backs, issuance of shares, issuance of senior and hybrid debt, securitization and purchase of reinsurance.

The Group seeks to maintain a balance between higher returns for shareholders on equity held, and the security a sound capital position provides. Dividends, share buy-backs, and issuances and redemption of debt have a significant influence on capital levels. In 2016, the Group paid a dividend out of the capital contribution reserve, and refinanced part of maturing senior debt and callable hybrid debt with new hybrid debt.

The Swiss Code of Obligations stipulates that dividends may only be paid out of freely distributable reserves or retained earnings. Apart from what is specified by the Swiss Code of Obligations, Zurich Insurance Group Ltd faces no legal restrictions on dividends it may pay to its shareholders. As of December 31, 2016, the amount of the general legal reserve exceeded 20 times the paid-in share capital.

The ability of the Group's subsidiaries to pay dividends may be restricted or indirectly influenced by minimum capital and solvency requirements imposed by insurance and other regulators in the countries in which the subsidiaries operate. Other limitations or considerations include foreign exchange control restrictions in some countries, and rating agencies' methodologies.

For details on issuances and redemptions of debt, see note 18 of the consolidated financial statements.

Risk review (continued)

Audited

Risk and solvency assessment

Economic capital adequacy

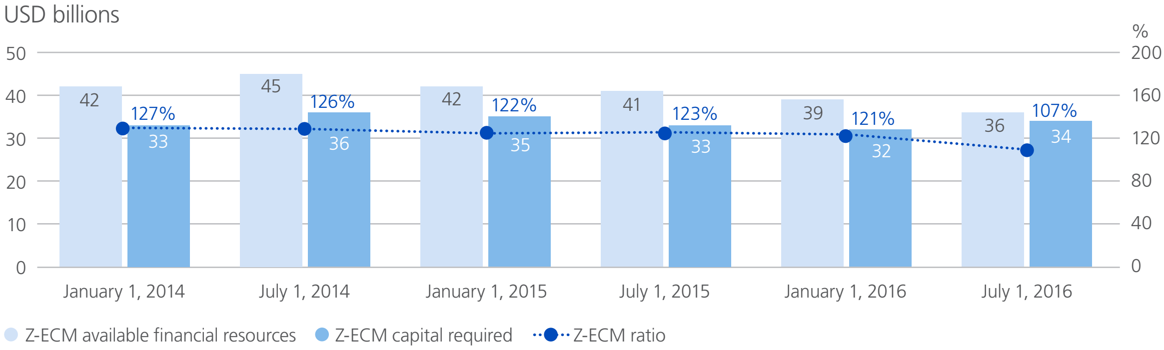
Internally, the Group uses its Zurich Economic Capital Model (Z-ECM), which also forms the basis of the Swiss Solvency Test (SST) model. Z-ECM targets a total capital level that is calibrated to an 'AA' financial strength. Zurich defines the Z-ECM capital required as being the capital required to protect the Group's policyholders in order to meet all of their claims with a confidence level of 99.95 percent over a one-year time horizon.

The Group uses Z-ECM to assess the economic capital consumption of its business on a one-balance-sheet approach. Z-ECM is an integral part of how the Group is managed. It is embedded in the Group's organization and decision-making processes, and is used in capital allocation, business performance management, pricing, communication. Z-ECM quantifies the capital required for insurance-related risk (including premium and reserve, natural catastrophe, business and life insurance), market risk, reinsurance, credit, and operational risks.

At the Group level, Zurich compares Z-ECM capital required to the Z-ECM available financial resources (Z-ECM AFR) to derive an Economic Solvency Ratio (Z-ECM ratio). Z-ECM AFR reflects financial resources available to cover policyholder liabilities in excess of their expected value. It is derived by adjusting the IFRS shareholders' equity to reflect the full economic capital base available to absorb any unexpected volatility in the Group's business activities.

The chart below shows the development of the Group's Z-ECM available financial resources, Z-ECM capital required and Z-ECM ratio over time. As of December 31, 2016, the Z-ECM ratio was estimated at 122%, with an error margin of +/–5 percentage points.

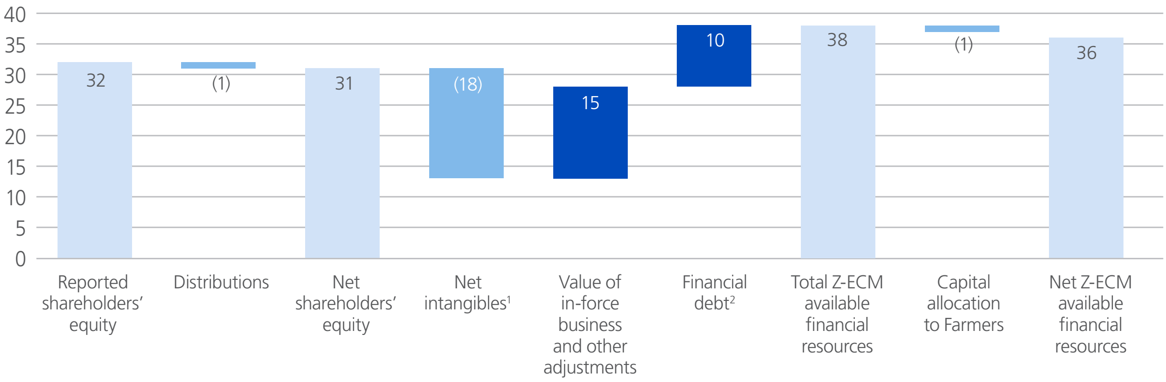
Analysis of the Group's Z-ECM available financial resources and Z-ECM capital required
USD billions



The chart below shows an analysis of the composition of the Group's Z-ECM available financial resources as of July 1, 2016.

Analysis of the Group's Z-ECM available financial resources

USD billions, as of July 1, 2016

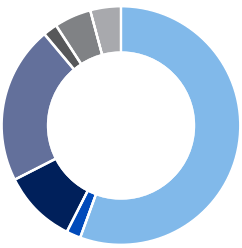


[1] Shareholders' intangible assets adjusted for taxes less deferred front-end fees and deferred tax liabilities.
[2] All debt issues (senior and subordinated) excluding those classified as operational debt or maturing within one year.

The chart below shows the Z-ECM capital required, split by risk, type as of July 1, 2016 and as of January 1, 2016 respectively. As of July 1, 2016, the largest proportion of Z-ECM capital required arose from market risk which comprised 55 percent of the total. Premium and reserve risk was the second-largest, comprising 21 percent.

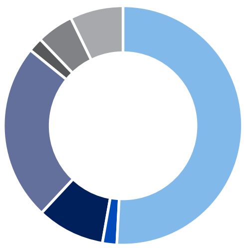
Z-ECM capital required split by risk type

July 1, 2016
Total Z-ECM capital required: USD 33.9 billion



Market risk	**55%**
Operational risk	**2%**
Business risk	**10%**
Premium & reserve risk	**21%**
Reinsurance credit risk	**2%**
Life insurance risk	**5%**
Natural catastrophe risk	**4%**

January 1, 2016
Total Z-ECM capital required: USD 32.3 billion



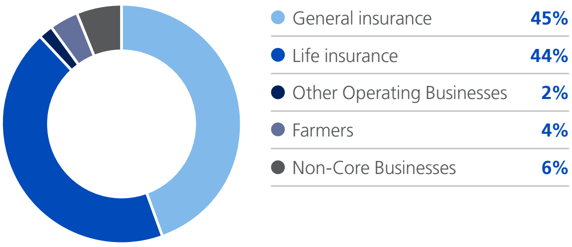
Market risk	**51%**
Operational risk	**2%**
Business risk	**9%**
Premium & reserve risk	**24%**
Reinsurance credit risk	**2%**
Life insurance risk	**5%**
Natural catastrophe risk	**7%**

Risk review (continued)

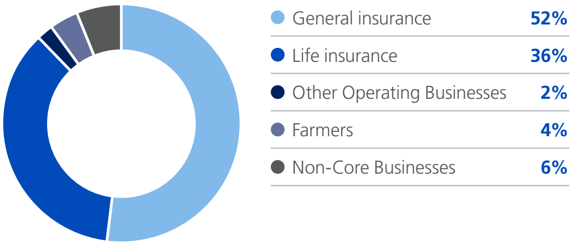
The following chart shows the Z-ECM capital required allocated to the segments as of July 1, 2016 and January 1, 2016. As of July 1, 2016 the largest proportions of Z-ECM capital required were allocated to General Insurance with 45 percent and to Global Life with 44 percent of the total. Total allocated capital as of July 1, 2016 equaled USD 33.9 billion Z-ECM capital required plus USD 1.2 billion allocation to Farmers.

Total capital allocated, by segment

July 1, 2016
Total capital allocated: USD 35.1 billion



January 1, 2016
Total capital allocated: USD 33.5 billion



Sensitivity and scenario analysis

The Group evaluates sensitivities to, and stress scenarios on, the Z-ECM ratio, and presents results relative to our risk tolerance and appetite. The sensitivities and stress scenarios in the following chart capture two key risks to the Group: market and insurance risk. For insurance risk, the chart shows the three largest natural catastrophe events to which the Group is exposed.

Market risk sensitivities show the estimated impact on the Group's Z-ECM ratio of a one percentage point increase/decrease in yield curves, a 10 percent appreciation in the U.S. dollar, a 20 percent rise/decline in all stock markets, and a one percentage point change in credit spreads, with and without European sovereigns. The sensitivities are considered as separate but instantaneous scenarios. They are a best estimate and non-linear, i.e., will vary depending on prevailing market conditions at the time.

Scenarios are defined as events that have a very small probability of occurring but that could, if realized, negatively affect the Group's Z-ECM available financial resources. The impact of the changes to the required capital are not taken into account.

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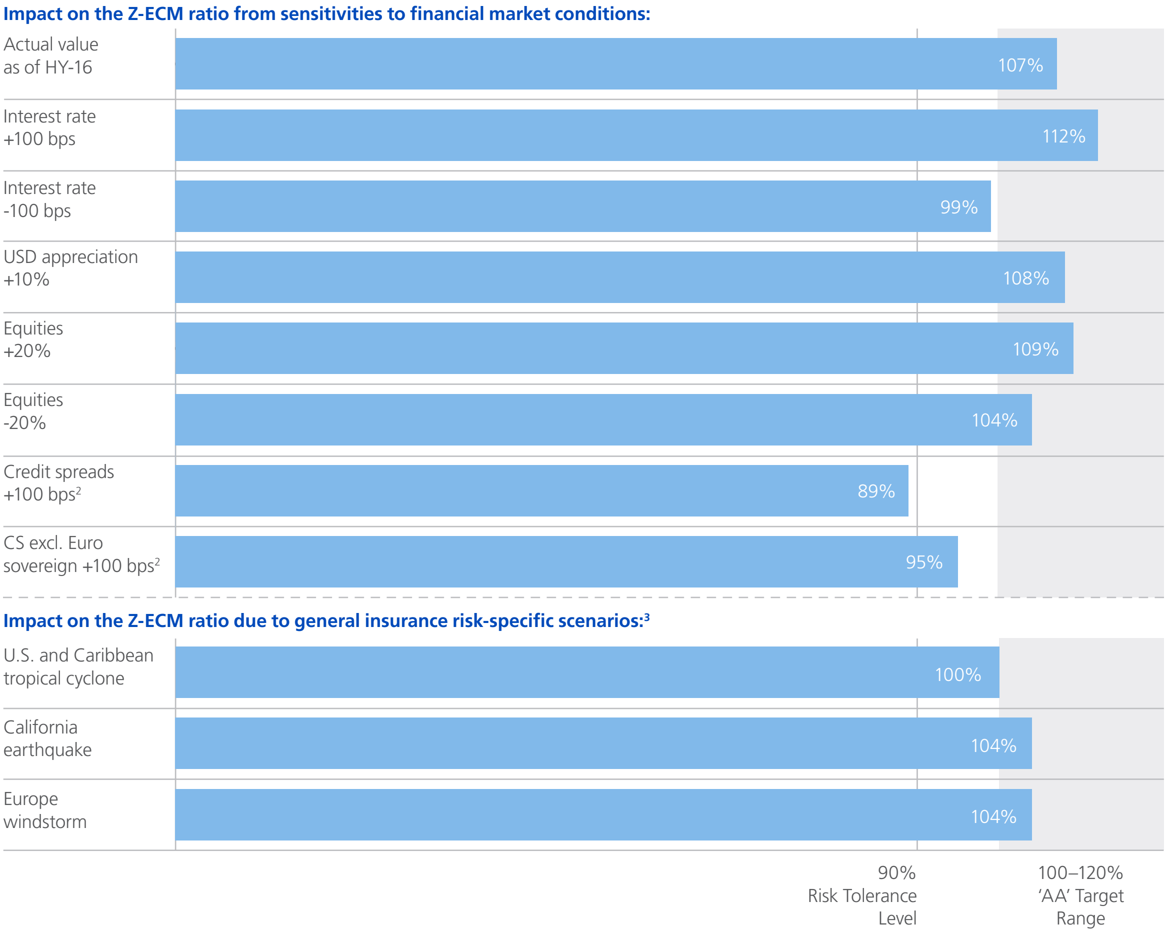
Z-ECM sensitivities and scenarios[1]

as of July 1, 2016



[1] Z-ECM is calibrated at 99.95% Value at Risk (equivalent to an 'AA' rating).
[2] Credit spreads (CS) include mortgages and incl./excl. Euro sovereign spreads. Sensitivity is net of profit sharing with policyholders.
[3] The insurance risk-specific scenarios relate to natural catastrophe events that are estimated on a modeled 250-year net aggregate loss (equivalent to a 99.6% probability of non-exceedance).

Risk review (continued)

Audited

Insurance financial strength rating

The Group has interactive relationships with three global rating agencies: Standard & Poor's, Moody's and A.M. Best. The Insurance Financial Strength Rating (IFSR) of the Group's main operating entity is an important element of Zurich's competitive position. The Group's credit ratings derived from the financial strength ratings also affect the cost of capital.

The Group maintained its strong rating level in 2016. As of December 31, 2016, the IFSR of Zurich Insurance Company Ltd (ZIC), the main operating entity of the Group, was 'AA–' by Standard and Poor's, 'Aa3/stable' by Moody's, and 'A+/negative' by A.M. Best.

All three agencies left their outlook unchanged in 2016.

Regulatory capital adequacy

The Group endeavors to manage its capital so that all of its regulated entities meet local regulatory capital requirements at all times.

In each country in which the Group operates, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in addition to their liabilities. Besides the minimum capital required to comply with the solvency requirements, the Group aims to hold an adequate buffer to ensure regulated subsidiaries meet local capital requirements. The Group is subject to different capital requirements depending on the countries in which it operates.

Zurich pools risk and capital as much as possible at a Group level, realizing diversification benefits for the Group. This also allows the Group to take into account the benefits that arise in regions where these benefits are recognized under the capital adequacy regime, e.g., in the U.S., Ireland and Switzerland.

Regulatory requirements in Switzerland

Under the Swiss Solvency Test (SST), insurance companies and insurance groups can apply for the use of company-specific internal models to calculate risk-bearing and target capital, as well as the SST ratio. The SST ratio has to be calculated as per January 1 and must be submitted to the Swiss Financial Market Supervisory Authority (FINMA). Internal models must be approved by FINMA.

FINMA approved the use of Zurich's internal model for 2016 on a provisional basis, without prejudicing the final approval. Zurich filed with FINMA an SST ratio of 189 percent (unaudited) as of January 1, 2016, which was approved accordingly.

Audited

Regulatory requirements in other countries

Regulatory requirements in the European Economic Area

The directive on Solvency II was adopted on November 25, 2009. The complete framework was introduced on January 1, 2016. Solvency II is designed to be more risk-sensitive and sophisticated in its approach than Solvency I. Solvency II capital requirements also take into account all material risks and how these interact. Under Solvency II, every insurance and reinsurance entity is required to conduct its own risk and solvency assessment, including taking into account specific risk profiles. Under disclosure provisions, companies will have to publicly report their solvency and financial condition for the first time in 2017, based on 2016 figures.

Zurich Insurance plc (Ireland) applies the internal model, which aligns the Solvency II approach with that used for Z-ECM, and has received approval from the Central Bank of Ireland accordingly. Other EEA subsidiaries use the Solvency II standard formula.

Regulatory requirements in the U.S.

In the U.S., required capital is determined to be 'company action level risk-based capital' calculated using the National Association of Insurance Commissioners' risk-based capital model. This method, which builds on regulatory accounts, measures the minimum amount of capital for an insurance company to support its overall business operations by taking into account its size and risk profile.

Regulatory requirements in Asia Pacific, Latin America, and Middle East and Africa

Every country has a capital standard for insurance companies. Some jurisdictions, including Japan, Mexico, Chile, and Brazil, are implementing, reviewing or will review their economic capital requirements, considering similar approaches to Solvency II.

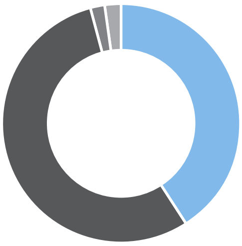
Risk review (continued)

Analysis by risk type

Insurance risk

Section highlights

Total Z-ECM capital required: USD 33.9 billion
%, as of July 1, 2016



Insurance risk	41%
Market risk, including investment credit risk	55%
Other credit risk	2%
Operational risk	2%

Key risk and capital indicators
Z-ECM, in USD billions

	Q2 2014	Q2 2015	Q2 2016
Business risk	3.0	2.6	3.4
Life liability risk	0.7	1.6	1.9
Premium & reserve risk	6.9	7.6	7.2
Natural catastrophe risk	5.4	3.5	1.5

Audited

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. The profitability of insurance business is also susceptible to business risk in the form of unexpected changes in expenses, policyholders' behavior, and fluctuations in new business volumes. The exposure is transferred to Zurich through the underwriting process. Zurich actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. Zurich manages the customer risks it assumes, and minimizes unintended underwriting risks, through such means as:

- Establishing limits for underwriting authority
- Requiring specific approvals for transactions above established limits or new products
- Using a variety of reserving and modeling methods
- Ceding insurance risk through external proportional or non-proportional reinsurance treaties and facultative single-risk placement. The Group centrally manages reinsurance treaties.

General insurance risk

General insurance risk comprises premium and reserve risk, and business risk. Premium and reserve risk covers uncertainties in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. Business risk for general insurance predominantly relates to unexpected increases in the expenses relating to claims handling, underwriting, and administration. The following provides an overview of the Group's main lines of business:

- Motor includes automobile physical damage, loss of the insured vehicle and automobile third-party liability insurance.
- Property includes fire risks (e.g., fire, explosion and business interruption), natural perils (e.g., earthquake, windstorm and flood), engineering lines (e.g., boiler explosion, machinery breakdown and construction) and marine (e.g., cargo and hull).
- Liability includes general/public and product liability, excess and umbrella liability, professional liability including medical malpractice, and errors and omissions liability.
- Special lines include directors and officers, credit and surety, crime and fidelity, accident and health, and crop.
- Worker injury includes workers' compensation and employers liability.

Audited

The Group's underwriting strategy takes advantage of the diversification of general insurance risks across lines of business and geographic regions. Zurich's underwriting governance is applicable throughout the Group.

Underwriting discipline is a fundamental part of managing insurance risk. The Group sets limits on underwriting capacity, and delegates authority to individuals based on their specific expertise. The Group sets appropriate underwriting guidelines. These guidelines generally include a technical price set in line with common standards to allow a return on risk-based capital in line with the Group's financial target. The ratio of actual premium to technical price is a key performance metric, which is monitored regularly. Technical reviews confirm whether underwriters perform within authorities and adhere to underwriting philosophies and policies. The Group has governance procedures to review and approve potential new products, to evaluate whether the risks are well understood and justified by the potential rewards.

Actual losses on claims provisions may be higher or lower than anticipated. General insurance reserves are therefore regularly estimated, reviewed and monitored. The total loss and loss adjustment expense reserves are based on work performed by qualified and experienced actuaries at local, regional and Group levels.

To arrive at their reserve estimates, the actuaries take into consideration, among other things, the latest available facts, historical trends and patterns of loss payments, exposure growth, court decisions, economic conditions, inflation, and public attitudes that may affect the ultimate cost of claim settlement. Inflation is monitored on a country basis; the monitoring process relies on both Zurich's economic view on inflation and specific claims activity, and feeds into actuarial models and Zurich's underwriting processes such as technical price reviews.

In most cases, these actuarial analyses are conducted at least twice a year for on-going business according to agreed timetables. Analyses are performed by product line, type and extent of coverage and year of occurrence. As with any projection, claim reserve estimates are inherently uncertain due to the fact that the ultimate liability for claims will be affected by trends as yet unknown, including future changes in the likelihood of claimants bringing suit, the size of court awards, and claimants' attitudes toward settlement of their claims.

The Group monitors potential new emerging risk exposures. Zurich has an Emerging Risk Group, with cross-functional expertise from core insurance functions such as underwriting, claims and risk management to identify, assess and recommend actions for such risks.

In addition to the specific risks insured, the Group is exposed to losses that could arise from natural and man-made catastrophes. The main concentrations of risks arising from such potential catastrophes are regularly reported to executive management. The most important peril regions and natural catastrophes are U.S. and Caribbean tropical cyclone, Europe windstorm and California earthquake.

Tables 1.a and 1.b show the Group's concentration of risk within the General Insurance business by region and line of business based on direct written premiums before reinsurance. The increase in direct written premiums and policy fees for Special lines in North America is primarily the result of Zurich's acquisition of crop insurer Rural Community Insurance Services. General Insurance premiums ceded to reinsurers (including retrocessions) amounted to USD 7.0 billion and USD 5.6 billion for the years ended December 31, 2016 and 2015, respectively. Reinsurance programs are managed on a global basis, and therefore, net premium after reinsurance is monitored on an aggregated basis.

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

Table 1.a

in USD millions, for the year ended December 31, 2016	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,689	2,733	3,258	3,819	2,844	14,342
Europe, Middle East & Africa	4,715	4,045	2,026	1,955	361	13,102
Other regions	1,382	1,196	357	1,249	143	4,326
Total	**7,785**	**7,973**	**5,641**	**7,023**	**3,347**	**31,770**

Risk review (continued)

Audited

Table 1.b

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

in USD millions, for the year ended December 31, 2015	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,618	3,214	3,740	1,912	2,918	13,402
Europe, Middle East & Africa	5,176	4,491	2,231	1,953	461	14,312
Other regions	1,640	1,272	370	1,142	137	4,561
Total	**8,434**	**8,977**	**6,341**	**5,007**	**3,515**	**32,274**

Analysis of sensitivities for general insurance risk

Tables 2.a and 2.b show the sensitivity of net income before tax and the sensitivity of net assets, using the Group effective income tax rate, as a result of adverse development in the net loss ratio by one percentage point. Such an increase could develop either due to the insured events happening more frequently or due to resulting claims becoming more severe, or from a combination of frequency and severity. The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the sensitivity analysis in tables 2.a and 2.b, each additional percentage point increase in the loss ratio would have a linear impact on net income before tax and net assets. The Group also monitors insurance risk by evaluating extreme scenarios, taking into account the non-linear effects of reinsurance contracts.

Table 2.a

Insurance risk sensitivity for the General Insurance business – current period

in USD millions, for the year ended December 31, 2016	**Global Corporate**	**North America Commercial**	**Europe, Middle East & Africa**	**International Markets**
+1% in net loss ratio				
Net income before tax	(50)	(81)	(100)	(32)
Net assets	(34)	(56)	(69)	(22)

Table 2.b

Insurance risk sensitivity for the General Insurance business – prior period

in USD millions, for the year ended December 31, 2015	Global Corporate	North America Commercial	Europe, Middle East & Africa	International Markets
+1% in net loss ratio				
Net income before tax	(60)	(80)	(107)	(34)
Net assets	(38)	(50)	(68)	(21)

Life insurance risk

The risks associated with life insurance include life liability risk (mortality, longevity, and morbidity), business risk (policyholder behavior, expense, and new business), market risk and credit risk.

- Mortality risk – when on average, the death incidence among the policyholders is higher than expected
- Longevity risk – when on average, annuitants live longer than expected
- Morbidity risk – when on average, the incidence of sickness or disability among the policyholders is higher or recovery rates from disability are lower than expected
- Policyholder behavior risk – on average, the policyholders discontinue or reduce contributions or withdraw benefits prior to the maturity of contracts at a rate that is different from expected
- Expense risk – expenses incurred in acquiring and administering policies are higher than expected
- New business risk – volumes of new business are lower than sufficient to cover fixed acquisition expenses
- Market risk – the risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets, which is analyzed in the 'market risk, including investment credit risk' section
- Credit risk – the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations, which is analyzed in the 'market risk, including investment credit risk' and 'other credit risk' sections

Audited

A more diversified portfolio of risks is less likely than an undiversified portfolio to be affected across the board by a change in any subset of the risks. As a result, the offsetting effects between unit-linked and traditional business reduce some of the risk associated with the Global Life business.

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

From a risk-management perspective, unit-linked products are designed to reduce much of the market and credit risk associated with the Group's traditional business. Risks that are inherent in these products are largely passed on to the policyholder, although a portion of the Group's management fees are linked to the value of funds under management, and hence are at risk if fund values decrease. To the extent that there are guarantees built into the product design, unit-linked products carry mortality/morbidity risk and market risk. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are mitigated by mortality and morbidity charges.

Other life insurance liabilities include traditional life insurance products, such as protection and life annuity products. Protection products carry mortality, longevity and morbidity risk, as well as market and credit risk. Epidemics and lifestyle changes are among the most significant factors that could result in earlier or more claims than expected. Disability, defined in terms of the ability to perform an occupation, could be affected by economic conditions. To reduce pricing cross-subsidies, where permitted, premiums are adjusted for factors such as age, gender and smoker status. Policy terms and conditions and disclosure requirements in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that could result in severe financial loss.

In the life annuity business, medical advances and improved social conditions that lead to increased longevity are the most significant insurance risk. Annuitant (beneficiary) mortality assumptions include allowance for future mortality improvements.

The Group is also exposed to risks posed by policyholder behavior, and fluctuating expenses. Policyholder behavior risk is mitigated by designing products that, as closely as possible, match revenue and expenses associated with the contract. Expense risk is reduced by carefully controlling expenses, and through regular expense analysis and allocation exercises.

The subsidiary Zurich American Life Insurance Company (ZALICO) wrote variable annuity contracts that provide policyholders with certain guarantees related to minimum death and income benefits. After 2001, ZALICO stopped issuing new policies with such features. The Group has a dynamic hedging strategy to manage its economic exposure and reduce the volatility associated with its closed book of variable annuity products within its U.S. life business. These exposures have been substantially reduced as a result of a policy buy-back program begun in 2015. The Group is also exposed to risks arising out of bank-owned life insurance contracts sold in the U.S. See heading 'other contracts' in note 7 of the consolidated financial statements for additional information.

Interest rate guarantees (with concentration in traditional, guaranteed business in Germany and Switzerland or variable annuity business in the U.S. containing minimum guaranteed death benefits) expose Zurich to financial losses that may arise as a result of adverse movements in interest rates. These guarantees are managed through a combination of asset-liability matching and hedging.

The Group defines concentration risk in the Global Life business as the risk of exposure to increased losses associated with inadequately diversified portfolios of assets or obligations. Concentration risk for a life insurer may arise with respect to investments in a geographical area, economic sector, or individual issuers, or due to a concentration of business written within a geographical area, of a policy type, or of underlying risks covered.

Observing best-estimate assumptions on cash flows related to benefits of insurance contracts gives some indication of the size of the exposure to risks and the extent of risk concentration. Table 3 shows the Group's concentration of risk within the life business by region and line of business based on reserves for life insurance on a net basis. The Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time. See note 8 of the consolidated financial statements for additional information on reserves for insurance contracts.

Risk review (continued)

Audited

Table 3

Reserves, net of reinsurance, by region

in USD millions, as of December 31	Unit-linked insurance contracts		Other life insurance liabilities		Total reserves	
	2016	2015	**2016**	2015	**2016**	2015
Global Life						
North America	1,562	1,263	5,696	5,577	7,258	6,840
Latin America	11,961	8,036	4,653	3,863	16,614	11,899
Europe, Middle East & Africa	40,668	43,522	72,421	71,711	113,088	115,233
of which						
United Kingdom	17,359	20,778	2,610	3,054	19,968	23,832
Germany	14,183	13,530	35,338	36,418	49,521	49,948
Switzerland	718	726	17,494	18,015	18,212	18,741
Ireland	2,832	2,944	1,884	1,979	4,716	4,923
Spain	813	1,062	10,320	7,450	11,133	8,512
Italy	394	223	3,032	3,013	3,426	3,237
Rest of Europe	4,370	4,258	1,743	1,782	6,113	6,040
Asia Pacific	469	403	2,506	2,489	2,975	2,892
Other	–	–	279	272	279	272
Subtotal	**54,660**	**53,224**	**85,554**	**83,912**	**140,214**	**137,136**
Other segments	10,870	11,169	3,947	4,144	14,816	15,313
Total	**65,530**	**64,393**	**89,500**	**88,056**	**155,030**	**152,449**

Analysis of sensitivities for life insurance risk

The Group uses market-consistent embedded value reporting principles, which allow Zurich to increase its understanding of, and report on, the risk profile of its life products, and how these risks would change under different market conditions. Embedded value is a measure that markets use to value life businesses. For more information, see the 'embedded value report 2016' at www.zurich.com/investor-relations/results-and-reports.

Modeling natural catastrophes

While specific catastrophes are unpredictable, modeling helps to determine potential losses and the likelihood of such losses. The Group uses adjusted third-party models to manage its underwriting and accumulations to stay within intended exposure limits and to guide how much reinsurance Zurich buys.

To have a consistent approach and form a global perspective on accumulations, the Group models general insurance exposures in a center of excellence, which works with local businesses to help improve the overall quality of data. The Group models potential losses from property policies in hazard-prone areas with material exposure and from workers' compensation policies covering earthquakes in California, the U.S. Pacific Northwest and New Madrid (U.S. states of Arkansas, Illinois, Indiana, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Ohio, Tennessee, Wisconsin). Other non-property-related losses are estimated based on adjustments. Risk modeling mainly addresses climate-induced perils such as windstorms, river floods, tornadoes, hail storms, and geologically induced perils such as earthquakes.

The Group constantly seeks to improve its modeling, fill in gaps in models with additional assessments, and increase the granularity of data collection. It uses internal and external knowledge in modeling accumulations. One such source of external knowledge is the Natural Catastrophe Advisory Council, a group of scientists associated with leading research organizations such as the U.S. National Center for Atmospheric Research, the U.S. Geological Survey and the Intergovernmental Panel on Climate Change. Furthermore, Zurich is a Governor Sponsor of the Global Earthquake Model (GEM) Foundation, a shareholder of PERILS AG, and a member of the Risk Prediction Initiative (RPI) and the Oasis Loss Modeling Framework. Zurich validates modeling results by comparing them with claims experience.

Risks from man-made catastrophes

Man-made catastrophes include such risks as industrial accidents and terrorism attacks. Zurich's experience in monitoring potential exposures to natural catastrophes is also applicable to threats posed by man-made catastrophes.

Audited

The Group reviews and aggregates worker injury, property and life risk exposures to identify areas of significant concentration and assesses other lines of business, such as liability and auto, although the potential exposure is not as significant. The data allow underwriters to evaluate how insuring a particular customer's risk might affect Zurich's overall exposure. Zurich uses a vendor-provided catastrophe model to evaluate potential exposures in every major U.S. city and selected cities in Europe. The Group undertakes more detailed and frequent analyses for cities in which Zurich has greater exposure. Outside the modeled areas, exposure concentrations are identified directly on Zurich's Risk Exposure Data Store (REDS), a system that stores information about our location-based exposure to risk in a single place.

The Group's analysis for general insurance business has shown that its exposures outside North America are lower, in large part due to government-provided pools; even so, the Group assesses the risk for countries with the next-greatest potential net exposure. The Group periodically monitors accumulation limits for these and other areas.

Reinsurance for general insurance and life insurance

The Group's objective in purchasing reinsurance is to provide market-leading capacity for customers while protecting the balance sheet, supporting earnings volatility management, and achieving capital efficiency. The Group follows a centralized reinsurance purchasing strategy for both General Insurance and Global Life, and bundles programs, where appropriate, to benefit from diversification and economies of scale.

The Group structures and aligns its external reinsurance protection to its capital position to achieve an optimum risk-return ratio. This includes a participation in the underlying risks through self-retentions. The Group manages its central reinsurance purchasing according to these principles. The cession rate for General Insurance was 21.2 percent and 16.6 percent as of December 31, 2016 and December 31, 2015, respectively. The cession rate for Global Life was 5.6 percent and 17.2 percent as of December 31, 2016 and December 31, 2015, respectively. The decrease in ceded premiums for Global Life is due to temporary reinsurance in 2015 of a run-off portfolio.

The Group uses traditional and collateralized reinsurance markets and other alternatives to protect itself against extreme single events, multiple event occurrences across regions, or increased frequency of events. Specifically, to protect the Group against man-made and natural catastrophe scenarios, Zurich arranges per event and annual aggregate global covers as illustrated on the graph on the next page.

The Group participates in the underlying risks through its retention and through its co-participation in excess layers. The contracts are on a loss-occurrence basis except the Global Aggregate Catastrophe cover, which operates on an annual aggregate basis. The current catastrophe covers are placed annually with the exception of the USD 750 million Global Catastrophe treaty, which is a three-year treaty. In addition to these covers, the Group has some local catastrophe covers, a bilateral risk swap, and various lines of business-specific risk treaties in place. These covers are reviewed continuously and are subject to change going forward.

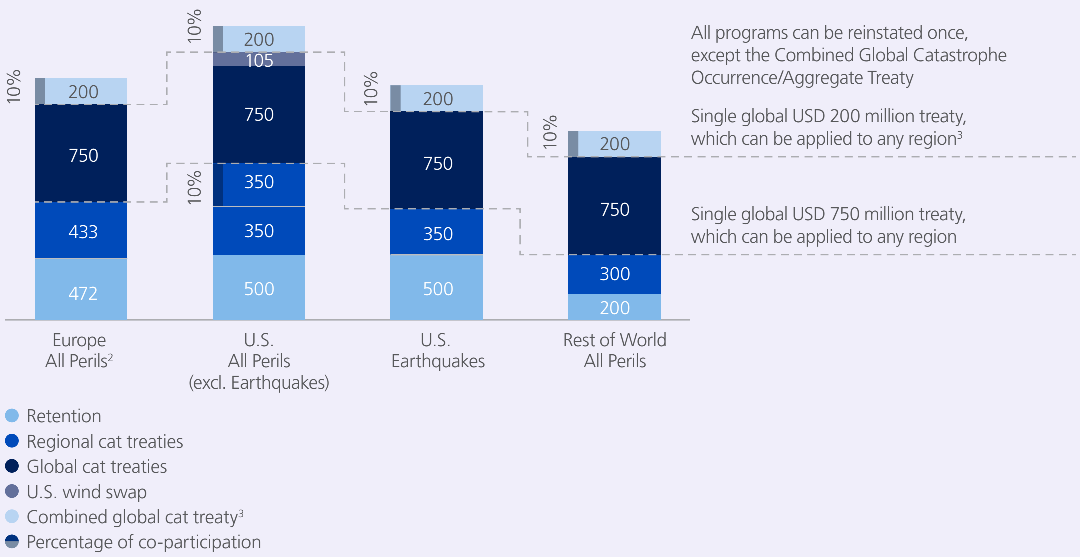
Major changes in 2016 included the non-renewal of the specific U.S. Earthquake Cat bond which is now covered as part of a traditional regional annually renewable treaty, the reduced attachment point of the U.S. and International Catastrophe towers, and the placement of a three-year USD 750 million Global Catastrophe treaty which can be applied to any region. To maintain a superior earnings protection for higher-frequency catastrophe scenarios, the Group slightly decreased the attachment point of the Global Aggregate Catastrophe treaty.

Risk review (continued)

Audited

Reinsurance for catastrophes by region – unusually severe catastrophe events[1]

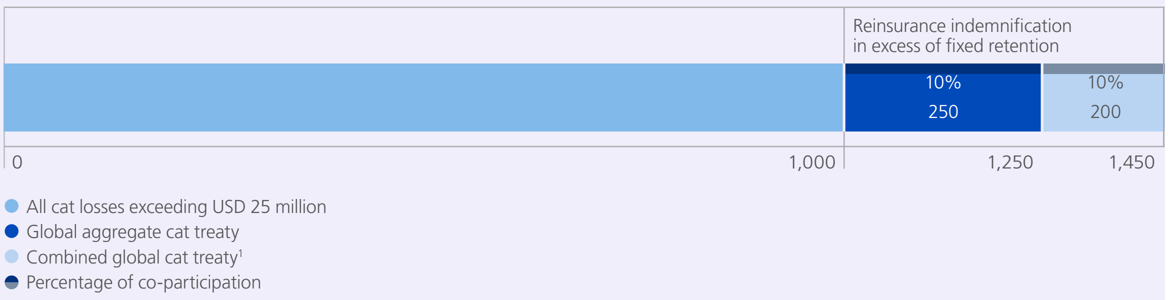
USD millions, as of December 31, 2016



[1] The Global Aggregate Cat Treaty renewed on January 1, 2016; the U.S. and the Global Cat Treaty renewed on April 1, 2016; the Europe Cat Treaty and International Cat Treaty renewed on July 1, 2016.
[2] Europe Cat Treaty calculated with EUR/USD exchange rate as of June 30, 2016.
[3] This USD 200m cover is the same combined global occurrence/aggregate treaty presiding over the global catastrophe treaty. This cover can be used only once, either for aggregated losses or for an individual occurrence or event.

Reinsurance for catastrophes, aggregated – unusually frequent catastrophe events

USD millions, as of December 31, 2016



[1] This USD 200m cover is the same combined global occurrence/aggregate treaty presiding over the global catastrophe treaty. This cover can be used only once, either for aggregated losses or for an individual occurrence or event.

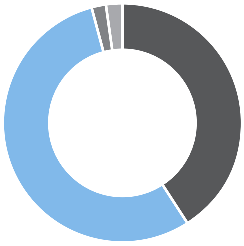
To complement existing treaties, the Group purchases catastrophe reinsurance specific to life insurance for its exposure to natural and man-made catastrophes.

Market risk including investment credit risk

Section highlights

Total Z-ECM capital required: USD 33.9 billion

%, as of July 1, 2016



Insurance risk	41%
Market risk, including investment credit risk	55%
Other credit risk	2%
Operational risk	2%

Key risk and capital indicators

Z-ECM, in USD billions

	Q2 2014	Q2 2015	Q2 2016
Market risk	17.7	16.3	18.7

Audited

Market risk is the risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets. Risk factors include:

- → Equity market prices
- → Property market prices
- → Interest rate risk
- → Credit and swap spread changes
- → Defaults of issuers
- → Currency exchange rates

The Group manages the market risk of assets relative to liabilities on an economic total balance sheet basis. This is done to achieve the maximum risk-adjusted excess return on assets relative to the liability benchmark, while taking into account the Group's risk apetite and tolerance and local regulatory constraints.

The Group has policies and limits to manage market risk and keep its strategic asset allocation in line with its risk capacity. To control risk aggregation and ensure a consistent approach to constructing portfolios and choosing external asset managers, Zurich centrally manages certain asset classes to control aggregation of risk, and provides a consistent approach to constructing portfolios and selecting external asset managers. It diversifies portfolios, investments and asset managers, and regularly measures and manages market risk exposure. The Group has set limits on concentration in investments in single issuers and certain asset classes as well by how much asset interest rate sensitivities can deviate from liability interest-rate sensitivities. The Group also limits illiquid investments.

The Asset/Liability Management Investment Committee reviews and monitors Group strategic asset allocation and tactical boundaries, and monitors Group asset/liability exposure. The Group oversees the activities of local asset/liability management investment committees and regularly assesses market risks at both Group and local business levels. The economic effect of potential extreme market moves is regularly examined and considered when setting the asset allocation.

Risk assessment reviews include the analysis of the management of interest rate risk for each major maturity bucket and adherence to the aggregate positions with risk limits. The Group applies processes to manage market risks and to analyze market risk hotspots. Actions to mitigate risk are taken if necessary to manage fluctuations affecting asset/liability mismatch and risk-based capital.

Risk review (continued)

Audited

The Group uses derivative financial instruments to limit market risks arising from changes in currency exchange rates, interest rates and equity prices, from credit quality of assets and liabilities and commitments to third parties. The Group enters into derivative financial instruments mostly for economic hedging purposes and, in limited circumstances, the instruments may also meet the definition of an effective hedge for accounting purposes. The latter instruments include cross-currency interest rate swaps in fair value hedges and cross-currency swaps in cash flow hedges of Zurich's borrowings, in order to mitigate exposure to foreign currency and interest rate risk. In compliance with Swiss insurance regulation, the Group's policy prohibits speculative trading in derivatives, meaning a pattern of 'in and out' activity without reference to an underlying position. The Group addresses the risks arising from derivatives through a stringent policy that requires approval of a derivative program before transactions are initiated, and by subsequent regular monitoring by Group Risk Management of open positions and annual reviews of derivative programs.

For more information on the Group's investment result, including impairments and the treatment of selected financial instruments, see note 6 of the consolidated financial statements. For more information on derivative financial instruments and hedge accounting, see note 7 of the consolidated financial statements.

Risk from equity securities and property

The Group is exposed to risks from price fluctuations on equity securities and property which could affect the Group's liquidity, reported income, economic surplus and regulatory capital position. Equity risk exposure includes common stocks, including equity unit trusts, private equity, common stock portfolios backing participating-with-profit policyholder contracts, and equities held for employee benefit plans. Exposure to property risk includes direct holdings in property, listed property company shares and funds, as well as property debt securities such as commercial and residential mortgages, commercial and residential mortgage-backed securities and mezzanine debt. Returns on unit-linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and property, but these risks are borne by policyholders. However, the Group is indirectly exposed to market movements from unit-linked contracts with respect to both earnings and economic capital. Market movements affect the amount of fee income earned when the fee income level is dependent on the valuation of the asset base. Therefore, the value of in-force business for unit-linked business can be negatively affected by adverse movements in equity and property markets.

The Group manages its risks from equity securities and property as part of the overall investment risk management process, and applies limits as expressed in policies and guidelines. Specifically, Zurich limits holdings in equities, real estate and alternative investments. In order to realize an optimal level of risk diversification, the strategy for equities is defined through a composite of market benchmark indices. The Group has the capability and processes in place to change the exposure to the key equity markets within a short time frame through the use of derivatives.

For additional information on equity securities and investment property, see note 6 of the consolidated financial statements.

Risk from interest rates and credit spreads

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Group is exposed to interest-rate risk including from debt securities, reserves for insurance contracts, liabilities for investment contracts, employee benefit plans, and loans and receivables.

Zurich has limits on holdings in real assets and limits on deviations of asset interest rate sensitivities from liability interest rate sensitivities. The Group also manages credit-spread risk, which describes the sensitivity of the values of assets and liabilities due to changes in the level or the volatility of credit spreads over the risk-free interest rate yield curves. Movements of credit spreads are driven by expected probability of default, expected losses in cases of defaults of issuers, the uncertainty of default probabilities and losses, as well as actual defaults of issuers.

Returns on unit-linked contracts, whether classified as insurance or investment contracts, are at the risk of the policyholder; however, the Group is exposed to fluctuations in interest rates and credit spreads in so far as they affect the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

Audited

Analysis of market risk sensitivities for interest rate, equity and credit spread risks

Basis of presentation – General Insurance and rest of the business

The basis of the presentation for tables 4, 5, and 6 is an economic valuation represented by the fair value for Group investments, IFRS insurance liabilities are discounted at risk-free market rates to reflect the present value of insurance liability cash flows and other liabilities, for example own debt. (Note: the Group describes risk-free market rates as swap rates). In the sensitivities, own debt does not include subordinated debt, which Zurich considers available to protect policyholders in a worst-case scenario.

Tables 4, 5 and 6 show the estimated economic market risk sensitivities of the net impact for General Insurance and the rest of the business. Positive values represent an increase in the balance, and values in parentheses represent a decrease. Mismatches in changes in value of assets relative to liabilities represent an economic risk to the Group. The net impact – the difference between the impact on Group investments and liabilities – represents the economic risk related to changes in market risk factors that the Group faces.

In determining the sensitivities, investments and liabilities are fully re-valued in the given scenarios. Each instrument is re-valued separately, taking the relevant product features into account. Non-linear effects, where they exist, are reflected in the model. The sensitivities are shown after tax. They do not include the impact of transactions within the Group.

Sensitivities for the rest of the business include Farmers, Other Operating Businesses and Non-Core Businesses.

Basis of presentation – Global Life

Tables 4, 5 and 6 show the estimated economic sensitivity of the embedded value of the Global Life business to financial market movements. Actions that would be taken by management or policyholders are considered. For contracts with financial options and guarantees, such as some participating business, movements in financial markets can change the nature and value of these benefits. The dynamics of these liabilities are captured so that this exposure is quantified, monitored, managed and where appropriate, mitigated.

For the economies in the U.S., the UK and the Eurozone, risk-free nominal interest rate are modeled using a LIBOR market model. Negative nominal interest rates, if any, are floored to zero. For Switzerland, risk free nominal interest rates are modeled using a variant of the LIBOR market model with displacement diffusion and stochastic volatility. This model allows for modelling negative nominal interest rates in a market where these are more severe than in other economies.

For more information, see the ‘embedded value report 2016’ at www.zurich.com/investor-relations/results-and-reports.

Risk review (continued)

Audited

Analysis of economic sensitivities for interest rate risk

Table 4 shows the estimated impacts of a 100 basis point increase/decrease in yield curves after consideration of hedges in place, as of December 31, 2016 and 2015, respectively.

Economic interest rate sensitivities

Table 4

In USD millions, as of December 31	**2016**	2015
100 basis point increase in the interest rate yield curves		
General Insurance business		
Net impact after tax[1,2]	(158)	(288)
Global Life business		
Total impact on Embedded Value	(192)	(276)
Rest of the business		
Net impact after tax[1,2]	(107)	67
100 basis point decrease in the interest rate yield curves		
General Insurance business		
Net impact after tax[1,2]	56	247
Global Life business		
Total impact on Embedded Value	(388)	29
Rest of the business		
Net impact after tax[1,2]	123	(157)

1 Modeling enhancements for the General Insurance business reflecting revised estimates over the expected duration on certain inter-company loans resulted in an increase of USD 102 million and a decrease of USD 208 million for the 100 basis point increase and decrease, respectively, in the interest rate yield curves for the year ending December 31, 2016. This results in equal and offsetting impacts to the Rest of the Business.
2 Sensitivities for General Insurance and Rest of the Business have been developed using general insurance liability cash flow data as of September 30, 2016, re-valued as of December 31, 2016 using standard methodology and models.

Analysis of economic sensitivities for equity risk

Table 5 shows the estimated impacts from a 10 percent decline in stock markets, after consideration of hedges in place, as of December 31, 2016 and 2015, respectively.

Economic equity price sensitivities

Table 5

In USD millions, as of December 31	**2016**	2015
10% decline in stock markets		
General Insurance business		
Net impact after tax	(387)	(459)
Global Life business		
Total impact on Embedded Value	(262)	(289)
Rest of the business		
Net impact after tax	(35)	(31)

Audited

Analysis of economic sensitivities for credit spread risk

Table 6 shows the estimated impacts from a 100 basis points increase in corporate credit spreads, as of December 31, 2016 and 2015, respectively. The sensitivities apply to all fixed income instruments, excluding government, supranational and similar debt securities.

Table 6

Economic credit spread sensitivities

In USD millions, as of December 31	2016	2015
100 basis point increase in credit spreads		
General Insurance business		
Net impact after tax	(1,144)	(1,004)
Global Life business		
Total impact on Embedded Value	(1,122)	(1,056)
Rest of the business		
Net impact after tax	(262)	(220)

Limitations of the analysis for General Insurance and rest of the business:
- The sensitivities show the effects of a change of certain risk factors, while other assumptions remain unchanged.
- The interest rate scenarios assume a parallel shift of all interest rates in the respective currencies. They do not take into account the possibility that interest rate changes might differ by rating class; these are disclosed separately as credit spread risk sensitivities.
- The sensitivity analysis is based on economic net assets, and not on shareholders' equity or net income as set out in the consolidated financial statements.
- The sensitivity analysis is calculated after tax; the Group effective tax rate is 30.7 percent for 2016 and 36.6 percent for 2015.
- The equity market scenarios assume a concurrent movement of all stock markets.
- The sensitivity analysis does not take into account actions that might be taken to mitigate losses. Actions may involve changing the asset allocation, for example through selling and buying assets.
- The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent the Group's view of expected future market changes. In addition to the sensitivities, management uses stress scenarios to assess the impact of more severe market movements on the Group's financial condition. For more information on stress scenarios, see 'impact of market, credit, and insurance scenarios on Z-ECM (unaudited).'

Limitations of the analysis for Global Life:
- The sensitivities show the effects of a change in certain risk factors, while other assumptions remain unchanged, except where they are directly affected by the revised conditions.
- The market risk scenarios assume a concurrent movement of all stock markets and an unrelated parallel shift of all interest rates in different currencies.
- The assumptions on policyholder behavior, such as lapsing of policies, included in the sensitivity analysis for Global Life may be different from actual behavior. Therefore, the actual impact may deviate from the analysis.

Risks from defaults of counterparties

Debt securities

The Group is exposed to credit risk from third-party counterparties where the Group holds securities issued by those entities.

Table 7

Debt securities by rating of issuer

as of December 31	2016		2015	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	28,503	20.3%	29,228	21.2%
AA	46,497	33.2%	47,332	34.4%
A	23,133	16.5%	24,165	17.5%
BBB	35,733	25.5%	32,728	23.8%
BB and below	5,193	3.7%	4,235	3.1%
Unrated	1,122	0.8%	42	0.0%
Total	**140,181**	**100.0%**	**137,730**	**100.0%**

Table 7 shows the credit risk exposure of debt securities, by issuer credit rating. As of December 31, 2016, 95.5 percent of the Group's debt securities was investment grade and 20.3 percent was rated 'AAA.' As of December 31, 2015, 96.9 percent of debt securities was investment grade and 21.2 percent was rated 'AAA.'

In August 2016, the Group revised its investment policy to allow for speculative grade investments without specific authorization. Revised limits are now based on default and recovery rates that tighten progressively for lower ratings. Where the Group identifies investments expected to trigger limit breaches, appropriate actions are implemented.

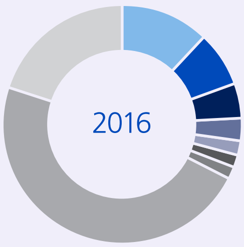
Risk review (continued)

Audited

The risk-weighted average issuer credit rating of the Group's debt securities portfolio is 'BBB+' in 2016, compared with 'BBB' in 2015.

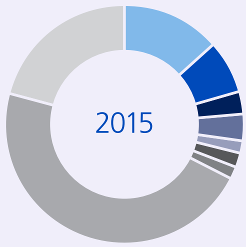
Debt securities – credit risk concentration by industry

%, as of December 31



USD 140bn

MBS/ABS	**12.2%**
Manufacturing	**7.4%**
Others	**4.7%**
Utilities	**3.1%**
Telecom	**1.8%**
Oil & gas	**1.9%**
Chemicals & pharmaceuticals	**1.6%**
Government, supranationals & similar	**47.5%**
Financial institutions & similar	**19.8%**



USD 138bn

MBS/ABS	**13.4%**
Manufacturing	**7.3%**
Others	**3.0%**
Utilities	**3.6%**
Telecom	**1.7%**
Oil & gas	**2.1%**
Chemicals & pharmaceuticals	**1.5%**
Government, supranationals & similar	**46.6%**
Financial institutions & similar	**20.8%**

As of December 31, 2016, the largest concentration in the Group's debt securities portfolio was in governments, supranationals and similar at 47.5 percent. In all other categories, a total of USD 22.0 billion or 29.9 percent was secured. As of December 31, 2015, 46.6 percent of the Group's debt portfolio was invested in governments, supranationals and similar. In all other categories, a total of USD 24.5 billion or 33.3 percent was secured.

Table 8

The Group's debt exposure to eurozone governments and supranationals & similar

in USD millions, as of December 31	**2016**	2015
Germany	3,399	3,261
France	6,152	5,670
Austria	1,929	1,910
Belgium	2,263	2,015
Netherlands	1,273	1,355
Greece	–	–
Ireland	521	529
Italy	9,128	9,330
Portugal	551	515
Spain	6,773	4,970
Rest of eurozone	742	794
Eurozone supranationals and similar	917	665
Total	**33,650**	**31,014**

In addition to debt exposure, the Group had loan exposure of USD 4.3 billion and USD 4.7 billion to the German Central Government or the German Federal States as of December 31, 2016 and 2015, respectively. For more information, see the 'other loans' section.

The second-largest concentration in the Group's debt securities portfolio is in financial institutions (including banks), at 19.8 percent, of which 37.8 percent is secured.

The third-largest concentration in the Group's debt securities portfolio is in structured finance securities (mortgage-backed securities (MBS)/asset-backed securities (ABS) and similar). Although credit risks of the underlying securities are diverse in nature, the Group also considers macro impacts that may affect structured finance sub-categories (e.g., auto or credit card ABS) in its credit assessments. Structured finance exposures are assessed on a look-through basis prior to acquisition and not merely on the strength of prevailing credit ratings or credit profiles.

Audited

Cash and cash equivalents

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

Cash and cash equivalents amounted to USD 7.2 billion as of December 31, 2016 and USD 8.2 billion as of December 31, 2015. The risk-weighted average rating of the overall cash portfolio is 'A–' as of December 31, 2016 and December 31, 2015. 57 percent of the total was with the 10 largest global banks, whose risk-weighted average rating increased from 'A–' as of December 31, 2015 to 'A' as of December 31, 2016.

Mortgage loans

The mortgage business is affected by local property market conditions and local legislation. Investment portfolio allocations made to mortgages take these factors into consideration, are in line with the framework of the strategic asset allocation defined by the Group, and adapted and approved by local investment committees. The Group's largest mortgage loan portfolios are held in Germany (USD 2.4 billion) and in Switzerland (USD 3.5 billion); these are predominantly secured against residential property but also include mortgages secured by commercial property. In Switzerland, the underlying properties backing individual loans are revalued every 10 years. In Germany, the property valuation is not always reassessed after the mortgage loan is granted. A less-frequent, or no revaluation of the underlying property means that reported loan-to-value (LTV) ratios will be higher/lower than they would be if property prices had risen/fallen since their valuation. Conservative lending criteria (i.e., maximum mortgage-loan to property-value ratios) and diversification of loans across many single borrowers, particularly in Germany and in Switzerland, help reduce potential loss.

In 2016 the Group started investing in mortgages in the U.S. (USD 0.6 billion). These are mainly participations in large mortgage loans secured against commercial property.

Business units are required to clearly state criteria for determining borrower and collateral quality in their local investment guidelines. The Group sets requirements for local investment guidelines, and monitoring and reporting standards. The Group closely monitors performance of portfolios with respect to impairments and losses.

For more details, see note 24 in the consolidated financial statements.

Other loans

The credit risk arising from other loans is assessed and monitored together with the 'debt securities' portfolio. 50.4 percent of the reported loans are to governments, supranationals and similar, of which 94.2 percent are to the German Central Government or the German Federal States. Table 9 shows the composition of the loan portfolio by rating class. As of December 31, 2016, a total of USD 5.5 billion or 60.4 percent of loans are secured. As of December 31, 2015, a total of USD 5.0 billion or 52.6 percent of loans were secured.

Table 9

Other loans by rating of issuer

as of December 31	**2016**		2015	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	3,929	43.0%	4,243	44.3%
AA	565	6.2%	696	7.3%
A	3,342	36.5%	1,702	17.8%
BBB and below	1,311	14.3%	1,624	17.0%
Unrated	–	–	1,303	13.6%
Total	**9,146**	**100.0%**	**9,569**	**100.0%**

Risk review (continued)

Audited

Derivatives

The positive replacement value of outstanding derivatives represents a credit risk to the Group. These instruments include interest rate and cross-currency swaps, forward contracts and purchased options. A potential exposure also arises from possible changes in replacement values. The Group regularly monitors credit risk exposures arising from derivative transactions. Outstanding positions with external counterparties are managed through an approval process embedded in derivative programs.

To limit credit risk, derivative financial instruments are typically executed with counterparties rated 'A–' or better by an external rating agency, unless collateral is provided as per the Zurich Risk Policy. The Group's standard practice is to only transact derivatives with those counterparties for which the Group has in place an ISDA Master Agreement, with a Credit Support Annex. This mitigates credit exposures from over-the-counter transactions due to close-out netting and requires the counterparty to post collateral when the derivative position exceeds an agreed threshold. The Group further mitigates credit exposures from derivative transactions by using exchange-traded instruments whenever possible.

In compliance with EMIR (European Market Infrastructure Regulation), applicable clearing obligations were met in 2016.

Risk from currency exchange rates

Currency risk is the risk of loss resulting from changes in exchange rates. The Group operates internationally and therefore is exposed to the financial impact of changes in the exchange rates of various currencies. The Group's presentation currency is the U.S. dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in the euro, Swiss franc and British pound, as well as the U.S. dollar. On local balance sheets a currency mismatch may cause a balance sheet's net asset value to fluctuate, either through income or directly through equity. The Group manages this risk by matching foreign currency positions on local balance sheets within prescribed limits. Residual local mismatches are reported centrally to make use of the netting effect across the Group. Zurich hedges these residual local mismatches within an established limit through a central balance sheet. For information on net gains/losses on foreign currency transactions included in the consolidated income statements, see note 1 of the consolidated financial statements. The monetary currency risk exposure on local balance sheets is considered immaterial.

Differences arise when functional currencies are translated into the Group's presentation currency, the U.S. dollar. The Group applies net investment hedge accounting to protect against the impact that changes in certain exchange rates might have on selected net investments.

Table 10 shows the total IFRS equity's sensitivity to changes in exchange rates for the main functional currencies to which the Group is exposed. Positive values represent an increase in the value of the Group's total equity. See notes 1, 3 and 7 of the consolidated financial statements for additional information on foreign currency translation and transactions.

Table 10

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

in USD millions, as of December 31	**2016**	2015
10% increase in		
EUR/USD rate	515	584
GBP/USD rate	208	220
CHF/USD rate	457	153
BRL/USD rate	139	97
Other currencies/USD rates	546	525

The sensitivities show the effects of a change of the exchange rates only, while other assumptions remain unchanged. The sensitivity analysis does not take into account management actions that might be taken to mitigate such changes. The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent Zurich's view of expected future market changes. While table 10 shows the effect of a 10 percent increase in currency exchange rates, a decrease of 10 percent would have the converse effect.

Other credit risk

Section highlights

Total Z-ECM capital required: USD 33.9 billion

%, as of July 1, 2016

Insurance risk	41%
Market risk, including investment credit risk	55%
Other credit risk	2%
Operational risk	2%

Key risk and capital indicators

Z-ECM, in USD billions

	Q2 2014	Q2 2015	Q2 2016
Reinsurance credit risk	1.4	1.0	0.6

Audited

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. See section 'risks from defaults of counterparties' for market-risk-related asset categories. The Group's exposure to other credit risk is derived from the following main categories of assets:

- Reinsurance assets
- Receivables

The Group's objective in managing credit risk exposures is to maintain them within parameters that reflect the Group's strategic objectives, and risk appetite and tolerance. Sources of credit risk are assessed and monitored, and the Group has policies to manage specific risks within various subcategories of credit risk. To assess counterparty credit risk, the Group uses ratings assigned by external rating agencies, qualified third parties such as asset managers, and internal rating assessments. If external rating agencies' ratings differ, the Group generally applies the lowest, unless other indicators justify an alternative, which may be an internal credit rating.

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

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

Credit risk concentration

The Group has counterparty limits, which are regularly monitored. Exposure to counterparties' parent companies and subsidiaries is aggregated to include reinsurance assets, investments, derivatives, and for the largest counterparties, certain insurance products. There was no unapproved material exposure in excess of the Group's limits for counterparty aggregation as of December 31, 2016 or December 31, 2015.

On-balance sheet exposures are the main source of credit risk. Off-balance sheet credit exposures are related primarily to certain insurance products and collateral used to protect underlying credit exposures on the balance sheet. The Group also has off-balance sheet exposures related to undrawn loan commitments of USD 7 million and USD 8 million as of December 31, 2016 and 2015, respectively. See note 22 of the consolidated financial statements for undrawn loan commitments.

Risk review (continued)

Audited

Credit risk related to reinsurance assets

The Group's Corporate Reinsurance Security Committee manages the credit quality of cessions and reinsurance assets. The Group typically cedes new business to authorized reinsurers with a minimum rating of 'A–.' As of December 31, 2016 and 2015 respectively, 66 percent and 73 percent of the business ceded to reinsurers that fall below 'A–' or are not rated is collateralized. Of the business ceded to reinsurers that fall below 'A–' or are not rated, 32 percent was ceded to captive insurance companies, in 2016 and in 2015.

Reinsurance assets included reinsurance recoverables (the reinsurers' share of reserves for insurance contracts) of USD 18.4 billion and USD 17.9 billion, and receivables arising from ceded reinsurance of USD 1.4 billion and USD 0.9 billion as of December 31, 2016 and 2015, respectively, gross of allowance for impairment. Reserves for potentially uncollectible reinsurance assets amounted to USD 94 million as of December 31, 2016 and USD 149 million as of December 31, 2015. The Group's policy on impairment charges takes into account both specific charges for known situations (e.g., financial distress or litigation) and a general, prudent provision for unanticipated impairments.

Reinsurance assets in table 11 are shown before taking into account collateral such as cash or bank letters of credit and deposits received under ceded reinsurance contracts. Except for an immaterial amount, letters of credit are from banks rated 'A–' and better. Compared with December 31, 2015, collateral decreased by USD 0.6 billion to USD 8.4 billion. In 2015, reinsurance assets and collateral increased due to the sale of a run-off portfolio.

Table 11 shows reinsurance premiums ceded and reinsurance assets split by rating.

Table 11

Reinsurance premiums ceded and reinsurance assets by rating of reinsurer and captive

as of December 31	**2016**				2015			
	Premiums ceded		**Reinsurance assets**		Premiums ceded		Reinsurance assets	
	USD millions	**% of total**	**USD millions**	**% of total**	USD millions	% of total	USD millions	% of total
Rating								
AAA	68	0.9%	29	0.1%	72	0.9%	36	0.2%
AA	2,178	27.9%	5,402	27.3%	1,188	14.7%	4,770	25.6%
A	2,883	36.9%	8,625	43.6%	2,284	28.3%	8,271	44.3%
BBB	933	11.9%	1,366	6.9%	861	10.7%	1,244	6.7%
BB	267	3.4%	566	2.9%	325	4.0%	530	2.8%
B	310	4.0%	379	1.9%	258	3.2%	194	1.0%
Unrated	1,205	15.0%	3,383	17.3%	3,090	38.3%	3,617	19.4%
Total[1]	**7,843**	**100.0%**	**19,749**	**100.0%**	**8,078**	**100.0%**	**18,662**	**100.0%**

[1] The value of the collateral received amounts to USD 8.4 billion and USD 9.0 billion as of December 31, 2016 and 2015, respectively.

Audited

Credit risk related to receivables

The Group's largest credit-risk exposure to receivables is related to third-party agents, brokers and other intermediaries. It arises where premiums are collected from customers to be paid to the Group, or to pay claims to customers on behalf of the Group. The Group has policies and standards to manage and monitor credit risk related to intermediaries. The Group requires intermediaries to maintain segregated cash accounts for policyholder money. The Group also requires that intermediaries satisfy minimum requirements of capitalization, reputation and experience, and provide short-dated business credit terms.

Receivables that are past due but not impaired should be regarded as unsecured, but some of these receivable positions may be offset by collateral. The Group reports internally on Group past-due receivable balances and strives to keep the balance of past-due positions as low as possible, while taking into account customer satisfaction.

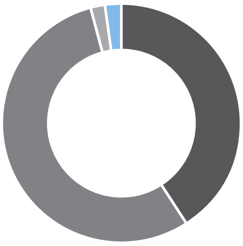
Receivables from ceded reinsurance are part of reinsurance assets and are managed accordingly. See notes 15 and 24 of the consolidated financial statements for additional information on receivables.

Risk review (continued)

Operational risk

Section highlights

Total Z-ECM capital required: USD 33.9 billion
%, as of July 1, 2016



Insurance risk	41%
Market risk, including investment credit risk	55%
Other credit risk	2%
Operational risk	2%

Key risk and capital indicators
Z-ECM, in USD billions

	Q2 2014	Q2 2015	Q2 2016
Operational risk	1.1	0.9	0.6

Audited

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events such as external fraud, catastrophes, or failure in outsourcing arrangements.

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

- Uses a scenario-based approach to assess, model and quantify the capital required for operational risk for business units under extreme circumstances. This approach allows information to be compared across the Group and highlights the main scenarios contributing to the Z-ECM capital required. See chart 'Z-ECM capital required for operational risk split by risk scenarios (unaudited)' for more information.
- Documents and reviews loss events exceeding a threshold determined by the Zurich Risk Policy. Remedial action is taken to avoid a recurrence of such operational loss events.
- Conducts risk assessments where operational risks are identified for key business areas. Risks identified and assessed above a certain threshold must be mitigated. Risk mitigation plans are documented and tracked on an ongoing basis. In the assessments, the Group uses such sources of information as the Total Risk Profiling™ process, internal control assessments, and audit findings, as well as scenario modeling and loss event data.

The Group has specific processes and systems in place to focus on high-priority operational matters such as managing information security and third-party suppliers, as well as combating fraud.

Zurich mitigates and responds to cyber risks and threats to data security. Data held by Zurich's business partners is protected through contractual arrangements and controls that are built into 'cloud governance' procedures designed to secure Zurich's data in accordance with regulatory requirements and the Group's information security policies.

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

Preventing, detecting and responding to fraud are embedded in Zurich's business. Both claims and non-claims fraud are included in the common framework for assessing and managing operational risks. For Z-ECM calculations, claims fraud is part of insurance risk and non-claims fraud is part of operational risk.

As part of Z-ECM, the Group uses a scenario-based approach to assess, model and quantify the capital required for operational risk under extreme circumstances and with a very slight probability of occurrence. The chart below shows the operational risk scenarios that have the highest impact on Z-ECM capital required.

Z-ECM capital required for operational risk, split by risk scenario clusters
as of July 1, 2016

Risk scenario clusters contributing to the Z-ECM capital required for operational risk

Regulatory and tax compliance: This risk cluster relates to possible non-compliance with applicable laws and regulations, leading to a range of consequences. It includes fines and penalties, litigation, compensation to policyholders, increased regulatory scrutiny, financial losses and increased cost of compliance, as well as consequences from a possible failure to comply with tax requirements.	**17.6%**
Market abuse, mis-selling and conduct of business: This risk cluster relates to the possibility that staff, processes or systems may operate in ways that lead to inappropriate conduct of business in relation to the customer. It includes the possibility of investigations, sanctions and fines imposed on Zurich as a company or any member of staff as a result of market abuse, mis-selling practices leading to regulatory breach or increased compensation.	**17.5%**
M&A – due diligence and integration: This risk cluster relates to poor execution of both the due diligence and the post-M&A integration processes. It includes the understatement of liabilities and required investments, operational or legal risks in the acquired business, inadequate transaction decisions, loss of key staff, inability to realize synergies or deliver benefits.	**14.5%**
Outsourcing: This risk cluster relates to the need to exit a strategic supplier arrangement for (i) poor service quality; or (ii) a foreseeable disruption in services to financial distress of the ultimate parent company.	**10.2%**
Other scenarios, e.g., project management, employment malpractice, record retention, licensing.	**40.2%**

Risk management and internal controls

The Group considers controls to be key instruments for managing operational risk. The Board has overall responsibility for the Group's risk management and internal control frameworks, in particular for their adequacy and integrity. The Group's internal control system increases the reliability of Zurich's financial reporting, makes operations more effective, and aims to ensure legal and regulatory compliance. The internal controls system is designed to mitigate rather than eliminate the material risk that business objectives might not be met. It provides reasonable assurance against material financial misstatements or operational losses.

The Group promotes risk awareness and understanding of controls with communication and training. Primary risk management and internal control systems are designed at Group level and implemented Group-wide.

Management, as the first line of defense, is responsible for identifying, evaluating and addressing significant risks, and designing, implementing and maintaining internal controls. Key processes and controls in the organization are subject to reviews by management, Group Risk Management, Group Compliance, and Group Audit. Significant risks and associated mitigation actions are reported regularly to the Risk and Investment Committee and the Audit Committee of the Board.

In 2016, the Group enhanced specific areas of the internal control framework, focusing on significant financial reporting controls as well as controls to ensure the integrity of our regulatory and internal capital calculations. Internal control certification processes are conducted regularly by local business units throughout the Group.

Significant controls are assessed for their design and operating effectiveness. Significant control issues or issues affecting more than one business unit may be categorized as having Group-level significance. The Risk and Investment Committee of the Board and the Audit Committee of the Board monitor resolution of such issues.

The Group's Disclosure Committee, chaired by the Group Controller, assesses the content, accuracy and integrity of the disclosures and the effectiveness of the internal controls over financial reporting. The conclusions result in a recommendation to the Group Chief Financial Officer to release the financial disclosures to the Board Audit Committee, which may challenge further. The Board reviews and approves results announcements and the Annual Report. This ensures that both the Board and management have sufficient opportunity to review and challenge the Group's financial statements and other significant disclosures before they are made public.

Risk review (continued)

The Risk and Investment Committee of the Board has reviewed the effectiveness of the Group's risk management system, including the Group's risk tolerance and enterprise-wide risk governance framework, and the Audit Committee of the Board has reviewed the effectiveness of the system of control over financial reporting for the calendar year 2016 and has reported to the Board accordingly. Issues identified have been communicated to the Board and have been or are being addressed by the Group.

The internal and external auditors also regularly report conclusions, observations and recommendations that arise as a result of their independent reviews and testing of internal controls over financial reporting and operations.

Audited

Liquidity risk

Liquidity risk is the risk that the Group may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. Zurich's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under normal conditions and in times of stress. To achieve this, the Group assesses, monitors and manages its liquidity needs on an ongoing basis.

Group-wide liquidity management policies and specific guidelines govern how local businesses plan, manage and report their local liquidity and include regular stress tests for all major carriers within the Group. The stress tests use a standardized set of internally defined stress events, and are designed to provide an overview of the potential drain on liquidity if the Group had to recapitalize local balance sheets. Similar guidelines apply at the Group level, and detailed liquidity forecasts are regularly conducted, based on local businesses' input and the Group's forecasts. As part of its liquidity management, the Group maintains sufficient cash and cash equivalents and high-quality, liquid investment portfolios to meet outflows under expected and stressed conditions. The Group also maintains internal liquidity sources that cover the Group's potential liquidity needs, including those that might arise in times of stress. The Group takes into account the amount, availability and speed at which these sources can be accessed. The Group has access to diverse funding sources to cover contingencies, including asset sales, external debt issuance and making use of committed borrowing facilities or letters of credit. The Group maintains a range of maturities for external debt securities. A potential source of liquidity risk is the effect of a downgrade of the Group's credit rating. This could affect the Group's commitments and guarantees, potentially increasing liquidity needs. This risk, and mitigating actions that might be employed, are assessed on an ongoing basis within the Group's liquidity framework.

The Group limits the percentage of the investment portfolio that is not readily realizable and regularly monitors exposures to take action if necessary to maintain an appropriate level of asset liquidity. During 2016, the Group was within its limits for asset liquidity.

The fair value hierarchy tables in note 23 of the consolidated financial statements segregate financial assets into three levels, reflecting the basis for how fair value was determined. These tables indicate the high degree of liquidity of the Group's investments.

See note 18 of the consolidated financial statements for more information on debt obligation maturities and credit facilities and note 22 of the consolidated financial statements for information on commitments and guarantees. The Group's ongoing liquidity monitoring includes regular reporting to the executive management and quarterly reporting to the Risk and Investment Committee of the Board, covering aspects such as the Group's actual and forecast liquidity, possible adverse scenarios that could affect the Group's liquidity and possible liquidity needs from the Group's main subsidiaries, including under conditions of stress.

For more information on the Group's other financial liabilities, see note 16 of the consolidated financial statements. See note 6 of the consolidated financial statements for information on the maturity of debt securities for total investments.

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis. See note 22 of the consolidated financial statements.

Audited

Strategic risk and risks to the Group's reputation

Strategic risk

Strategic risk corresponds to the risk that Zurich is unable to achieve its strategic targets.

Strategic risks can arise from:

- → Inadequate assessment of strategic plans
- → Ineffective implementation of strategic plans
- → Unexpected changes to assumptions underlying strategic plans

Zurich defines the strategy as the long-term plan of action designed to allow the Group to achieve its goals and aspirations.

The Group works to reduce unintended risks of strategic business decisions through its risk assessment processes and tools, including the Total Risk Profiling™ (TRP) process. As part of the regular TRP process, in 2016 the Executive Committee (ExCo) assessed the key strategic risk scenarios, looking at 2017 and beyond. The Group TRP identified and assessed risks in executing the Group's operational transformation, maintaining customer focus and execution of technical excellence, information security and cyber risks, adverse Brexit outcomes, euro banking crisis, and adverse reserve development arising from accelerating inflation and inflation expectations. Mitigation actions have been assigned to executive owners and their status is reviewed at least quarterly.

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

Risks to the Group's reputation

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

The Group aims to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of Zurich Basics, the Group's code of conduct, which promotes integrity and good business practice. The Group centrally manages certain aspects of reputation risk, for example, communications, through functions with the appropriate expertise.

Operating and financial review

The operating and financial review is the management analysis of the business performance of Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) for the years ended December 31, 2016, compared with 2015.

Contents

The information contained within the operating and financial review is unaudited and is based on the consolidated results of the Group for the years ended December 31, 2016 and 2015. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated, with the consequence that the rounded amounts may not always add up to the rounded total. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts. This document should be read in conjunction with the annual results 2016 of the Group and, in particular, with its consolidated financial statements and embedded value report for the year ended December 31, 2016.

In addition to the figures stated in accordance with International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business measures and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the separately published glossary. These should be viewed as complementary to, and not as substitutes for the IFRS figures. For a reconciliation of BOP to net income attributable to shareholders (NIAS), see table 27.2 in note 27 of the consolidated financial statements.

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.

Financial highlights

in USD millions, for the years ended December 31, unless otherwise stated	2016	2015	Change[1]
Business operating profit	**4,530**	2,916	55%
Net income attributable to shareholders	**3,211**	1,842	74%
General Insurance gross written premiums and policy fees	**33,122**	34,020	(3%)
Global Life gross written premiums, policy fees and insurance deposits	**30,347**	29,037	5%
Farmers Management Services management fees and other related revenues	**2,867**	2,786	3%
Farmers Re gross written premiums and policy fees	**1,587**	2,145	(26%)
General Insurance business operating profit	**2,435**	864	182%
General Insurance combined ratio	**98.4%**	103.6%	5.1 pts
Global Life business operating profit	**1,344**	1,300	3%
Global Life new business annual premium equivalent (APE)[2]	**4,779**	4,772	–
Global Life new business margin, after tax (as % of APE)[2]	**21.0%**	21.6%	(0.6 pts)
Global Life new business value, after tax[2]	**866**	912	(5%)
Farmers business operating profit	**1,520**	1,421	7%
Farmers Management Services gross management result	**1,367**	1,338	2%
Farmers Management Services managed gross earned premium margin	**7.0%**	7.1%	(0.1 pts)
Average Group investments	**190,523**	198,049	(4%)
Net investment result on Group investments	**7,045**	7,462	(6%)
Net investment return on Group investments[3]	**3.7%**	3.8%	(0.1 pts)
Total return on Group investments[3]	**4.3%**	1.7%	2.6 pts
Shareholders' equity[4]	**30,660**	31,178	(2%)
Z-ECM[5]	**122%**	121%	1.0 pts
Diluted earnings per share (in USD)	**21.36**	12.33	73%
Diluted earnings per share (in CHF)	**21.04**	11.86	77%
Book value per share (in CHF)[4]	**208.44**	209.27	–
Return on common shareholders' equity (ROE)[6]	**11.8%**	6.4%	5.4 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[6]	**11.6%**	6.4%	5.2 pts

[1] Parentheses around numbers represent an adverse variance.
[2] Details of the principles for calculating new business are included in the embedded value report in the annual results 2016. New business value and new business margin are calculated after the effect of non-controlling interests, whereas APE is presented before non-controlling interests.
[3] Calculated on average Group investments.
[4] As of December 31, 2016 and December 31, 2015, respectively.
[5] Ratios as of December 31, 2016 and December 31, 2015, respectively. Ratio for December 31, 2016 reflects midpoint estimate with an error margin of +/–5ppts.
[6] Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

Performance overview

The Group's business operating profit of USD 4.5 billion increased by USD 1.6 billion, or 55 percent in U.S. dollar terms and 62 percent on a local currency basis compared with 2015, as underlying performance in all core businesses improved. The General Insurance result progressed favorably following the impact of re-underwriting and pricing actions initiated in the second six months of 2015. The result also benefited from lower catastrophe losses and weather related events, as well as favorable prior year development. Global Life achieved a strong result and continued to grow, while maintaining its focus on priority markets and on extracting value from in-force business. Farmers Management Services also continued its positive momentum from premium growth, though Farmers Re incurred higher losses, mainly as a result of higher catastrophe events.

Net income attributable to shareholders of USD 3.2 billion increased by USD 1.4 billion, or by 74 percent in U.S dollar terms and 82 percent on a local currency basis. The increase arose mainly from the increase in business operating profit, as well as the impairment of goodwill in 2015 and lower restructuring charges.

The Group's capital and solvency positions remained strong and enabled the Board of Directors to propose a dividend of CHF 17 per share. Solvency measured on an economic basis as determined under the Zurich Economic Capital Model (Z-ECM) was estimated at 122 percent as of December 31, 2016, above the target range of 100 to 120 percent and remained stable. Shareholders' equity decreased by USD 518 million to USD 30.7 billion during 2016. This decrease resulted from the cost of the dividend approved in March 2016, net actuarial losses on pension plans and negative currency translation adjustments, partly offset by the net income and net unrealized gains on investments.

Business operating profit increased by USD 1.6 billion to USD 4.5 billion, or by 55 percent in U.S. dollar terms and increased 62 percent on a local currency basis.

- → **General Insurance** business operating profit increased by USD 1.6 billion to USD 2.4 billion, resulting mainly from an improvement in the net underwriting result of USD 1.4 billion across all regions.
- → **Global Life** business operating profit increased by USD 44 million to USD 1.3 billion, or 3 percent in U.S. dollar terms and 9 percent on a local currency basis. Improvements on a local currency basis in Latin America, EMEA and Asia Pacific were offset by a lower contribution from North America. Lower overall costs net of deferrals and improvements in investment margin were partly offset by a deterioration in the technical margin.
- → **Farmers** business operating profit increased by USD 99 million to USD 1.5 billion, or by 7 percent. **Farmers Management Services** business operating profit increased by USD 118 million to USD 1.5 billion, driven by growth in gross earned premiums of the Farmers Exchanges[1] and a one-time USD 86 million favorable impact as a result of a pension plan curtailment gain. **Farmers Re** business operating profit decreased by USD 19 million to USD 42 million, due to a lower underwriting result compared with 2015.
- → **Other Operating Businesses** reported a business operating loss of USD 758 million, compared with a loss of USD 720 million in 2015. The increased loss was primarily due to the impact of less favorable foreign exchange movements and several one-off items in both 2016 and 2015.
- → **Non-Core Businesses** reported a business operating loss of USD 11 million compared with a profit of USD 51 million in 2015. This deterioration resulted from a higher release of long-term reserves in 2015 compared with 2016, as a consequence of a buy-back program for a variable annuity product in the U.S.

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

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, decreased by USD 65 million to USD 67.9 billion, broadly flat in U.S. dollar terms, but increased 4 percent on a local currency basis.

- **General Insurance** gross written premiums and policy fees decreased by USD 898 million to USD 33.1 billion, or 3 percent in U.S. dollar terms, but remained flat on a local currency basis. 2016 includes the acquisition of Rural Community Insurance Services (RCIS) in North America Commercial beginning April 1, 2016. Excluding RCIS, gross written premiums decreased by 4 percent on a local currency basis, with decreases across all regions except Latin America.
- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 1.3 billion to USD 30.3 billion, or 5 percent in U.S. dollar terms and 10 percent on a local currency basis. The increase on a local currency basis occurred predominantly in EMEA, driven by higher sales of Corporate Life & Pensions and individual savings business, and in Latin America, which included the effect of a large corporate contract in Chile.
- **Farmers Management Services** management fees and other related revenues increased by USD 81 million to USD 2.9 billion, or 3 percent, due to growth in gross earned premiums of the Farmers Exchanges. **Farmers Re** gross written premiums and policy fees decreased by USD 558 million to USD 1.6 billion, or by 26 percent, due to lower reinsurance assumed from the Farmers Exchanges.

The **net investment result on Group investments**, before allocations to policyholders, of USD 7.0 billion decreased by USD 417 million, or by 6 percent in U.S. dollar terms and 3 percent on a local currency basis, resulting in a **net investment return on average Group investments** of 3.7 percent compared with 3.8 percent in 2015. **Net investment income**, predominantly included in the core business results, of USD 5.5 billion decreased by USD 87 million, or 2 percent in U.S. dollar terms, but was 1 percent higher on a local currency basis. **Net capital gains on investments and impairments** included in the net investment result decreased by USD 330 million to USD 1.6 billion, mainly due to lower realizations compared with 2015. **Total return on average Group investments** was 4.3 percent, compared with 1.7 percent for 2015. Total return includes the net investment return and the favorable impact from net unrealized investment gains before allocations to policyholders, of USD 1.1 billion compared with losses of USD 4.1 billion in 2015, neither of which flow through net income. This improvement arose mainly as a result of positive equity market performance in 2016 and falling bond yields compared with rising bond yields during 2015.

The U.S. dollar, on average, strengthened during 2016 compared with 2015 against all of the Group's major trading currencies. The translation effect of the strengthening of the U.S. dollar during 2016 affected many line items in both the consolidated income and cash flow statements, and reduced business operating profit by USD 197 million. As of December 31, 2016 compared with December 31, 2015, the U.S. dollar was stronger against major currencies in particular the British pound, which weakened 16 percent following the EU membership referendum vote, and affecting most line items in the balance sheet.

The **shareholders' effective tax rate** decreased to 30.7 percent for the period ended December 31, 2016 compared with 36.6 percent for 2015. The decrease of 5.9 percentage points reflects changes in the geographical profit mix and the effect of several non-recurring charges in 2015, which did not attract tax relief.

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

General Insurance

in USD millions, for the years ended December 31	2016	2015	Change
Gross written premiums and policy fees	33,122	34,020	(3%)
Net earned premiums and policy fees	26,102	28,051	(7%)
Insurance benefits and losses, net of reinsurance	17,394	20,152	14%
Net underwriting result	412	(1,002)	nm
Net investment result	2,086	2,002	4%
Net non-technical result (excl. items not included in BOP)	70	(29)	nm
Non-controlling interests	133	108	(23%)
Business operating profit	**2,435**	**864**	**182%**
Loss ratio	66.6%	71.8%	5.2 pts
Expense ratio	31.8%	31.7%	(0.1 pts)
Combined ratio	**98.4%**	**103.6%**	**5.1 pts**

in USD millions, for the years ended December 31	Business operating profit (BOP)		Combined ratio	
	2016	2015	2016	2015
Global Corporate	322	(345)	104.2%	113.9%
North America Commercial	973	768	96.1%	98.2%
Europe, Middle East & Africa (EMEA)	1,016	403	95.4%	101.3%
International Markets	364	82	95.4%	103.3%
GI Global Functions including Group Reinsurance	(240)	(45)	nm	nm
Total	**2,435**	**864**	**98.4%**	**103.6%**

Business operating profit increased by USD 1.6 billion to USD 2.4 billion, resulting mainly from an improvement in the net underwriting result of USD 1.4 billion across all regions. The non-technical result improved largely due to foreign exchange gains and the sale of own-use real estate in Germany. The net investment result benefited from higher hedge fund gains compared with 2015, mostly in North America.

Gross written premiums and policy fees decreased by USD 898 million to USD 33.1 billion, or 3 percent in U.S. dollar terms, but remained flat on a local currency basis. Excluding RCIS in the North America Commercial result, gross written premiums overall decreased by 4 percent on a local currency basis, with decreases across all regions except Latin America. The decreases were a result of the focus on profitability, the impact of soft market conditions and exiting business in South Africa and Morocco. Overall, rates rose by around 2 percent in 2016.

The **net underwriting result** improved by USD 1.4 billion to USD 412 million, with an overall combined ratio of 98.4 percent, an improvement of 5.1 percentage points from 2015. The loss ratio improved by 5.2 percentage points reflecting lower catastrophe and weather events, and an improvement in large and underlying loss experience across most regions. The result also reflects favorable development in loss reserves established in prior years compared with negative development in 2015. The favorable development in 2016 was due to reductions in most regions, partly offset by Group Reinsurance. The expense ratio remained at prior year levels, reflecting a lower expense base as a result of initiatives to reduce costs across all regions and the effect of positive non-recurring items in 2016, offset by lower premium volumes.

Global Corporate

in USD millions, for the years ended December 31	**2016**	2015	Change
Gross written premiums and policy fees	7,681	8,670	(11%)
Net underwriting result	(209)	(835)	75%
Business operating profit	**322**	**(345)**	**nm**
Loss ratio	80.8%	91.2%	10.4 pts
Expense ratio	23.4%	22.7%	(0.7 pts)
Combined ratio	**104.2%**	**113.9%**	**9.7 pts**

Business operating profit increased by USD 667 million to USD 322 million, mainly due to the improvement in the net underwriting result.

Gross written premiums and policy fees of USD 7.7 billion decreased by USD 989 million, or 11 percent in U.S. dollar terms and 8 percent on a local currency basis. This reflected the outcome of re-underwriting measures taken to restore profitability in both existing books and new business. Rates overall increased by 1 percent in 2016, despite continued rate pressure, particularly in North America.

The **net underwriting result** improved by USD 626 million to an underwriting loss of USD 209 million, reflected in the improvement of 9.7 percentage points in the combined ratio to 104.2 percent. The improvement in the loss ratio of 10.4 percentage points was mainly attributable to positive development of reserves established in prior years compared with negative development in 2015, as well as lower catastrophe and weather related losses in Asia Pacific, EMEA and North America. The expense ratio increased by 0.7 percentage points, mainly as a result of lower premium volumes despite reduced costs and the effect of positive non-recurring items in 2016.

North America Commercial

in USD millions, for the years ended December 31	2016	2015	Change
Gross written premiums and policy fees	11,917	10,742	11%
Net underwriting result	311	146	nm
Business operating profit	**973**	**768**	**27%**
Loss ratio	65.4%	67.0%	1.6 pts
Expense ratio	30.7%	31.2%	0.4 pts
Combined ratio	**96.1%**	**98.2%**	**2.0 pts**

Business operating profit increased by USD 205 million to USD 973 million, or by 27 percent, due to the improved net underwriting result and a higher net investment result mainly driven by hedge-fund gains.

Gross written premiums and policy fees increased by USD 1.2 billion to USD 11.9 billion, or by 11 percent. This increase was driven by the completion of the acquisition of RCIS on March 31, 2016 with its results included as of April 1, 2016. RCIS is a provider of agricultural insurance in the U.S. through a federal crop insurance program and other private crop insurance products. Excluding RCIS, gross written premiums and policy fees decreased by 2 percent as a result of underwriting measures. The rate environment remained positive with overall rates increased by 1 percent.

The **net underwriting result** increased by USD 165 million to USD 311 million, reflected in the 2.0 percentage points improvement in the combined ratio to 96.1 percent. Despite higher loss ratio pertaining to the RCIS business, the overall ratio decreased by 1.6 percentage points, mainly attributable to an improvement in the underlying losses. In addition, the result benefited from positive development of reserves established in prior years compared with negative development in 2015. This was partly offset by an increase in catastrophe and weather related losses. The expense ratio improved by 0.4 percentage points, as a result of initiatives to reduce costs, the effect of positive non-recurring items in 2016 and the inclusion of RCIS. This was partly offset by higher commissions due to change in business mix in the non RCIS book.

Europe, Middle East & Africa

in USD millions, for the years ended December 31	2016	2015	Change
Gross written premiums and policy fees	10,162	10,955	(7%)
Net underwriting result	458	(138)	nm
Business operating profit	**1,016**	**403**	**nm**
Loss ratio	64.0%	69.1%	5.2 pts
Expense ratio	31.4%	32.1%	0.7 pts
Combined ratio	**95.4%**	**101.3%**	**5.9 pts**

Business operating profit increased by USD 613 million to USD 1.0 billion, as a result of an improvement in the net underwriting result, supported by an improved non-technical result.

Gross written premiums and policy fees decreased by USD 793 million to USD 10.2 billion, or by 7 percent in U.S. dollar terms and 4 percent on a local currency basis. This reflects the outcome of re-underwriting measures taken to restore profitability from both existing books and new business and the exit of business in South Africa and Morocco in the fourth quarter of 2016. Premiums written declined in some markets where competitive pressure remained.

The **net underwriting result** improved by USD 595 million to USD 458 million, reflected in the positive development in the combined ratio of 5.9 percentage points to 95.4 percent. The loss ratio improved by 5.2 percentage points resulting from a lower current accident year loss ratio. The expense ratio improved by 0.7 percentage points, as a result of initiatives to reduce costs and the effect of positive non-recurring items in 2016.

Operating and financial review (continued)

International Markets

in USD millions, for the years ended December 31	2016	2015	Change
Gross written premiums and policy fees	3,556	3,894	(9%)
Net underwriting result	145	(112)	nm
Business operating profit	**364**	**82**	**nm**
Loss ratio	49.2%	56.5%	7.4 pts
Expense ratio	46.3%	46.8%	0.5 pts
Combined ratio	**95.4%**	**103.3%**	**7.9 pts**

Business operating profit increased by USD 282 million to USD 364 million. The increase resulted from improvements in the net underwriting result and the non-technical result. The latter was mainly a result of foreign exchange gains.

Gross written premiums and policy fees decreased by USD 337 million to USD 3.6 billion, or 9 percent in U.S. dollar terms, but remained flat on a local currency basis. On a local currency basis, gross written premiums grew by 5 percent in Latin America due to the impact of inflation in the region, mainly in Argentina. Despite growth in some areas of Asia Pacific, premiums decreased overall by 6 percent on a local currency basis due to the impact of underwriting actions taken in Australia. Overall, International Markets achieved average rate increases of 1 percent in 2016.

The **net underwriting result** improved by USD 257 million to USD 145 million, reflected in the 7.9 percentage points improvement in the combined ratio to 95.4 percent. The loss ratio improved by 7.4 percentage points, mainly as a result of an improvement in the current accident year loss ratio, as well as higher levels of favorable development of loss reserves established in prior years compared with 2015. The expense ratio improved by 0.5 percentage points as a result of initiatives to reduce costs and the effect of positive non-recurring items in 2016.

Global Life

in USD millions, for the years ended December 31	2016	2015	Change
Insurance deposits	14,817	14,591	2%
Gross written premiums and policy fees	15,530	14,446	7%
Net investment income on Group investments	3,244	3,320	(2%)
Insurance benefits and losses, net of reinsurance	(11,510)	(8,612)	(34%)
Business operating profit	**1,344**	**1,300**	**3%**
Net policyholder flows[1]	8,338	7,200	16%
Assets under management[2, 3]	255,722	254,210	1%
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[3]	209,118	207,542	1%

[1] Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.
[2] Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties, on which fees are earned.
[3] As of December 31, 2016 and December 31, 2015, respectively.

New business – highlights

in USD millions, for the years ended December 31	2016	2015	Change
New business annual premium equivalent (APE)[1]	**4,779**	**4,772**	**–**
New business margin, after tax[2]	**21.0%**	**21.6%**	**(0.6 pts)**
New business value, after tax[3]	**866**	**912**	**(5%)**

[1] APE is shown gross of non-controlling interests.
[2] New business margin is calculated using new business value as a percentage of APE based on figures net of non-controlling interests for both metrics.
[3] New business value is calculated on embedded value principles net of non-controlling interests.

Source of earnings[1]

in USD millions, for the years ended December 31	2016	2015	Change
Loadings and fees	3,620	3,829	(5%)
Investment margin	571	511	12%
Technical margin	927	1,122	(17%)
Operating and funding costs	(1,539)	(1,776)	13%
Acquisition costs	(2,509)	(2,763)	9%
Impact of deferrals	274	376	(27%)
Business operating profit	**1,344**	**1,300**	**3%**

[1] Each line represents the Group's interest after deducting non-controlling interests, amounting in total to USD 255 million in 2016 and USD 223 million in 2015 in business operating profit.

Operating and financial review (continued)

Business operating profit increased by USD 44 million to USD 1.3 billion, or 3 percent in U.S. dollar terms and 9 percent on a local currency basis. Improvements on a local currency basis in Latin America, EMEA, and Asia Pacific were partly offset by a lower contribution from North America. In EMEA, the main improvement on a local currency basis arose through the investment margin and lower overall costs. This improvement was partly offset by a deterioration in the technical margin from higher claims and lower fees due to lower volumes and change in mix of business. Asia Pacific benefited from growth, including the contribution of recent acquisitions, and the transition to run-off of the Singapore business, with a corresponding transfer to Non-Core Businesses. In Latin America, higher volumes, increased investment returns and overall favorable claims experience were the main contributors on a local currency basis. North America was mainly affected by an adverse variance resulting from a review of expected persistency in certain universal life books of business.

Loadings and fees deteriorated by USD 209 million to USD 3.6 billion, or by 5 percent in U.S dollar terms, but remained flat on a local currency basis. In local currency, volume growth in Latin America and the positive contribution from the recent acquisitions in Asia Pacific, both MAA Takaful Berhad insurance company in Malaysia and the retail life insurance protection business of Macquarie Group in Australia, were offset by lower fees in EMEA largely from lower single premium business in Germany and changes in mix of business in the UK.

Investment margin improved by USD 60 million to USD 571 million, or 12 percent in U.S. dollar terms, and 18 percent on a local currency basis. The improvement largely occurred in EMEA and Latin America. In EMEA the increase arose mainly from lower policyholder crediting rates in Switzerland and in Germany, consistent with market conditions, and higher asset bases in Spain and Italy, where business has been growing. In Latin America, local currency improvements were driven by higher investment returns, mostly in Brazil and Mexico.

Technical margin deteriorated by USD 194 million to 927 million, or by 17 percent in U.S dollar terms and 14 percent on a local currency basis. This deterioration was predominantly driven by adverse claims experience in EMEA and the International Group Risk (IGR) business, where higher than expected levels of large losses occurred.

Operating and funding costs improved by USD 237 million to USD 1.5 billion, or by 13 percent in U.S dollar terms, and 9 percent on a local currency basis. In local currency, the positive impact of disciplined central expense management, expense reductions across EMEA and a one-off benefit relating to unit-linked funds in the UK were partly offset by project costs for growth initiatives in other regions.

Acquisition costs decreased by USD 253 million to USD 2.5 billion, or by 9 percent in U.S dollar terms, and by 5 percent on a local currency basis. The decrease on a local currency basis reflected lower volumes of business, particularly in Germany, and changes in business mix in the rest of EMEA and in North America. The contribution from the **impact of deferrals** decreased by USD 102 million to USD 274 million, or by 27 percent both in U.S. dollar terms and on a local currency basis. The negative effect arose mainly in North America, resulting from the review of expected persistency in certain universal life books of business and changes in product mix, and in EMEA, also impacted by changes in product mix.

Insurance deposits increased by USD 227 million to USD 14.8 billion, or 2 percent in U.S. dollar terms and 8 percent on a local currency basis. On a local currency basis, increases occurred in EMEA driven by Corporate Life & Pensions products in the UK, partly offset in Ireland, where a small number of large contracts boosted volumes in 2015.

Gross written premiums and policy fees increased by USD 1.1 billion to USD 15.5 billion, or by 7 percent in U.S. dollar terms and 11 percent on a local currency basis. The increase on a local currency basis arose predominantly in EMEA and Latin America, from higher sales of individual savings products in Spain, individual protection products in Zurich Santander and a large corporate contract in Chile, with a partial offset due to lower sales of single premium products in Germany.

Net policyholder flows were positive at USD 8.3 billion and USD 1.1 billion higher compared with 2015. The majority of the improvement occurred in the retail business in EMEA, driven by individual savings business in Spain, with a partial offset in Germany due to lower single premium business. **Assets under management** increased by 1 percent in U.S. dollar terms and 7 percent on a local currency basis compared with December 31, 2015. The increase was driven by positive net policyholder flows and favorable market movements. In U.S. dollar terms, this increase was offset by the impact of the weaker British pound against the U.S. dollar on investments denominated in British pounds. **Net reserves** increased by 1 percent in U.S. dollar terms, and by 8 percent on a local currency basis compared with December 31, 2015, substantially reflecting movements similar to those in the related assets.

NBV, APE, NBM and BOP by region

in USD millions, for the years ended December 31	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[2]		New business margin, after tax (as % of APE) (NBM)[3]		Business operating profit (BOP)	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
North America	110	100	156	179	70.7%	56.1%	118	178
Latin America	126	125	1,231	957	14.7%	21.1%	250	195
of which:								
Zurich Santander	*103*	*99*	*752*	*726*	*26.8%*	*26.8%*	*217*	*184*
Europe, Middle East & Africa (EMEA)	501	526	3,191	3,422	17.2%	16.3%	911	892
United Kingdom	*193*	*200*	*1,105*	*1,242*	*17.5%*	*16.1%*	*161*	*173*
Germany	*32*	*19*	*279*	*406*	*11.7%*	*4.9%*	*233*	*220*
Switzerland	*77*	*70*	*346*	*335*	*22.3%*	*21.0%*	*209*	*229*
Ireland	*40*	*57*	*383*	*443*	*10.5%*	*13.0%*	*68*	*58*
Spain	*86*	*90*	*589*	*378*	*28.0%*	*44.4%*	*57*	*50*
Italy	*(1)*	*–*	*241*	*234*	*(0.3%)*	*0.2%*	*50*	*41*
Zurich International Life	*69*	*84*	*210*	*349*	*32.9%*	*23.9%*	*76*	*70*
Rest of EMEA	*4*	*5*	*37*	*34*	*10.8%*	*13.6%*	*57*	*50*
Asia Pacific	88	112	155	157	57.8%	72.1%	92	43
Other	40	49	47	57	86.5%	85.1%	(26)	(8)
Total	**866**	**912**	**4,779**	**4,772**	**21.0%**	**21.6%**	**1,344**	**1,300**

NBV, APE and NBM by pillar

in USD millions, for the years ended December 31	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[2]		New business margin, after tax (as % of APE) (NBM)[3]	
	2016	2015	**2016**	2015	**2016**	2015
Bank Distribution	238	241	1,714	1,599	22.4%	22.7%
Other Retail	308	353	1,278	1,472	24.1%	24.0%
Corporate Life & Pensions	320	318	1,787	1,701	18.0%	18.8%
Total	**866**	**912**	**4,779**	**4,772**	**21.0%**	**21.6%**

[1] New business value is calculated on embedded value principles net of non-controlling interests.
[2] APE is shown gross of non-controlling interests.
[3] New business margin is calculated using new business value as a percentage of APE based on figures net of non-controlling interests for both metrics.

APE remained flat at 4.8 billion in U.S. dollar terms, but increased 7 percent on a local currency basis. Latin America increased by 42 percent on a local currency basis mostly due to the effect of a large corporate contract in the Zurich operations in Chile and higher sales of individual protection products in Zurich Santander Brazil. The improvement in Spain resulted from increased sales in Bank Distribution. These improvements were partly offset by lower new business sales in the rest of EMEA, particularly in Germany and Zurich International Life, and in North America.

New business value decreased by USD 45 million to USD 866 million, or 5 percent in U.S. dollar terms, but remained flat on a local currency basis. On a local currency basis, favorable product mix across EMEA, in spite of overall lower sales, and a refinement in the modeling of policyholder participation in Switzerland, led to an improvement in the region. Higher sales resulted in the improvement in Latin America and positive changes to persistency assumptions led to higher new business value in North America. These positive effects were offset by adverse impacts in Asia Pacific, primarily due to lower swap rates in Japan, only partly offset by improved business mix in Australia.

New business margin decreased by 0.6 percentage points to 21 percent. Improvements in North America and EMEA were mainly due to product mix, in spite of Spain being negatively impacted by higher sales of lower margin individual savings products. These improvements were more than offset by a decrease in Latin America, mainly attributable to the effect of a large corporate contract in the Zurich operations in Chile, and in Asia Pacific, due to the adverse impact of lower swap rates in Japan.

Operating and financial review (continued)

On a **pillar basis**, the new business results were as follows:

In Bank Distribution, NBV decreased by USD 3 million to USD 238 million, or by 1 percent in U.S. dollar terms, but increased 4 percent on a local currency basis. The increase on a local currency basis largely resulted from higher margins in the Zurich Santander operations in Mexico, together with higher sales in Zurich Santander Brazil.

In Other Retail, NBV decreased by USD 45 million to USD 308 million, or by 13 percent in U.S. dollar terms and 10 percent on a local currency basis. The decrease on a local currency basis arose mainly in Japan and Switzerland, both negatively impacted by lower interest rates, partly offset by improved business mix in North America.

In Corporate Life & Pensions, NBV increased by USD 2 million to USD 320 million, or by 1 percent in U.S. dollar terms and 9 percent on a local currency basis, largely benefiting from improved business mix in the UK and a refinement in the modeling of policyholder participation in Switzerland.

Farmers

Farmers business operating profit increased by USD 99 million to USD 1.5 billion. This was due to an increase of USD 118 million in Farmers Management Services, which was partly offset by a reduction in business operating profit of USD 19 million in Farmers Re.

Farmers Management Services

in USD millions, for the years ended December 31	**2016**	2015	Change
Management fees and other related revenues	2,867	2,786	3%
Management and other related expenses	(1,500)	(1,448)	(4%)
Gross management result	1,367	1,338	2%
Other net income	112	22	nm
Business operating profit	**1,478**	**1,360**	**9%**
Managed gross earned premium margin	7.0%	7.1%	(0.1 pts)

Business operating profit increased by USD 118 million to USD 1.5 billion driven by growth in gross earned premiums of the Farmers Exchanges and a one-time USD 86 million favorable impact as a result of a pension curtailment gain from changes to the Farmers pension plan, effective December 31, 2018.

Management fees and other related revenues of USD 2.9 billion increased USD 81 million, or 3 percent, due to growth in gross earned premiums of the Farmers Exchanges across most lines of business. **Management and other related expenses** of USD 1.5 billion grew 4 percent. **Other net income** of USD 112 million increased USD 89 million primarily due to the favorable impact of a pension curtailment gain from changes to the Farmers pension plan.

The **managed gross earned premium margin** was 7.0 percent compared with 7.1 percent for 2015.

Operating and financial review (continued)

Farmers Re

in USD millions, for the years ended December 31	**2016**	2015	Change
Gross written premiums and policy fees	1,587	2,145	(26%)
Net underwriting result	(51)	(26)	(93%)
Business operating profit	**42**	**61**	**(32%)**
Loss ratio	71.3%	70.1%	(1.2 pts)
Expense ratio	32.0%	31.1%	(0.9 pts)
Combined ratio	**103.3%**	**101.2%**	**(2.2 pts)**

Business operating profit decreased by USD 19 million to USD 42 million due to the deterioration of underwriting results compared with 2015.

Gross written premiums and policy fees decreased by USD 558 million to USD 1.6 billion, or by 26 percent, as a result of lower participation in the reinsurance agreements with the Farmers Exchanges. Participation in the All Lines quota share reinsurance agreement was reduced from 10 percent to 8 percent, effective December 31, 2015. The Auto Physical Damage (APD) quota share reinsurance agreement was terminated effective January 1, 2016.

The **net underwriting result** deteriorated by USD 24 million to a loss of USD 51 million reflected in the 2.2 percentage points deterioration in the combined ratio. The **loss ratio** increased by 1.2 percentage points as a result of higher catastrophe losses, mainly related to Texas storms. The **expense ratio**, based on ceded reinsurance commission rates payable to Farmers Exchanges, increased 0.9 percentage points due to the termination of the APD quota share reinsurance agreement which had a lower ceding commission rate.

Farmers Exchanges

Financial information about the Farmers Exchanges, which are owned by their policyholders, is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Re.

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

in USD millions, for the years ended December 31	**2016**	2015	Change
Gross written premiums	19,714	19,077	3%
Gross earned premiums	19,528	18,885	3%

Gross written premiums in the Farmers Exchanges increased by USD 637 million to USD 19.7 billion, or by 3 percent. Growth in most lines of business from continuing operations was partially offset by decreases in discontinued 21st Century operations.

Gross earned premiums in the Farmers Exchanges increased by USD 643 million to USD 19.5 billion, or by 3 percent.

Other Operating Businesses

in USD millions, for the years ended December 31	2016	2015	Change
Business operating profit:			
Holding and Financing	(528)	(520)	(2%)
Headquarters	(230)	(200)	(15%)
Total business operating profit	**(758)**	**(720)**	**(5%)**

Holding and Financing business operating loss of USD 528 million increased by USD 8 million, or by 2 percent in U.S. dollar terms and 5 percent on a local currency basis. This was primarily driven by less favorable foreign exchange impacts, which were higher in 2015 partly as a result of the Swiss National Bank action to discontinue the link of the Swiss franc to the euro, partly offset by reductions in external debt expense.

Headquarters business operating loss of USD 230 million increased by USD 30 million compared with 2015, or by 15 percent in U.S. dollar terms and 18 percent on a local currency basis. Underlying expense savings were offset by several one-off items in both 2015 and 2016, including higher performance remuneration costs compared with 2015.

Non-Core Businesses

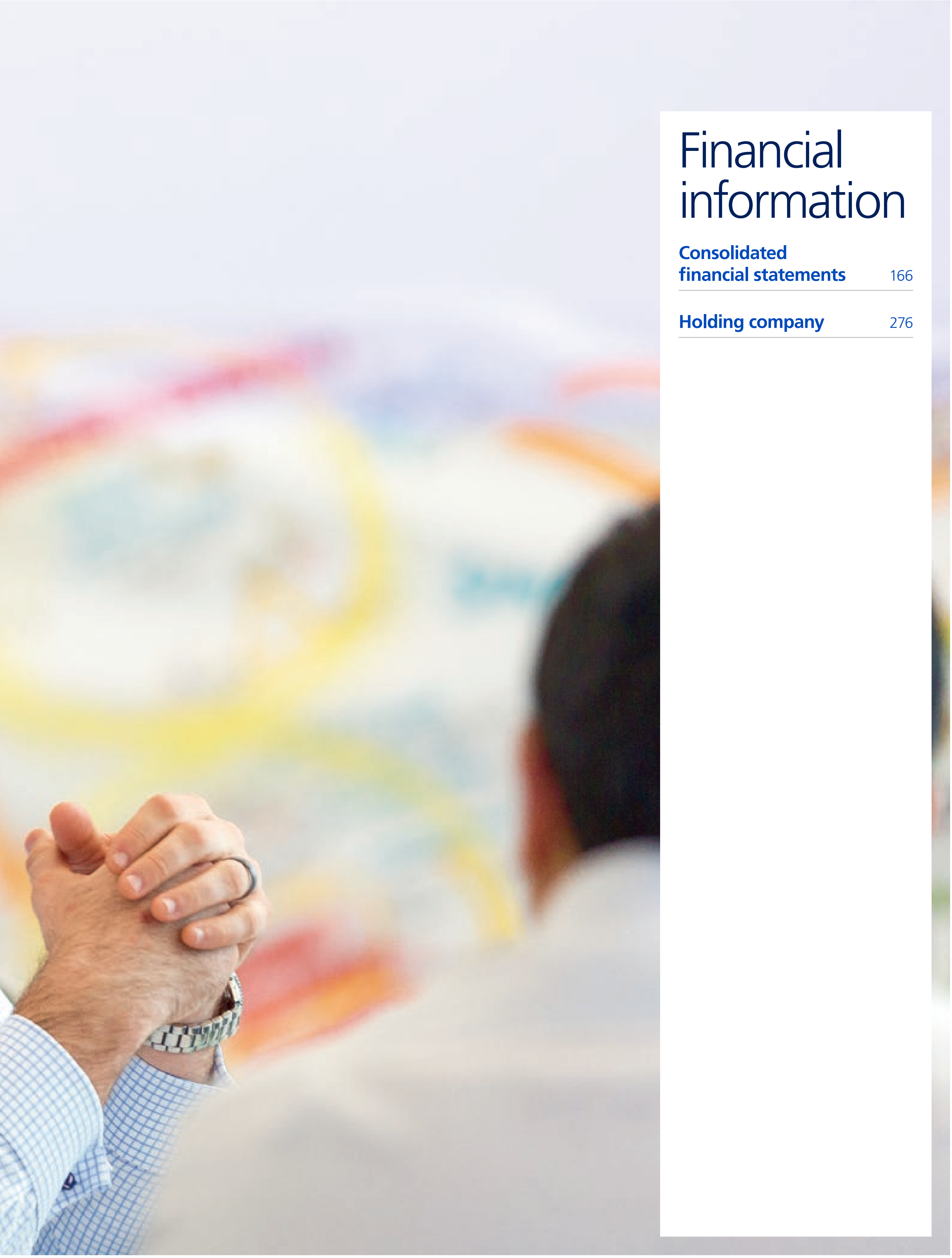
in USD millions, for the years ended December 31	2016	2015	Change
Business operating profit:			
Zurich Legacy Solutions	(21)	(50)	58%
Other run-off	10	101	(90%)
Total business operating profit	**(11)**	**51**	**nm**

Zurich Legacy Solutions, which comprise run-off portfolios managed with the intention of proactively reducing risk and releasing capital, reported a business operating loss of USD 21 million. The improvement of USD 29 million arose primarily from the one-off impacts of successful exit strategies partly offset by reduced investment income following capital repatriation.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 10 million, a decrease of USD 91 million. This deterioration resulted from a higher release of long-term reserves in 2015 compared with 2016, as a consequence of a buy-back program for a variable annuity product in the U.S.

Key financial information

This section provides the audited consolidated financial statements, including financial reports, accounting policies, transactions, investments, reserves for insurance contracts, intangible assets, income taxes, and executive and employee incentives.



Financial information

Consolidated financial statements

Contents

Consolidated income statements

in USD millions, for the years ended December 31

	Notes	2016	2015
Revenues			
Gross written premiums		48,208	48,490
Policy fees		2,407	2,508
Gross written premiums and policy fees		50,615	50,998
Less premiums ceded to reinsurers		(7,843)	(8,078)
Net written premiums and policy fees		42,772	42,920
Net change in reserves for unearned premiums	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
Total revenues		67,245	60,568
Benefits, losses and expenses			
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
Total benefits, losses and expenses		61,924	57,227
Net income before income taxes		5,321	3,340
Income tax (expense)/benefit	17	(1,843)	(1,294)
attributable to policyholders	17	(304)	(110)
attributable to shareholders	17	(1,539)	(1,183)
Net income after taxes		**3,478**	**2,047**
attributable to non-controlling interests		268	205
attributable to shareholders		3,211	1,842
in USD			
Basic earnings per share	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
2015			
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)
2016			
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)

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

Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
(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
Investments			
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
Total investments		315,715	317,966
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[1]		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[2]		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
Total assets		**382,679**	**381,972**

[1] 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.
[2] 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
Liabilities			
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[1]		290	–
Senior debt	18	4,162	4,471
Subordinated debt	18	7,050	5,614
Total liabilities		**350,206**	**349,069**
Equity			
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
Total equity		**32,473**	**32,904**
Total liabilities and equity		**382,679**	**381,972**

[1] 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 statements of cash flows

in USD millions, for the years ended December 31	**2016**	2015
Cash flows from operating activities		
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
Reserves for insurance contracts, gross	*7,665*	*4,528*
Reinsurers' share of reserves for insurance contracts	*(977)*	*(1,981)*
Liabilities for investment contracts	*9,506*	*4,806*
Deferred policy acquisition costs	*(1,056)*	*(981)*
Deferred origination costs	*31*	*47*
Deposits made under assumed reinsurance contracts	*(46)*	*526*
Deposits received under ceded reinsurance contracts	*(326)*	*(77)*
Investments:	(16,787)	(4,703)
Net capital (gains)/losses on total investments and impairments	*(13,569)*	*(6,261)*
Net change in derivatives	*(240)*	*200*
Net change in money market investments	*(195)*	*1,415*
Sales and maturities		
Debt securities	*67,597*	*85,797*
Equity securities	*47,725*	*60,722*
Other	*7,067*	*7,444*
Purchases		
Debt securities	*(71,988)*	*(83,237)*
Equity securities	*(46,139)*	*(62,423)*
Other	*(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

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

in USD millions, for the years ended December 31	2016	2015
Cash flows from investing activities		
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)
Cash flows from financing activities		
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[1]	(1,245)	417
Cash and cash equivalents as of January 1	9,193	8,776
Cash and cash equivalents as of December 31	**7,948**	**9,193**
of which:		
– Group investments	7,197	8,159
– Unit-linked	751	1,034
Other supplementary cash flow disclosures		
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)

[1] 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
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,511	7,037
Cash equivalents	2,437	2,156
Total[1]	**7,948**	**9,193**

[1] 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.

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

Consolidated financial statements (continued)

Consolidated statements of changes in equity

in USD millions

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

[1] 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).
[2] 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.
[3] 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).
[4] 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.
[5] 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.

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

Net unrealized gains/(losses) on available-for-sale investments[5]	**Cash flow hedges**	**Cumulative foreign currency translation adjustment**	**Revaluation reserve[5]**	**Retained earnings[5]**	**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*		
–	*–*	*–*	*–*	*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*		
–	*–*	*–*	*–*	*(995)*	*(995)*		
–	–	–	–	–	–	(54)	(54)
2,809	**418**	**(9,973)**	**235**	**35,812**	**30,660**	**1,813**	**32,473**

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 117 to 147, 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.

Principal exchange rates

Table 1.1

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	1.1109
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

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
Amended Standards		
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
New Standards		
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRS 16	Leases	January 1, 2019
IFRS 9	Financial Instruments	January 1, 2021
Amended Standards		
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.

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.

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.

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.

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.

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.

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.

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[1]	Perpetual nominal growth rate in % 2016[2]
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

[1] 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).
[2] 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.

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

[1] 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	Total
Gross written premiums	1,702
Net income after taxes	122
in USD millions, local statutory information for the twelve months ended December 31, 2016	Total
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.

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.

Net investment result on Group investments

Table 6.1

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[1]	(241)	(256)	–	–	(241)	(256)	–	–
Investment result, net, for Group investments	5,484	5,572	1,561	1,891	7,045	7,462	(176)	(224)

[1] 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.

Details of Group investments by category

Table 6.2

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
Equity securities:				
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
Debt securities:				
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
Total Group investments	**189,808**	**100.0**	**191,238**	**100.0**

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)

Details of debt securities by category

Table 6.3

in USD millions, as of December 31	Fair value through profit or loss 2016	Fair value through profit or loss 2015	Available-for-sale 2016	Available-for-sale 2015	Held-to-maturity 2016	Held-to-maturity 2015	Total 2016	Total 2015
Debt securities:								
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
Total debt securities	**5,672**	**6,180**	**131,967**	**128,181**	**2,543**	**3,369**	**140,181**	**137,730**

Debt securities maturity schedule

Table 6.4

in USD millions, as of December 31	Fair value through profit or loss 2016	Fair value through profit or loss 2015	Available-for-sale 2016	Available-for-sale 2015	Held-to-maturity 2016	Held-to-maturity 2015	Total 2016	Total 2015
Debt securities:								
< 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
Mortgage and asset-backed securities:								
< 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
Total	**5,672**	**6,180**	**131,967**	**128,181**	**2,543**	**3,369**	**140,181**	**137,730**

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

Investment property

Table 6.5

in USD millions	Total 2016	Total 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)
As of December 31	**10,562**	**9,865**

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		Total
	2016	2015
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)
Total[1]	**3,228**	**2,850**

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

[1] 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.
[2] 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.
[3] 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.
[4] 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.

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

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

in USD millions, as of December 31						**2016**			2015
	Maturity by notional amount			**Notional amounts**	**Positive fair values**	**Negative fair values**	Notional amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Interest rate contracts:									
OTC									
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)
Exchange traded									
Futures	231	–	–	231	–	–	701	–	–
Total interest rate contracts	**699**	**1,762**	**3,121**	**5,582**	**174**	**(43)**	**6,892**	**206**	**(44)**
Equity contracts:									
OTC									
Swaps	–	–	–	–	–	–	48	–	–
Options	2,452	2,200	202	4,855	118	(79)	4,632	128	(80)
Exchange traded									
Options	–	–	–	–	–	–	27	–	–
Futures	358	–	–	358	3	–	397	–	(5)
Total equity contracts	**2,810**	**2,200**	**202**	**5,213**	**120**	**(79)**	**5,104**	**128**	**(84)**
Foreign exchange contracts:									
OTC									
Swaps and forwards	16,790	–	–	16,790	87	(75)	18,982	84	(115)
Total foreign exchange contracts	**16,790**	**–**	**–**	**16,790**	**87**	**(75)**	**18,982**	**84**	**(115)**
Other contracts:									
OTC									
Swaps	–	–	51	51	–	(6)	56	–	(5)
Total other contracts	**–**	**–**	**51**	**51**	**–**	**(6)**	**56**	**–**	**(5)**
Total Group derivative financial instruments	**20,299**	**3,962**	**3,375**	**27,636**	**381**	**(202)**	**31,034**	**417**	**(249)**

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

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

in USD millions, as of December 31						2016			2015
	Maturity by notional amount			Notional principal amounts	Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Fair value hedges:									
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)
Total fair value hedges	**449**	**1,238**	**967**	**2,655**	**97**	**(63)**	**2,233**	**99**	**(59)**
Cash flow hedges:									
Interest rate swaptions	–	832	1,226	2,058	448	–	2,931	586	–
Cross currency swaps	–	93	171	264	12	–	43	–	–
Interest rate swaps[1]	26	11	517	555	9	–	96	12	–
Forwards bonds	–	264	–	264	11	(16)	272	–	(54)
Total cash flow hedges	**26**	**1,200**	**1,914**	**3,140**	**479**	**(16)**	**3,342**	**598**	**(54)**
Net investment hedges:									
Forex swaps and forwards	4,686	–	–	4,686	11	(64)	1,352	6	(1)
Total net investment hedges	**4,686**	**–**	**–**	**4,686**	**11**	**(64)**	**1,352**	**6**	**(1)**

[1] 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.

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	2016	2015
Gains/(losses)		
on hedging instruments[1]	*(12)*	*(47)*
on hedged items attributable to the hedged risk	*11*	*21*

[1] Excluding current interest income, which is recognized as an offset on the same line as the interest expense of the hedged debt.

Cash flow hedges

Designated cash flow hedges, such as interest rate swaptions and forwards are used to protect the 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.

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

Table 7.4

in USD millions, as of December 31	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
Net amount	**84**	**67**	**(103)**	**(134)**

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

Reserves for insurance contracts

Table 8.1

in USD millions, as of December 31	Gross		Ceded		Net	
	2016	2015	**2016**	2015	**2016**	2015
Reserves for losses and loss adjustment expenses[1]	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[2]	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
Total reserves for insurance contracts[3]	**238,326**	**237,622**	**(18,411)**	**(17,885)**	**219,915**	**219,737**

[1] 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.
[2] 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.
[3] 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.

Development of reserves for losses and loss adjustment expenses

Table 8.2

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[1]	(224)	(61)	(205)	(44)	(430)	(106)
Foreign currency translation effects	(1,592)	(2,733)	198	385	(1,393)	(2,349)
As of December 31	**61,155**	**62,971**	**(9,777)**	**(9,231)**	**51,378**	**53,739**

[1] 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	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.

Development of reserves for losses and loss adjustment expenses for asbestos

Table 8.4

in USD millions	**2016**		2015	
	Gross	**Net**	Gross	Net
Asbestos				
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)
As of December 31	**2,209**	**1,954**	**2,712**	**2,395**

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)

Development of future life policyholder benefits

Table 8.5

in USD millions	Gross		Ceded		Net	
	2016	2015	**2016**	2015	**2016**	2015
As of January 1	71,952	77,652	(4,016)	(2,441)	67,935	75,211
Premiums[1]	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[2]	(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)
As of December 31	**72,440**	**71,952**	**(3,766)**	**(4,016)**	**68,674**	**67,935**

[1] 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.
[2] 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.

Effect of changes in assumptions for future life policyholder benefits

Table 8.6

in USD millions, for the years ended December 31	**2016**	2015
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)
Net impact of changes in assumptions	**162**	**158**

Policyholder contract deposits and other funds gross

Table 8.7

in USD millions, as of	12/31/16	12/31/15
Universal life and other contracts	12,126	12,120
Policyholder dividends	10,658	9,957
Total	**22,785**	**22,076**

Development of policyholder contract deposits and other funds

Table 8.8

in USD millions	Gross		Ceded		Net	
	2016	2015	**2016**	2015	**2016**	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[1]	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)
As of December 31	**22,785**	**22,076**	**(1,958)**	**(1,956)**	**20,827**	**20,121**

[1] 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.

Expected maturity profile for reserves for insurance contracts, net of reinsurance – current period

Table 8.9a

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	24,394
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
Total	**51,378**	**68,674**	**20,827**	**140,878**

Expected maturity profile for reserves for insurance contracts, net of reinsurance – prior period

Table 8.9b

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	24,908
1 to 5 years	22,392	16,529	1,706	40,627
5 to 10 years	8,289	12,581	1,884	22,754
10 to 20 years	5,793	14,442	2,406	22,641
> 20 years	2,424	16,018	12,422	30,865
Total	**53,739**	**67,935**	**20,121**	**141,795**

9. Liabilities for investment contracts

Liabilities for investment contracts

Table 9.1

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
Total	**69,113**	**70,627**

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.

Development of liabilities for investment contracts

Table 9.2

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[1]	(2,545)	(29)
Increase/(decrease) recorded in other comprehensive income	(12)	152
Foreign currency translation effects	(8,775)	(5,115)
As of December 31	**69,113**	**70,627**

[1] 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
Total	**60,233**	**506**	**8,374**	**69,113**

Table 9.3b

Expected maturity profile for liabilities for investment contracts – prior period

in USD millions, as of December 31, 2015

	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
Total	**62,245**	**754**	**7,629**	**70,627**

10. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 10.1

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
Total insurance benefits and losses	**35,173**	**36,076**	**(4,682)**	**(5,330)**	**30,491**	**30,746**

Policyholder dividends and participation in profits

Table 10.2

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)
Total policyholder dividends and participation in profits	**14,519**	**7,863**

Underwriting and policy acquisition costs

Table 10.3

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[1]	3,325	3,553	(387)	(207)	2,938	3,346
Total underwriting and policy acquisition costs	**9,545**	**9,796**	**(1,007)**	**(735)**	**8,538**	**9,061**

[1] Net of additions related to deferred acquisition and origination costs.

Change in reserves for unearned premiums

Table 10.4

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2016	2015	**2016**	2015	**2016**	2015
Change in reserves for unearned premiums	**319**	**648**	**(168)**	**(352)**	**150**	**296**

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[1]		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	17,750
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[2]	(24)	–	(16)	–	19	–	(21)	–
Foreign currency translation effects	(5)	(224)	(870)	(1,074)	(1)	3	(876)	(1,295)
As of December 31	**4,830**	**4,226**	**12,783**	**13,298**	**183**	**153**	**17,796**	**17,677**

[1] Net of eliminations from inter-segment transactions.
[2] 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)
As of December 31	**426**	**506**

12. Expenses

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

Expenses

Table 12

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[1]	2,291	2,406
Claims handling expenses[2]	1,343	1,425
Other investment expenses[3]	134	145
Total	**11,246**	**12,637**
of which:		
Personnel and other related costs	5,445	5,715
Amortization and impairments of intangible assets[4]	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
Total	**11,246**	**12,637**

[1] Included within commissions and other underwriting and acquisition expenses (see table 10.3).
[2] Included within losses and loss adjustment expenses (see table 10.1).
[3] Excludes expenses arising from investment property within investment expenses for Group investments (see table 6.1).
[4] 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
Gross carrying value as of January 1, 2016	**217**	**737**	**366**	**365**	**759**	**2,444**
Less: accumulated depreciation/impairments	(6)	(363)	(228)	(300)	(407)	(1,304)
Net carrying value as of January 1, 2016	**211**	**374**	**138**	**65**	**352**	**1,140**
Additions and improvements	–	21	62	37	87	207
Acquisitions	–	8	–	4	3	15
Disposals[1]	(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)
Net carrying value as of December 31, 2016	**162**	**251**	**154**	**67**	**319**	**953**
Plus: accumulated depreciation/impairments	6	176	225	246	408	1,061
Gross carrying value as of December 31, 2016	**168**	**427**	**378**	**313**	**727**	**2,013**

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

[1] 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

Intangible assets – current period

Table 14.1

in USD millions	Attorney-in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2016	**1,025**	**1,667**	**2,501**	**3,715**	**4,672**	**173**	**13,753**
Less: accumulated amortization/ impairments	–	(378)	(2,035)	(963)	(3,167)	(130)	(6,673)
Net carrying value as of January 1, 2016	**1,025**	**1,289**	**466**	**2,752**	**1,505**	**43**	**7,080**
Additions and acquisitions	–	576	106	112	395	101	1,291
Divestments and transfers	–	(33)	–	(5)	(15)	(3)	(56)
Amortization[1]	–	–	(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)
Net carrying value as of December 31, 2016	**1,025**	**1,795**	**504**	**2,713**	**1,450**	**128**	**7,615**
Plus: accumulated amortization/ impairments	–	315	1,918	1,147	3,201	124	6,706
Gross carrying value as of December 31, 2016	**1,025**	**2,110**	**2,422**	**3,860**	**4,652**	**251**	**14,321**

[1] 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.

Intangible assets by segment – current period

Table 14.2

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
Net carrying value as of December 31, 2016	**1,025**	**1,795**	**504**	**2,713**	**1,450**	**128**	**7,615**

Table 14.3

Intangible assets – prior period

in USD millions	Attorney-in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2015	**1,025**	**1,778**	**2,701**	**4,480**	**4,588**	**186**	**14,760**
Less: accumulated amortization/impairments	–	(117)	(2,145)	(903)	(3,046)	(133)	(6,344)
Net carrying value as of January 1, 2015	**1,025**	**1,661**	**556**	**3,577**	**1,543**	**53**	**8,415**
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)
Net carrying value as of December 31, 2015	**1,025**	**1,289**	**466**	**2,752**	**1,505**	**43**	**7,080**
Plus: accumulated amortization/impairments	–	378	2,035	963	3,167	130	6,673
Gross carrying value as of December 31, 2015	**1,025**	**1,667**	**2,501**	**3,715**	**4,672**	**173**	**13,753**

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
Net carrying value as of December 31, 2015	**1,025**	**1,289**	**466**	**2,752**	**1,505**	**43**	**7,080**

15. Receivables and other assets

Receivables and other assets

Table 15

in USD millions, as of December 31	2016	2015
Financial assets		
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[1]	(230)	(249)
Other assets	86	140
Non-financial assets		
Current tax receivables	640	742
Accrued premiums	826	953
Prepaid expenses	432	276
Prepaid insurance benefits	331	327
Other assets	339	337
Total receivables and other assets	**16,434**	**14,930**

[1] 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
Other financial liabilities		
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[1]	4,317	3,248
Other liabilities for employee benefit plans	130	127
Other liabilities	3,667	3,662
Other non-financial liabilities		
Current tax payables	567	629
Restructuring provisions	334	386
Premium prepayments and other advances	866	864
Other liabilities	698	572
Total other liabilities	**16,437**	**15,051**

[1] 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[1]

in USD millions, as of December 31	2016		2015	
	Carrying value[2]	**Undiscounted cash flows[3]**	Carrying value[2]	Undiscounted cash flows[3]
< 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
Total	**9,655**	**10,199**	**9,351**	**9,931**

[1] Excluding liabilities for defined benefit plans.
[2] Allocation to the time bands is based on the expected maturity date.
[3] Allocation to the time bands is based on the earliest contractual maturity.

Consolidated financial statements (continued)

Restructuring provisions

Table 16.3

in USD millions	2016	2015
As of January 1	386	125
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)
As of December 31	**334**	**386**

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
Total income tax expense/(benefit)	**1,843**	**1,294**

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:				
Tax rate differential in foreign jurisdictions		*322*		*287*
Tax exempt and lower taxed income		*(95)*		*(92)*
Non-deductible expenses		*121*		*41*
Tax losses not recognized		*3*		*165*
Prior year adjustments and other		*84*		*72*
Actual income tax expense attributable to shareholders	**30.7%**	**1,539**	**36.6%**	**1,183**
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
Gross deferred tax				
Deferred acquisition and origination costs	38	(1,017)	35	(846)
Depreciable and amortizable assets	25	(63)	31	(51)
Life policyholders' benefits and deposits[1]	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)
Deferred tax assets	**1,448**		**1,455**	
Gross deferred tax				
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[1]	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)
Deferred tax liabilities		**(4,562)**		**(4,498)**
Net deferred tax liabilities		**(3,114)**		**(3,042)**

[1] 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.

Development of net deferred tax liabilities

Table 17.4

in USD millions	2016	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
As of December 31	**(3,114)**	**(3,042)**
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.

Development of deferred income taxes included in equity

Table 17.5

in USD millions	2016	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
As of December 31	**313**	**149**

Tax loss carryforwards and tax credits

Table 17.6

in USD millions, as of December 31	2016	2015
For which deferred tax assets have been recognized, expiring		
< 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
For which deferred tax assets have not been recognized, expiring		
< 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
Total	**2,960**	**2,744**

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.

18. Senior and subordinated debt

Senior and subordinated debt

Table 18.1

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

1 Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).
2 The Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.
3 These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.
4 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
Total	**11,212**	**13,592**	**10,086**	**11,757**

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.

19. Share capital and Earnings per Share

Table 19.1

Share capital

	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
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
Authorized, contingent and issued share capital			
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)[1]**
2016				
Basic earnings per share	**3,211**	**149,285,218**	**21.51**	**21.18**
Effect of potentially dilutive shares related to share-based compensation plans		1,012,384	(0.14)	(0.14)
Diluted earnings per share	**3,211**	**150,297,601**	**21.36**	**21.04**
2015				
Basic earnings per share	**1,842**	**148,957,967**	**12.36**	**11.89**
Effect of potentially dilutive shares related to share-based compensation plans		362,170	(0.03)	(0.03)
Diluted earnings per share	**1,842**	**149,320,137**	**12.33**	**11.86**

[1] 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.

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.

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)
As of January 1, 2016	**(20,945)**	**17,713**	**(17)**	**(3,248)**
Net post-employment benefit (expense)/income:				
Current service cost	(287)	–	–	(287)
Interest (expense)/income	(526)	442	–	(85)
Settlements gains/(losses)	3	–	–	3
Past service (cost)/credit	88	–	–	88
Net post-employment benefit (expense)/income	**(722)**	**442**	**–**	**(280)**
Remeasurement effects included in other comprehensive income:				
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
Remeasurement effects included in other comprehensive income	**(3,332)**	**1,712**	**7**	**(1,613)**
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
As of December 31, 2016	**(22,191)**	**17,883**	**(9)**	**(4,317)**

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

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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[1]	–	7	7	–	–	7	7	–
Total	**4,336**	**13,547**	**17,883**	**100%**	**4,198**	**13,515**	**17,713**	**100%**

[1] 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)
Net defined benefit asset/(liability)	**(383)**	**(2,570)**	**(843)**	**(246)**	**(275)**	**(4,317)**
Net post-employment benefit (expense)/income[1]	(124)	(65)	(28)	(34)	(29)	(280)

[1] 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)
Net defined benefit asset/(liability)	**(427)**	**(1,471)**	**(915)**	**(208)**	**(227)**	**(3,248)**
Net post-employment benefit (expense)/income	(130)	(180)	(137)	(38)	(33)	(518)

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.

Table 20.4

Key financial assumptions used for major plans

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)[1]	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

[1] In the UK part of the liability is linked to the inflation measure of the Retail Price Index (RPI), which is assumed to be 1.0 percent higher than the Consumer Price Index (CPI) as of both December 31, 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.

Table 20.5a

Mortality tables and life expectancies for major plans – current period

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**	
		aged 65	**aged 45**	**aged 65**	**aged 45**
Country	Mortality table for major plans				
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

Table 20.5b

Mortality tables and life expectancies for major plans – prior period

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	
		aged 65	aged 45	aged 65	aged 45
Country	Mortality table for major plans				
Switzerland	BVG 2010 Generational	21.49	23.24	23.96	25.67
United Kingdom	PNXA00 with CMI_2015 projection	22.82	24.13	24.83	26.33
United States	RP 2014 with MP-2015 Generational projection with plan specific adjustments	21.36	22.02	23.82	24.50
Germany	Heubeck 2005G	18.99	21.64	23.06	25.58

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.

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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
Maturity analysis of benefits expected to be paid (in USD millions):								
< 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

	Defined benefit obligation[1]	
in USD millions, as of December 31	**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

[1] 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 2015 and 2014 share plans.

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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.

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.

Shares allocated during the period

Table 21

for the years ended December 31	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.

Quantifiable commitments and contingencies

Table 22.1

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

[1] 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.

Future payments under non-cancelable operating leases with terms in excess of one year

Table 22.2

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
Total	**1,962**	**1,512**

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.

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.

Fair value and carrying value of financial assets and financial liabilities

Table 23.1

in USD millions, as of December 31	Total fair value		Total carrying value	
	2016	2015	**2016**	2015
Available-for-sale securities				
Equity securities	12,548	15,354	12,548	15,354
Debt securities	131,967	128,181	131,967	128,181
Total available-for-sale securities	144,515	143,535	144,515	143,535
Fair value through profit or loss securities				
Equity securities	3,359	3,519	3,359	3,519
Debt securities	5,672	6,180	5,672	6,180
Total fair value through profit or loss securities	9,032	9,699	9,032	9,699
Derivative assets	**968**	**1,120**	**968**	**1,120**
Held-to-maturity debt securities	**3,213**	**4,086**	**2,543**	**3,369**
Investments in associates and joint ventures	**20**	**18**	**20**	**18**
Mortgage loans	**7,330**	**7,603**	**6,794**	**7,024**
Other loans	**10,909**	**11,279**	**9,146**	**9,569**
Total financial assets	**175,987**	**177,341**	**173,016**	**174,335**
Derivative liabilities	**(345)**	**(362)**	**(345)**	**(362)**
Financial liabilities held at amortized cost				
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)
Total financial liabilities held at amortized cost	(20,325)	(17,940)	(20,092)	(18,468)
Total financial liabilities	**(20,670)**	**(18,302)**	**(20,437)**	**(18,830)**

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

Fair value hierarchy – non unit-linked – current period

Table 23.2a

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

[1] Included within reinsurers' share of reserves for insurance contracts.
[2] Included within reserves for insurance contracts.

Fair value hierarchy – non unit-linked – prior period

Table 23.2b

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

[1] Included within reinsurers' share of reserves for insurance contracts.
[2] Included within reserves for insurance contracts.

Fair value hierarchy – unit-linked – current period

Table 23.3a

in USD millions, as of December 31, 2016	Level 1	Level 2	Level 3	Total
Fair value through profit or loss securities				
Equity securities	92,232	20,684	446	113,362
Debt securities	–	7,168	30	7,198
Other loans	–	1,458	–	1,458
Total fair value through profit or loss securities	92,232	29,309	476	122,018
Derivative assets	5	21	–	26
Investment property	–	–	3,138	3,138
Total investments for unit-linked contracts[1]	92,236	29,331	3,614	125,182
Financial liabilities at FV through profit or loss				
Liabilities related to unit-linked investment contracts	–	(60,233)	–	(60,233)
Derivative liabilities	(4)	(5)	–	(9)
Total	(4)	(60,238)	–	(60,242)

[1] Excluding cash and cash equivalents.

Fair value hierarchy – unit-linked – prior period

Table 23.3b

in USD millions, as of December 31, 2015	Level 1	Level 2	Level 3	Total
Fair value through profit or loss securities				
Equity securities	89,414	22,093	336	111,844
Debt securities	951	7,198	43	8,192
Other loans	227	1,090	–	1,317
Total fair value through profit or loss securities	90,592	30,381	380	121,353
Derivative assets	–	7	–	7
Investment property	–	–	4,341	4,341
Total investments for unit-linked contracts[1]	90,592	30,388	4,721	125,701
Financial liabilities at FV through profit or loss				
Liabilities related to unit-linked investment contracts	–	(62,245)	–	(62,245)
Derivative liabilities	(1)	(6)	–	(7)
Total	(1)	(62,251)	–	(62,252)

[1] Excluding cash and cash equivalents.

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.

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

Table 23.4a

in USD millions	Available-for-sale securities		Fair value through profit or loss securities				
	Equity securities	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities	Investment property
As of January 1, 2016	959	5,962	2,419	146	529	(99)	7,828
Realized gains/(losses) recognized in income[1]	105	24	9	–	–	–	129
Unrealized gains/(losses) recognized in income[1,2]	(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)
As of December 31, 2016	**917**	**5,508**	**2,536**	**97**	**424**	**(63)**	**8,555**

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

For the year ended December 31, 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.

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

Table 23.4b

in USD millions	Available-for-sale securities		Fair value through profit or loss securities				
	Equity securities	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities	Investment property
As of January 1, 2015	929	2,764	2,417	185	375	(61)	6,818
Realized gains/(losses) recognized in income[1]	148	5	77	–	(2)	–	8
Unrealized gains/(losses) recognized in income[1,2]	(2)	(27)	(28)	(5)	(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)
As of December 31, 2015	**959**	**5,962**	**2,419**	**146**	**529**	**(99)**	**7,828**

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

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.

Development of reserves for insurance contracts fair value option classified within level 3 – current period

Table 23.5a

in USD millions	**Gross**	**Ceded**	**Net**
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
As of December 31, 2016	**2,720**	**(237)**	**2,483**

Development of reserves for insurance contracts fair value option classified within level 3 – prior period

Table 23.5b

in USD millions	Gross	Ceded	Net
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)
As of December 31, 2015	**2,927**	**(270)**	**2,657**

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

Table 23.6a

in USD millions	**Fair value through profit or loss securities**		
	Equity securities	**Debt securities**	**Investment property**
As of January 1, 2016	336	43	4,341
Realized gains/(losses) recognized in income[1]	–	–	(4)
Unrealized gains/(losses) recognized in income[1]	11	(1)	(89)
Purchases	164	–	116
Sales/redemptions	(63)	(7)	(567)
Transfers into level 3	1	1	–
Foreign currency translation effects	(2)	(6)	(659)
As of December 31, 2016	**446**	**30**	**3,138**

[1] Presented as net investment result on unit-linked investments in the consolidated income statements.

Table 23.6b

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

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

[1] Presented as net investment result on unit-linked investments in the consolidated income statements.

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 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 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 23.7b. While these tables illustrate the overall effect of changing the values of unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different terms and circumstances. Inter-relationships between those unobservable inputs are disclosed in tables 23.8a and 23.8b. The correlation is based on the historical correlation matrix derived from the risk factors which are assigned to each of the level 3 exposures (equity and debt securities). The main market drivers are equity markets and rate indicators and the impact of such changes on the other factors. The spread scenario 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.

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

Table 23.7a

as of December 31, 2016	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
Key assumptions				
Equity levels	–20%	(691)	+20%	691
Discount rates	+20%	(68)	–20%	68
Spread rates	+20%	(68)	–20%	68
Prepayment rates	–20%	(1)	+20%	1

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

Table 23.7b

as of December 31, 2015	Less favorable values (relative change)	Decrease in reported fair value (in USD millions)	More favorable values (relative change)	Increase in reported fair value (in USD millions)
Key assumptions				
Equity levels	–20%	(743)	+20%	743
Discount rates	+20%	(141)	–20%	152
Spread rates	+20%	(148)	–20%	159
Prepayment rates	–20%	(2)	+20%	2

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

Table 23.8a

as of December 31, 2016	Key assumptions				Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Scenarios					
Equity levels +10%	+10.0%	+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)

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

Table 23.8b

as of December 31, 2015	Key assumptions				Increase/decrease in reported fair value (in USD millions)
	Equity Levels	Discount Rates	Spread rates	Prepayment rates	
Scenarios					
Equity levels +10%	+10.0%	–1.4%	–1.4%	–1.4%	343
Equity levels –10%	–10.0%	+1.3%	+1.3%	+1.3%	(342)
Discount rates +10%	+0.5%	+10.0%	+7.5%	–2.0%	(109)
Discount rates –10%	–0.4%	–10.0%	–7.5%	+2.0%	114
Spread rates +10%	+0.5%	+7.0%	+10.0%	+0.2%	(110)

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.

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

Analysis of financial assets – current period

in USD millions, as of December 31, 2016	Debt securities	Mortgage loans	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**140,038**	**6,719**	**9,145**	**13,010**	**168,912**
Past due but not impaired financial assets. Past due by:					
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
Past due but not impaired financial assets	**–**	**60**	**–**	**1,773**	**1,834**
Financial assets impaired	**143**	**66**	**21**	**121**	**351**
Gross carrying value	**140,181**	**6,845**	**9,166**	**14,904**	**171,097**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	46	20	71	137
Impairment allowances on collectively assessed financial assets	–	5	–	159	164
Net carrying value	**140,181**	**6,794**	**9,146**	**14,675**	**170,796**

Table 24.1b

Analysis of financial assets – prior period

in USD millions, as of December 31, 2015	Debt securities	Mortgage loans[1]	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**137,414**	**6,965**	**9,568**	**11,203**	**165,150**
Past due but not impaired financial assets. Past due by:					
1 to 90 days	–	41	–	1,215	1,257
91 to 180 days	–	6	–	285	291
181 to 365 days	–	4	–	138	142
> 365 days	–	8	–	188	197
Past due but not impaired financial assets	**–**	**60**	**–**	**1,827**	**1,887**
Financial assets impaired	**316**	**106**	**21**	**136**	**579**
Gross carrying value	**137,730**	**7,130**	**9,589**	**13,166**	**167,616**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	98	20	85	204
Impairment allowances on collectively assessed financial assets	–	8	–	163	171
Net carrying value	**137,730**	**7,024**	**9,569**	**12,917**	**167,240**

[1] 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)
As of December 31, 2016	**51**	**20**	**230**

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[1]	(543)	–	(54)
Foreign currency translation effects	(31)	–	(24)
As of December 31, 2015	**106**	**20**	**249**

[1] Includes USD 542 million related to the run-off property loans at Dunbar Assets Ireland.

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.

Related party transactions – key personnel

Table 25

in USD millions, for the years ended December 31	**2016**	2015
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	21	27
Post-employment benefits	4	4
Share-based compensation	17	15
Other remuneration	2	11
Total remuneration of key personnel	**43**	**57**

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
Total	**730**	**730**

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

b) Quota share reinsurance treaties with the Farmers Exchanges

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

The Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges 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[1]	2015[2]	2016[3]	2015[4]	2016	2015
Net earned premiums and policy fees	–	500	1,521	1,766	1,521	2,266
Insurance benefits and losses, net[5]	(1)	(365)	(1,084)	(1,223)	(1,085)	(1,588)
Total net technical expenses[6]	–	(139)	(487)	(565)	(487)	(704)
Net underwriting result	**(1)**	**(3)**	**(50)**	**(23)**	**(51)**	**(26)**

[1] The APD agreement was not renewed in 2016. Net underwriting result in 2016 reflects adverse development on prior year's business in run-off.
[2] 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.
[3] 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.
[4] 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.
[5] 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.
[6] 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

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
Revenues				
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
Total BOP revenues	28,834	30,889	32,543	23,498
of which: inter-segment revenues	*(347)*	*(527)*	*(318)*	*(316)*
Benefits, losses and expenses				
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)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	25,912	29,437	30,785	21,355
Business operating profit (before interest, depreciation and amortization)	**2,921**	**1,452**	**1,758**	**2,143**
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
Business operating profit	**2,435**	**864**	**1,344**	**1,300**

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
1,647	**1,538**	**21**	**125**	**–**	**60**	**(421)**	**(445)**	**5,926**	**4,872**
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
1,520	**1,421**	**(758)**	**(720)**	**(11)**	**51**	**–**	**–**	**4,530**	**2,916**

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
Business operating profit	**2,435**	**864**	**1,344**	**1,300**
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[1]	(134)	–	47	–
Restructuring provisions	(200)	(314)	(46)	(71)
Net income/(expense) on intercompany loans[2]	(12)	(17)	(15)	(17)
Impairments of goodwill	–	–	–	(281)
Change in estimates of earn-out liabilities	(29)	29	(89)	(21)
Other adjustments[3]	(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
Net income before income taxes	**2,610**	**1,066**	**1,841**	**1,439**
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

[1] 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).
[2] The impact on Group level relates to foreign currency translation differences.
[3] 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
	1,520	**1,421**	**(758)**	**(720)**	**(11)**	**51**	**4,530**	**2,916**
	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
	1,526	**1,427**	**(808)**	**(640)**	**151**	**48**	**5,321**	**3,340**
							(1,843)	(1,294)
							(304)	(110)
							(1,539)	(1,183)
							3,478	**2,047**
							268	205
							3,211	1,842

Consolidated financial statements (continued)

Assets and liabilities by segment

Table 27.3

in USD millions, as of December 31	General Insurance 2016	General Insurance 2015	Global Life 2016	Global Life 2015
Assets				
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
Total investments	81,271	82,669	219,844	218,782
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
Total assets (after cons. of investments in subsidiaries)	**115,342**	**114,029**	**246,517**	**245,255**
Liabilities				
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
Total liabilities	**94,776**	**93,666**	**229,206**	**227,769**
Equity				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				
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
2,366	3,253	21,357	19,957	20,098	21,016	(29,221)	(27,711)	315,715	317,966
–	–	–	–	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
6,760	**7,578**	**22,439**	**21,074**	**24,980**	**25,623**	**(33,359)**	**(31,587)**	**382,679**	**381,972**
–	–	–	–	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
2,898	**3,017**	**31,625**	**29,942**	**25,059**	**26,260**	**(33,358)**	**(31,586)**	**350,206**	**349,069**
								30,660	31,178
								1,813	1,725
								32,473	32,904
								382,679	**381,972**
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 – Total for the years ended December 31		of which Global Corporate for the years ended December 31		Property, equipment and intangible assets as of December 31	
	2016	2015	**2016**	2015	**2016**	2015
North America						
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
Europe						
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
Latin America						
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
Asia-Pacific						
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
Africa						
South Africa	208	311			–	13
Morocco	92	128			–	24
Africa	301	440	32	48	–	37
Total	**33,115**	**34,016**	**7,621**	**8,612**	**2,896**	**2,537**

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	
	for the years ended December 31		for the years ended December 31		in USD millions, for the years ended December 31	
	2016	2015	**2016**	2015	**2016**	2015
North America						
United States	1,024	983	389	434	113	140
North America	1,024	983	389	434	113	140
Latin America						
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
Europe, Middle East & Africa						
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[1]	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[2]	333	279	1,308	1,479	21	30
Portugal	24	22	170	132	–	–
Austria	134	151	51	60	24	24
Luxembourg[1]	19	14	2	16	–	–
Europe, Middle East & Africa	11,186	10,439	12,218	12,327	1,874	2,138
Asia Pacific						
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
Other						
International Group Risk Solutions[3]	209	201	–	–	–	–
Other	209	201	–	–	–	–
Total	**15,484**	**14,400**	**14,817**	**14,591**	**3,183**	**3,177**

[1] Includes business written under freedom of services and freedom of establishment in Europe, and the related assets.
[2] Includes business written through licenses, mainly into Asia Pacific and Middle East, and the related assets.
[3] Includes business written through licenses into all regions.

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

Significant subsidiaries – non-listed

as of December 31, 2016	Registered office	Segment[1]	Voting rights %	Ownership interest %		Nominal value of share capital (in local currency millions)
Australia						
Zurich Australia Limited	Sydney	Global Life	100	100	AUD	426.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance/ Global Life	99.98	99.98	EUR	12.0
Brazil						
Zurich Santander Brasil Seguros e Previdência S.A.	Sao Paulo	Global Life	51	51	BRL	1,659.2
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	General Insurance/ Global Life	100	100	BRL	3,109.6
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.99	98.99	CLP	24,484.0
Zurich Santander Seguros de Vida Chile S.A.	Santiago	Global Life	51	51	CLP	24,252.9
Germany						
Deutscher Herold Aktiengesellschaft	Bonn	Global Life	100	100	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	100	100	EUR	68.5
Zurich GI Management Aktiengesellschaft (Deutschland)	Frankfurt	General Insurance	100	100	EUR	10.0
Ireland						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	8.2
Zurich Financial Services EUB Holdings Limited	Dublin	Non Core Businesses	100	100	EUR	0.001
Italy						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	164.0
Luxembourg						
Zurich Eurolife S.A.	Bertrange	Global Life	100	100	EUR	35.5
Malaysia						
Zurich Insurance Malaysia Berhad	Kuala Lumpur	General Insurance/ Global Life	100	100	MYR	579.0
Mexico						
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[1]	Voting rights %	Ownership interest %		Nominal value of share capital (in local currency millions)
Spain						
Bansabadell Pensiones, E.G.F.P, S.A.[3]	Barcelona	Global Life	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A.[3] de Seguros y Reaseguros	Barcelona	General Insurance	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros[3] 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
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	20.4
Zurich Finance Company AG	Zurich	Other Operating Businesses	100	100	CHF	0.2
Zurich Insurance Company Ltd[4]	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[5]	Zurich	Other Operating Businesses	100	100	CHF	60.0
Zürich Rückversicherungs-Gesellschaft AG	Zurich	General Insurance	100	100	CHF	11.7
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	100	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	Istanbul	General Insurance	100	100	TRY	168.9
United Kingdom						
Allied Zurich Holdings Limited	St. Hélier	Other Operating Businesses	100	100	GBP	90.8
Zurich Assurance Ltd	Cheltenham, England	Global Life	100	100	GBP	236.1
Zurich Employment Services Limited	Cheltenham, England	Global Life	100	100	GBP	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[6]	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)

Significant subsidiaries – non-listed (continued)

Table 28.1

as of December 31, 2016

	Registered office	Segment[1]	Voting rights %	Ownership interest %		Nominal value of share capital (in local currency millions)
United States of America						
Farmers Group, Inc.[7]	Reno, NV	Farmers	100	100	USD	0.001
Farmers New World Life Insurance Company[7]	Mercer Island, WA	Global Life	100	100	USD	6.6
Farmers Reinsurance Company[7]	Woodland Hills	Farmers	100	100	USD	58.8
ZFS Finance (USA) LLC V[6]	Wilmington, DE	Other Operating 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
Zurich American Life Insurance Company	Schaumburg, IL	Global Life/Non-Core Businesses	100	100	USD	2.5
Zurich Holding Company of America, Inc.[8]	Wilmington, DE	Other Operating Businesses	100	100	USD	–

1 The segments are defined in note 27.
2 The controlling shareholder of this subsidiarie is Zurich Santander Holding Dos (Spain), S.L.
3 Relates to Bansabadell insurance entities which are controlled by the Group.
4 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.
5 The results of the operating activities are included in the Global Life segment, whereas the Headquarters' activities are included in Other Operating Businesses.
6 These entities are LLCs or partnerships and have no share capital.
7 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.
8 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.

Non-controlling interests

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[1]	13,203	9,231	9,335	6,564
Other liabilities	1,207	1,102	498	489
Net assets	**1,631**	**1,426**	**1,603**	**1,622**
Non-controlling interests in net assets	**799**	**699**	**802**	**811**
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)
Total comprehensive income	**470**	**(120)**	**7**	**(172)**
Non-controlling interests in total comprehensive income	**230**	**(59)**	**4**	**(86)**
Dividends paid to non-controlling interests	124	133	–	28

[1] Includes reserves for premium refunds, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees and reserves for insurance contracts.

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 167 to 268 and the audited sections of the risk review on pages 117 to 147) 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

Materiality	→ Overall Group materiality: USD 225 million
Audit scope	→ We concluded full scope audit work at 20 business units in 10 countries. → The full scope audit work addressed 70% and 81% of the Group's gross written premiums and policy fees (GWP) and total assets, respectively. → 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.
Key audit matters	The following are the key audit matters we have identified: → Valuation of actuarially determined life insurance assets and liabilities → Valuation of General Insurance reserves → Recoverability of goodwill, distribution agreements and attorney-in-fact contracts

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

Overall group materiality	Overall Group materiality: USD 225 million
How we determined it	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.
Rationale for the materiality benchmark applied	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 117 to 147, 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

Holding company

Review of the year

Net income after taxes for the year was CHF 1,791 million compared with CHF 2,693 million in 2015. The decrease was mainly driven by a reduction in dividend income from its subsidiary Zurich Insurance Company Ltd of CHF 1,100 million to CHF 1,400 million in 2016 partially offset by an increase in interest income on subordinated loans to subsidiaries of CHF 206 million to CHF 512 million. Net income after taxes also includes impairments on investments in subsidiaries of CHF 62 million compared to CHF 90 million in the prior year.

The Annual General Meeting on March 30, 2016, approved a dividend of CHF 17.00 per share to be paid free of Swiss withholding tax to the shareholders out of the capital contribution reserve.

Shareholders' equity decreased by CHF 700 million to CHF 16,709 million as of December 31, 2016, from CHF 17,408 million as of December 31, 2015. The decrease was mainly driven by the dividend of CHF 2,537 million paid in 2016, partially offset by net income after taxes for the year as well as by capital contributed through the issuance of new shares to employees out of contingent capital. The Board of Directors will propose a distribution of a dividend partially from the available earnings for 2016 and partially from the capital contribution reserve. The portion from the capital contribution reserve will be exempt from Swiss withholding tax.

Contents

Income statements

in CHF thousands, for the years ended December 31	Notes	**2016**	2015
Other operating income	4	208	21,177
Other operating expenses	5	(14,108)	(23,228)
Depreciation and valuation adjustments to non-current assets	6	(62,000)	(89,500)
Financial income	7	1,922,356	2,828,373
Dividend income		*1,400,000*	*2,500,000*
Interest income		*513,759*	*306,953*
Other financial income		*8,597*	*21,420*
Financial expenses	8	(15,748)	(22,270)
Direct taxes	9	(39,269)	(21,305)
Net income after taxes		**1,791,439**	**2,693,247**

Holding company (continued)

Balance sheets

Assets

in CHF thousands, as of December 31	Notes	2016	2015
Current assets			
Cash and cash equivalents		337,786	1,645,111
Accrued income and prepaid expenses from subsidiaries		207,521	396
Derivatives with subsidiaries		931	170
Total current assets		546,238	1,645,677
Non-current assets			
Subordinated loans to subsidiaries	10	4,832,405	4,876,704
Investments in subsidiaries	11	11,368,069	11,430,069
Total non-current assets		16,200,474	16,306,773
Total assets		**16,746,712**	**17,952,450**

Liabilities and shareholders' equity

in CHF thousands, as of December 31	Notes	2016	2015
Short-term liabilities			
Other liabilities to subsidiaries		–	524,128
Other liabilities to third parties		33,024	17,636
Other liabilities to shareholders		1,192	1,032
Accrued expenses and deferred income to subsidiaries		993	996
Accrued expenses and deferred income to third parties		971	210
Derivatives with subsidiaries		1,712	–
Total short-term liabilities		37,892	544,002
Total liabilities		37,892	544,002
Shareholders' equity (before appropriation of available earnings)			
Share capital	13	15,061	15,041
Legal reserves:		1,495,143	3,986,688
Capital contribution reserve[1]	*14*	*1,154,003*	*3,645,548*
General capital contribution reserve		*860,481*	*3,342,187*
Reserve for treasury shares	*15*	*293,522*	*303,361*
General legal reserve		*341,140*	*341,140*
Free reserve	16	342,664	342,206
Retained earnings:			
As of January 1		*13,064,513*	*10,371,266*
Net income after taxes		*1,791,439*	*2,693,247*
Retained earnings, as of December 31		14,855,952	13,064,513
Total shareholders' equity (before appropriation of available earnings)		16,708,820	17,408,448
Total liabilities and shareholders' equity		**16,746,712**	**17,952,450**

[1] Dividends paid in the year, out of capital contribution reserve in respect of the 2015 result, amounting to CHF 2,537,305.

Notes to the financial statements

1. General information

Zurich Insurance Group Ltd (the Company) is a public limited company domiciled in Zurich, Switzerland, and its shares are listed on the SIX Swiss Exchange. It was incorporated on April 26, 2000, and is the holding company of the Zurich Insurance Group with the principal activity of holding subsidiary companies. The Company does not employ staff, as employees work in a joint capacity for Zurich Insurance Company Ltd.

2. Basis of presentation

Zurich Insurance Group Ltd presents its financial statements in accordance with Swiss law.

All amounts in these financial statements including the notes are shown in Swiss franc thousands, rounded to the nearest thousand, unless otherwise specified.

3. Summary of significant accounting policies

a) Exchange rates

Unless otherwise stated, assets and liabilities expressed in currencies other than Swiss francs are translated at year end exchange rates. Revenues and expenses are translated using the exchange rate at the date of the transaction. Net unrealized exchange losses are recorded in the income statements and net unrealized exchange gains are deferred until realized.

b) Investments in subsidiaries

Investments in subsidiaries are equity interests, held on a long-term basis for the purpose of the holding company's business activities. Each investment in subsidiaries is valued individually and carried at its cost less adjustments for impairments.

c) Accrued income

Income is accrued for interest which is earned but not yet due for payment at the end of the reporting period.

d) Derivatives

Derivatives are carried at market value, with changes in the market value recorded in the income statements.

4. Other operating income

The decrease in other operating income is due to the positive impact in 2015 of the release of CHF 21.1 million of the irrevocable commitment made by the Company on behalf of the Zurich Insurance Group to the Z Zurich Foundation in 2011, as another Group company made the payments for 2015. In 2016, the commitment no longer exists.

5. Other operating expenses

Other operating expenses include directors' fees of CHF 4.6 million and CHF 4.7 million for the years ended December 31, 2016, and December 31, 2015, respectively. Overhead expenses decreased by CHF 5.8 million to CHF 4.2 million in 2016. In addition, fees paid to the Swiss Financial Market Supervisory Authority of CHF 3.7 million and CHF 5.3 million are included for the years ended December 31, 2016, and December 31, 2015.

6. Depreciation and valuation adjustments to non-current assets

Impairments on investments in subsidiaries amount to CHF 62 million and CHF 90 million for the years ended December 31, 2016, and December 31, 2015, respectively (also refer to note 11).

7. Financial income

Financial income for the year 2016 mainly consists of dividend income of CHF 1,400 million (2015: CHF 2,500 million) received from the Company's subsidiary Zurich Insurance Company Ltd and interest income of CHF 512 million (2015: CHF 304 million) on the subordinated loan with Zurich Insurance Company Ltd. This interest income is recognized when Zurich Insurance Company Ltd declares its intention to pay a dividend to its parent Zurich Insurance Group Ltd. During 2016, ZIC declared a dividend in March 2016 and further declared in December 2016 its intention to pay a dividend in 2017 triggering further interest income accrued in the Company in 2016.

Holding company (continued)

8. Financial expenses

Financial expenses for the year 2016 decreased by CHF 6.5 million to CHF 15.7 million mostly driven by realized and unrealized foreign exchange losses of CHF 9.9 million compared with CHF 16.1 million in the previous year.

9. Direct taxes

Direct taxes include income and capital taxes in Switzerland.

10. Subordinated loans to subsidiaries

Subordinated loans include a loan to Zurich Insurance Company Ltd of CHF 4,832 million as of December 31, 2016 and 2015, respectively, and additionally of a loan to Zurich Financial Services EUB Holdings Ltd of GBP 30 million as of December 31, 2015, which was re-paid in May 2016.

11. Investments in subsidiaries

Investments in subsidiaries

as of December 31	2016			2015		
	Carrying value[1]	Voting rights in %	Capital rights in %	Carrying value[1]	Voting rights in %	Capital rights in %
Zurich Insurance Company Ltd	11,088,466	100.00	100.00	11,088,466	100.00	100.00
Zurich Financial Services EUB Holdings Ltd	121,436	99.90	99.90	183,436	99.90	99.90
Farmers Group, Inc.	157,992	12.10	4.62	157,992	12.10	4.62
Allied Zurich Limited	175	100.00	100.00	175	100.00	100.00
Total	**11,368,069**			**11,430,069**		

[1] in CHF thousands.

The investment in Zurich Financial Services EUB Holdings Limited was impaired by CHF 62 million in 2016 compared with an impairment of CHF 90 million in the previous year.

In addition to the above mentioned directly held subsidiaries, the Company indirectly owns additional subsidiaries primarily through Zurich Insurance Company Ltd. Information regarding indirectly owned subsidiaries is included on pages 264 to 266 of this Annual Report.

12. Commitments and contingencies

Zurich Insurance Group Ltd has provided unlimited guarantees in support of entities belonging to the Zurich Capital Markets group of companies. The Company has also entered into support agreements and guarantees for the benefit of certain of its subsidiaries. They amounted to CHF 2,281 million as of December 31, 2016, and CHF 3,150 million as of December 31, 2015. The decrease is mainly due to an expired guarantee in the amount of USD 700 million provided to a fully owned subsidiary to secure the subordinated debt obligation of the issuer. Furthermore, Zurich Insurance Group Ltd has issued an unlimited guarantee in favor of the Institute of London Underwriters in relation to business transferred to Zurich Insurance plc from a Group company which no longer has insurance licenses.

Zurich Insurance Group Ltd knows of no event of default that would require it to satisfy any of these guarantees or to take action under a support agreement.

13. Share capital

a) Issued share capital

In 2016, there was no change to the ordinary share capital. At the Annual General Meeting on March 30, 2016, the shareholders approved an extension of authorized share capital with the number of shares remaining unchanged at 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each until March 30, 2018. In 2015, there were no changes to the ordinary share capital or to the authorized share capital. During the years 2016 and 2015, a total of 202,442 shares and 768,128 shares, respectively, were issued to employees out of the contingent capital.

b) 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.

c) 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 of 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 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

On January 1, 2015, the contingent share capital, to be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 165,842.30 or 1,658,423 fully paid registered shares with a nominal value of CHF 0.10 each. On January 1, 2016, the contingent share capital, to be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 89,029.50 or 890,295 fully paid registered shares with a nominal value of CHF 0.10 each.

During 2016 and 2015, 202,442 and 768,128 shares, respectively, were issued to employees out of the contingent share capital. Of the total 202,442 registered shares issued to employees during the year 2016, 74,979 shares were issued in the period from January 1, 2016, to March 31, 2016, and 127,463 registered shares were issued as from April 1, 2016, to December 31, 2016. As a result, on December 31, 2016 and 2015, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 68,785.30 and CHF 89,029.50 or 687,853 and 890,295 fully paid registered shares, 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 to employees is subject to one or more regulations to be issued by the Board and take into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to the employees at a price lower than that quoted on the stock exchange.

Holding company (continued)

14. Capital contribution reserve

Capital contribution reserve

in CHF thousands	2016	2015
As of January 1	3,645,548	5,983,320
Transfer to free reserve (adjustment capital contribution reserve)	(458)	(1,964)
Dividend payment out of capital contribution reserve	(2,537,305)	(2,534,052)
Agio on share-based payment transactions	46,218	198,244
As of December 31	**1,154,003**	**3,645,548**

15. Reserve for treasury shares

This reserve corresponds to the purchase value of all Zurich Insurance Group Ltd shares held by companies of the Zurich Insurance Group as shown in the table below. The Company itself does not hold any treasury shares.

Capital contribution reserve (reserve for treasury shares)

	Number of shares 2016	Purchase value 2016[1]	Number of shares 2015	Purchase value 2015[1]
As of January 1	1,243,931	303,361	1,292,220	315,122
Sales during the year	(40,408)	(9,839)	(48,289)	(11,761)
As of December 31	**1,203,523**	**293,522**	**1,243,931**	**303,361**
Average selling price, in CHF		248		277

[1] in CHF thousands

16. Free reserve

Free reserve

in CHF thousands	2016	2015
As of January 1	342,206	340,242
Transfer from capital contribution reserve	458	1,964
As of December 31	**342,664**	**342,206**

17. Shareholders

According to information available as of December 31, 2016, Zurich Insurance Group Ltd is not aware of any person or institution, other than BlackRock, Inc., New York, (5.03 percent of the shares, July 29, 2014) and Norges Bank (the Central Bank of Norway), Oslo, (3.10 percent of the shares, March 25, 2016) which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd representing three percent or more of its issued shares.

18. Remuneration of the Board of Directors and the Executive Committee

The information required by articles 14–16 of the Ordinance Against Excessive Compensation, which prevails over article 663bbis of the Swiss Code of Obligations, is disclosed and audited in the Remuneration report on pages 76 to 109 of this Annual Report.

19. Shareholdings of the Board of Directors and the Executive Committee

The information on share and share option holdings of Directors and of the members of the Executive Committee (ExCo), who held office as of December 31, 2016, as required by article 663c paragraph 3 and article 959c paragraph 2 cif 11 of the Swiss Code of Obligations is included and audited in the Remuneration report on pages 76 to 109 of this Annual Report.

20. Supplementary information

Cash and cash equivalents of CHF 338 million include restricted cash of CHF 0.4 million as of December 31, 2016, compared to cash and cash equivalents of CHF 1,645 million and thereof restricted cash of CHF 0.4 million in the previous year.

Holding company (continued)

Proposed appropriation of available earnings and capital contribution reserve

as of December 31	**2016**	2015
Registered shares eligible for dividends		
Eligible shares	150,607,406	150,404,964

The Board of Directors proposes to the shareholders at the Annual General Meeting on March 29, 2017, a total dividend of CHF 17.00 per share.

in CHF thousands	**2016**	2015
Appropriation of available earnings as proposed by the Board of Directors		
Net income after taxes	1,791,439	2,693,247
Balance brought forward	13,064,513	10,371,266
Dividend payment out of available earnings[1]	(1,701,864)	–
Retained earnings	13,154,088	13,064,513
Balance carried forward[1]	**13,154,088**	**13,064,513**

The Board of Directors proposes to the shareholders at the Annual General Meeting on March 29, 2017, to pay a dividend of CHF 1,702 million out of available earnings and to carry forward retained earnings of CHF 13,154 million as shown in the above table.

in CHF thousands	**Capital contribution reserve**
Appropriation of capital contribution reserve	
As of January 1, 2017 (incl. reserve for treasury shares)	1,154,003
Dividend payment out of capital contribution reserve[1]	(858,462)
Balance carried forward[1]	**295,541**

[1] These figures are based on the issued share capital as of December 31, 2016. They may change following the issuance of shares out of contingent capital for employees after the balance sheet date (see note 13). Treasury shares are not entitled to dividends.

The Board of Directors proposes to the shareholders at the Annual General Meeting on March 29, 2017, to pay a dividend of CHF 858 million from the capital contribution reserve.

If these proposals are approved, a dividend of CHF 11.30 per share, less 35 percent for Swiss withholding tax, as well as a dividend of CHF 5.70 per share exempt from Swiss withholding tax are expected to be paid starting from April 4, 2017.

Zurich, February 8, 2017

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

T. de Swaan

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Report of the statutory auditor

To the General Meeting of Zurich Insurance Group Ltd, Zurich

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Zurich Insurance Group Ltd, which comprise the balance sheet as at December 31, 2016, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements as at December 31, 2016, comply with Swiss law and the Company's articles of incorporation.

Basis for opinion

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

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession 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

Materiality	→ Overall materiality: CHF 170 million
Audit scope	→ We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.
Key audit matters	As key audit matter the following area of focus has been identified: → Valuation of Investments in subsidiaries

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the 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.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the 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 financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the 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 financial statements as a whole.

Materiality

Overall materiality	CHF 170 million
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is the relevant benchmark for a holding company with no own business activities, and is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 17 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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

Valuation of Investments in subsidiaries

Key audit matter

Investments in subsidiaries are carried at cost less necessary impairments and valued on an individual basis.

Management assesses whether there are any losses in the carrying value of the investments in subsidiaries. As a first step the Company compares the carrying value to the net asset value of the subsidiary as at December 31. If the net asset value is below the carrying value, then the Company may perform a valuation of the subsidiary by using a discounted cash flow analysis. If this valuation still indicates a need for a write-down, the Company reduces the carrying value of the investment in subsidiary accordingly.

The determination whether an investment in subsidiary needs to be impaired includes assumptions about the profitability of the underlying business and growth, which involves management's judgment.

We consider this to be a key audit matter not only due to this judgment involved but also based on the magnitude of CHF 11.4 billion.

How our audit addressed the key audit matter

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

- → Assessed the appropriateness of the Company's impairment testing methodology.
- → Re-performed management's impairment test on the carrying value of each investment in subsidiary, and challenged the impairment decisions taken.
- → Tested the required disclosures in the notes to the financial statements.

We determined that the carrying value of investments in subsidiaries and the decisions made in connection with potential impairments thereof are reasonable and supportable.

Report of the statutory auditor (continued)

Responsibilities of the Board of Directors for the financial statements
The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the Company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity'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 entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements.

A further description of our responsibilities for the audit of the 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 financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Mark Humphreys Audit expert Auditor in charge	Peter Bieri Audit expert

Zurich, February 8, 2017

Independent auditor's report

Independent auditor's report

On the conditional capital increase to the Board of Directors of Zurich Insurance Group Ltd, Zurich

We have audited the issue of new shares by Zurich Insurance Group Ltd in the period from January 1, 2016, to December 31, 2016, pursuant to the resolution of the general meeting of March 30, 2010, in accordance with article 653f para. 1 Code of Obligations (CO).

Board of Directors' responsibility

The Board of Directors is responsible for the issue of new shares in accordance with the legal requirements and the Company's articles of incorporation.

Auditor's responsibility

Our responsibility is to express an opinion based on our audit as to whether the issue of new shares complies with Swiss law and the Company's articles of incorporation. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the issue of new shares complies with the legal requirements and Company's articles of incorporation.

An audit involves performing procedures to obtain audit evidence so that material breaches of the legal requirements and the Company's articles of incorporation for the issue of new shares may be identified with reasonable assurance. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material breaches of the requirements concerning the issue of new shares, whether due to fraud or error.

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

Opinion

In our opinion, the issue of 202,442 registered shares with nominal value of CHF 0.10 complies with Swiss law and the Company's articles of incorporation.

PricewaterhouseCoopers AG

Mark Humphreys Audit expert	Peter Bieri Audit expert

Zurich, January 28, 2017

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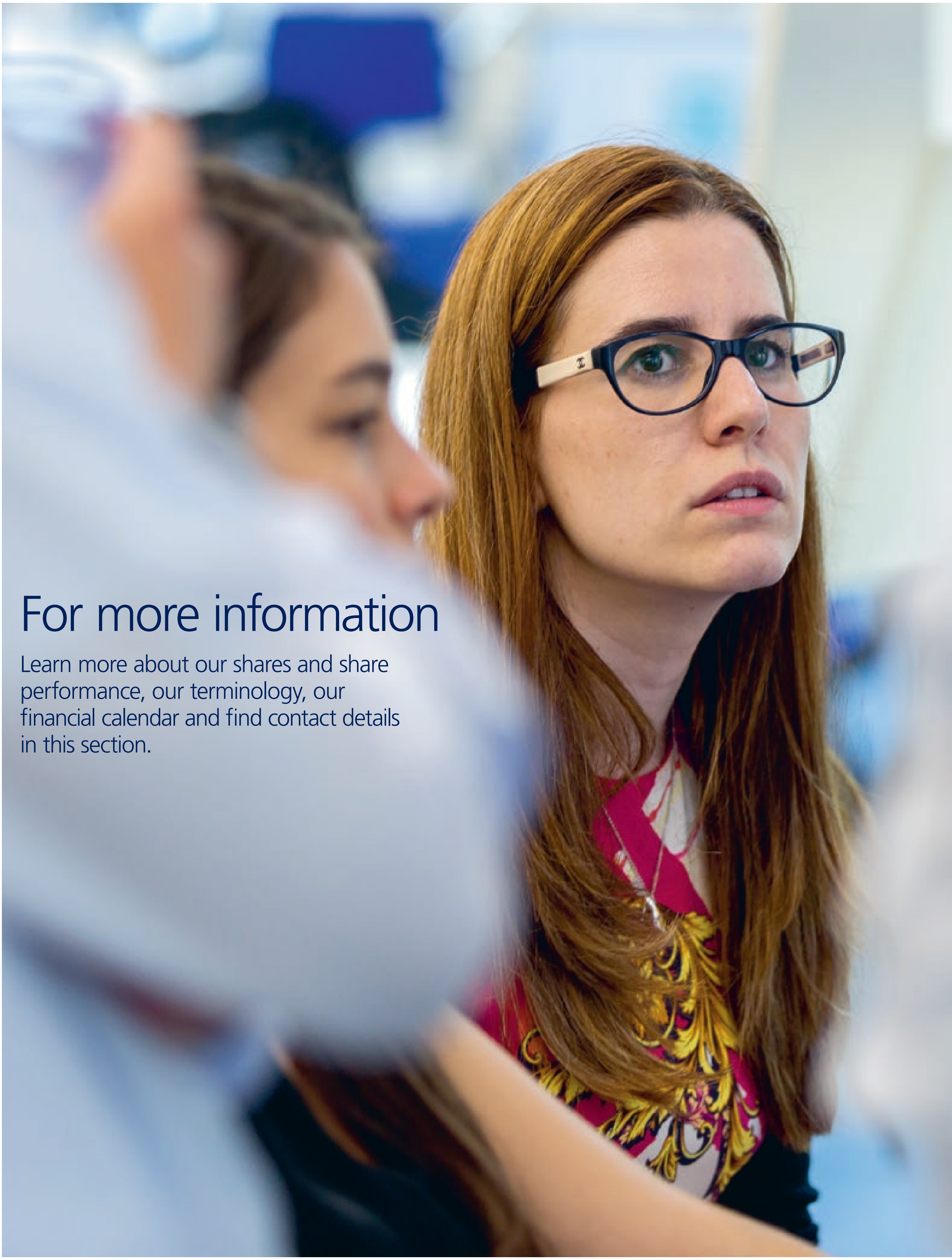
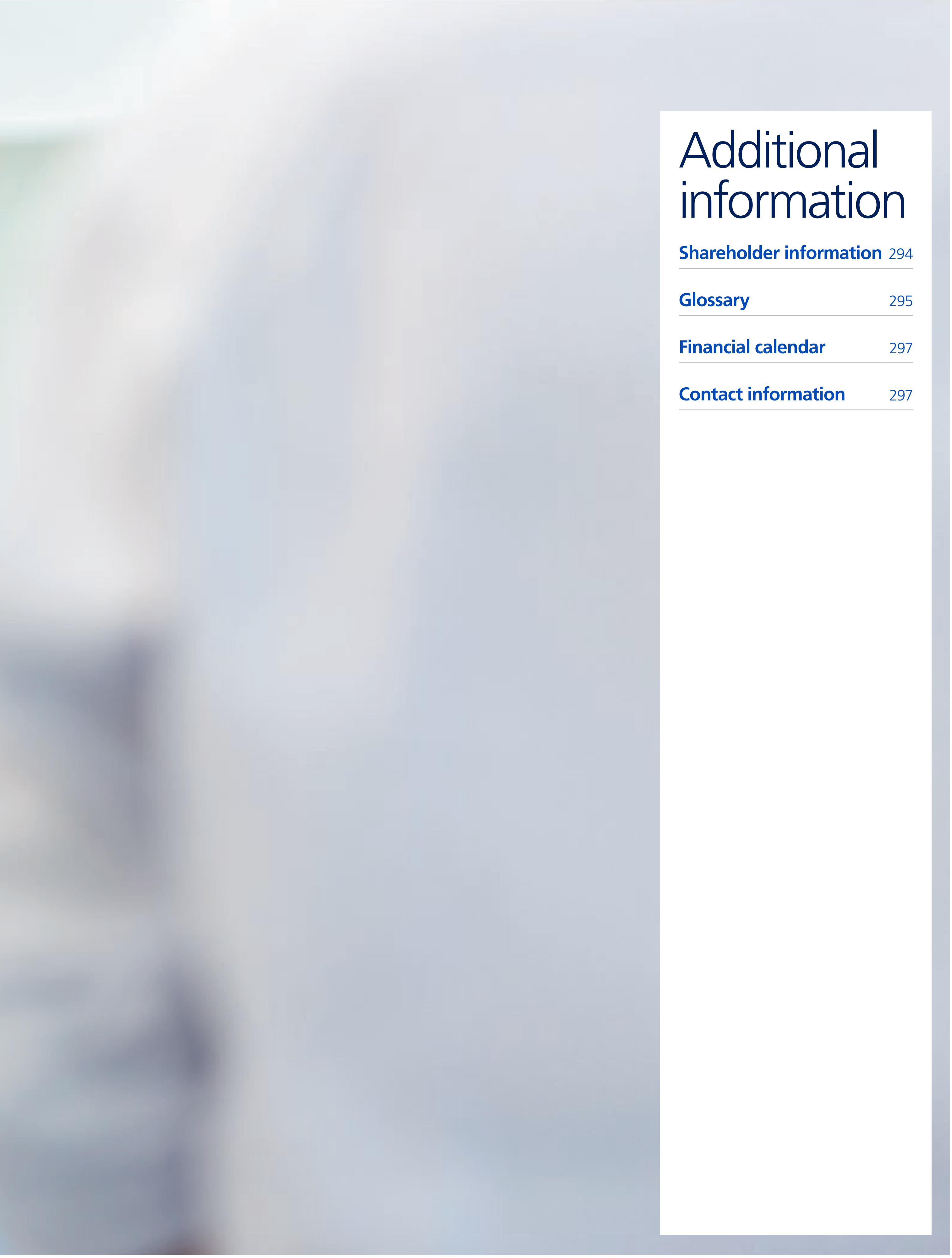


For more information

Learn more about our shares and share performance, our terminology, our financial calendar and find contact details in this section.



Additional information

Shareholder information

Zurich Insurance Group Ltd registered share data

Zurich shares

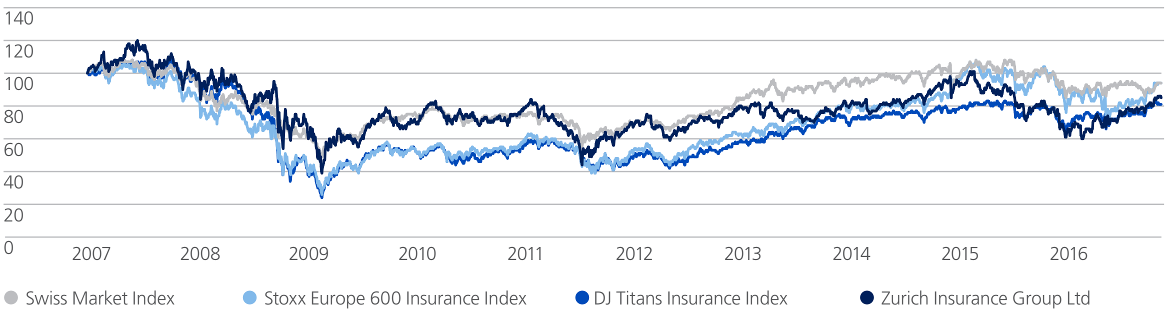
Zurich had a market capitalisation of CHF 42 billion on 31 December 2016. The shares are listed on the SIX Swiss Exchange and traded on the SIX Swiss Exchange Blue Chip Segment; ticker symbol: ZURN; the Swiss security number (Valorennummer) is 1107539. Trading in Zurich Insurance Group Ltd shares on the Blue Chip Segment is conducted in Swiss Francs.

For further information on shareholders or capital structure, see corporate governance report on page 26.

Share price performance

The share price at year end 2016 was CHF 280.40. The lowest price during 2016 was at CHF 196.00, on 7 April, while the highest price was at CHF 281.50 on 26 December.

Zurich share performance (indexed) over the last ten years
%



Source: Thomson Reuters Datastream

Dividend policy

The Group intends to maintain its current attractive dividend policy and proposes a target pay-out ratio of around 75% of net income attributable to shareholders, subject to a minimum of CHF 17, with dividend increases based on sustainable earnings growth.

Dividend

	Financial Year	Gross amount per registered share in CHF	Paid from capital contribution reserve in CHF	Payment date as from
Dividend	2016	17.00[1]	5.70[1]	April 4, 2017[1]
Dividend	2015	17.00	17.00	April 5, 2016
Dividend	2014	17.00	17.00	April 9, 2015
Dividend	2013	17.00	17.00	April 9, 2014
Dividend	2012	17.00	17.00	April 11, 2013
Dividend	2011	17.00	17.00	April 5, 2012
Dividend	2010	17.00	17.00	April 7, 2011
Dividend	2009	16.00	–	April 8, 2010
Dividend	2008	11.00	–	April 7, 2009
Dividend	2007	15.00	–	April 8, 2008

[1] Proposed dividend, subject to approval by shareholders at the Annual General Meeting 2017; expected payment date as from April 4, 2017.

Glossary

Group

Book value per share

is a measure that is calculated by dividing shareholders' equity by the number of shares issued less the number of treasury shares as of the period end.

Business operating profit (BOP)

is a measure that 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 changes in estimates of earn-out liabilities (except experience adjustments, which remain within BOP) are also excluded from BOP. **Business operating profit before interest, depreciation and amortization (BOPBIDA)** excludes interest expense on debt, depreciation and impairments of property and equipment and amortization and impairments of intangible assets. BOPBIDA includes amortization of deferred policy acquisition costs, deferred origination costs and distribution agreements.

Business operating profit (after-tax) return on shareholders' equity (BOPAT ROE)

indicates the level of BOP relative to resources provided by shareholders. It is calculated as BOP, annualized on a linear basis and adjusted for taxes, divided by the average value of shareholders' equity, adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges, using the value at the beginning and end of each quarter within the period. The average shareholders' equity for each quarter is then added together and divided by the number of quarters. If the dividend is approved at the Annual General Meeting within the first ten working days in April, then the dividend is deducted from the second quarter opening shareholders' equity.

Investments

Total investments in the consolidated balance sheets include Group investments and investments for unit-linked contracts. **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. Average invested assets exclude cash collateral received for securities lending. The Group manages its diversified investment portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of the Group's Asset/Liability Management and Investment Committee. **Investments for unit-linked contracts** include investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked contracts. They are managed in accordance with the investment objectives of each unit-linked fund. The investment result for unit-linked products is passed to policyholders through a charge to policyholder dividends and participation in profits.

Return on shareholders' equity (ROE)

is a measure that indicates the level of profit or loss relative to resources provided by shareholders. It is calculated as net income after taxes attributable to shareholders, annualized on a linear basis, divided by the average value of shareholders' equity, adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges, using the value at the beginning and end of each quarter within the period. The average shareholders' equity for each quarter is then added together and divided by the number of quarters. If the dividend is approved at the Annual General Meeting within the first ten working days in April, then the dividend is deducted from the second quarter opening shareholders' equity.

General Insurance

The following General Insurance measures are net of reinsurance.

Net underwriting result

is calculated as the difference between net earned premiums and policy fees and the sum of net insurance benefits and losses and net technical expenses.

Total net technical expenses

includes underwriting and policy acquisition costs, as well as the technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, and other income.

Combined ratio

is a performance measure that indicates the level of claims and net technical expenses during the period relative to net earned premiums and policy fees. It is calculated as the sum of the loss ratio and the expense ratio.

Loss ratio

is a performance measure that indicates the level of claims during the period relative to net earned premiums and policy fees. It is calculated as insurance benefits and losses net, which include paid claims, claims incurred but not reported (IBNR) and claims handling costs, divided by net earned premiums and policy fees.

Glossary (continued)

Expense ratio
is a performance measure that indicates the level of technical expenses during the period relative to net earned premiums and policy fees. It is calculated as the sum of net technical expenses and policyholder dividends and participation in profits, divided by net earned premiums and policy fees.

Net non-technical result
includes expenses or income not directly linked to insurance operating performance, such as gains/losses on foreign currency translation and interest expense on debt. It includes the impact of financial market volatility and other non-operational variables that distort the ongoing business performance.

Global Life

Embedded value (EV) principles
is a methodology using a "bottom-up" market consistent approach, which explicitly allows for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets. A liquidity premium, which increases risk discount rates, has been applied to certain lines of business consistent with the CFO Forum principles. Options and guarantees are valued using market consistent models calibrated to observable market prices.

Insurance deposits
are deposits, similar to customer account balances, not recorded as revenues. However, the fees charged on insurance deposits are recorded as revenue within gross written premiums and policy fees. These deposits arise from investment contracts and insurance contracts that are accounted for under deposit accounting. They represent the pure savings part, which is invested.

New business annual premium equivalent (APE)
is calculated as new business annual premiums plus 10 percent of single premiums, before the effect of non-controlling interests. **Present value of new business premiums (PVNBP)** is calculated as the value of new business premiums discounted at the risk-free rate, before the effect of non-controlling interests.

New business value, after tax
is a measure that reflects the value added by new business written during the period, including allowances for frictional costs, time value of options and guarantees, and the cost of non-market risk, and is valued at the point of sale. It is calculated as the present value of the projected after-tax profit from life insurance contracts sold during the period using a valuation methodology consistent with the EV principles, after the effect of non-controlling interests.

Source of earnings (SOE)
reporting presents the key drivers of Global Life BOP identifying specific profit sources. This information provides the shareholders' view of earnings, thereby the components attributable to policyholders and non-controlling interests are included in each line item and are not separately identified.

Loadings and fees include fund and non-fund based fees. The investment margin is the spread between the investment result and interest credited to policyholders, plus the return on free surplus. The technical margin shows the mortality, morbidity, and longevity premiums less benefits to the policyholders together with the reinsurance result.

Operating and funding costs include administrative and operating expenses, interest expense on debt, depreciation and amortization of fixed assets and non-acquisition related intangible assets. Acquisition expenses include commissions and other new business expenses, as well as costs related to business combinations, including amortization of acquisition related intangible assets. The impact of deferrals is the net effect of deferral and amortization of policy acquisition and origination costs and front-end fees, which may be affected by movements in financial markets and changes in assumptions as well.

Farmers

Gross management result
is a performance measure of Farmers Management Services calculated as management fees and other related revenues minus management and other related expenses, including amortization and impairments of intangible assets.

Managed gross earned premium margin
is a performance measure calculated as the gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services as attorney-in-fact and receives fees for its services.

Financial calendar

Annual General Meeting 2017
March 29, 2017

Ex-dividend date
March 31, 2017

Dividend payable as from
April 4, 2017

Results for the three months ended March 31, 2017
May 11, 2017

Half year results 2017
August 10, 2017

Results for the nine months ended September 30, 2017
November 9, 2017

Note: all dates are subject to change.

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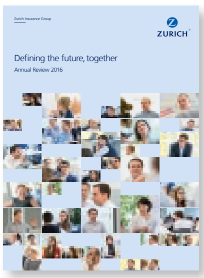
Our 2016 reports



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

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

Disclaimer and 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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MIX
Paper from responsible sources
FSC® C016003
www.fsc.org

printed in
switzerland

ClimatePartner
climate neutral
Print | ID 53232-1702-1011

The Annual Report is published in English and German. In the event of inconsistencies in the German translation, the English original version shall prevail.

Design by Radley Yeldar, www.ry.com

All photography by Ivan Stefania except for pages 12, 14, 15, 17, 19 (Zurich Insurance Company), page 16 (iStock), page 18 (Getty Images), page 21 (Michael Szönyi).

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

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

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

Printed climate neutrally with ClimatePartner using green electricity end of February 2017 by Neidhart + Schön AG, www.nsgroup.ch. ISO 14001 certified.

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