Zurich Insurance Group

ZURICH®

Consolidated financial statements 2015

Annual results 2015

Consolidated financial statements

Contents

Consolidated income statements

in USD millions, for the years ended December 31	Notes	2015	Restated 2014
Revenues			
Gross written premiums		48,490	52,069
Policy fees		2,508	2,712
Gross written premiums and policy fees		50,998	54,781
Less premiums ceded to reinsurers[1]		(8,078)	(6,101)
Net written premiums and policy fees		42,920	48,680
Net change in reserves for unearned premiums	11	(296)	(359)
Net earned premiums and policy fees		42,624	48,321
Farmers management fees and other related revenues	27	2,786	2,791
Net investment result on Group investments	6	7,462	9,211
Net investment income on Group investments		5,572	6,206
Net capital gains/(losses) and impairments on Group investments		1,891	3,004
Net investment result on unit-linked investments		6,238	10,784
Net gain/(loss) on divestments of businesses		10	(259)
Other income		1,448	1,723
Total revenues		60,568	72,571
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	11	36,076	37,452
Less ceded insurance benefits and losses[1]	11	(5,330)	(3,088)
Insurance benefits and losses, net of reinsurance	11	30,746	34,364
Policyholder dividends and participation in profits, net of reinsurance	11	7,863	12,568
Underwriting and policy acquisition costs, net of reinsurance	11	9,061	9,835
Administrative and other operating expense	13	8,659	8,858
Interest expense on debt		431	525
Interest credited to policyholders and other interest		467	523
Total benefits, losses and expenses		57,227	66,672
Net income before income taxes		3,340	5,898
Income tax (expense)/benefit	18	(1,294)	(1,670)
attributable to policyholders	18	(110)	(106)
attributable to shareholders	18	(1,183)	(1,564)
Net income after taxes		**2,047**	**4,228**
attributable to non-controlling interests		205	280
attributable to shareholders		1,842	3,949
in USD			
Basic earnings per share	20	12.36	26.68
Diluted earnings per share	20	12.33	26.44
in CHF			
Basic earnings per share	20	11.89	24.39
Diluted earnings per share	20	11.86	24.17

[1] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of April 1, 2015 and an additional tranche as of October 1,2015. The combined initial impact of these transactions was an increase of USD 1.8 billion in premiums ceded to reinsurers and an increase of USD 1.8 billion in ceded insurance benefits and losses in the Global Life business.

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
2014			
Comprehensive income for the period, as restated	3,949	2,338	200
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		5,297	132
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(1,950)	163
Deferred income tax (before foreign currency translation effects)		(704)	(65)
Foreign currency translation effects		(305)	(30)
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)

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
(2,305)	233	24	(407)	(383)	(150)	3,799	43	3,842
(2,305)	3,124	32	(855)	(823)	2,301			
	(1,787)	–	–	–	(1,787)			
–	(769)	(8)	190	183	(586)			
–	(335)	–	257	257	(78)			
(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)			

Consolidated financial statements *continued*

Consolidated balance sheets

Assets

in USD millions, as of	Notes	12/31/15	Restated 12/31/14	01/01/14
Investments				
Total Group investments	6	191,238	204,860	207,280
Cash and cash equivalents		8,159	7,600	7,181
Equity securities		18,873	16,099	13,183
Debt securities		137,730	153,648	156,456
Investment property		9,865	8,784	8,745
Mortgage loans		7,024	7,826	9,798
Other loans		9,569	10,834	11,789
Investments in associates and joint ventures		18	70	129
Investments for unit-linked contracts		126,728	134,416	134,267
Total investments[1]		317,966	339,276	341,547
Reinsurers' share of reserves for insurance contracts[1]	8	17,774	16,550	17,978
Deposits made under assumed reinsurance contracts		1,708	2,203	2,645
Deferred policy acquisition costs	12	17,677	17,750	18,724
Deferred origination costs	12	506	595	724
Accrued investment income[2]		1,727	1,912	2,321
Receivables and other assets	16	14,930	16,946	18,499
Deferred tax assets	18	1,455	1,561	2,020
Assets held for sale[3]		10	48	223
Property and equipment	14	1,140	1,273	1,494
Attorney-in-fact contracts	15	1,025	1,025	1,025
Goodwill	15	1,289	1,661	1,852
Other intangible assets	15	4,766	5,729	6,003
Total assets		**381,972**	**406,529**	**415,053**

[1] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of April 1, 2015 and an additional tranche as of October 1, 2015. The combined initial impact of these transations was a decrease of USD 1.7 billion in total investments and an increase of USD 1.8 billion in Reinsurers' share of reserves for insurance contracts in the Global Life business.
[2] Accrued investment income on unit-linked investments amounted to USD 106 million and USD 133 million as of December 31, 2015 and 2014, respectively.
[3] December 31, 2015 included land and buildings previously classified as investment property amounting to USD 10 million. December 31, 2014 included land and buildings formerly classified as investment property amounting to USD 48 million.

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

Liabilities and equity

in USD millions, as of

	Notes	12/31/15	Restated 12/31/14	01/01/14
Liabilities				
Reserve for premium refunds		537	606	571
Liabilities for investment contracts	9	70,627	70,813	67,113
Deposits received under ceded reinsurance contracts		903	1,022	1,245
Deferred front-end fees		5,299	5,539	5,791
Reserves for insurance contracts	8	237,622	253,719	265,440
Obligations to repurchase securities		1,596	1,451	1,685
Accrued liabilities		2,849	3,065	3,023
Other liabilities	17	15,051	17,230	17,904
Deferred tax liabilities	18	4,498	5,020	5,110
Liabilities held for sale		–	–	49
Senior debt	19	4,471	5,379	6,044
Subordinated debt	19	5,614	5,857	6,342
Total liabilities		**349,069**	**369,700**	**380,319**
Equity				
Share capital	20	11	11	11
Additional paid-in capital	20	3,245	4,843	6,395
Net unrealized gains/(losses) on available-for-sale investments		2,556	4,068	1,730
Cash flow hedges		294	306	106
Cumulative foreign currency translation adjustment		(9,347)	(6,313)	(4,008)
Revaluation reserve		228	218	195
Retained earnings		34,192	31,602	28,075
Shareholders' equity		31,178	34,735	32,503
Non-controlling interests		1,725	2,095	2,231
Total equity		**32,904**	**36,830**	**34,734**
Total liabilities and equity		**381,972**	**406,529**	**415,053**

Financial information

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

Consolidated financial statements *continued*

Consolidated statements of cash flows

in USD millions, for the years ended December 31	2015	Restated 2014
Cash flows from operating activities		
Net income attributable to shareholders	1,842	3,949
Adjustments for:		
Net (gain)/loss on divestments of businesses	(10)	259
(Income)/expense from equity method accounted investments	(8)	(12)
Depreciation, amortization and impairments of fixed and intangible assets	1,200	1,012
Other non-cash items	325	9
Underwriting activities:	6,868	14,532
Reserves for insurance contracts, gross	*4,528*	*4,759*
Reinsurers' share of reserves for insurance contracts[1]	*(1,981)*	*691*
Liabilities for investment contracts	*4,806*	*9,746*
Deferred policy acquisition costs	*(981)*	*(1,014)*
Deferred origination costs	*47*	*55*
Deposits made under assumed reinsurance contracts	*526*	*429*
Deposits received under ceded reinsurance contracts	*(77)*	*(134)*
Investments:	(4,703)	(15,267)
Net capital (gains)/losses on total investments and impairments	*(6,261)*	*(12,017)*
Net change in derivatives	*200*	*38*
Net change in money market investments	*1,415*	*1,939*
Sales and maturities		
Debt securities[1]	*85,797*	*108,774*
Equity securities	*60,722*	*57,048*
Other	*7,444*	*7,869*
Purchases		
Debt securities	*(83,237)*	*(104,376)*
Equity securities	*(62,423)*	*(67,124)*
Other	*(8,361)*	*(7,418)*
Net changes in sale and repurchase agreements	237	(139)
Movements in receivables and payables	(69)	913
Net changes in other operational assets and liabilities	(485)	425
Deferred income tax, net	24	178
Net cash provided by/(used in) operating activities	5,222	5,860

[1] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of April 1, 2015 and an additional tranche as of October 1, 2015. The combined initial impact of these transactions was an increase of USD 1.8 billion in reinsurers' share of reserves for insurance contracts and a transfer of USD 1.7 million of debt securities in the Global Life business.

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	2015	Restated 2014
Cash flows from investing activities		
Disposals of tangible and intangible assets	60	86
Additions to tangible and intangible assets	(678)	(1,381)
(Acquisitions)/disposals of equity method accounted investments, net	88	95
Acquisitions of companies, net of cash acquired	(8)	(100)
Divestments of companies, net of cash divested	4	67
Dividends from equity method accounted investments	8	1
Net cash provided by/(used in) investing activities	(526)	(1,233)
Cash flows from financing activities		
Dividends paid	(2,869)	(2,958)
Issuance of share capital	44	129
Net movement in treasury shares	21	25
Other acquisitions and divestments related cash flows	(34)	(403)
Issuance of debt	298	1,526
Repayment of debt	(1,023)	(1,560)
Net cash provided by/(used in) financing activities	(3,564)	(3,241)
Foreign currency translation effects on cash and cash equivalents	(714)	(773)
Change in cash and cash equivalents	417	614
Cash and cash equivalents as of January 1	8,776	8,162
Cash and cash equivalents as of December 31	**9,193**	**8,776**
of which:		
– Group investments	8,159	7,600
– Unit-linked	1,034	1,176
Other supplementary cash flow disclosures		
Other interest income received	5,150	6,261
Dividend income received	1,999	1,968
Other interest expense paid	(997)	(1,124)
Income taxes paid	(1,400)	(1,379)

Cash and cash equivalents

in USD millions, as of December 31	2015	2014
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	7,037	6,592
Cash equivalents	2,156	2,184
Total[1]	**9,193**	**8,776**

[1] Includes cash and cash equivalents for unit-linked contracts of USD 1,034 million and USD 1,176 million as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, cash and cash equivalents held to meet local regulatory requirements were USD 710 million and USD 817 million, respectively.

Consolidated financial statements *continued*

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2013, as previously reported	11	6,395
Issuance of share capital[1]	–	200
Dividends to shareholders[2]	–	(1,815)
Share-based payment transactions	–	61
Treasury share transactions[4]	–	2
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, 2014, as restated	11	4,843
Balance as of December 31, 2014, as previously reported	11	4,843
Total adjustments due to restatement	–	–
Balance as of December 31, 2014, as restated	11	4,843
Issuance of share capital[1]	–	205
Dividends to shareholders[3]	–	(1,683)
Share-based payment transactions	–	(124)
Treasury share transactions[4]	–	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**

[1] The number of common shares issued as of December 31, 2015 was 150,404,964 (December 31, 2014: 149,636,836, December 31, 2013: 148,903,222).
[2] As approved by the Annual General Meeting on April 2, 2014, 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 2,837 million and the dividend at historical exchange rates amounting to USD 1,815 million is reflected in the cumulative foreign currency translation adjustment.
[3] 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.
[4] The number of treasury shares deducted from equity as of December 31, 2015 amounted to 1,243,931 (December 31, 2014: 1,292,220, December 31, 2013: 1,320,652).

Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
1,730	106	(4,008)	195	28,075	32,503	2,231	34,734
–	–	–	–	–	200	–	200
–	–	–	–	–	(1,815)	(121)	(1,936)
–	–	–	–	–	61	–	61
–	–	–	–	23	25	–	25
–	–	–	–	(38)	(38)	–	(38)
2,338	200	(2,305)	24	3,542	3,799	43	3,842
–	–	–	–	*3,949*	*3,949*		
2,338	–	–	–	–	*2,338*		
–	*200*	–	–	–	*200*		
–	–	*(2,305)*	–	–	*(2,305)*		
–	–	–	*24*	–	*24*		
–	–	–	–	*(407)*	*(407)*		
–	–	–	–	–	–	(59)	(59)
4,068	306	(6,313)	218	31,602	34,735	2,095	36,830
4,068	306	(6,259)	218	31,548	34,735	2,095	36,830
–	–	(54)	–	54	–	–	–
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**

Consolidated financial statements *continued*

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

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

On February 10, 2016 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 30, 2016.

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 this adoption, 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 1 to 35, and they form an integral part of the Consolidated financial statements.

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

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

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

Maturity tables have been provided for the following balances: reserves for insurance contracts (tables 8.9a and 8.9b), liabilities for investment contracts (tables 9.3a and 9.3b), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), other financial liabilities (table 17.2) and outstanding debt (table 19.2).

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 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 245 million and USD 82 million for the years ended December 31, 2015 and 2014, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (126) million and USD 138 million for the years ended December 31, 2015 and 2014, respectively.

Table 1

Principal exchange rates

USD per foreign currency unit	Consolidated balance sheets at end-of-period exchange rates		Consolidated income statements and cash flows at average exchange rates	
	12/31/15	12/31/14	**2015**	2014
Euro	1.0862	1.2101	1.1109	1.3288
Swiss franc	0.9988	1.0064	1.0399	1.0939
British pound	1.4749	1.5577	1.5288	1.6473
Brazilian real	0.2525	0.3763	0.3053	0.4260

Restatements and reclassifications

Effective January 1, 2015, the Group changed its accounting policy relating to recognition of cumulative foreign currency translation adjustment (CTA), moving from an absolute to a proportionate ownership interest method, as a CTA release method based on proportionate ownership interest will lead to more relevant financial information. The impact was a reclassification of USD 54 million from retained earnings to CTA as of December 31, 2014. It also positively impacted the net investment result on Group investments and administrative and other operating expense in 2014 by USD 54 million, as well as basic earnings per share by USD 0.37 and diluted earnings per share by USD 0.36.

The Group transferred USD 381 million from future life policyholder benefits to policyholder contract deposits and other funds. The reclassification, set out in note 8, was prospectively recognized in 2015 as the reclassification has no impact on the Group’s consolidated balance sheet or income statement.

Other adjustments

During the year ended December 31, 2015, the Group recorded out-of-period charges before tax of USD 68 million related to reinsurance recoverables, USD 47 million related to net assets in its Brazil operation and USD 24 million relating to annuities in its German General Insurance operation. These adjustments are not considered material to the Group’s results.

Consolidated financial statements *continued*

2. New accounting standards and amendments to published accounting standards

Implementation of new accounting standards

Neither new accounting standards nor amendments to and interpretations of standards have been implemented for the financial year beginning January 1, 2015.

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

Table 2 shows new accounting standards or amendments to and interpretations of standards relevant to the Group, which are not yet effective and are not expected to have a material impact on the Group's financial position or performance, unless stated otherwise. In addition to the standards and amendments listed in table 2 the Group will also have to incorporate amendments resulting from the IASB annual improvements project, which relate primarily to disclosure enhancements.

Standard/ Interpretation

Table 2

		Effective date
New Standards		
IFRS 9	Financial Instruments[1]	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
Amended Standards		
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
IAS 16/IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	January 1, 2016

[1] Expected to result in a significant portion of financial assets currently classified as available-for-sale being re-classified as at fair value through profit or loss. 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 4 'Insurance Contracts', more assets may be classified as at fair value through profit or loss under the fair value option.

The Group has not early-adopted any of the standards shown in table 2.

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 significant intercompany 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.

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 use 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 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.

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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.

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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 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 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 as associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss; or
- Net investment hedges, which are hedges of a net investment in a foreign operation.

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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 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 relationships (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 do not exceed 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 to additional paid-in capital 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. 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 retirement benefits, the cost of such benefits is accrued over the service period of the employees based on the actuarially determined cost for the period.

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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.

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 12 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 in exchange and 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 24 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.

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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 relationships (AIF)

Goodwill is allocated to a cash generating unit (CGU) as outlined in note 3. For General Insurance and Farmers, CGUs are aggregated at the segment level. Within Global Life, CGUs are identified at either business unit level or individual reporting entity level.

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 reflect 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 relationships 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, as of the date of valuation, the value of goodwill and AIF for the major CGUs, 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 outlined in note 15, the goodwill of the Global Life Germany CGU was fully impaired in 2015.

Table 4.1

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

as of the date of valuation

	Segment	in USD millions	Discount rates in % 2015	Discount rates in % 2014	Perpetual nominal growth rate in % 2015	Perpetual nominal growth rate in % 2014
Farmers	Farmers	1,845	10.9	11.2	–	–
General Insurance	General Insurance	495	9.5	10.8	1.0	1.0

Sensitivity tests have been performed on goodwill and AIF, and typically comprised 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 No reasonably possible changes of key assumptions were identified which would result in the recoverable amount being close to the carrying amount for the remaining CGUs.

Distribution agreements

The recoverable amount for General Insurance intangible assets relating to distribution agreements is determined on the basis of value-in-use calculations. These calculations use cash flow projections in line with the terms and conditions of the underlying distribution agreements. For Global Life, the recoverable amount of intangible assets relating to distribution agreements is determined based on projected cash flows derived from the new business calculation and discount rates consistent with the data used for actuarial valuations, or based on business operating profit (BOP).

The discount rates used in the recoverable amount calculations for developed markets are based on a capital asset pricing model and consider government bond rates, which are further adjusted for equity risk premium, appropriate beta and leverage ratios. 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.

Table 4.2 sets out, as of the date of valuation, the applied discount rates and the perpetual growth rates beyond the projection period which are dependent on country specific growth rate and inflation expectations used for the major distribution agreements. For the distribution agreement with Banco Santander S.A. entities in Latin America there was no indication that the asset may be impaired, therefore no impairment test was performed. Impairment indicators reviewed comprised of interest rates, inflation rates, actual and expected economic performance and other factors.

Table 4.2

Discount and perpetual growth rates

as of the date of valuation

	in USD millions	Range of discount rates in % 2015	Range of discount rates in % 2014	Perpetual nominal growth rate in % 2015	Perpetual nominal growth rate in % 2014
Banco Sabadell S.A. entities in Spain	1,569	8.6	9.3	2.0	2.0

For impairment testing purposes, distribution agreements are assessed as single assets.

Sensitivity tests have been performed on distribution agreements and typically comprised of an analysis for either a decrease in cash flows, a decrease in the perpetual growth rate or an increase in the discount rate, applying reasonably possible changes. No reasonably possible changes of key assumptions were identified which would result in the recoverable amount being close to the carrying value.

See notes 3, 6, 14, 15 and 16 for further information on impairment of assets.

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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 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 18 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 21 for further information on employee benefits.

5. Acquisitions and divestments

Transactions in 2015

On December 17, 2015, the Group entered into an agreement with Wells Fargo & Company (Wells Fargo) to acquire 100 percent of Rural Community Insurance Agency, Inc. (RCIA) and its fully owned subsidiary Rural Community Insurance Company (RCIC). The two entities are collectively known as Rural Community Insurance Services (RCIS), a provider of agricultural insurance in the United States. The purchase price will amount to approximately USD 675 million plus the amount of excess capital in RCIS at the date of closing, estimated to be up to approximately USD 375 million. The transaction is expected to close in the first half of 2016 and is subject to applicable anti-trust and insurance regulatory approvals, as well as other customary closing conditions.

On October 27, 2015, the Group signed an agreement to purchase a 100 percent stake in Kono Insurance Limited, a general insurance company incorporated in Hong Kong, for approximately USD 27 million subject to a purchase price adjustment post closing. The transaction was closed on January 29, 2016.

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.

Transactions in 2014

Acquisitions

On October 31, 2014, the Group completed the acquisition of an effective 50.0 percent stake in Mediterráneo Seguros Diversos, S.A. (MSD), a general insurance company incorporated in Spain and thus extended the existing cooperation with Banco Sabadell S.A. (Banco Sabadell) entered into during 2008. The Group obtained control over MSD by virtue of the existing shareholders' agreement between the Group and Banco Sabadell.

The initial consideration on a 50.0 percent basis amounted to USD 50 million, including an immaterial purchase price adjustment. In addition to the initial consideration, an uncapped contingent liability based on the future profitability over the term of the distribution agreement was agreed, for which the fair value was estimated to amount to USD 4 million on a 50.0 percent basis. Based on the final purchase accounting, the fair value of net tangible assets acquired amounted to USD 30 million, identifiable intangible assets relating to the distribution agreement amounted to USD 79 million, net of deferred tax and the non-controlling interest amounted to USD 54 million as reflected in the Consolidated financial statements as of the acquisition date.

On May 28, 2014, the Group increased its shareholding in Deutscher Herold AG to 100 percent. This increase was the result of the non-controlling shareholder exercising its put option right over 15.17 percent of the shares and the Group exercising its call option right over 5.0 percent. The total consideration amounted to USD 366 million, of which USD 275 million for 15.17 percent was previously recorded on the balance sheet as a put option liability.

Divestments

On October 30, 2014, the Group closed the sale of its General Insurance retail business in Russia to OLMA Group. The contractually agreed sales price amounted to RUB 1 billion (approximately USD 23 million) and was subject to a purchase price adjustment with no material impact. A pre-tax loss of total USD 247 million has been recorded within net gain/(loss) on divestments of businesses.

Consolidated financial statements *continued*

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	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Cash and cash equivalents	32	56	(1)	1	31	56	–	–
Equity securities	467	317	646	825	1,113	1,142	(162)	(37)
Debt securities	4,095	4,696	1,011	1,842	5,106	6,538	(4)	1
Investment property	512	501	131	168	642	668	–	–
Mortgage loans	266	319	(56)	(48)	210	270	(56)	(48)
Other loans	447	562	2	82	449	645	(2)	–
Investments in associates and joint ventures	8	12	31	38	39	49	–	(2)
Derivative financial instruments[1]	–	–	127	97	127	97	–	–
Investment result, gross, for Group investments	5,827	6,462	1,891	3,004	7,718	9,467	(224)	(86)
Investment expenses for Group investments[2]	(256)	(256)	–	–	(256)	(256)	–	–
Investment result, net, for Group investments	5,572	6,206	1,891	3,004	7,462	9,211	(224)	(86)

[1] Net capital gains/(losses) on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD 10 million and USD (29) million for the years ended December 31, 2015 and 2014, respectively.
[2] Rental operating expenses for investment property included in investment expenses for Group investments amounted to USD 81 million and USD 85 million for the years ended December 31, 2015 and 2014, respectively.

Details of Group investments by category

Table 6.2

as of December 31	2015		2014	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	8,159	4.3	7,600	3.7
Equity securities:				
Fair value through profit or loss	3,519	1.8	3,619	1.8
Available-for-sale[1]	15,354	8.0	12,480	6.1
Total equity securities	18,873	9.9	16,099	7.9
Debt securities:				
Fair value through profit or loss	6,180	3.2	7,121	3.5
Available-for-sale[1]	128,181	67.0	142,557	69.6
Held-to-maturity	3,369	1.8	3,971	1.9
Total debt securities	137,730	72.0	153,648	75.0
Investment property	9,865	5.2	8,784	4.3
Mortgage loans	7,024	3.7	7,826	3.8
Other loans	9,569	5.0	10,834	5.3
Investments in associates and joint ventures	18	0.0	70	0.0
Total Group investments	**191,238**	**100.0**	**204,860**	**100.0**

[1] As of January 1, 2015, USD 1.5 billion of hybrid instruments were classified as available-for-sale equity securities. These were previously classified as available-for-sale debt securities.

Investments (including cash and cash equivalents) with a carrying value of USD 6,492 million and USD 6,214 million were held to meet local regulatory requirements as of December 31, 2015 and 2014, respectively.

Details of debt securities by category

Table 6.3

in USD millions, as of December 31

	Held-to-maturity		Available-for-sale		Fair value through profit or loss		Total	Total
	2015	2014	**2015**	2014	**2015**	2014	**2015**	**2014**
Debt securities:								
Government and supra-national bonds	3,146	3,665	56,458	60,937	3,373	3,751	62,976	68,354
Corporate securities	223	306	54,021	62,744	2,246	2,663	56,491	65,712
Mortgage and asset-backed securities	–	–	17,695	18,868	561	706	18,256	19,574
Redeemable preferred stock	–	–	6	8	–	–	6	8
Total debt securities	**3,369**	**3,971**	**128,181**	**142,557**	**6,180**	**7,121**	**137,730**	**153,648**

Debt securities maturity schedule

Table 6.4

in USD millions, as of December 31

	Held-to-maturity		Available-for-sale		Fair value through profit or loss		Total	Total
	2015	2014	**2015**	2014	**2015**	2014	**2015**	**2014**
Debt securities:								
< 1 year	788	502	6,831	10,636	501	942	8,120	12,079
1 to 5 years	544	1,338	37,986	40,325	1,621	1,699	40,150	43,362
5 to 10 years	819	836	31,145	34,829	1,064	1,148	33,028	36,813
> 10 years	1,218	1,295	34,523	37,900	2,434	2,625	38,175	41,820
Subtotal	3,369	3,971	110,485	123,689	5,619	6,414	119,473	134,074
Mortgage and asset-backed securities:								
< 1 year	–	–	351	562	–	1	351	562
1 to 5 years	–	–	2,995	3,719	132	198	3,127	3,917
5 to 10 years	–	–	3,809	3,559	46	55	3,855	3,615
> 10 years	–	–	10,540	11,028	383	452	10,923	11,480
Subtotal	–	–	17,695	18,868	561	706	18,256	19,574
Total	**3,369**	**3,971**	**128,181**	**142,557**	**6,180**	**7,121**	**137,730**	**153,648**

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	
	2015	2014
As of January 1	8,784	8,745
Additions and improvements	1,460	1,049
Disposals	(87)	(210)
Market value revaluation	132	189
Transfer from assets held for own use	28	70
Transfer to assets held for sale	(16)	(28)
Foreign currency translation effects	(436)	(1,032)
As of December 31	**9,865**	**8,784**

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

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

Table 6.6

in USD millions, as of December 31	Total	
	2015	2014
Equity securities: available-for-sale	1,219	1,575
Debt securities: available-for-sale	8,724	12,510
Other	366	371
Gross unrealized gains/(losses) on Group investments	10,309	14,456
Less amount of unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(5,814)	(7,628)
Life deferred acquisition costs and present value of future profits	(654)	(995)
Deferred income taxes	(968)	(1,421)
Non-controlling interests	(23)	(38)
Total[1]	**2,850**	**4,374**

[1] Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 294 million and USD 306 million as of December 31, 2015 and 2014, respectively.

Securities lending, repurchase and reverse repurchase agreements

Table 6.7

in USD millions, as of December 31	**2015**	2014
Securities lending agreements		
Securities lent under securities lending agreements[1]	4,527	7,668
Collateral received for securities lending	4,909	8,266
of which: Cash collateral	93	229
of which: Non cash collateral[2]	4,815	8,036
Liabilities for cash collateral received for securities lending	93	229
Repurchase agreements		
Securities sold under repurchase agreements[3]	1,596	1,455
Obligations to repurchase securities	1,596	1,451
Reverse repurchase agreements		
Securities purchased under reverse repurchase agreements[4]	194	294
Receivables under reverse repurchase agreements	193	290

[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 4,527 million and USD 7,668 million as of December 31, 2015 and 2014, 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 4,672 million and USD 7,344 million as of December 31, 2015 and 2014, 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 997 million and USD 1,307 million as of December 31, 2015 and 2014, 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 99 million and nil as of December 31, 2015 and December 31, 2014, repectively

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 other assets (see note 16) and those with a negative fair value are reported in other liabilities (see note 17).

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2015 and 2014. Whilst these notional amounts express the extent of the Group's involvement in derivative transactions, they do not, however, represent the amounts at risk.

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

Table 7.1

in USD millions, as of December 31	Maturity by notional amount					2015			2014
				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	65	863	2,772	3,700	124	(18)	4,297	212	(55)
Swaptions	415	1,063	1,014	2,491	81	(26)	3,071	104	(35)
Exchange traded									
Futures	631	70	–	701	–	–	824	–	(1)
Total interest rate contracts	**1,110**	**1,996**	**3,785**	**6,892**	**206**	**(44)**	**8,191**	**316**	**(91)**
Equity contracts:									
OTC									
Swaps	48	–	–	48	–	–	49	1	–
Options	1,823	2,603	206	4,632	128	(80)	4,651	132	(93)
Exchange traded									
Options	27	–	–	27	–	–	16	1	–
Futures	397	–	–	397	–	(5)	535	–	(17)
Total equity contracts	**2,295**	**2,603**	**206**	**5,104**	**128**	**(84)**	**5,251**	**134**	**(109)**
Foreign exchange contracts:									
OTC									
Swaps and forwards	18,982	–	–	18,982	84	(115)	15,098	111	(98)
Total foreign exchange contracts	**18,982**	**–**	**–**	**18,982**	**84**	**(115)**	**15,098**	**111**	**(98)**
Other contracts:									
OTC									
Swaps	–	–	56	56	–	(5)	60	–	(8)
Total other contracts	**–**	**–**	**56**	**56**	**–**	**(5)**	**60**	**–**	**(8)**
Total Group derivative financial instruments	**22,387**	**4,599**	**4,047**	**31,034**	**417**	**(249)**	**28,600**	**561**	**(307)**

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.

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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 9.2 billion and USD 9.0 billion as of December 31, 2015 and 2014, respectively and with a market value of the underlying investments of USD 9.2 billion as of both December 31, 2015 and 2014, 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, 2015 and 2014.

In certain circumstances derivative financial instruments may 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						2015			2014
	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 interest rate swaps	–	–	–	–	–	–	330	8	–
Cross currency swaps	–	8	62	70	–	(56)	71	–	(49)
Interest rate swaps	–	1,049	721	1,770	99	–	2,417	143	–
Forex swaps and forwards	393	–	–	393	–	(3)	–	–	–
Total fair value hedges	**393**	**1,057**	**783**	**2,233**	**99**	**(59)**	**2,818**	**151**	**(49)**
Cash flow hedges:									
Interest rate swaptions	844	–	2,087	2,931	586	–	2,954	499	–
Cross currency swaps	–	–	43	43	–	–	793	–	(70)
Interest rate swaps	32	29	35	96	12	–	96	18	–
Forwards bonds	–	272	–	272	–	(54)	–	–	–
Total cash flow hedges	**876**	**301**	**2,165**	**3,342**	**598**	**(54)**	**3,842**	**518**	**(70)**
Net investment hedges:									
Swaps and forwards	1,352	–	–	1,352	6	(1)	168	–	(4)
Total net investment hedges	**1,352**	**–**	**–**	**1,352**	**6**	**(1)**	**168**	**–**	**(4)**

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 19.

The Group also has fair value hedge relationships consisting of cross currency swaps and forwards to protect the Group from foreign currency fluctuation 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:

Gains/(losses) arising from fair value hedges

Table 7.3

in USD millions, for the years ended December 31	2015	2014
Gains/(losses)		
on hedging instruments[1]	*(21)*	*48*
on hedged items attributable to the hedged risk	*21*	*(35)*

[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 2016, 2021 and 2026) required for certain life insurance policies. The effective portion of the gains and losses on these swaptions are initially recognized in other comprehensive income. 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 other comprehensive income. 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.

Information on debt issuances designated as hedged items in cash flow hedge relationships is set out in note 19.

The net gains/(losses) deferred in other comprehensive income on derivative financial instruments designated as cash flow hedges were USD (22) million and USD 109 million before tax for the years ended December 31, 2015 and 2014, respectively.

The Group recognized gains of USD 12 million and USD 13 million in the consolidated income statement within net investment income on Group investments for the years ended December 31, 2015 and 2014, respectively. The Group also recognized net gains/(losses) of USD (40) million and USD (176) million within administrative and other operating expense for the years ended December 31, 2015 and 2014, respectively, as an offset to the foreign currency revaluation on the underlying hedged items.

A gain of USD 10 million and a loss of USD 29 million for the years ended December 31, 2015 and 2014, 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.

Net losses deferred in other comprehensive income were USD 21 million and USD 13 million before tax for the years ended December 31, 2015 and 2014, respectively.

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 3.3 billion and 1.5 billion for the years ended December 31, 2015 and 2014, respectively. The net gains/(losses) deferred in other comprehensive income were USD (68) and USD (35) million before tax for the years ended December 31, 2015 and 2014, respectively.

Information on debt issuances designated as hedging instruments in a net investment hedge relationship is set out in note 19.

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No ineffectiveness of net investment hedges was recognized in net capital gains/(losses) and impairments for the years ended December 31, 2015 and 2014.

Derivative financial instruments: offsetting of financial assets and liabilities

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

Table 7.4

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

in USD millions, as of December 31	Derivative assets		Derivative liabilities	
	2015	2014	**2015**	2014
Fair value	1,120	1,230	(362)	(429)
Related amounts not offset	(109)	(186)	110	186
Cash collateral (received)/pledged	(919)	(896)	55	82
Non cash collateral (received)/pledged	(25)	(27)	62	8
Net amount	**67**	**120**	**(134)**	**(153)**

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	
	2015	2014	**2015**	2014	**2015**	2014
Reserves for losses and loss adjustment expenses[1]	62,971	64,472	(9,231)	(9,770)	53,739	54,703
Reserves for unearned premiums	16,230	16,779	(2,681)	(2,446)	13,549	14,333
Future life policyholder benefits[2]	71,952	77,652	(4,016)	(2,441)	67,935	75,211
Policyholder contract deposits and other funds	22,076	23,415	(1,956)	(1,994)	20,121	21,421
Reserves for unit-linked contracts	64,393	71,400	–	–	64,393	71,400
Total reserves for insurance contracts[3]	**237,622**	**253,719**	**(17,885)**	**(16,650)**	**219,737**	**237,069**

[1] The net 2015 includes USD 2.5 billion reserves for losses and loss adjustment expenses discounted at an average rate of 2.3% with a corresponding undiscounted amount of USD 3.7 billion. The net 2014 includes USD 2.4 billion reserves for losses and loss adjustment expenses discounted at an average rate of 2.6% with a corresponding undiscounted amount of USD 3.7 billion.
[2] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of April 1, 2015 and an additional tranche as of October 1, 2015. The combined initial impact of these transactions was an increase of USD 1.8 billion in reinsurers' share of reserves for insurance contracts in the Global Life business.
[3] Total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 111 million and USD 100 million as of December 31, 2015 and 2014, respectively.

Development of reserves for losses and loss adjustment expenses

Table 8.2

in USD millions	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
As of January 1	64,472	68,312	(9,770)	(10,993)	54,703	57,319
Losses and loss adjustment expenses incurred:						
Current year	24,969	26,033	(3,256)	(3,102)	21,713	22,931
Prior years[1]	(198)	(673)	347	614	149	(59)
Total incurred	24,771	25,360	(2,909)	(2,488)	21,862	22,871
Losses and loss adjustment expenses paid:						
Current year	(8,450)	(9,983)	654	748	(7,796)	(9,235)
Prior years	(15,028)	(15,894)	2,452	2,593	(12,576)	(13,301)
Total paid	(23,478)	(25,877)	3,107	3,341	(20,372)	(22,536)
Acquisitions/(divestments) and transfers[2]	(61)	73	(44)	(11)	(106)	62
Foreign currency translation effects	(2,733)	(3,395)	385	381	(2,349)	(3,013)
As of December 31	**62,971**	**64,472**	**(9,231)**	**(9,770)**	**53,739**	**54,703**

[1] The net prior year incurred losses includes unwind of discount of USD 31 million and USD 32 million as of December 31, 2015 and December 31, 2014 respectively.
[2] 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 2014 net movement relates to USD 47 million reclassified from future life policyholders' benefits (see note 1 of the Consolidated financial statements 2014), USD 49 million due to the reclassification of a subsidiary of Centre Group Holdings Limited from held for sale (see note 5), USD 6 million due to the acquisition of MSD (see note 5) and USD (40) million due to the reclassification of the Group's General Insurance retail business in Russia to held for sale (see note 2).

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.

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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 from Non-core business from latent diseases and other discontinued portfolios.

For the year ended December 31, 2014, the decrease of USD 2,616 million in net reserves for losses and loss adjustment expenses was mostly driven by the effect of foreign currency translation of USD 3,013 million. Excluding this effect, reserves for losses and loss adjustment expenses increased by USD 397 million. Underlying favorable reserve development arising from reserves established in prior years amounted to USD 59 million during the year ended December 31, 2014, and mainly relates to the following:

- The personal and commercial business in Europe reported favorable prior year development of USD 296 million, mostly driven by USD 96 million in motor third party liability in Switzerland and USD 75 million in property in the UK;
- In Global Corporate, adverse prior year development of USD 26 million arising in North America, partially offset by favorable development in Europe;
- Adverse prior year development of USD 93 million relating to asbestos.

Development of insurance losses, net

Table 8.3

in USD millions, as of December 31	2006	2007	2008	2009	2010	2011	2012	2013	2014	**2015**
Gross reserves for losses and loss adjustment expenses	64,535	67,890	65,218	68,126	68,274	67,762	69,986	68,312	64,472	62,971
Reinsurance recoverable	(13,722)	(13,179)	(12,232)	(12,182)	(12,093)	(12,421)	(12,601)	(10,993)	(9,770)	(9,231)
Initial net reserves for losses and loss adjustment expenses	50,814	54,712	52,986	55,944	56,180	55,341	57,385	57,319	54,703	53,739
Cumulative paid as of December 31:										
One year later	*(11,237)*	*(12,551)*	*(13,047)*	*(12,716)*	*(13,092)*	*(13,525)*	*(13,799)*	*(13,301)*	*(12,576)*	
Two years later	*(18,362)*	*(19,660)*	*(19,909)*	*(19,821)*	*(21,073)*	*(21,245)*	*(21,465)*	*(21,002)*		
Three years later	*(23,421)*	*(24,428)*	*(24,693)*	*(25,623)*	*(27,137)*	*(26,871)*	*(27,064)*			
Four years later	*(26,839)*	*(27,735)*	*(28,808)*	*(30,127)*	*(31,375)*	*(31,129)*				
Five years later	*(29,224)*	*(30,690)*	*(32,170)*	*(33,325)*	*(34,478)*					
Six years later	*(31,483)*	*(33,310)*	*(34,596)*	*(35,678)*						
Seven years later	*(33,665)*	*(35,188)*	*(36,480)*							
Eight years later	*(35,215)*	*(36,717)*								
Nine years later	*(36,511)*									
Cumulative incurred as of December 31:										
One year later	*(1,219)*	*(1,271)*	*(1,059)*	*(1,378)*	*(1,302)*	*(571)*	*(757)*	*(59)*	*149*	
Two years later	*(2,171)*	*(2,152)*	*(2,350)*	*(2,565)*	*(1,819)*	*(891)*	*(652)*	*(139)*		
Three years later	*(2,686)*	*(2,844)*	*(3,048)*	*(2,700)*	*(2,028)*	*(677)*	*(777)*			
Four years later	*(3,003)*	*(3,533)*	*(3,176)*	*(2,770)*	*(1,891)*	*(804)*				
Five years later	*(3,438)*	*(3,580)*	*(3,235)*	*(2,587)*	*(2,020)*					
Six years later	*(3,279)*	*(3,478)*	*(2,958)*	*(2,677)*						
Seven years later	*(3,146)*	*(3,215)*	*(2,973)*							
Eight years later	*(2,845)*	*(3,271)*								
Nine years later	*(2,808)*									
Net reserves re-estimated as of December 31:										
One year later	*49,594*	*53,441*	*51,927*	*54,565*	*54,878*	*54,770*	*56,628*	*57,259*	*54,852*	
Two years later	*48,642*	*52,559*	*50,637*	*53,379*	*54,361*	*54,450*	*56,734*	*57,180*		
Three years later	*48,127*	*51,868*	*49,939*	*53,243*	*54,152*	*54,664*	*56,609*			
Four years later	*47,811*	*51,179*	*49,810*	*53,173*	*54,289*	*54,537*				
Five years later	*47,376*	*51,131*	*49,752*	*53,357*	*54,160*					
Six years later	*47,535*	*51,234*	*50,028*	*53,267*						
Seven years later	*47,668*	*51,497*	*50,014*							
Eight years later	*47,969*	*51,441*								
Nine years later	*48,006*									
Cumulative (deficiency)/ redundancy of net reserves	2,808	3,271	2,973	2,677	2,020	804	777	139	(149)	
Cumulative (deficiency)/ redundancy as a percentage of initial net reserves	5.5%	6.0%	5.6%	4.8%	3.6%	1.5%	1.4%	0.2%	(0.3%)	
Gross reserves re-estimated as of December 31, 2015	60,888	63,240	60,809	63,575	64,767	65,650	67,620	67,229	64,275	
Cumulative (deficiency)/ redundancy of gross reserves	3,647	4,650	4,409	4,552	3,506	2,112	2,366	1,083	198	
Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves	5.7%	6.8%	6.8%	6.7%	5.1%	3.1%	3.4%	1.6%	0.3%	

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Table 8.3 presents changes in the historical reserves for losses and loss adjustment expenses, net of reinsurance, that the Group established in 2006 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, 2015. It is the difference between the initial net reserve estimate and the last entry of the diagonal. 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	**2015**		2014	
	Gross	**Net**	Gross	Net
Asbestos				
As of January 1	2,882	2,540	3,154	2,768
Losses and loss adjustment expenses incurred	16	5	93	93
Losses and loss adjustment expenses paid	(162)	(143)	(199)	(175)
Foreign currency translation effects	(23)	(7)	(167)	(146)
As of December 31	**2,712**	**2,395**	**2,882**	**2,540**

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, 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 due to adverse development in UK and North America. Reserve adequacy improved during 2015 following a commutation settlement in Centre Group Holdings Limited related to asbestos claims.

For the year ended December 31, 2014, reserves for asbestos claims decreased by USD 272 million gross and USD 228 million net. The decrease in the gross reserve primarily relates to foreign currency translation effects of USD 167 million and USD 199 million due to payments, partially offset by adverse prior year development of USD 93 million in the UK and North America.

Development of future life policyholder benefits

Table 8.5

in USD millions	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
As of January 1	77,652	84,476	(2,441)	(2,501)	75,211	81,975
Premiums[1]	12,270	12,179	(2,449)	(600)	9,821	11,579
Claims	(9,797)	(10,575)	629	437	(9,169)	(10,138)
Fee income and other expenses	(3,652)	(3,901)	180	217	(3,472)	(3,683)
Interest and bonuses credited to policyholders	2,239	3,259	(115)	(132)	2,125	3,127
Changes in assumptions[1]	153	14	4	–	158	14
Acquisitions/(divestments) and transfers[2]	(668)	(97)	–	–	(668)	(97)
Increase/(decrease) recorded in other comprehensive income	(335)	1,060	–	–	(335)	1,060
Foreign currency translation effects	(5,910)	(8,763)	174	139	(5,736)	(8,625)
As of December 31	**71,952**	**77,652**	**(4,016)**	**(2,441)**	**67,935**	**75,211**

[1] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of April 1, 2015 and an additional tranche as of October 1, 2015. The combined initial impact of these transactions was an increase of USD 1.8 billion in ceded premiums. In addition, USD 220 million changes in assumptions were recognized due to the recycling of balances previously recorded in other comprehensive income relating to the underlying asset portfolio.
[2] 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 (see note 1), 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. The 2014 net movement relates to USD (50) million reclassified to reserves for unit-linked contracts and USD (47) million reclassified to reserves for losses and loss adjustment expenses (see note 1 of the Consolidated financial statements 2014).

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 2.7 percent and 3.0 percent as of December 31, 2015 and 2014, 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	**2015**	2014
Interest rates	276	111
Investment return	(96)	19
Changes in modeling	(2)	6
Expense	10	(2)
Morbidity	(1)	1
Longevity	(28)	(4)
Lapses	1	3
Complaints rates	(1)	–
Other[1]	(1)	(119)
Net impact of changes in assumptions	**158**	**14**

[1] 2014 includes USD (105) million relating to changes in assumptions for terminal bonus reserves in Germany.

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Policyholder contract deposits and other funds gross

Table 8.7

in USD millions, as of December 31	2015	2014
Universal life and other contracts	12,120	12,626
Policyholder dividends	9,957	10,789
Total	**22,076**	**23,415**

Development of policyholder contract deposits and other funds

Table 8.8

in USD millions	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
As of January 1	23,415	20,162	(1,994)	(2,036)	21,421	18,126
Premiums	1,118	1,363	(53)	(55)	1,065	1,308
Claims	(1,419)	(1,403)	172	181	(1,247)	(1,222)
Fee income and other expenses	(474)	(318)	(5)	(7)	(479)	(325)
Interest and bonuses credited to policyholders	1,561	1,593	(76)	(76)	1,485	1,517
Acquisitions/(divestments) and transfers[1]	381	–	–	–	381	–
Increase/(decrease) recorded in other comprehensive income	(987)	3,925	–	–	(987)	3,925
Foreign currency translation effects	(1,520)	(1,907)	–	–	(1,520)	(1,907)
As of December 31	**22,076**	**23,415**	**(1,956)**	**(1,994)**	**20,121**	**21,421**

[1] The 2015 net movement relates to USD 381 million reclassified from future life policyholder benefits (see note 1).

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, 2015 and 2014. Reserves for unit-linked insurance contracts amounting to USD 64.4 billion and USD 71.4 billion as of December 31, 2015 and 2014, 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, 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**

Expected maturity profile for reserves for insurance contracts, net of reinsurance – prior period

Table 8.9b

in USD millions, as of December 31, 2014	Reserves for losses and loss adjustment expenses	Future life policyholder benefits	Policyholder contract deposits and other funds	Total
< 1 year	15,976	8,670	1,661	26,308
1 to 5 years	22,430	19,919	2,045	44,395
5 to 10 years	8,179	14,499	1,963	24,640
10 to 20 years	5,653	14,376	2,679	22,708
> 20 years	2,465	17,747	13,073	33,285
Total	**54,703**	**75,211**	**21,421**	**151,335**

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9. Liabilities for investment contracts

Liabilities for investment contracts

Table 9.1

in USD millions, as of December 31	2015	2014
Unit-linked investment contracts	62,245	62,964
Investment contracts (amortized cost)	754	843
Investment contracts with DPF	7,629	7,006
Total	**70,627**	**70,813**

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	2015	2014
As of January 1	70,813	67,113
Premiums	9,791	11,488
Claims	(7,798)	(6,649)
Fee income and other expenses	(465)	(647)
Interest and bonuses credited to policyholders	3,277	5,554
Acquisitions/(divestments) and transfers[1]	(29)	(425)
Increase/(decrease) recorded in other comprehensive income	152	500
Foreign currency translation effects	(5,115)	(6,120)
As of December 31	**70,627**	**70,813**

[1] The 2015 movement relates to USD (29) million reclassified to future life policyholder benefits. The 2014 movement relates to USD (425) million reclassified to reserves for unit-linked contracts (see note 1 of the Consolidated financial statements 2014).

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, 2015 and 2014. The undiscounted contractual cash flows for investment contract liabilities are USD 70.8 billion and USD 71.1 billion as of December 31, 2015 and 2014, respectively. Liabilities for unit-linked investment contracts amounted to USD 62.2 billion and USD 63.0 billion as of December 31, 2015 and 2014, 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 767 million and USD 851 million as of December 31, 2015 and 2014, respectively. The Group actively manages the Global Life in-force business to improve persistency and retention.

Expected maturity profile for liabilities for investment contracts – current period

Table 9.3a

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**

Expected maturity profile for liabilities for investment contracts – prior period

Table 9.3b

in USD millions, as of December 31, 2014	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	6,842	168	454	7,465
1 to 5 years	6,045	449	1,299	7,792
5 to 10 years	6,561	114	1,309	7,984
10 to 20 years	8,650	101	1,044	9,795
> 20 years	34,867	10	2,899	37,776
Total	**62,964**	**843**	**7,006**	**70,813**

10. Equity component relating to contracts with DPF

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 changes in table 10 represent the increase or decrease in unallocated gains and retained earnings after charging discretionary bonuses to policyholder liabilities.

Development of the equity component relating to contracts with DPF

Table 10

in USD millions	**2015**	2014
As of January 1	2,840	2,338
Net unrealized gains/(losses) on investments	(9)	675
Current period profit/(loss)	207	71
Foreign currency translation effects	(73)	(243)
As of December 31	**2,965**	**2,840**

Consolidated financial statements *continued*

11. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 11.1

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
Losses and loss adjustment expenses	24,771	25,360	(2,909)	(2,488)	21,862	22,871
Life insurance death and other benefits	11,305	12,093	(2,422)	(600)	8,884	11,492
Total insurance benefits and losses	**36,076**	**37,452**	**(5,330)**	**(3,088)**	**30,746**	**34,364**

Policyholder dividends and participation in profits

Table 11.2

in USD millions, for the years ended December 31	**2015**	2014
Change in policyholder contract deposits and other funds	1,439	1,624
Change in reserves for unit-linked products	3,241	5,537
Change in liabilities for investment contracts – unit-linked	3,092	5,325
Change in liabilities for investment contracts – other	191	238
Change in unit-linked liabilities related to UK capital gains tax	(101)	(157)
Total policyholder dividends and participation in profits	**7,863**	**12,568**

Underwriting and policy acquisition costs

Table 11.3

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
Amortization of deferred acquisition costs	6,145	5,991	(529)	(473)	5,617	5,518
Amortization of deferred origination costs	98	113	–	–	98	113
Commissions and other underwriting and acquisition expenses[1]	3,553	4,453	(207)	(249)	3,346	4,204
Total underwriting and policy acquisition costs	**9,796**	**10,557**	**(735)**	**(721)**	**9,061**	**9,835**

[1] Net of additions related to deferred acquisition and origination costs.

Table 11.4

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2015	2014	**2015**	2014	**2015**	2014
Change in reserves for unearned premiums	**648**	**351**	**(352)**	**8**	**296**	**359**

12. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 12.1

in USD millions	General Insurance		Global Life		Farmers		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
As of January 1	3,984	3,794	13,584	14,606	182	323	17,750	18,724
Acquisition costs deferred	4,286	3,623	1,862	2,235	450	675	6,598	6,532
Amortization	(3,817)	(3,192)	(1,314)	(1,506)	(483)	(816)	(5,614)	(5,514)
Impairments	(3)	–	–	(4)	–	–	(3)	(4)
Amortization (charged)/ credited to other comprehensive income	–	–	240	(579)	–	–	240	(579)
Acquisitions/(divestments) and transfers[1]	–	(7)	–	19	–	–	–	12
Foreign currency translation effects	(224)	(234)	(1,070)	(1,186)	–	–	(1,295)	(1,420)
As of December 31	**4,226**	**3,984**	**13,298**	**13,584**	**153**	**182**	**17,677**	**17,750**

[1] The 2014 General Insurance movement includes USD (11) million due to the sale of the Group's General Insurance retail business in Russia (see note 5) and USD 4 million due to the acquisition of MSD (see note 5). The 2014 Global Life movement relates to USD 19 million transferred from deferred origination costs (see note 1 of the Consolidated financial statements 2014).

As of December 31, 2015 and 2014, deferred policy acquisition costs relating to non-controlling interests were USD 326 million, USD 422 million, respectively.

Development of deferred origination costs

Table 12.2

in USD millions	**2015**	2014
As of January 1	595	724
Origination costs deferred	51	57
Amortization	(98)	(112)
Acquisitions/(divestments) and transfers[1]	–	(19)
Foreign currency translation effects	(41)	(55)
As of December 31	**506**	**595**

[1] The 2014 movement relates to USD (19) million transferred to deferred policy acquisition costs (see note 1 of the Consolidated financial statements 2014).

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13. Expenses

Table 13 shows expenses by functional area and by type of expense.

Expenses

Table 13

in USD millions, for the years ended December 31	**2015**	2014
Administrative and other operating expense	8,659	8,858
Other underwriting and policy acquisition expenses[1]	2,406	2,439
Unallocated loss adjustment expenses[2]	1,425	1,690
Other investment expenses for Group investments[3]	145	160
Total[1]	**12,637**	**13,146**
of which:		
Personnel and other related costs	5,715	6,132
Amortization and impairments of intangible assets	1,004	840
Depreciation and impairments of property and equipment	198	173
Building and infrastructure	582	577
Brand and marketing expenses	439	523
Life recurring commission	400	415
Asset and other non-income taxes	81	95
IT expenses	1,391	1,487
Restructuring costs	457	97
External professional services	1,078	1,109
Foreign currency translation	(245)	(82)
Other	1,537	1,779
Total[1]	**12,637**	**13,146**

[1] Included within commissions and other underwriting and acquisition expenses (see table 11.3).
[2] Included within losses and loss adjustment expenses (see table 11.1).
[3] Excludes expenses arising from investment property within investment expenses for Group investments (see table 6.1).

14. 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 five to ten years; and
- Computer equipment three to six years.

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

Table 14.1

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, 2015	**239**	**823**	**385**	**426**	**769**	**2,643**
Less: accumulated depreciation/impairments	(6)	(352)	(238)	(357)	(416)	(1,369)
Net carrying value as of 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.

Table 14.2

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, 2014	**354**	**1,020**	**407**	**465**	**739**	**2,986**
Less: accumulated depreciation/impairments	(7)	(407)	(258)	(394)	(426)	(1,492)
Net carrying value January 1, 2014	**347**	**614**	**149**	**71**	**314**	**1,494**
Additions and improvements	–	19	56	40	174	290
Disposals	(3)	(18)	(19)	–	(28)	(69)
Transfers	(83)	(58)	3	(4)	–	(142)
Depreciation and impairments	–	(28)	(31)	(33)	(80)	(173)
Foreign currency translation effects	(29)	(58)	(10)	(4)	(26)	(127)
Net carrying value as of December 31, 2014	**233**	**471**	**148**	**69**	**353**	**1,273**
Plus: accumulated depreciation/impairments	6	352	238	357	416	1,369
Gross carrying value as of December 31, 2014	**239**	**823**	**385**	**426**	**769**	**2,643**

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

Table 15.1

Intangible assets – current period

in USD millions	Attorney-in-fact relationships	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 transfers	–	8	–	9	480	4	501
Divestments and transfers	–	–	–	(11)	–	–	(11)
Amortization	–	–	(69)	(206)	(342)	(8)	(625)
Amortization charged to other comprehensive income	–	–	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 15.2

Intangible assets by segment – current period

in USD millions, as of December 31, 2015	Attorney-in-fact relationship	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**

Intangible assets – prior period

Table 15.3

in USD millions	Attorney-in-fact relationships	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2014	**1,025**	**2,190**	**2,918**	**4,364**	**4,720**	**226**	**15,443**
Less: accumulated amortization/ impairments	–	(338)	(2,189)	(811)	(3,080)	(145)	(6,563)
Net carrying value as of January 1, 2014	**1,025**	**1,852**	**729**	**3,553**	**1,640**	**81**	**8,880**
Additions and transfers	–	–	–	722	472	1	1,196
Divestments and transfers	–	–	–	(12)	–	(8)	(20)
Amortization	–	–	(67)	(208)	(387)	(11)	(672)
Amortization charged to other comprehensive income	–	–	(50)	–	–	–	(50)
Impairments	–	(98)	–	(1)	(69)	–	(167)
Foreign currency translation effects	–	(92)	(56)	(477)	(114)	(11)	(750)
Net carrying value as of December 31, 2014	**1,025**	**1,661**	**556**	**3,577**	**1,543**	**53**	**8,415**
Plus: accumulated amortization/ impairments	–	117	2,145	903	3,046	133	6,344
Gross carrying value as of December 31, 2014	**1,025**	**1,778**	**2,701**	**4,480**	**4,588**	**186**	**14,760**

As of December 31, 2014, intangible assets relating to non-controlling interests were USD 121 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,531 million for distribution agreements and USD 16 million for software.

The Group extended the long-term distribution agreements with Banco de Sabadell S.A. (Banco Sabadell) in Spain to sell life, pension and general insurance products across Banco Sabadell's extended network, resulting in an addition to distribution agreements of USD 314 million, of which 50 percent was funded by Banco Sabadell. There was a further addition to distribution agreements of USD 408 million, which mainly related to new distribution agreements entered into by General Insurance operations in Brazil, which includes USD 362 million relating to a distribution agreement with Via Varejo S.A. for the exclusive sale of extended warranty insurance.

Following a review of subsidiaries in Global Life, the Group reassessed the recoverability of goodwill resulting in USD 98 million of impairments, mainly in the UK, Brazil and Malaysia.

Following a review, software was identified, primarily in Global Life and General Insurance, which was not utilized as originally expected, resulting in USD 69 million of impairments.

Intangible assets by segment – prior period

Table 15.4

in USD millions, as of December 31, 2014	Attorney-in-fact relationships	Goodwill	PVFP	Distribution agreements	Software	Other	Total
General Insurance	–	533	–	989	613	47	2,182
Global Life	–	309	556	2,588	406	6	3,865
Farmers	1,025	819	–	–	328	–	2,173
Other Operating Businesses	–	–	–	–	195	–	195
Net carrying value as of December 31, 2014	**1,025**	**1,661**	**556**	**3,577**	**1,543**	**53**	**8,415**

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16. Receivables and other assets

Receivables and other assets

Table 16

in USD millions, as of December 31	**2015**	2014
Financial assets		
Group derivative assets	1,120	1,230
Unit-linked derivative assets	7	19
Receivables from policyholders	3,035	3,561
Receivables from insurance companies, agents and intermediaries	4,877	5,227
Receivables arising from ceded reinsurance	926	872
Reverse repurchase agreements	193	290
Amounts due from investment brokers	328	604
Other receivables	1,918	2,211
Allowance for impairments[1]	(249)	(266)
Other assets[2]	140	696
Non-financial assets		
Current tax receivables	742	737
Accrued premiums	953	720
Prepaid expenses	276	317
Prepaid insurance benefits	327	327
Other assets	337	401
Total receivables and other assets	**14,930**	**16,946**

[1] December 31, 2015 and 2014 includes USD 38 million and USD 35 million, respectively, for receivables arising from ceded reinsurance.
[2] December 31, 2014 includes USD 552 million of investments managed on a fiduciary and ring-fenced basis transferred to Banco Santander S.A. in 2015.

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

17. Other liabilities

Other liabilities

Table 17.1

in USD millions, as of December 31	2015	2014
Other financial liabilities		
Group derivative liabilities	362	429
Unit-linked derivative liabilities	7	15
Amounts due to policyholders	730	714
Amounts due to insurance companies, agents and intermediaries	1,022	1,322
Amounts due to reinsurers	1,285	1,118
Liabilities for cash collateral received for securities lending	93	229
Amounts due to investment brokers	1,185	1,547
Deposits from banking activities	141	250
Collateralized bank financing for structured lease vehicles	736	766
Liabilities for defined benefit plans[1]	3,248	4,046
Other liabilities for employee benefit plans	127	130
Other liabilities	3,662	3,970
Other non-financial liabilities		
Current tax payables	629	925
Restructuring provisions	386	125
Premium prepayments and other advances	864	1,022
Other liabilities	572	623
Total other liabilities	**15,051**	**17,230**

[1] See note 21

Table 17.2 shows the maturity schedule of other financial liabilities as of December 31, 2015 and 2014.

Maturity schedule – other financial liabilities[1]

Table 17.2

in USD millions, as of December 31	2015		2014	
	Carrying value[2]	**Undiscounted cash flows[3]**	Carrying value[2]	Undiscounted cash flows[3]
< 1 year	8,406	8,460	8,982	9,051
1 to 2 years	146	198	227	256
2 to 3 years	48	92	150	204
3 to 4 years	347	388	42	82
4 to 5 years	89	161	401	440
> 5 years	315	631	687	1,230
Total	**9,351**	**9,931**	**10,489**	**11,261**

[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.

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Restructuring provisions

Table 17.3

in USD millions	2015	2014
As of January 1	125	188
Provisions made during the period	467	104
Increase of provisions set up in prior years	11	17
Provisions used during the period	(181)	(150)
Provisions reversed during the period	(20)	(24)
Foreign currency translation effects	(15)	(10)
As of December 31	**386**	**125**

During the year ended December 31, 2015, restructuring programs with estimated costs of USD 467 million were announced and impacted mainly Europe, for both General Insurance and Global Life. USD 9 million related to net decreases of provisions for restructuring which were initiated in prior years. In addition, the Group recorded USD 67 million of software impairments (note 15) and USD 32 million of impairments of own use properties (note 14), resulting from restructuring decisions.

During the year ended December 31, 2014, restructuring programs with estimated costs of USD 104 million were announced and impacted mainly Other Operating Businesses, Global Life in the UK as well as General Insurance in Ireland and the UK. This included USD 63 million relating to the Group's strategic initiative for organizational alignment to reduce complexity and cost while enhancing agility. USD (6) million related to net decreases of provisions for restructuring which were initiated in prior years.

18. Income taxes

Income tax expense – current/deferred split

Table 18.1

in USD millions, for the years ended December 31	2015	2014
Current	1,270	1,473
Deferred	24	196
Total income tax expense/(benefit)	**1,294**	**1,670**

Expected and actual income tax expense

Table 18.2

in USD millions, for the years ended December 31	Rate	2015	Rate	2014
Net income before income taxes		3,340		5,898
less: income tax (expense)/benefit attributable to policyholders		(110)		(106)
Net income before income taxes attributable to shareholders		3,230		5,792
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	711	22.0%	1,274
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*287*		*237*
Tax exempt and lower taxed income		*(92)*		*(109)*
Non-deductible expenses		*41*		*148*
Tax losses not recognized		*165*		*85*
Prior year adjustments and other		*72*		*(73)*
Actual income tax expense attributable to shareholders	**36.6%**	**1,183**	**27.0%**	**1,564**
plus: income tax expense/(benefit) attributable to policyholders		110		106
Actual income tax expense	38.7%	1,294	28.3%	1,670

Table 18.2 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.

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Deferred tax assets/(liabilities) analysis by source

Table 18.3

in USD millions, as of December 31	2015 Assets	2015 Liabilities	2014 Assets	2014 Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	35	(846)	20	(765)
Depreciable and amortizable assets	31	(51)	33	(48)
Life policyholders' benefits and deposits[1]	2	(1)	4	–
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	178	(383)	176	(467)
Accruals and deferred income	158	(2)	168	(1)
Reserves for losses and loss adjustment expenses	508	(178)	477	(196)
Reserves for unearned premiums	879	(1)	801	–
Pensions and other employee benefits	514	(58)	632	(6)
Other assets/liabilities	430	(44)	357	(37)
Tax loss carryforwards	617	–	615	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,352	(1,562)	3,282	(1,521)
Valuation allowance	(334)	–	(200)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,017	(1,562)	3,083	(1,521)
Deferred tax assets	**1,455**		**1,561**	
Gross deferred tax				
Deferred acquisition and origination costs	42	(2,282)	28	(2,447)
Depreciable and amortizable assets	129	(1,980)	236	(2,215)
Life policyholders' benefits and deposits[1]	1,286	(840)	1,392	(855)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	210	(1,029)	190	(1,367)
Accruals and deferred income	133	(119)	118	(203)
Reserves for losses and loss adjustment expenses	87	(87)	105	(95)
Reserves for unearned premiums	33	(90)	40	(104)
Deferred front-end fees	468	–	528	–
Pensions and other employee benefits	594	(269)	498	(94)
Other assets/liabilities	637	(1,504)	721	(1,544)
Tax loss carryforwards	107	–	69	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,725	(8,200)	3,926	(8,924)
Valuation allowance	(23)	–	(22)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,702	(8,200)	3,904	(8,924)
Deferred tax liabilities		**(4,498)**		**(5,020)**
Net deferred tax liabilities		**(3,042)**		**(3,458)**

[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 18.3 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 December 31, 2015 and 2014, 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 and USD 24 billion, respectively. 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 18.4

in USD millions	2015	2014
As of January 1	(3,458)	(3,090)
Net change recognized in the income statement	(24)	(196)
Net change recognized in equity	217	(586)
Net changes due to acquisitions/(divestments)	(1)	(26)
Foreign currency translation effects	223	440
As of December 31	**(3,042)**	**(3,458)**
attributable to policyholders	(562)	(589)
attributable to shareholders	(2,481)	(2,869)

The net deferred tax liabilities relating to non-controlling interests amounted to USD 347 million and USD 431 million as of December 31, 2015 and 2014, respectively.

Development of deferred income taxes included in equity

Table 18.5

in USD millions	2015	2014
As of January 1	(98)	456
Net unrealized gains/(losses) on available-for-sale investments	397	(704)
Cash flow hedges	(15)	(65)
Revaluation reserve	(2)	(8)
Net actuarial gains/(losses) on pension plans	(162)	190
Foreign currency translation effects	29	33
As of December 31	**149**	**(98)**

Tax loss carryforwards and tax credits

Table 18.6

in USD millions, as of December 31	2015	2014
For which deferred tax assets have been recognized, expiring		
< 5 years	57	72
5 to 20 years	408	264
> 20 years or with no time limitation	814	1,230
Subtotal	1,280	1,566
For which deferred tax assets have not been recognized, expiring		
< 5 years	64	36
5 to 20 years	89	112
> 20 years or with no time limitation	1,310	976
Subtotal	1,464	1,124
Total	**2,744**	**2,689**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 23.0 percent and 19.2 percent as of December 31, 2015 and 2014, 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, 2015, are recoverable.

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19. Senior and subordinated debt

Senior and subordinated debt

Table 19.1

in USD millions, as of December 31		**2015**	2014
Senior debt			
Zurich Insurance Company Ltd	Floating rate CHF 200 million notes, due June 2016[4]	200	201
	2.25% CHF 500 million notes, due July 2017[4]	498	501
	2.375% CHF 525 million notes, due November 2018[4]	522	525
	1.50% CHF 400 million notes, due June 2019[3,4]	415	414
	1.125% CHF 400 million notes, due September 2019[3,4]	420	419
	0.625% CHF 250 million notes, due July 2020[3,4]	259	256
	2.875% CHF 250 million notes, due July 2021[4]	247	249
	3.375% EUR 500 million notes, due June 2022[3,4,5]	587	656
	1.875% CHF 100 million notes, due September 2023[3,4]	111	110
	1.750% EUR 500 million notes, due September 2024[3,4,5]	545	609
	1.500% CHF 150 million notes, due July 2026[3,4]	164	161
Zurich Finance (USA), Inc.	Euro Commercial Paper Notes, due in less than 3 months	400	400
	6.50% EUR 600 million notes, due October 2015[1,4]	–	726
Zurich Santander Insurance America S.L.	7.5% EUR 77 million loan, due December 2035	74	113
Other	Various debt instruments	29	40
Senior debt		4,471	5,379
Subordinated debt			
Zurich Insurance Company Ltd	4.25% CHF 700 million perpetual notes, first callable May 2016[4]	698	702
	8.25% USD 500 million perpetual capital notes, first callable January 2018[4,5]	498	497
	4.625% CHF 500 million perpetual notes, first callable May 2018[4]	496	499
	7.5% EUR 425 million notes, due July 2039, first callable July 2019[4,5]	460	512
	2.75% CHF 200 million perpetual capital notes, first callable September 2021[3,4]	209	206
	4.25% EUR 1 billion notes, due October 2043, first callable October 2023[4,5]	1,075	1,196
	4.25% USD 300 million notes, due October 2045, first callable October 2025[4,5]	298	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes, first callable October 2022[4]	658	694
Zurich Finance (USA), Inc.	4.5% EUR 269 million notes, due June 2025, first callable June 2015[4,6]	–	330
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065, first callable June 2016	680	680
ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067, first callable May 2017[2]	501	501
Other	Various debt instruments	41	41
Subordinated debt		5,614	5,857
Total senior and subordinated debt		**10,086**	**11,236**

1 The Group applied the cash flow hedge methodology to hedge the interest rate and foreign currency exposure.
2 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.
3 The Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.
4 Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).
5 These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.
6 The Group applied the fair value hedge methodology to hedge the interest rate and foreign currency exposure.

None of the debt instruments listed in table 19.1 were in default as of December 31, 2015 or 2014.

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 19.2

Maturity schedule of outstanding debt

in USD millions, as of December 31	2015		2014	
	Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
< 1 year	1,984	2,360	1,467	1,929
1 to 2 years	999	1,305	1,582	1,966
2 to 3 years	1,516	1,771	1,017	1,331
3 to 4 years	1,340	1,506	1,521	1,785
4 to 5 years	259	405	1,378	1,569
5 to 10 years	3,751	4,129	3,997	4,503
> 10 years	238	281	274	379
Total	**10,086**	**11,757**	**11,236**	**13,462**

Debt maturities reflect original contractual dates taking early redemption options into account. For call/redemption dates, see table 19.1. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 19.2. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2015 and 2014. 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, 2015 and 2014. 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 2018. 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, 2015 or 2014.

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20. Shareholders' equity

Share capital

Table 20.1

	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2013	14,890,322	148,903,222	0.10
New shares issued from contingent capital in 2014	73,361	733,614	0.10
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
Authorized, contingent and issued share capital			
As of December 31, 2014	17,129,526	171,295,259	0.10
As of December 31, 2015	17,129,526	171,295,259	0.10

a) Authorized share capital

Until April 2, 2016, 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 2015 and 2014, 768,128 shares and 733,614 shares, respectively, were issued to employees from contingent share capital. As a result, on December 31, 2015 and 2014, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 89,030 and CHF 165,842 or 890,295 and 1,658,423 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 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

Treasury shares

Table 20.2

number of shares, as of December 31	**2015**	2014
Treasury shares	1,243,931	1,292,220

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

e) Earnings per share

Earnings per share

Table 20.3

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]
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**
2014				
Basic earnings per share	**3,949**	**148,032,821**	**26.68**	**24.39**
Effect of potentially dilutive shares related to share-based compensation plans		1,317,728	(0.24)	(0.22)
Diluted earnings per share	**3,949**	**149,350,549**	**26.44**	**24.17**

[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, 2015 and 2014.

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.

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21. Employee benefits

The Group had 54,335 and 54,551 employees (full-time equivalents) as of December 31, 2015 and 2014, respectively. Personnel and other related costs incurred for the years ended December 31, 2015 and 2014, were USD 5,986 million and USD 6,241 million, including wages and salaries of USD 4,790 million and USD 5,096 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 540 million for 2015 compared with USD 572 million for 2014. The estimated total for 2016 is USD 425 million (actual amount may differ).

Swiss pension plans

The Group previously had two major pension plans in Switzerland in separate legal entities. As of the beginning of 2015 the two plans were merged into one plan with no change to the benefits. 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 plans 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 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.

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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 applied for benefits accrued before 2009, and 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' 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.

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 21.1a and 21.1b set out the reconciliation of the defined benefit obligation and plan assets for the Group's post-employment defined benefit plans.

Table 21.1a

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

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)**

Table 21.1b

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

in USD millions	Defined benefit obligation	Fair value of assets	Net defined benefit asset/ (liability)
As of January 1, 2014	**(20,685)**	**17,020**	**(3,666)**
Net post-employment benefit (expense)/income:			
Current service cost	(353)	–	(353)
Interest (expense)/income	(777)	643	(134)
Settlements gains/(losses)	9	–	9
Past service (cost)/credit	135	–	135
Net post-employment benefit (expense)/income	**(986)**	**643**	**(343)**
Remeasurement effects included in other comprehensive income:			
Return on plan assets excluding interest income	–	2,260	2,260
Experience gains/(losses)	(45)	–	(45)
Actuarial gains/(losses) arising from changes in demographic assumptions	(210)	–	(210)
Actuarial gains/(losses) arising from changes in financial assumptions	(2,875)	–	(2,875)
Remeasurement effects included in other comprehensive income	**(3,130)**	**2,260**	**(870)**
Employer contributions	–	536	536
Employer contributions paid to meet benefits directly	37	–	37
Plan participants' contributions	(56)	56	–
Payments from the plan (incl. settlements)	703	(703)	–
Foreign currency translation effects	1,611	(1,351)	260
As of December 31, 2014	**(22,507)**	**18,461**	**(4,046)**

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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 21.2 provides a breakdown of plan assets by asset class.

Fair value of assets held in funded defined benefit pension plans

Table 21.2

in USD millions, as of December 31	2015				2014			
	Quoted in active markets	**Other**	**Total**	**% of Total**	Quoted in active markets	Other	Total	% of Total
Cash and cash equivalents	472	–	472	3%	479	–	479	3%
Equity securities	3,726	69	3,795	21%	3,851	56	3,906	21%
Debt securities	–	11,929	11,929	67%	–	12,717	12,717	69%
Investment property	–	1,177	1,177	7%	–	994	994	5%
Mortgage loans	–	333	333	2%	–	357	357	2%
Other assets[1]	–	7	7	–	–	7	7	–
Total	**4,198**	**13,515**	**17,713**	**100%**	**4,330**	**14,131**	**18,461**	**100%**

[1] UK annuity policies

For the classification of pension assets the Group follows the same principles as outlined in note 24 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 21.3a and 21.3b provide a breakdown of the key information included in tables 21.1a and 21.1b for the main countries for the years ended December 31, 2015 and 2014 respectively.

Key information by main country – current period

Table 21.3a

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)

Key information by main country – prior period

Table 21.3b

in USD millions, as of December 31, 2014	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(5,033)	(11,139)	(3,638)	(1,336)	(1,362)	(22,507)
Fair value of plan assets	4,524	9,162	2,676	1,092	1,007	18,461
Net defined benefit asset/(liability)	**(509)**	**(1,977)**	**(962)**	**(244)**	**(355)**	**(4,046)**
Net post-employment benefit (expense)/income[1]	25	(195)	(111)	(37)	(25)	(343)

[1] Following plan amendments in Switzerland a one-off curtailment gain of USD 130 million has been reflected as a reduction in expenses.

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Table 21.4 shows the key financial assumptions used to calculate the Group's post-employment defined benefit obligations and the Group's post-employment benefit expenses.

Key financial assumptions used for major plans

Table 21.4

as of December 31	2015				2014			
	Switzerland	**United Kingdom**	**United States**	**Germany**	Switzerland	United Kingdom	United States	Germany
Discount rate	0.8%	3.8%	4.3%	2.2%	0.9%	3.7%	3.9%	2.0%
Inflation rate (CPI)[1]	1.3%	2.1%	2.0%	1.6%	1.2%	2.4%	2.0%	1.6%
Salary increase rate	1.6%	3.1%	4.4%	2.9%	2.0%	3.4%	4.1%	2.9%
Expected future pension increases	0.7%	3.4%	n/a	1.6%	0.7%	3.5%	n/a	1.6%
Interest crediting rate	0.8%	n/a	5.0%	n/a	0.9%	n/a	4.7%	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, 2015 and 2014.

Tables 21.5a and 21.5b set out the life expectancies used in the valuation of the Group's major plans. The mortality assumptions in each country have been based on mortality tables in accordance with typical practice in that country.

Mortality tables and life expectancies for major plans – current period

Table 21.5a

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

Mortality tables and life expectancies for major plans – prior period

Table 21.5b

in years, as of December 31, 2014		**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	21.39	23.16	23.86	25.59
United Kingdom	PNXA00 with CMI_2012 projection	23.21	24.59	25.31	26.79
United States	RP 2000 Generational, partially with projection	22.24	22.86	24.79	25.43
Germany	Heubeck 2005G	18.85	21.52	22.92	25.46

Table 21.6 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.

Table 21.6

Maturity profile of future benefit payments for major plans

as of December 31	2015				2014			
	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany
Duration of the defined benefit obligation (in years)	16.4	21.0	13.6	14.7	15.7	21.3	14.1	15.3
Maturity analysis of benefits expected to be paid (in USD millions):								
< 1 year	151	253	195	47	149	251	163	49
1 to 5 years	650	1,178	839	192	643	1,182	719	203
5 to 10 years	929	1,913	1,176	256	923	1,936	1,087	273

Table 21.7

Sensitivity analysis of significant actuarial assumptions

	Defined benefit obligation[1]	
in USD millions, as of December 31	2015	2014
Discount rate +50 bps	1,742	1,910
Discount rate –50 bps	(1,997)	(2,161)
Salary increase rate +50 bps	(155)	(172)
Salary decrease rate –50 bps	148	155
Price inflation increase rate +50 bps	(1,322)	(1,430)
Price inflation decrease rate –50 bps	1,161	1,254
Cash balance interest credit rate +50 bps	(121)	(118)
Cash balance interest credit rate –50 bps	84	81
Mortality 10% increase in life expectancy	(1,527)	(1,617)
Mortality 10% decrease in life expectancy	1,557	1,635

[1] A negative number indicates an increase and a positive number indicates a decrease in the defined benefit obligation.

Table 21.7 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 159 million and USD 141 million for the years ended December 31, 2015 and 2014, respectively.

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22. 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 381 million and USD 525 million for the years ended December 31, 2015 and 2014, 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 111 million and USD 202 million for the years ended December 31, 2015 and 2014, 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 99 and 112 participants in the plan as of December 31, 2015 and 2014, 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 883 and 905 active participants in the plan as of December 31, 2015 and 2014, 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, 2015 and 2014 was 5,607 and 5,463, respectively.

A new Dividend Reinvest scheme was launched in 2014 which allows employees to reinvest their dividends from Partnership Shares and Reward Shares. The number of participants in the scheme as at 31 December 2015 is 303 and for 2014 187.

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 2015, 4,633 employees were eligible to participate in the share incentive plan, compared with 4,764 in 2014. For the years ended December 31, 2015 and 2014, 1,775 and 1,574 employees, respectively, purchased shares under the 2014 and 2013 share plans.

The Group Long-Term Incentive Plan (LTIP)
Participants in this plan are allocated a target number of performance shares as notional shares of Zurich Insurance Group Ltd in April each year (target shares). The number of target shares is calculated as a percentage of annual base salary of each participants.

Target shares allocated in 2015 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, 2015 and 2014 there were 1,268 and 1,256 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. As the cash remittance target is potentially volatile in any one year, this target has been replaced for LTIP performance during the transition vesting years 2015 and 2016 with the former target of business operating profit after tax return on shareholders´ equity (BOPAT ROE).

LTIP in 2013 and prior years included phased annual vesting of allocations in three equal tranches at the end of the first, second and third year after allocation, based on the achievement of pre-defined performance criteria. One half of the vested shares were sales-restricted for a further three years from the respective vesting dates.

Table 22.1

Shares allocated during the period

for the years ended December 31	Number		Fair value at the allocation date (in CHF)	
	2015	2014	**2015**	2014
Shares allocated during the period	503,749	973,565	329	274

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, the actual cost 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 share options will have expired in 2017. The number of shares allocated under option amount to 330,888 and 780,763 as of December 31, 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, 135,161 and 436,828 share options, respectively, were exercised.

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23. 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 23.1

in USD millions, as of December 31	**2015**	2014
Remaining commitments under investment agreements	1,431	871
Guarantees and letters of credit[1]	895	9,661
Future operating lease commitments	1,512	1,222
Undrawn loan commitments	8	3
Other commitments and contingent liabilities	574	538

[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 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.

Guarantees and letters of credit

In 2015 and 2014, USD 701 million and USD 740 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. In 2014, an additional USD 8,715 million of the USD 9,661 million for financial guarantees and letters of credit relate to guarantees in the aggregate amount of GBP 5,595 million provided to the directors of a wholly owned subsidiary in connection with the rationalization of the Group's top holding structure which resulted in the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009. These guarantees expired in August 2015.

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 254 million and USD 123 million for the years ended December 31, 2015 and 2014, respectively.

Future payments under non-cancelable operating leases with terms in excess of one year

Table 23.2

in USD millions, as of December 31	2015	2014
< 1 year	277	263
1 to 2 years	216	238
2 to 3 years	180	156
3 to 4 years	155	115
4 to 5 years	122	102
> 5 years	564	348
Total	**1,512**	**1,222**

Indemnity agreements
The Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (now Scor Holding (Switzerland) AG) and its successor companies' net exposure for losses arising out of the September 11, 2001 World Trade Center event in New York. As of December 31, 2015 the Group has recorded provisions of USD 38 million, for losses in excess of USD 289 million.

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 December 31, 2015 and 2014.

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 6,208 million and USD 9,249 million as of December 31, 2015 and 2014, 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, as well as actions by local tax and law enforcement officials (including inquiries and investigations into cross-border business activities), could result in higher compliance costs, remedial actions and other related expenses for its life insurance, saving and pension business. As with the industry more generally, it is also possible that implementation of automatic tax information exchange and other developments relating to cross-border life, saving and pension business could give rise to inquiries by legal, tax and/or regulatory authorities in the future.

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:

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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 have been 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 are historical policyholders of the Home Insurance Company (Home), plead 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 allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contend that this forced Home into liquidation. The plaintiffs further allege 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. Closing arguments were heard on February 22 and 23, 2012.

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. The effect of these holdings should be the dismissal of the plaintiffs' fraudulent transfer claims. 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 July 21, 2014, the court issued a Tentative Statement of Decision for Phase 1A. The court ruled that all of the plaintiffs' fraudulent transfer causes of action were barred, and asked the plaintiffs to confirm on the record their concession that their unfair competition claims were also barred (the final Statement of Decision for Phase 1A was filed on February 27, 2015). 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. In early 2015, certain plaintiffs committed to voluntarily dismiss their claims with prejudice in exchange for an agreement that the defendants will not pursue them for litigation costs. Requests for dismissal with prejudice of their claims were filed with the Court by all but two plaintiffs. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously against the claims of any 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.

24. 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 is the responsibility of the Valuation Forum, an independent committee composed of representatives from Risk Management, Investment Management and Group Finance. The Valuation Forum ensures the adequacy of valuation models, approves methodologies and sources to derive model input parameters, provides oversight over the selection of third party pricing providers, and on a quarterly basis reviews 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.

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Table 24.1 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 and 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 24.1

in USD millions, as of December 31	Total fair value		Total carrying value	
	2015	2014	**2015**	2014
Available-for-sale securities				
Equity securities	15,354	12,480	15,354	12,480
Debt securities	128,181	142,557	128,181	142,557
Total available-for-sale securities	143,535	155,037	143,535	155,037
Fair value through profit or loss securities				
Equity securities	3,519	3,619	3,519	3,619
Debt securities	6,180	7,121	6,180	7,121
Total fair value through profit or loss securities	9,699	10,740	9,699	10,740
Derivative assets	**1,120**	**1,230**	**1,120**	**1,230**
Held-to-maturity debt securities	**4,086**	**4,747**	**3,369**	**3,971**
Investments in associates and joint ventures	**18**	**70**	**18**	**70**
Mortgage loans	**7,603**	**8,452**	**7,024**	**7,826**
Other loans	**11,279**	**12,943**	**9,569**	**10,834**
Total financial assets	**177,341**	**193,219**	**174,335**	**189,706**
Derivative liabilities	**(362)**	**(429)**	**(362)**	**(429)**
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(913)	(977)	(754)	(843)
Liabilities related to investment contracts with DPF	(6,447)	(6,195)	(7,629)	(7,006)
Senior debt	(4,596)	(5,626)	(4,471)	(5,379)
Subordinated debt	(5,983)	(6,483)	(5,614)	(5,857)
Total financial liabilities held at amortized cost	(17,940)	(19,282)	(18,468)	(19,084)
Total financial liabilities	**(18,302)**	**(19,710)**	**(18,830)**	**(19,513)**

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.

Recurring fair value measurements of assets and liabilities

Fair value hierarchy – non unit-linked – current period

Table 24.2a

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 – non unit-linked – prior period

Table 24.2b

in USD millions, as of December 31, 2014	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	11,291	259	929	12,480
Debt securities	362	139,431	2,764	142,557
Total available-for-sale securities	**11,653**	**139,691**	**3,693**	**155,037**
Fair value through profit or loss securities				
Equity securities	978	223	2,417	3,619
Debt securities	1	6,934	185	7,121
Total fair value through profit or loss securities	**979**	**7,157**	**2,603**	**10,740**
Derivative assets	**2**	**853**	**375**	**1,230**
Investment property	**–**	**1,965**	**6,818**	**8,784**
Reinsurers' share of reserves for insurance contracts fair value option[1]	**–**	**–**	**375**	**375**
Total	**12,634**	**149,667**	**13,864**	**176,164**
Derivative liabilities	**(18)**	**(350)**	**(61)**	**(429)**
Reserves for insurance contracts fair value option[2]	**–**	**–**	**(3,594)**	**(3,594)**
Total	**(18)**	**(350)**	**(3,655)**	**(4,023)**

[1] Included within reinsurers' share of reserves for insurance contracts
[2] Included within reserves for insurance contracts

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Fair value hierarchy – unit-linked – current period

Table 24.3a

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

Fair value hierarchy – unit-linked – prior period

Table 24.3b

in USD millions, as of December 31, 2014	Level 1	Level 2	Level 3	Total
Fair value through profit or loss securities				
Equity securities	87,590	30,126	198	117,914
Debt securities	1,026	7,313	67	8,406
Other loans	392	2,427	–	2,819
Total fair value through profit or loss securities	**89,008**	**39,866**	**265**	**129,139**
Derivative assets	3	16	–	19
Investment property	–	–	4,100	4,100
Total investments for unit-linked contracts[1]	**89,011**	**39,882**	**4,366**	**133,259**
Financial liabilities at FV through profit or loss				
Liabilities related to unit-linked investment contracts	–	(62,964)	–	(62,964)
Derivative liabilities	(1)	(14)	–	(15)
Total	**(1)**	**(62,978)**	**–**	**(62,979)**

[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, correlations, yield curves, prepayment rates 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.

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 CLOs 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.

No material transfers between level 1 and level 2 occurred for the years ended December 31, 2015 and 2014.

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

Table 24.4a

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, 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 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.

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 debt 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 models. 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 assets and liabilities classified within level 3 – non unit-linked – prior period

Table 24.4b

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, 2014	1,000	2,775	2,175	219	95	(70)	6,734
Realized gains/(losses) recognized in income[1]	64	13	4	–	–	(33)	1
Unrealized gains/(losses) recognized in income[1,2]	(6)	(29)	283	10	(5)	23	140
Unrealized gains/(losses) recognized in other comprehensive income	78	16	–	–	–	–	31
Purchases	140	805	382	4	–	(1)	732
Settlements/sales/redemptions	(301)	(649)	(382)	(43)	–	33	(157)
Transfer from assets held for own use	–	–	–	–	–	–	72
Transfer to assets held for sale	–	–	–	–	–	–	(28)
Transfers into level 3	3	9	–	5	313	(16)	–
Transfers out of level 3	–	(108)	–	–	–	–	–
Foreign currency translation effects	(48)	(67)	(44)	(9)	(27)	3	(708)
As of December 31, 2014	**929**	**2,764**	**2,417**	**185**	**375**	**(61)**	**6,818**

[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, 2014, the Group transferred derivatives with a market value of USD 297 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 24.5a

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[1]	(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**

[1] The 2015 net movement mainly relates to buy-back transactions of certain annuity contracts in the U.S.

Development of reserves for insurance contracts fair value option classified within level 3 – prior period

Table 24.5b

in USD millions	Gross	Ceded	Net
As of January 1, 2014	3,306	(346)	2,960
Premiums	99	(8)	91
Claims	(314)	31	(283)
Fee income and other expenses	(15)	2	(12)
Interest and bonuses credited to policyholders	522	(53)	468
Changes in assumptions	(4)	–	(4)
As of December 31, 2014	**3,594**	**(375)**	**3,219**

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

Table 24.6a

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	–	–
Transfers out of level 3	–	–	–
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.

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

Table 24.6b

in USD millions	Fair value through profit or loss securities		
	Equity securities	Debt securities	**Investment property**
As of January 1, 2014	64	84	3,661
Realized gains/(losses) recognized in income[1]	–	3	(46)
Unrealized gains/(losses) recognized in income[1]	2	4	634
Purchases	155	–	181
Sales/redemptions	(17)	(21)	(74)
Transfers into level 3	1	2	–
Transfers out of level 3	–	–	–
Foreign currency translation effects	(7)	(5)	(257)
As of December 31, 2014	**198**	**67**	**4,100**

[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.

The Group has valued USD 4 million and USD 477 million of mortgage loans at fair value on a non-recurring basis as of December 31, 2015 and 2014, respectively. These are classified within level 3 as the fair value measurement is based on internal pricing models, using significant unobservable inputs.

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 6,108 million and USD 2,950 million for Group investments and USD 43 million and USD 67 million for investments for unit-linked contracts as of December 31, 2015 and 2014, 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 3,378 million and USD 3,347 million for Group investments and USD 336 million and USD 198 million for investments for unit-linked contracts as of December 31, 2015 and 2014, 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 24.7a and 24.7b. 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 24.8a and 24.8b. 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 has been added to analyze 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.

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

Table 24.7a

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

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

Table 24.7b

as of December 31, 2014	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%	(709)	+20%	709
Discount rates	+20%	(71)	–20%	75
Spread rates	+20%	(51)	–20%	53
Prepayment rates	–20%	(1)	+20%	3

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

Table 24.8a

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)

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

Table 24.8b

as of December 31, 2014	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%	+1.3%	+1.3%	+1.3%	338
Equity levels –10%	–10.0%	–1.0%	–1.0%	–1.0%	(340)
Discount rates +10%	+0.2%	+10.0%	+15.0%	–2.0%	(68)
Discount rates –10%	–0.2%	–10.0%	–7.5%	+2.0%	58
Spread rates +10%	+0.2%	+7.0%	+10.0%	+0.2%	(47)

Within level 3, the Group also classified:

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- Investment property amounting to USD 7,828 million and 6,818 million for Group investments and USD 4,341 million and USD 4,100 million for investments for unit-linked contracts as of December 31, 2015 and 2014, 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 270 million and USD 375 million for reinsurers' share of reserves fair value option and, USD 2,927 million and USD 3,594 million reserves for insurance contracts fair value option as of December 31, 2015 and 2014, 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.

25. Analysis of financial assets

Tables 25.1a and 25.1b 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.

Analysis of financial assets – current period

Table 25.1a

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.

Analysis of financial assets – prior period

Table 25.1b

in USD millions, as of December 31, 2014

	Debt securities	Mortgage loans[1]	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**153,354**	**7,150**	**10,832**	**13,482**	**184,818**
Past due but not impaired financial assets. Past due by:					
1 to 90 days	–	104	–	1,263	1,367
91 to 180 days	–	27	–	289	316
181 to 365 days	–	17	–	236	253
> 365 days	–	59	–	251	310
Past due but not impaired financial assets	**–**	**208**	**–**	**2,038**	**2,247**
Financial assets impaired	**294**	**1,105**	**20**	**154**	**1,573**
Gross carrying value	**153,648**	**8,462**	**10,853**	**15,675**	**188,639**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	598	19	80	698
Impairment allowances on collectively assessed financial assets	–	38	–	186	224
Net carrying value	**153,648**	**7,826**	**10,834**	**15,409**	**187,717**

[1] USD 100 million past due but not impaired and USD 1.1 billion impaired mortgage loans relate to the run-off property loans at Dunbar Assets Ireland.

Tables 25.2a and 25.2b show how the allowances for impairments of financial assets in tables 25.1a and 25.1b developed during the periods ended December 31, 2015 and 2014, respectively.

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Development of allowance for impairments – current period

Table 25.2a

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.

Development of allowance for impairments – prior period

Table 25.2b

in USD millions	Mortgage loans	Other loans	Receivables
As of January 1, 2014	787	20	297
Increase/(Decrease) in allowance for impairments	22	–	23
Amounts written-off	(109)	–	(26)
Divestments[1]	–	–	(3)
Foreign currency translation effects	(64)	–	(25)
As of December 31, 2014	**637**	**19**	**266**

[1] Due to the sale of the Group's General Insurance retail business in Russia (see note 5 of the Consolidated financial statements).

26. 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 26 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 Group Executive Committee.

Related party transactions – key personnel

Table 26

in USD millions, for the years ended December 31	**2015**	2014
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	27	27
Post-employment benefits	4	4
Share-based compensation	15	15
Other remuneration	11	5
Total remuneration of key personnel	**57**	**50**

As of December 31, 2015 and 2014 there were no loans, advances or credits outstanding from members of the Group Executive Committee. Outstanding loans and guarantees granted to members of the Board of Directors amounted to nil for the years ended December 31, 2015 and 2014. The terms "members of the Board of Directors" and "members of the Group Executive Committee" in this context include the individual as well as members of their respective households. The figures in table 26 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 and USD 4 million for the years ended December 31, 2015 and 2014, respectively.

Information required by art. 663b^{bis} 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.

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27. 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, 2015 and 2014, 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.

Certificates of contribution

Table 27.1

in USD millions, as of December 31	2015	2014
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 provides for annual ceded premiums of USD 500 million and USD 900 million in 2015 and 2014, respectively. In addition, Farmers Re Co and ZIC assume a quota share percentage of ultimate net losses sustained by the Farmers Exchanges in their APD lines of business.

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.

Quota share reinsurance treaties

Table 27.2

in USD millions, for the years ended December 31	APD agreement		All Lines agreement		Total	
	2015[1]	2014[2]	2015[3]	2014[4]	2015	2014
Net earned premiums and policy fees	500	900	1,766	3,056	2,266	3,956
Insurance benefits and losses, net[5]	(365)	(646)	(1,223)	(2,004)	(1,588)	(2,650)
Total net technical expenses[6]	(139)	(262)	(565)	(978)	(704)	(1,240)
Net underwriting result	**(3)**	**(8)**	**(23)**	**74**	**(26)**	**66**

[1] 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.
[2] Farmers Re Co assumed 10.0 percent and ZIC assumed 80.0 percent. The remaining 10.0 percent was assumed by a third party on the same terms as Farmers Re Co and ZIC.
[3] 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 on the same terms as Farmers Re Co and ZIC. Subject to the approval of the California Department of Insurance, effective December 31, 2015. ZIC assumed an 8.0 percent quota share, while another 12.0 percent is assumed by third parties on the same terms as ZIC. Farmers Re Co ceased its participation in the All Lines agreement, effective December 31, 2015.
[4] From January 1, 2014, Farmers Re Co and ZIC assumed a 2.0 percent and 16.0 percent respective quota share. Another 2.0 percent was assumed by a third party on the same terms as Farmers Re Co and ZIC. Effective December 31, 2014, Farmers Re Co and ZIC assumed a 1.0 percent and 9.0 percent respective quota share. Another 4.0 percent is assumed by a third party on the same terms as Farmers Re Co and ZIC.
[5] Under the All Lines agreement the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1.2 billion.
[6] Under the APD agreement the ceding commission for acquisition expenses range between 27.1 percent and 29.1 percent and the ceding commission for unallocated loss adjustment expenses range between 8.0 percent and 10.0 percent, both based on a previous 5 year average experience. Under the All Lines agreement, the Farmers Exchanges receive a ceding commission of 26.7 percent, 8.4 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses.

c) Farmers management fees and other related revenues

FGI through its attorney-in-fact (AIF) relationships 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 18,885 million and USD 18,545 million for the years ended December 31, 2015 and 2014, respectively.

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28. 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 that 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

From January 1, 2015, the management of the UK asbestos business, which is in run-off, has been transferred from General Insurance to Non-Core Businesses. This change had no impact on the Group. Comparative figures have been restated to reflect this change.

From January 1, 2015, the Global Life business changed its regional structure by establishing the regions Europe, Middle East & Africa (EMEA) and Asia Pacific. EMEA includes the European business units, Zurich International Life and Luxembourg. This change had no impact on total Global Life or the Group. Comparative figures have been restated to reflect this change.

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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Business operating profit by segment

Table 28.1

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2015	2014	**2015**	2014
Revenues				
Direct written premiums[1]	32,274	34,351	12,033	12,001
Assumed written premiums	1,746	1,981	186	184
Gross Written Premiums	34,020	36,333	12,220	12,185
Policy fees	–	–	2,227	2,409
Gross written premiums and policy fees	34,020	36,333	14,446	14,594
Less premiums ceded to reinsurers	(5,634)	(5,473)	(2,489)	(675)
Net written premiums and policy fees	28,386	30,859	11,957	13,919
Net change in reserves for unearned premiums	(335)	(837)	(82)	(53)
Net earned premiums and policy fees	28,051	30,023	11,876	13,866
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,002	2,239	4,415	4,988
Net investment income on Group investments	2,002	2,149	3,320	3,815
Net capital gains/(losses) and impairments on Group investments	–	89	1,095	1,173
Net investment result on unit-linked investments	–	–	6,168	10,457
Other income	836	799	1,039	1,207
Total BOP revenues	30,889	33,060	23,498	30,519
of which: inter-segment revenues	*(527)*	*(356)*	*(316)*	*(450)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	20,152	19,920	8,612	10,685
Losses and loss adjustment expenses, net	20,157	19,923	–	–
Life insurance death and other benefits, net[1]	(4)	(3)	8,612	10,684
Policyholder dividends and participation in profits, net	3	6	7,706	12,097
Income tax expense/(benefit) attributable to policyholders	–	–	110	106
Underwriting and policy acquisition costs, net	5,907	5,946	2,454	2,654
Administrative and other operating expense (excl. depreciation/amortization)	3,636	3,758	2,463	2,711
Interest credited to policyholders and other interest	112	61	445	400
Restructuring provisions and other items not included in BOP	(372)	(119)	(435)	(174)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	29,437	29,572	21,355	28,478
Business operating profit (before interest, depreciation and amortization)	**1,452**	**3,489**	**2,143**	**2,042**
Depreciation and impairments of property and equipment	127	87	28	33
Amortization and impairments of intangible assets	252	213	578	452
Interest expense on debt	101	115	14	46
Business operating profit before non-controlling interests	972	3,073	1,523	1,512
Non-controlling interests	108	95	223	239
Business operating profit	**864**	**2,979**	**1,300**	**1,273**

[1] Global Life included approximately USD 2,701 million and USD 1,551 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, 2015 and 2014, respectively (see note 3 of the Consolidated financial statements).
[2] The Group's life operations in the UK entered into a reinsurance agreement to transfer the risk associated with a significant annuities portfolio as of April 1, 2015 and an additional tranche as of October 1, 2015. The combined initial impact of this transaction was an increase of USD 1.8 billion in premiums ceded to reinsurers and an increase of USD 1.8 billion in ceded insurance benefits and losses in the Global Life business. The gain resulting from this transaction of approximately USD 105 million will be recognized on a linear basis over the lifetime of the reinsurance contract, which is expected to end on June 30, 2016.

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
–	–	–	–	67	95	–	–	44,374	46,448
2,145	3,428	47	45	90	92	(98)	(110)	4,116	5,621
2,145	3,428	47	45	156	188	(98)	(110)	48,490	52,069
–	–	–	–	281	303	–	–	2,508	2,712
2,145	3,428	47	45	437	491	(98)	(110)	50,998	54,781
–	–	(41)	(47)	(11)	(16)	98	110	(8,078)	(6,101)
2,145	3,428	6	(2)	426	475	–	–	42,920	48,680
120	528	–	–	–	3	–	–	(296)	(359)
2,266	3,956	6	(2)	426	478	–	–	42,624	48,321
2,786	2,791	–	–	–	–	–	–	2,786	2,791
49	68	300	387	236	762	(427)	(628)	6,576	7,816
49	68	300	387	328	415	(427)	(628)	5,572	6,206
–	–	–	–	(91)	347	–	–	1,004	1,610
–	–	–	–	70	327	–	–	6,238	10,784
56	99	1,104	847	98	47	(1,685)	(1,276)	1,448	1,723
5,156	6,914	1,411	1,233	830	1,613	(2,112)	(1,904)	59,671	71,435
(16)	*(30)*	*(1,222)*	*(1,022)*	*(33)*	*(46)*	*2,112*	*1,904*		
1,588	2,650	–	(7)	394	1,116	–	–	30,746	34,364
1,588	2,650	–	(1)	118	299	–	–	21,862	22,871
–	–	–	(6)	276	817	–	–	8,884	11,492
–	–	–	–	154	465	–	–	7,863	12,568
–	–	–	–	–	–	–	–	110	106
703	1,240	–	–	7	6	(10)	(10)	9,061	9,835
1,340	1,315	1,225	1,144	137	115	(1,342)	(1,198)	7,458	7,845
–	–	136	3	89	126	(315)	(68)	467	523
(14)	3	(75)	(13)	(10)	–	–	–	(906)	(303)
3,618	5,208	1,286	1,128	770	1,828	(1,668)	(1,275)	54,799	64,938
1,538	**1,706**	**125**	**105**	**60**	**(215)**	**(445)**	**(629)**	**4,872**	**6,497**
36	46	7	7	–	–	–	–	198	173
81	86	92	89	–	–	–	–	1,004	840
–	–	751	982	9	11	(445)	(629)	431	525
1,421	1,573	(726)	(973)	51	(226)	–	–	3,240	4,959
–	–	(7)	(13)	–	1	–	–	324	322
1,421	**1,573**	**(720)**	**(960)**	**51**	**(227)**	**–**	**–**	**2,916**	**4,638**

Consolidated financial statements *continued*

Reconciliation of BOP to net income after income taxes

Table 28.2

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2015	2014	**2015**	2014
Business operating profit	**864**	**2,979**	**1,300**	**1,273**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	466	871	240	485
Net gain/(loss) on divestments of businesses[1]	–	(245)	–	–
Restructuring provisions	(314)	(36)	(71)	(29)
Net income/(expense) on intercompany loans[2]	(17)	(16)	(17)	(6)
Impairments of goodwill	–	–	(281)	(98)
Change in estimates of earn-out liabilities	29	(19)	(21)	(31)
Other adjustments[3]	(70)	(48)	(44)	(10)
Add back:				
Business operating profit attributable to non-controlling interests	108	95	223	239
Net income before shareholders' taxes	1,066	3,580	1,328	1,822
Income tax expense/(benefit) attributable to policyholders	–	–	110	106
Net income before income taxes	**1,066**	**3,580**	**1,439**	**1,929**
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

1 In 2014, General Insurance and Other Operating Businesses relate to the sale of the Group's General Insurance retail business in Russia (see note 5).
2 The impact on Group level relates to foreign currency translation differences.
3 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 15 and 14 respectively, and USD 100 million of other restructuring related costs) relating to initiatives announced in 2015. In addition it includes other adjustments in the amount of USD (24) million. For the year ended December 31, 2014, General Insurance includes real estate transfer tax of USD 40 million relating to the acquisition of non-controlling interests of Deutscher Herold AG (see note 5).

Farmers		Other Operating Businesses		Non-Core Businesses		Total	
2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
1,421	**1,573**	**(720)**	**(960)**	**51**	**(227)**	**2,916**	**4,638**
20	34	152	1	8	4	887	1,395
–	–	10	(2)	–	(13)	10	(259)
(13)	2	(49)	(34)	(10)	–	(457)	(97)
–	–	33	22	–	–	(1)	–
–	–	–	–	–	–	(281)	(98)
–	–	–	–	–	–	8	(50)
(1)	1	(59)	–	–	–	(175)	(57)
–	–	(7)	(13)	–	1	324	322
1,427	1,611	(640)	(987)	48	(235)	3,230	5,792
–	–	–	–	–	–	110	106
1,427	**1,611**	**(640)**	**(987)**	**48**	**(235)**	**3,340**	**5,898**
						(1,294)	(1,670)
						(110)	(106)
						(1,183)	(1,564)
						2,047	**4,228**
						205	280
						1,842	3,949

Consolidated financial statements *continued*

Table 28.3

Assets and liabilities by segment

in USD millions, as of December 31	General Insurance 2015	General Insurance 2014	Global Life 2015	Global Life 2014
Assets				
Total Group Investments	82,669	86,902	103,223	111,898
Cash and cash equivalents	9,756	9,939	3,049	3,568
Equity securities	10,053	8,953	8,107	6,408
Debt securities	54,773	60,410	70,919	79,817
Investment property	3,611	3,193	5,844	5,054
Mortgage loans	1,329	1,369	5,695	5,880
Other loans	3,143	3,035	9,597	11,158
Investments in associates and joint ventures	4	4	11	13
Investments for unit-linked contracts	–	–	115,559	122,446
Total investments	82,669	86,902	218,782	234,344
Reinsurers' share of reserves for insurance contracts	11,073	11,345	3,657	1,979
Deposits made under assumed reinsurance contracts	90	38	63	73
Deferred policy acquisition costs	4,226	3,984	13,298	13,584
Deferred origination costs	–	–	506	595
Goodwill	465	533	5	309
Other intangible assets	1,384	1,649	2,900	3,556
Other assets	14,121	15,147	6,045	7,104
Total assets (after cons. of investments in subsidiaries)	**114,029**	**119,597**	**245,255**	**261,545**
Liabilities				
Liabilities for investment contracts	–	–	70,406	70,581
Reserves for insurance contracts, gross	73,502	74,566	140,799	153,334
Reserves for losses and loss adjustment expenses, gross	57,777	58,390	–	–
Reserves for unearned premiums, gross	15,664	16,101	–	–
Future life policyholder benefits, gross	36	45	67,717	72,783
Policyholder contract deposits and other funds, gross	25	30	19,858	21,120
Reserves for unit-linked contracts, gross	–	–	53,224	59,431
Senior debt	517	1,148	68	91
Subordinated debt	1,081	1,268	708	754
Other liabilities	18,566	19,906	15,787	17,529
Total liabilities	**93,666**	**96,889**	**227,769**	**242,289**
Equity				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	357	781	127	409

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	3,253	4,096	19,957	19,510	9,847	11,940	(27,711)	(29,486)	191,238	204,860
	1,312	481	9,649	8,525	1,632	1,843	(17,240)	(16,755)	8,159	7,600
	43	62	572	577	98	99	–	–	18,873	16,099
	574	1,163	6,330	6,261	6,329	7,222	(1,195)	(1,224)	137,730	153,648
	74	74	10	209	325	254	–	–	9,865	8,784
	–	–	–	–	–	576	–	–	7,024	7,826
	1,249	2,317	3,396	3,887	1,460	1,943	(9,277)	(11,507)	9,569	10,834
	–	–	1	51	3	2	–	–	18	70
	–	–	–	–	11,169	11,970	–	–	126,728	134,416
	3,253	4,096	19,957	19,510	21,016	23,910	(27,711)	(29,486)	317,966	339,276
	–	–	–	–	3,127	3,330	(84)	(103)	17,774	16,550
	1,476	1,952	–	–	79	142	–	(2)	1,708	2,203
	149	182	–	–	–	–	3	–	17,677	17,750
	–	–	–	–	–	–	–	–	506	595
	819	819	–	–	–	–	–	–	1,289	1,661
	353	328	129	195	–	–	–	–	4,766	5,729
	1,528	1,624	987	1,021	1,400	1,864	(3,795)	(3,995)	20,287	22,766
	7,578	**9,002**	**21,074**	**20,726**	**25,623**	**29,246**	**(31,587)**	**(33,586)**	**381,972**	**406,529**
	–	–	–	–	221	232	–	–	70,627	70,813
	1,663	2,231	28	31	21,715	23,661	(84)	(104)	237,622	253,719
	1,103	1,551	23	26	4,142	4,590	(75)	(84)	62,971	64,472
	560	680	3	3	13	14	(10)	(19)	16,230	16,779
	–	–	2	2	4,198	4,823	–	–	71,952	77,652
	–	–	–	–	2,193	2,265	–	(1)	22,076	23,415
	–	–	–	–	11,169	11,970	–	–	64,393	71,400
	–	–	10,391	13,257	659	514	(7,164)	(9,631)	4,471	5,379
	–	–	6,374	6,615	23	23	(2,572)	(2,803)	5,614	5,857
	1,354	1,427	13,150	11,998	3,642	4,120	(21,765)	(21,048)	30,733	33,932
	3,017	**3,658**	**29,942**	**31,900**	**26,260**	**28,551**	**(31,586)**	**(33,586)**	**349,069**	**369,700**
									31,178	34,735
									1,725	2,095
									32,904	36,830
									381,972	**406,529**
	162	144	31	51	–	–	–	–	677	1,384

Consolidated financial statements *continued*

General Insurance – Revenues and non-current assets by region

Table 28.4

in USD millions	Gross written premiums and policy fees from external customers – Total, for the years ended December 31 2015	Total 2014	of which Global Corporate, for the years ended December 31 2015	Global Corporate 2014	Property, equipment and intangible assets, as of December 31 2015	2014
North America						
United States	13,363	12,671			254	242
Canada	744	870			13	11
Bermuda	10	9			16	18
North America	14,117	13,550	3,545	3,661	282	272
Europe						
United Kingdom	3,747	4,199			305	258
Germany	2,709	3,213			166	193
Switzerland	3,060	3,344			517	562
Italy	1,502	1,839			32	31
Spain	1,237	1,408			328	378
Austria	526	611			20	20
Ireland	306	363			47	55
Portugal	265	310			18	20
France	359	428			1	1
Rest of Europe	743	959			152	187
Europe	14,453	16,673	3,956	4,565	1,587	1,706
Latin America						
Argentina	469	425			9	13
Brazil	942	1,112			285	510
Chile	272	316			21	27
Mexico	620	650			178	216
Venezuela	211	291			–	8
Rest of Latin America	19	34			6	1
Latin America	2,533	2,829	348	373	499	775
Asia-Pacific						
Australia	740	1,030			44	55
Hong Kong	284	251			12	13
Japan	671	705			16	11
Taiwan	122	127			16	14
Malaysia	165	197			2	2
Rest of Asia-Pacific	259	276			5	3
Asia-Pacific	2,241	2,586	533	583	95	98
Middle East	232	212	181	171	37	51
Africa						
South Africa	311	341			13	11
Morocco	128	139			24	28
Africa	440	480	48	30	37	40
Total	**34,016**	**36,330**	**8,612**	**9,384**	**2,537**	**2,941**

Global Life – Revenues and non-current assets by region

Table 28.5

in USD millions	Gross written premiums and policy fees from external customers for the years ended December 31		Life insurance deposits for the years ended December 31		Property, equipment and intangible assets as of December 31	
	2015	2014	**2015**	2014	**2015**	2014
North America						
United States	983	921	434	549	140	138
North America	983	921	434	549	140	138
Latin America						
Chile	425	718	59	83	257	326
Argentina	165	131	66	59	31	56
Mexico	364	403	12	3	151	188
Venezuela	31	43	–	–	–	–
Brazil	1,118	1,427	1,565	2,058	421	664
Uruguay	8	7	–	–	–	–
Latin America	2,111	2,729	1,702	2,203	861	1,234
Europe, Middle East & Africa						
United Kingdom	1,673	1,532	3,971	6,557	260	338
Germany	2,544	3,252	1,926	1,874	308	596
Switzerland	1,421	1,594	158	167	71	67
Ireland[1]	631	727	2,972	2,998	5	5
Spain	3,264	1,891	75	51	1,381	1,632
Italy	437	433	1,537	1,024	58	72
Zurich International Life[2]	279	321	1,479	1,396	30	30
Portugal	22	27	132	122	–	–
Austria	151	188	60	61	24	28
Luxembourg[1]	14	13	16	136	–	2
Europe, Middle East & Africa	10,439	9,977	12,327	14,387	2,138	2,770
Asia Pacific						
Hong Kong	68	76	36	37	–	1
Taiwan	–	–	–	3	–	–
Indonesia	11	7	–	–	1	1
Australia	309	353	38	53	–	–
Japan	112	91	1	1	16	15
Singapore	8	6	5	6	–	3
Malaysia	158	185	46	50	20	26
Asia Pacific	667	718	127	151	38	46
Other						
International Group Risk Solutions[3]	201	187	–	–	–	–
Other	201	187	–	–	–	–
Total	**14,400**	**14,532**	**14,591**	**17,289**	**3,177**	**4,188**

[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.

Consolidated financial statements *continued*

29. 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.

Significant subsidiaries – non-listed

Table 29.1

as of December 31, 2015

	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	0.5
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
Bermuda						
Centre Group Holdings Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
Zurich International (Bermuda) Ltd.	Hamilton	General Insurance	100	100	USD	9.9
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	2,809.6
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	36,252.9
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	90	90	EUR	16.5
Malaysia						
Zurich Insurance Malaysia Berhad	Kuala Lumpur	General Insurance/ Global Life	100	100	MYR	579.0
Mexico						
Zurich Santander Seguros México, S.A.	Mexico City	General Insurance/ Global Life	51	51	MXN	190.0

Significant subsidiaries – non-listed (continued)

Table 29.1
as of December 31, 2015

	Registered office	Segment[1]	Voting rights %	Ownership interest %		Nominal value of share capital (in local currency millions)
South Africa						
Zurich Insurance Company South Africa Limited[2]	Johannesburg	General Insurance	100	100	ZAR	4.7
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
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	100	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	Isanbul	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	125.3
Zurich Financial Services (UKISA) Limited	Cheltenham, England	Other Operating Businesses	100	100	GBP	1,652.1
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	109.0
Zurich Project Finance (UK) Limited	Cheltenham, England	Other Operating Businesses	100	100	GBP	0.000001
Zurich (Scotland) Limited Partnership[7]	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 29.1

as of December 31, 2015

	Registered office	Segment[1]	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
United States of America						
Farmers Group, Inc.[6]	Reno, NV	Farmers	100	100	USD	0.001
Farmers New World Life Insurance Company[6]	Mercer Island, WA	Global Life	100	100	USD	6.6
Farmers Reinsurance Company[6]	Woodland Hills	Farmers	100	100	USD	58.8
ZFS Finance (USA) LLC V[7]	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
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 28.
2 In September 2015, Zurich Insurance Company South Africa Limited was delisted from the Johannesburg Stock Exchange after an increase in its shareholding from 84.05 percent to 100 percent (see note 5).
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 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.
7 These entities are LLCs or partnerships and have no share capital.
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, amongst others around 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 29.2 shows the summarized financial information for each subsidiary that has non-controlling interests that are material to the Group.

Non-controlling interests

Table 29.2

in USD millions, as of December 31	Zurich Santander Insurance America, S.L. and its subsidiaries		Bansabadell insurance entities	
	2015	2014	**2015**	2014
Non-controlling interests percentage	49%	49%	50%	50%
Total Investments	9,031	11,486	6,825	6,966
Other assets	2,728	4,052	1,851	2,183
Insurance and investment contract liabilities[1]	9,231	12,136	6,564	6,734
Other liabilities	1,102	1,549	489	544
Net assets	**1,426**	**1,853**	**1,622**	**1,871**
Non-controlling interests in net assets	**699**	**908**	**811**	**936**
Total revenues	2,922	3,239	3,430	2,127
Net income after taxes	349	328	23	138
Other comprehensive income	(470)	(182)	(195)	(189)
Total comprehensive income	**(120)**	**146**	**(172)**	**(51)**
Non-controlling interests in total comprehensive income	**(59)**	**71**	**(86)**	**(25)**
Dividends paid to non-controlling interests	133	94	28	23

[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.

Report of the statutory auditor

Report of the statutory auditor

To the General Meeting of Zurich Insurance Group Ltd

Report of the statutory auditor on the Consolidated financial statements

As statutory auditor, we have audited the Consolidated financial statements of Zurich Insurance Group Ltd, 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 (pages 3 to 101 and the audited sections of the Risk review on pages 3 to 35), for the year ended December 31, 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the Consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of Consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these Consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the Consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the Consolidated financial statements. 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 Consolidated financial statements for the year ended December 31, 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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 10, 2016

Disclaimer and Cautionary Statements

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.

This communication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

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