Zurich Insurance Group

Embedded value report

Annual Results 2015

Embedded value report

Zurich produces and reports embedded value in accordance with the Market Consistent Embedded Value (MCEV) Principles and Guidance issued by the European Insurance CFO Forum (CFO Forum) in October 2009 and the additional guidance issued in October 2015 to provide an economic view of the value of the life business to shareholders and to support financial management and strategic decision making. This report provides an overview of the movement in the MCEV over the calendar year 2015 and new business value added from new sales during the year, including further splits into constituent parts and geographical regions.

Contents

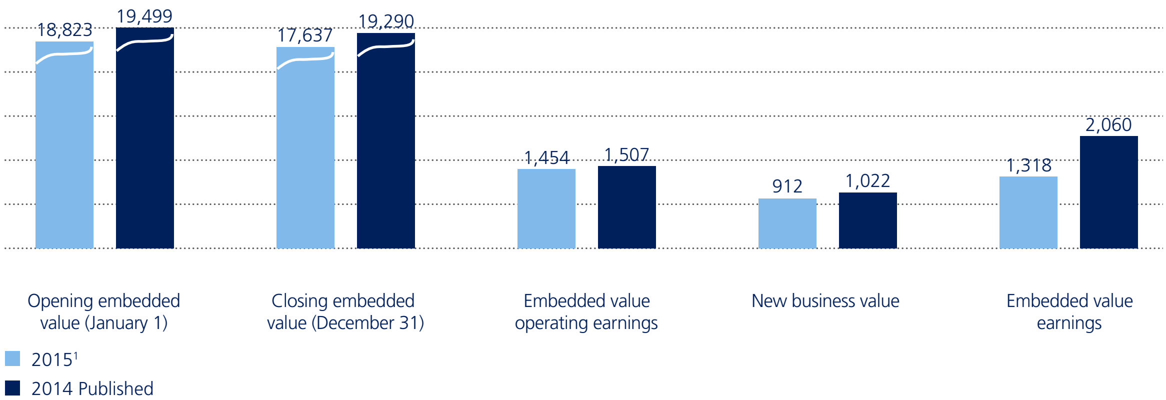
This report describes the development of embedded value of the Zurich Insurance Group (the Group) for the year ended December 31, 2015.

The majority of this report, sections 1 to 10, relates to Global Life, but summary information relating to total Group MCEV is given in section 11.

The opening embedded value for 2015 has been restated to reflect the change in the Cost of Residual Non-Hedgeable Risks (CRNHR) methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015. Therefore the 2015 figures are not fully comparable with the 2014 published results, unless otherwise stated.

Embedded value report – executive summary

Key results
in USD millions, for the years ended December 31



[1] 2015 opening embedded value has been restated and 2015 results presented reflect the change in the CRNHR methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015, at beginning of period exchange rates. Therefore, the 2015 figures are not fully comparable with the 2014 published results.

Embedded value key results

in USD millions, for the years ended December 31	2015	2014 Published	Change
Opening embedded value before the methodology change	19,290	19,499	(209)
Methodology change[1]	(467)	–	(467)
Opening embedded value after the methodology change	18,823	19,499	(676)
Closing embedded value	17,637	19,290	(1,654)
Embedded value operating earnings	1,454	1,507	(54)
of which new business value	*912*	*1,022*	*(110)*
Embedded value earnings	1,318	2,060	(741)

All metrics are reported net of non-controlling interests.
[1] This includes the change in the CRNHR methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015, at beginning of period exchange rates.

Embedded value operating earnings were USD 1,454 million. The earnings included USD 672 million of expected emergence of value from in-force business and USD 912 million of new business value, partially offset by negative operating variances of USD 129 million, with the main contributor being the updated operating assumptions.

New business value was USD 912 million, a decrease of USD 53 million but an increase of 7 percent on a local currency basis compared with 2014, after allowing for the USD 57 million CRNHR restatement methodology change impact on 2014 published new business value figures. APE increases in Japan, Switzerland and Spain and improved business mix have more than offset the impact of lower interest rates in Continental Europe on a local currency basis. The decrease in reported new business value has been driven by generally unfavorable foreign currency translation impacts.

Embedded value earnings were USD 1,318 million. In addition to the above mentioned new business value and operating earnings variances, the embedded value earnings were impacted by USD 46 million of negative investment variances observed mainly in the UK, Farmers New World Life (FNWL) and Switzerland due to the low interest rate environment and by USD 89 million mostly from the increase in CRNHR.

Dividends, injections and other movements were USD 1,166 million which resulted in an overall decrease in embedded value compared to prior year.

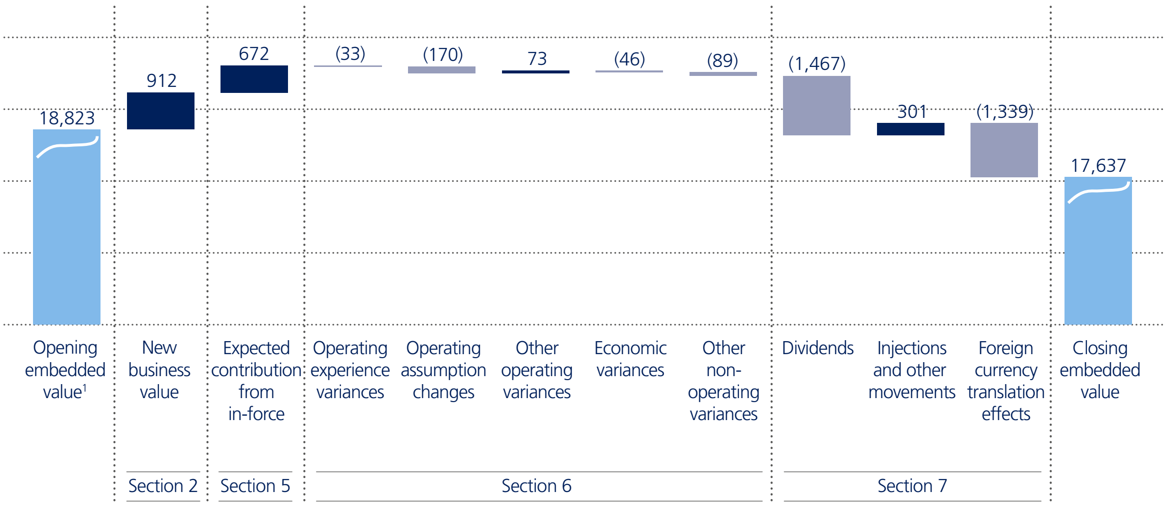
The foreign currency translation effects reduced the embedded value by USD 1,339 million.

Embedded value report *continued*

1. Analysis of embedded value earnings

The graph and table below show how embedded value has decreased from USD 18,823 million (after restating the opening embedded value for the CRNHR methodology change) to USD 17,637 million during 2015. Each movement is described in its own section of the report, as detailed in the graph below.

Embedded value development
in USD millions, for the year ended December 31, 2015



[1] Opening embedded value has been restated including the change in the CRNHR methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015, at beginning of period exchange rates.

Analysis of embedded value earnings

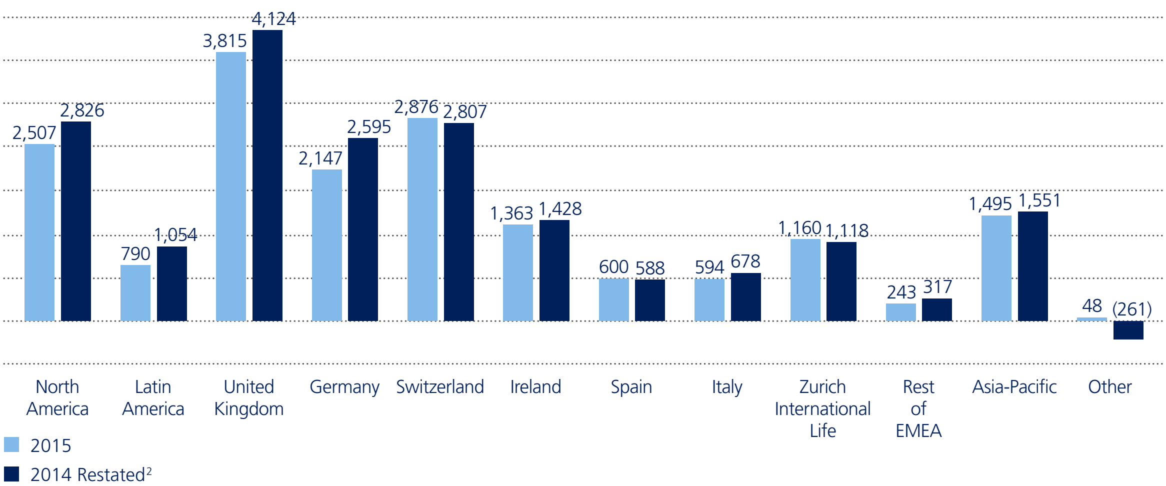
in USD millions, for the years ended December 31

	2015					2014 Published
	Required capital	Free surplus	Share-holders' net assets	Value of business in-force	Total	Total
Opening embedded value before the methodology change	5,629	2,696	8,324	10,966	19,290	19,499
Methodology change[1]	–	–	–	(467)	(467)	–
Opening embedded value after the methodology change	5,629	2,696	8,324	10,499	18,823	19,499
Dividends in the first six months of the year	–	(880)	(880)	–	(880)	(574)
Injections in the first six months of the year	–	157	157	–	157	203
Other movements in the first six months of the year	–	(348)	(348)	(1)	(349)	34
New business value	639	(1,408)	(769)	1,680	912	1,022
Expected contribution at reference rate	–	107	107	133	239	268
Expected contribution in excess of reference rate	–	258	258	174	432	495
Expected transfer to shareholders' net assets	(389)	1,584	1,195	(1,195)	–	–
Operating experience variances	(19)	(8)	(27)	(5)	(33)	49
Operating assumption changes	150	(89)	61	(232)	(170)	(347)
Other operating variances	(105)	54	(51)	124	73	20
Embedded value operating earnings	277	498	774	680	1,454	1,507
Economic variances	1	65	66	(113)	(46)	386
Other non-operating variances	101	(198)	(97)	8	(89)	166
Embedded value earnings	378	365	743	575	1,318	2,060
Dividends in the last six months of the year	–	(586)	(586)	–	(586)	(422)
Injections in the last six months of the year	21	101	122	–	122	210
Other movements in the last six months of the year	–	370	370	–	370	(25)
Foreign currency translation effects	(535)	(271)	(806)	(533)	(1,339)	(1,695)
Closing embedded value	5,494	1,603	7,097	10,540	17,637	19,290

All metrics are reported net of non-controlling interests.
[1] This includes the change in the CRNHR methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015, at beginning of period exchange rates.

Embedded value by geographical region[1]

in USD millions, for the years ended December 31



[1] 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.
[2] For comparability, 2014 published embedded value figures have been restated including the change in the CRNHR methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015, at beginning of period exchange rates.

Embedded value report *continued*

In **North America**, embedded value decreased by USD 319 million, mainly as a result of dividends and other movements partially offset by new business value and expected return.

In **Latin America**, embedded value decreased by USD 264 million mainly as a result of negative foreign currency translation effects. The value added by new business and the positive operating performance in Zurich Santander was more than offset by adverse persistency and expense variances, as well as related assumption changes in the other Zurich business in the region.

In the **UK**, embedded value decreased by USD 309 million, as a result of dividend payments and foreign currency translation effects. This was partially offset by new business value and generally favorable operating variances.

In **Germany**, embedded value decreased by USD 448 million as a result of dividend payments and foreign currency translation effects. This was partially offset by positive operating variances.

In **Switzerland**, embedded value increased by USD 69 million due to new business value and a positive operating variance from modelling refinements, partially offset by the expense assumption update.

In **Ireland**, embedded value decreased by USD 65 million as a result of negative foreign currency translation effects and expense assumption updates. This was partially offset by higher new business value and positive economic variances.

In **Spain**, embedded value increased by USD 12 million due to new business value and positive mortality experience, partially offset by dividend payments and foreign currency translation effects.

In **Italy**, embedded value decreased by USD 83 million mainly from a lower new business value as a consequence of reduced interest rates and from foreign currency translation effects.

In **Zurich International Life**, embedded value increased by USD 42 million with negative foreign currency translation effects more than offset by new business value and positive economic variances from the multicurrency unit linked business.

In the **Rest of EMEA**, embedded value decreased by USD 74 million from dividend payments, foreign currency translation effects and unfavorable operating assumption updates mainly as a result of the withdrawal from new business for certain private banking products in Luxembourg.

In **Asia-Pacific**, embedded value decreased by USD 55 million as a result of foreign currency translation effects. The new business value, mainly driven by Japan, was partially offset by an unfavorable disability assumption update in Australia and the costs associated with the closure of new business in Singapore.

In **Other**, embedded value improved by USD 308 million due to a capital movement from the Group to Global Life's central unit. This is an intercompany consolidation adjustment with neutral impact on the Group MCEV results.

2. New business

Global Life

New business by quarter

in USD millions	2015					2014 Restated				
	Q1	Q2	Q3	Q4	Q4 YTD	Q1	Q2	Q3	Q4	Q4 YTD
Annual premium equivalent (APE)[1,3]	**1,192**	**1,251**	**1,127**	**1,201**	**4,772**	**1,101**	**1,272**	**1,153**	**1,678**	**5,203**
New annual premiums	753	667	664	725	2,809	722	835	737	937	3,230
New single premiums	4,389	5,840	4,630	4,762	19,621	3,792	4,371	4,155	7,415	19,733
Present value of new business premiums (PVNBP)[2]	13,832	12,851	12,463	13,336	52,482	10,293	11,993	11,529	19,140	52,954
Average annual premium multiplier	12.5	10.5	11.8	11.8	11.7	9.0	9.1	10.0	12.5	10.3
New business value[4]	**204**	**208**	**237**	**263**	**912**	**240**	**247**	**230**	**248**	**965**
New business margin[4] (% of APE)	**19.2%**	**18.7%**	**23.9%**	**24.9%**	**21.6%**	**24.4%**	**22.2%**	**22.8%**	**16.2%**	**20.8%**
New business margin[4] (% of PVNBP)	**1.6%**	**1.7%**	**2.0%**	**2.1%**	**1.9%**	**2.5%**	**2.2%**	**2.2%**	**1.4%**	**1.9%**

1 APE is measured as new annual premiums plus 10 percent of new single premiums.
2 PVNBP is measured as new single premiums plus the present value of new annual premiums.
3 Premiums, APE and PVNBP are reported gross of non-controlling interests.
4 New business value and new business margin are reported net of non-controlling interests. For comparability, 2014 published figures (USD 1,022 million) have been restated to include the change in the CRNHR methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015.

New business annual premium equivalent (APE) was USD 4,772 million, a decrease of USD 432 million but an increase of 7 percent on a local currency basis compared with 2014. The increase was driven by Japan and Brazil Santander on protection business and EMEA, in particular by the corporate business in Switzerland and Ireland and by higher individual savings business in Spain and Italy. The APE increase was offset by the deterioration in exchange rates in Latin America and EMEA and lower volumes in corporate business in the UK and in the Independent Financial Advisors (IFA) business in North America.

PVNBP was USD 52,482 million, a decrease of USD 473 million but an increase of 11 percent on a local currency basis compared with 2014. The increase in local currency is mainly driven by Switzerland from the corporate fees based business, by the UK from individual savings and corporate business and by Spain from the individual savings business. Further increases are noted in Italy from the individual savings business and Ireland from the corporate and unit linked business. The increase in the average annual premium multiplier was driven by regular premium corporate pension and protection business in the UK from the inclusion of an allowance for salary inflation in corporate business.

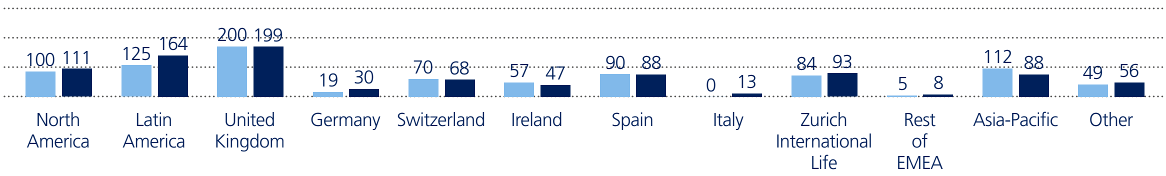
New business value was USD 912 million, a decrease of USD 53 million but an increase of 7 percent on a local currency basis compared with 2014. APE increases in Japan, Switzerland and Spain and improved business mix have more than offset the impact of lower interest rates in Continental Europe on a local currency basis. The decrease in reported new business value has been driven by generally unfavorable foreign currency translation impacts.

New business margin measured in terms of APE was 21.6 percent, showing a 0.8 percent increase compared with 2014 primarily explained by the country and improved business mix partially offset by the impact of updated operating assumptions and the negative economic impact due to low interest rates in EMEA, particularly in Germany, Italy and Switzerland.

Embedded value report *continued*

Geographical region

New business value by geographical region[1]
in USD millions, for the years ended December 31



[1] 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.
[2] New business value is reported net of non-controlling interests. For comparability, 2014 published figures have been restated to include the change in the CRNHR methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015.

New business by geographical region[4]

in USD millions, for the years ended December 31	APE[1]		PVNBP[1]		New business value[2]		New business margin[2] % of APE		New business margin[2] % of PVNBP	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
North America	179	208	1,670	1,869	100	111	56.1%	53.3%	6.0%	5.9%
Latin America	957	1,160	3,884	5,623	125	164	21.1%	22.2%	5.0%	4.6%
of which:										
Zurich Santander	*726*	*846*	*2,791*	*4,090*	*99*	*110*	*26.8%*	*25.4%*	*7.0%*	*5.3%*
EMEA	3,422	3,651	44,717	43,899	526	546	16.3%	15.6%	1.2%	1.3%
United Kingdom	*1,242*	*1,510*	*24,202*	*24,795*	*200*	*199*	*16.1%*	*13.2%*	*0.8%*	*0.8%*
Germany	*406*	*428*	*3,874*	*4,194*	*19*	*30*	*4.9%*	*7.0%*	*0.5%*	*0.7%*
Switzerland	*335*	*253*	*4,104*	*2,872*	*70*	*68*	*21.0%*	*26.8%*	*1.7%*	*2.4%*
Ireland	*443*	*452*	*3,842*	*3,856*	*57*	*47*	*13.0%*	*10.5%*	*1.5%*	*1.2%*
Spain	*378*	*325*	*3,704*	*3,068*	*90*	*88*	*44.4%*	*49.2%*	*4.6%*	*5.3%*
Italy	*234*	*190*	*2,135*	*1,564*	*0*	*13*	*0.2%*	*6.9%*	*0.0%*	*0.8%*
Zurich International Life[3]	*349*	*439*	*2,498*	*3,010*	*84*	*93*	*23.9%*	*21.1%*	*3.3%*	*3.1%*
Rest of EMEA	*34*	*53*	*357*	*541*	*5*	*8*	*13.6%*	*15.1%*	*1.3%*	*1.5%*
Asia-Pacific	157	127	1,520	1,051	112	88	72.1%	70.4%	7.4%	8.4%
Other	57	57	690	512	49	56	85.1%	97.4%	7.1%	10.8%
Global Life	**4,772**	**5,203**	**52,482**	**52,954**	**912**	**965**	**21.6%**	**20.8%**	**1.9%**	**1.9%**

[1] APE and PVNBP are reported gross of non-controlling interests.
[2] New business value and new business margin are reported net of non-controlling interests. For comparability, 2014 published figures (USD 1,022 million) have been restated to include the change in the CRNHR methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015.
[3] Mainly includes business written through licenses into Asia-Pacific and Middle East.
[4] 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.

North America APE decreased by USD 29 million or 14 percent due to lower sales, in particular in the IFA/Brokers protection business, reflecting strong volumes achieved in 2014 and increased competition in 2015. The strong new business margin of 56.1 percent was the result of improved business mix towards retail protection business in FNWL. As a consequence of the lower sales and despite the increase in margin, new business value decreased by USD 11 million or 10 percent.

Zurich Santander delivered APE of USD 726 million, a decrease of USD 120 million but an increase of 15 percent on a local currency basis. All of the Santander life insurance businesses benefited from higher sales, particularly in individual protection business in Brazil and Argentina, but this was more than offset by the devaluation of the Brazilian Real. New business value decreased by USD 10 million but increased by 20 percent on a local currency basis mainly from higher volumes and slightly higher margins.

APE in the rest of **Latin America** decreased by USD 84 million or by 8 percent on a local currency basis mainly from lower sales of corporate protection business in the Zurich operations in Brazil and Chile which benefited last year from the impact of a large scheme, not renewed in 2015, and low volumes in the Zurich operations in Mexico in both protection and savings businesses. Lower margins are mainly explained by the impact of lower interest rates and updated lapse assumptions in the Zurich operations in Chile. New business value decreased by USD 29 million or 38 percent on a local currency basis as a result of the lower APE and margins.

Overall in **EMEA**, APE decreased by USD 229 million but increased by 6 percent on a local currency basis. Higher APE was observed in corporate business in Switzerland and Ireland, as well as in individual savings business in Spain and Italy boosted by the current economic environment and the increased bank distribution network. This was partially offset by lower sales in the UK which benefited in 2014 from exceptionally large corporate plan schemes and lower unit linked business sales in Zurich International Life. New business value decreased by USD 20 million but increased by 7 percent on a local currency basis, mainly driven by the improved profitability of corporate business, only partially offset by the negative impact of low interest rates on individual savings business.

In the **UK**, APE decreased by USD 268 million or by 11 percent on a local currency basis, as a result of a couple of exceptionally large corporate schemes that boosted volumes in 2014 at a lower margin. Improved business mix in particular in the corporate life investment business increased the overall margin. As a result new business value increased by USD 1 million or by 8 percent on a local currency basis.

In **Germany**, APE decreased by USD 21 million but increased by 14 percent on a local currency basis as a result of the launch of an innovative single premium product with investment flexibility for the customer. The fall in interest rates was the main driver of the margin reduction. New business value decreased by USD 10 million or 22 percent on a local currency basis.

In **Switzerland**, APE increased by USD 82 million or by 39 percent on a local currency basis from higher volumes of corporate fees based business. The reduction in interest rates reduced the margins on the individual life business, while the corporate business margins benefited from improved profitability of fees based business and changes in business mix. New business value increased by USD 2 million or by 9 percent on a local currency basis due to the increase in APE offset by the overall margin reduction.

In **Ireland**, APE decreased by USD 9 million but increased by 17 percent on a local currency basis mainly due to higher sales of higher margin individual savings and corporate business including bulk annuities. The overall margin increased due to a favorable change in the business mix. As a result new business value increased by USD 10 million or 45 percent on a local currency basis.

In **Spain**, APE increased by USD 53 million or 39 percent on a local currency basis mainly due to higher sales of individual savings business and individual protection business. New business value increased by USD 2 million or 23 percent on a local currency basis mainly driven by the higher contribution of individual protection business.

In **Italy**, APE increased by USD 44 million or 47 percent on a local currency basis. Most of this growth was observed in traditional individual savings business. However margins reduced overall due to the impact of the reduction in interest rates despite the positive changes in business mix towards products with lower guarantees. New business value decreased by USD 13 million or 96 percent on a local currency basis.

Zurich International Life APE decreased by USD 90 million or by 14 percent on a local currency basis mainly in the unit linked business, due to a significant downturn in sales in Hong Kong as result of a change in local regulation on unit linked products. However, margins slightly increased due to higher sales of more profitable individual protection business. New business value decreased by USD 9 million or 3 percent on a local currency basis.

In **Rest of EMEA**, APE decreased by USD 20 million or 24 percent on a local currency basis mainly from lower sales in individual savings in Austria and the absence of new sales in Luxembourg. New business value decreased by USD 3 million or 32 percent on a local currency basis.

Embedded value report *continued*

In **Asia-Pacific**, APE increased by USD 30 million or 44 percent on a local currency basis. Strong sales of a whole of life cancer product in Japan were partially offset by lower margins from a disability assumption update and lower sales of disability business in Australia together with the withdrawal from new business in corporate protection. This resulted in an overall new business value increase of USD 24 million or 47 percent on a local currency basis.

In **Other**, APE remained stable at USD 57 million but increased by 6 percent on a local currency basis from higher sales of lower margin corporate protection business in International Group Risk Solutions (IGRS). The main driver of the reduction in margin is the change in business mix. As a result new business value decreased by USD 7 million or 8 percent on a local currency basis.

Pillars

New business by pillar

in USD millions, for the years ended December 31	APE[1]		New business value[2]		New business margin[2] % of APE	
	2015	2014	**2015**	2014	**2015**	2014
Bank Distribution	1,599	1,741	241	269	22.7%	22.9%
Other Retail	1,472	1,554	353	405	24.0%	26.1%
Corporate Life & Pensions	1,701	1,908	318	291	18.8%	15.3%
Total	**4,772**	**5,203**	**912**	**965**	**21.6%**	**20.8%**

[1] APE is reported gross of non-controlling interests.
[2] New business value and new business margin are reported net of non-controlling interests. For comparability, 2014 published figures (USD 1,022 million) have been restated to include the change in the CRNHR methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015.

APE in the **Bank Distribution** pillar was USD 1,599 million, a decrease of USD 142 million but an increase of 16 percent on a local currency basis compared with 2014. The increase in local currency resulted from higher volumes in Zurich Santander, particularly in Brazil, and in EMEA, with strong sales growth in individual savings in Spain and in Italy. New business value was USD 241 million, a decrease of USD 28 million but an increase of 12 percent on a local currency basis compared with 2014. The increase in local currency resulted from the higher volumes in Zurich Santander and Spain and improved margins in Germany.

APE in the **Other Retail** pillar was USD 1,472 million, a decrease of USD 83 million but an increase of 6 percent on a local currency basis compared with 2014. Most of the increase was driven by individual business in the UK and Japan, partially offset by individual protection business in North America, Latin America and unit linked business in Zurich International Life. New business value was USD 353 million, a decrease of USD 52 million or 5 percent on a local currency basis compared with 2014. The decrease is explained by lower volumes in North America and Zurich International Life, lower margins from the reduction in interest rates in Germany and Switzerland and from the decrease in both volumes and margins in Latin America.

APE in the **Corporate Life and Pensions** pillar was USD 1,701 million, a decrease of USD 207 million or 2 percent on a local currency basis compared with 2014. Most of the decrease came from the UK business that in 2014 benefited from a couple of exceptionally large corporate investment plan schemes partially offset by higher sales in Switzerland and Germany. New business value was USD 318 million, an increase of USD 27 million or 18 percent on a local currency basis compared with 2014 due to mainly higher margins in the UK from improved mix of business.

3. Free surplus

The free surplus is the market value of any asset allocated to, but not required to, support the in-force covered business of Global Life at the valuation date. This means that components of the free surplus might be used for example to fund future new business growth or pension deficits. Free surplus is calculated as Shareholders' net assets less the required capital. The required capital is the sum of the minimum amount of solvency capital required to satisfy local regulators and the additional capital that the management of the Company considers appropriate to hold in addition to minimum solvency capital. Some of the assets making up the free surplus are not available for distribution. Examples of constraints are Group internal loans needed for liquidity, intangible assets and policyholder resources which are allowed under local regulation to cover solvency requirements.

Shareholders' net assets[3]

in USD millions, as of December 31	2015				2014 Published
	Shareholders' net assets	Required capital	Required capital (% SM)[1]	Free surplus	Free surplus
North America	175	469	349%	(294)	144
Latin America	712	454	127%	259	376
of which:					
Zurich Santander	*326*	*187*	*120%*	*139*	*226*
EMEA	5,181	3,619	137%	1,562	2,212
United Kingdom	*1,509*	*881*	*134%*	*628*	*801*
Germany	*1,492*	*820*	*132%*	*672*	*1,037*
Switzerland	*713*	*556*	*147%*	*156*	*156*
Ireland	*479*	*398*	*160%*	*81*	*66*
Spain	*210*	*331*	*125%*	*(121)*	*(40)*
Italy	*409*	*425*	*130%*	*(16)*	*53*
Zurich International Life[2]	*195*	*143*	*160%*	*51*	*49*
Rest of EMEA	*175*	*65*	*129%*	*110*	*89*
Asia-Pacific	942	822	140%	120	243
Other	86	131	150%	(45)	(280)
Global Life	**7,097**	**5,494**	**144%**	**1,603**	**2,696**

1 SM is the shareholder portion of the local minimum solvency margin with the exception of Switzerland as noted in section 12 c.
2 Mainly includes business written through licenses into Asia-Pacific and Middle East.
3 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.

In **North America**, free surplus decreased by USD 438 million. New business strain was covered by in-force cash emergence with the main drivers of the decrease being dividend payments and other movements due to the reclassification of certain reinsurance assets held in trust from covered to non-covered business in the amount of USD 299 million due to consolidation adjustments, with no impact on the overall Group MCEV results for the year end December 31, 2015.

In **Latin America**, free surplus decreased by USD 117 million. New business strain was covered by in-force cash emergence with the main drivers of the decrease explained by foreign currency translation, other non-operating variances and dividend payments partially offset by positive operating experience variances.

In the **UK**, free surplus decreased by USD 173 million with dividend payments partially offset by positive operating variances mainly from the disposal of an annuity book and positive impacts from the reinsured business.

In **Germany**, the dividend payments together with unfavorable foreign currency translation effects were the main drivers of the decrease in free surplus of USD 365 million.

In **Switzerland**, free surplus increased by USD 1 million due to in-force cash emergence offset by dividend payments and operating variances.

Embedded value report *continued*

In **Ireland**, free surplus increased by USD 14 million. New business strain was covered by in-force cash emergence with the main drivers of the increase explained by economic variances.

In **Spain**, free surplus decreased by USD 81 million. New business strain was covered by in-force cash emergence with the main drivers of the decrease being dividend payments.

In **Italy**, free surplus decreased by USD 68 million due to new business strain and negative operating variances only partially offset by in-force cash emergence.

In **Zurich International Life**, free surplus increased by USD 2 million mainly from in-force cash emergence offset by new business strain and negative operating variances.

In **Rest of EMEA**, free surplus increased by USD 21 million. The main drivers were positive operating variances partially offset by dividend payments.

In **Asia-Pacific**, free surplus reduced by USD 123 million. The main drivers were new business strain in Japan and Australia and a higher required capital level in Malaysia partially offset by in-force cash emergence.

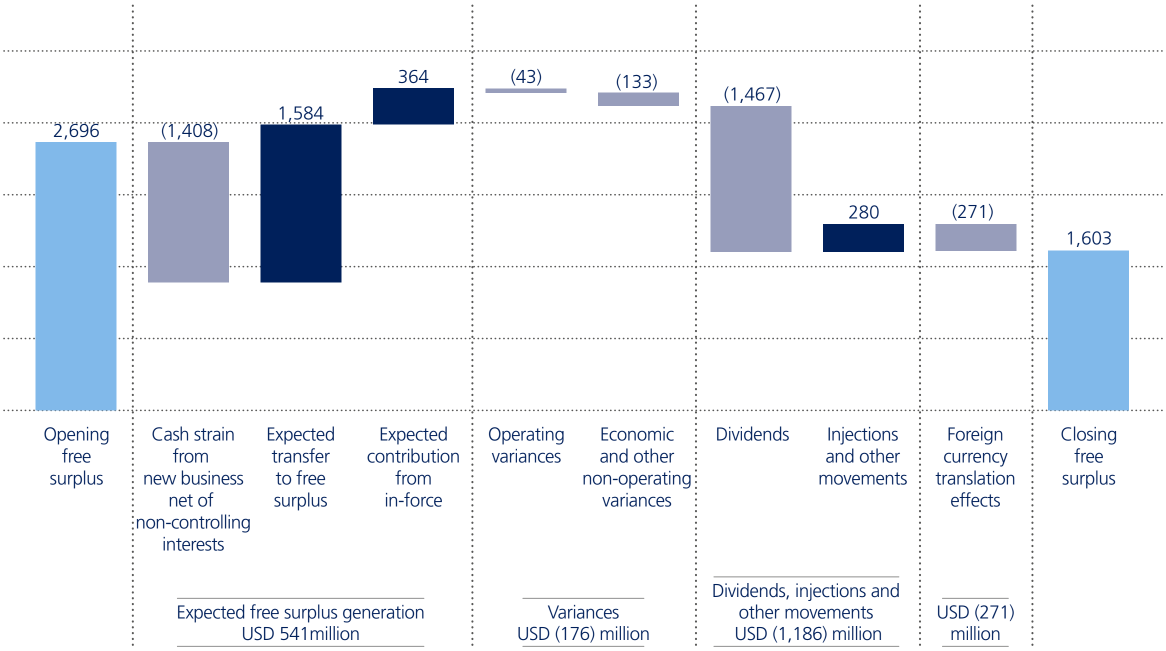
In **Other**, free surplus increased by USD 235 million mainly due to a capital movement from the Group to Global Life's central unit. This is an intercompany consolidation adjustment with no impact on the overall Group MCEV results for the year end December 31, 2015.

4. Analysis of free surplus generation

The graph below shows how the free surplus value decreased from USD 2,696 million to USD 1,603 million during 2015.

Free surplus development

in USD millions, for the year ended December 31, 2015



Expected free surplus generation was USD 541 million. This included cash strain from new business net of non-controlling interests, expected transfer from in-force to free surplus and expected contribution to free surplus. The cash strain on new business of USD 1,408 million resulted from the combination of initial cash consumption of USD 769 million and an increase in required capital of USD 639 million. The expected transfer to shareholders' net assets increased free surplus by USD 1,584 million and was driven by expected profits of USD 1,195 million and the release of required capital of USD 389 million. The expected contribution from in-force to free surplus was USD 364 million.

Variances arising on operating and economic assumptions decreased free surplus by USD 176 million. Variances represent the difference between actual experience during the period and that implied by the assumptions. The negative impact of non-operating variances of USD 198 million and operating variances of USD 43 million was partially offset by the positive impact of economic variances of USD 65 million.

Dividends, injections and other movements decreased free surplus by USD 1,186 million as dividends of USD 1,467 million paid to the Group exceeded injections of USD 258 million and other movements of USD 23 million.

Foreign currency translation effects decreased the U.S. dollar free surplus by USD 271 million.

Embedded value report *continued*

5. Expected contribution and expected transfer to shareholders' net assets

Expected contribution at reference rate
The expected contribution at reference rate is the projected change in embedded value over the year using risk free investment returns applicable at the start of the year. The expected contribution at reference rate was USD 239 million.

Expected contribution in excess of reference rate
The expected contribution in excess of reference rate is the additional embedded value expected to be created if "real world" expected investment returns applicable at the start of the year were to emerge. The expected contribution in excess of reference rate was USD 432 million.

Expected transfer to shareholders' net assets
The expected transfer to shareholders' net assets shows the profits expected to emerge during the year in respect of business in-force at the start of the year. The net effect on embedded value is zero, because the change in the value of business in-force is offset by an equal and opposite change in shareholders' net assets.

6. Operating, economic and other non-operating variances

Operating, economic and other non-operating variances[2]

in USD millions, for the year ended December 31, 2015	Operating experience variances	Operating assumption changes	Other operating variances	Economic variances	Other non-operating variances
North America	(11)	8	(31)	(50)	(22)
Latin America	5	(104)	(92)	9	(4)
of which:					
Zurich Santander	*21*	*23*	*(4)*	*(6)*	*(12)*
EMEA	(14)	(77)	231	17	(33)
United Kingdom	*(20)*	*134*	*95*	*(58)*	*(60)*
Germany	*12*	*17*	*14*	*21*	*(23)*
Switzerland	*(14)*	*(59)*	*151*	*(32)*	*(24)*
Ireland	*23*	*(73)*	*(2)*	*47*	*–*
Spain	*28*	*4*	*2*	*38*	*(8)*
Italy	*(3)*	*(18)*	*(25)*	*9*	*(4)*
Zurich International Life[1]	*(41)*	*(25)*	*(16)*	*(19)*	*85*
Rest of EMEA	*–*	*(57)*	*10*	*9*	*1*
Asia-Pacific	11	(71)	(20)	(6)	6
Other	(24)	73	(14)	(16)	(35)
Global Life	**(33)**	**(170)**	**73**	**(46)**	**(89)**

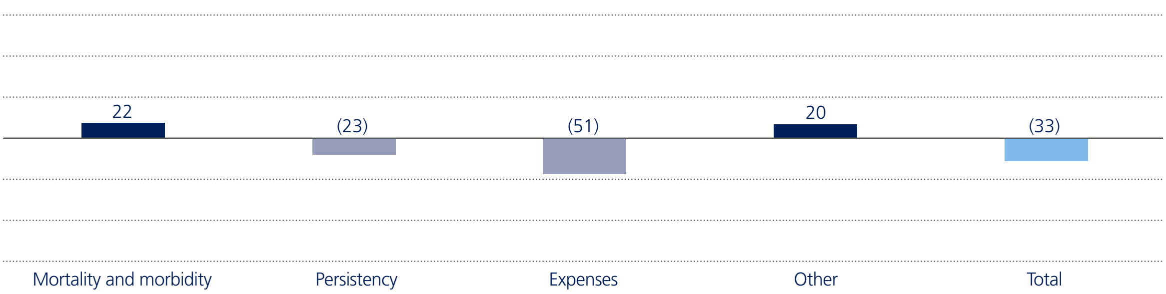
[1] Mainly includes business written through licenses into Asia-Pacific and Middle East.
[2] From January 1, 2015, the Global Life business changed its regional structure by establishing the regions Europe, Middle East & Africa (EMEA) and Asia-Pacific. EMEA includes the European business units, Zurich 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.

Operating experience variances

Operating experience variances measure the difference between actual experience during the period and that implied by the operating assumptions. Experience variances occur in the normal course of business as short-term experience fluctuates around long-term assumptions.

Embedded value split of operating experience variance

in USD millions, for the year ended December 31, 2015



- **Mortality and morbidity** experience variances increased embedded value by USD 22 million. The main positive experience variances were USD 24 million in Spain and USD 18 million in Ireland mainly from the protection book and USD 13 million from the unit linked business in the UK. The positive variance was partially offset by large mortality claims of USD 25 million in North America, and from worsened mortality experience mainly in corporate business of USD 15 million in the Zurich operations in Brazil.
- **Persistency** experience variances decreased embedded value by USD 23 million. The main negative experience variance arose mainly from lower than expected volumes of USD 35 million in Zurich International Life partially offset by Germany with USD 11 million and USD 9 million in Ireland.
- **Expenses** experience variances decreased embedded value by USD 51 million. The main negative experience variances were in EMEA as result of higher than expected expenses.

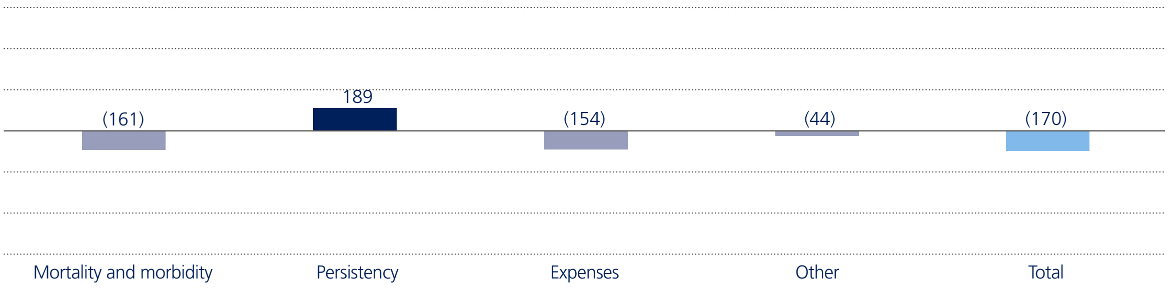
Embedded value report *continued*

- **Other** operating experience variances increased embedded value by USD 20 million mostly explained by a positive variance of USD 19 million in North America due to lower frictional costs on internally reinsured business.

Operating assumption changes

Changes in assumptions about future operating experience also have an impact on operating variances.

Embedded value split of operating assumption changes
in USD millions, for the year ended December 31, 2015



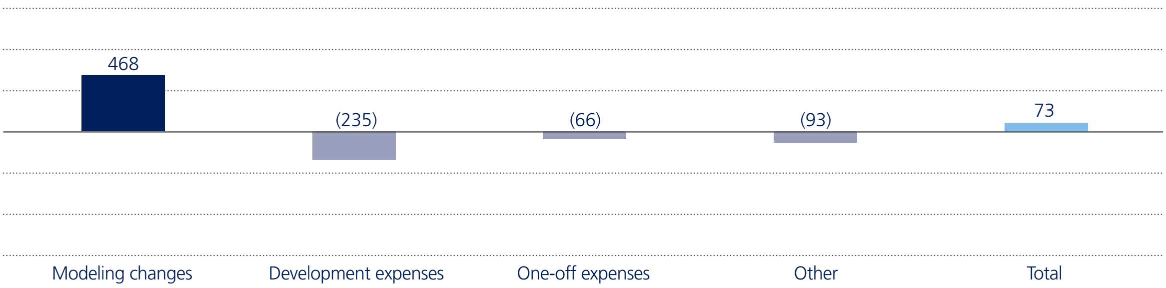
- **Mortality and morbidity** assumption updates decreased embedded value by USD 161 million. The main changes were USD 61 million in Germany and USD 49 million in Australia mainly from disability assumption updates, USD 44 million in the Zurich operations in Chile from a longevity assumption update, and USD 25 million in North America from a mortality assumption update.
- **Persistency** assumption updates positively impacted embedded value by USD 189 million. The main changes were USD 124 million in the UK from a refined persistency assumption for the retail protection business and USD 54 million in North America following the positive outcome of in-force management initiatives.
- **Expenses** assumption changes reduced embedded value by USD 154 million. The main contributors were USD 169 million in EMEA and USD 43 million in the Zurich operations in Latin America, partially offset by an expense reduction in Global Life's central unit.
- **Other** assumption changes decreased embedded value by USD 44 million. The main contributors were Malaysia due to a higher internal target capital level resulting in increased frictional costs and Luxembourg as a result of the withdrawal from new business for certain private banking products.

Other operating variances

Other operating variances include modeling changes, development and one-off expenses and other operating variances not captured elsewhere.

Embedded value split of other operating variances

in USD millions, for the year ended December 31, 2015



- **Modeling changes** increased embedded value by USD 468 million. The main contributors were Switzerland with USD 199 million related to modeling refinements, Germany with USD 133 million due to the change in certain local regulatory capital requirements and the UK with USD 78 million mostly from enhancements in the valuation of the profit contribution of corporate protection business.
- **Development expenses** reduced embedded value by USD 235 million. The main contributors were Asia-Pacific with USD 79 million, the UK with USD 50 million, the Zurich operations in Latin America with USD 37 million and North America with USD 32 million. Following changes to expense methodology introduced during 2013, expense variances resulting from costs exceeding long-term expense assumptions for start-up businesses were included here.
- **One-off expenses** reduced embedded value by USD 66 million mainly in EMEA with USD 55 million. The main contributors were Switzerland with USD 24 million of costs for implementing efficiency improvements and other projects and IGRS with USD 10 million due to corporate business initiatives.
- **Other** operating variances had a negative impact on embedded value of USD 93 million. This includes restructuring costs in Germany and Singapore of USD 62 million.

Economic variances

Economic variances arise from the difference between actual economic experience during the year and the expected experience implied by the economic assumptions at the start of the year. In 2015, the risk free rates reduced in particular for the U.S. dollar, the Euro and the British pound and the liquidity premium spread increased for the major currencies. Economic variances also include the impact of changes in assumptions in respect of future economic experience at the end of the year. In total, economic variances decreased embedded value by USD 46 million in 2015.

Other non-operating variances

Other non-operating variances include the impact of legal, tax and regulatory changes implemented during the year as well as other one-off items.

Other non-operating variances decreased embedded value by USD 89 million, primarily driven by negative impacts in the UK, Switzerland and Germany mainly as a result of the regular update of the internal required capital used as a base for the CRNHR calculation, partially offset by foreign currency gains from multicurrency unit linked business in Zurich International Life and in the Zurich operations in Argentina.

Embedded value report *continued*

7. Dividends, injections and other movements

Dividends, injections and other movements

Dividends, injections and other movements reflect dividends paid by Global Life to the Group, shown as a negative number in the table below, net of injections and other movements received from the Group, shown as a positive number in the table. Other movements can also relate to the value of business in-force in respect of acquisitions and disposals, or corporate restructuring.

Dividends, injections and other movements[2]

in USD millions, for the year ended December 31, 2015	Dividends	Injections	Other movements	Total
North America	(110)	–	(299)	**(409)**
Latin America	(188)	63	102	**(23)**
of which:				
Zurich Santander	*(181)*	–	*57*	*(124)*
EMEA	(1,135)	124	(22)	**(1,033)**
United Kingdom	*(565)*	*124*	–	*(441)*
Germany	*(318)*	–	–	*(318)*
Switzerland	*(131)*	–	–	*(131)*
Ireland	–	–	–	–
Spain	*(88)*	–	*(19)*	*(107)*
Italy	–	–	–	–
Zurich International Life[1]	*(5)*	–	*(4)*	*(9)*
Rest of EMEA	*(27)*	–	*1*	*(26)*
Asia-Pacific	(25)	92	(53)	**13**
Other	(8)	–	294	**286**
Global Life	**(1,467)**	**279**	**22**	**(1,166)**

[1] Mainly includes business written through licenses into Asia-Pacific and Middle East.
[2] 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.

Changes in value for Global Life arising from dividends, injections and other movements are offset by equal and opposite value changes in the non-covered businesses of the Group and therefore have no impact on Group MCEV as shown in section 11, except as noted below.

North America paid a dividend of USD 110 million to its parent company Farmers Group Inc. The Group has reclassified certain reinsurance assets held in trust from covered to non-covered business in the amount of USD 299 million - reported in other movements - due to consolidation adjustments, with no impact on the overall Group MCEV results for the year ended December 31, 2015.

In **Latin America**, net dividends, injections and other movements decreased embedded value by USD 23 million. Other movements were USD 102 million. The other movements mainly arose in Brazil Santander with USD 30 million and Mexico Santander with USD 27 million due to other movements between the life and the general insurance businesses in those countries which are composite insurance companies.

In **EMEA**, net dividends, injections and other capital movements were USD 1,033 million. Dividends were USD 1,135 million with the main payments from the UK, Germany and Switzerland. Capital injections were USD 124 million into the UK. Other movements were USD 22 million.

In **Asia-Pacific**, net dividends, injections and other movements increased embedded value by USD 13 million.

In **Other**, net dividends and other movements increased embedded value by USD 286 million mainly from a capital movement from the Group to Global Life's central unit. This is an intercompany consolidation adjustment with no impact on the overall Group MCEV results for the year ended December 31, 2015.

Other adjustments

Foreign currency translation effects represent the impact of adjusting opening embedded value, reported at the end-of-year exchange rates as of December 31, 2014 and movements during the year which are translated at average exchange rates during the year, to end-of-year exchange rates. The net effect of the change of the U.S. dollar against other currencies decreased the embedded value reported in U.S. dollars by USD 1,339 million.

Embedded value report *continued*

8. Value of business in-force

Components of value of business in-force[6]

in USD millions, as of December 31

	2015					2014 Published
	CE[1]	FC[2]	TVFOG[3]	CRNHR[4]	Value of business in-force	Value of business in-force
North America	2,920	(60)	(295)	(233)	**2,332**	**2,334**
Latin America	187	(46)	(4)	(59)	**77**	**99**
of which:						
Zurich Santander	*281*	*(20)*	*(4)*	*(11)*	**246**	**290**
EMEA	9,630	(220)	(717)	(1,077)	**7,616**	**8,085**
United Kingdom	*2,677*	*(41)*	*(15)*	*(315)*	**2,306**	**2,559**
Germany	*1,426*	*(115)*	*(349)*	*(306)*	**655**	**740**
Switzerland	*2,465*	*(21)*	*(72)*	*(208)*	**2,163**	**2,189**
Ireland	*965*	*(11)*	*(5)*	*(65)*	**884**	**957**
Spain	*461*	*(7)*	*(16)*	*(47)*	**390**	**329**
Italy	*459*	*(19)*	*(231)*	*(24)*	**185**	**237**
Zurich International Life[5]	*1,066*	*(1)*	*–*	*(99)*	**965**	**962**
Rest of EMEA	*112*	*(5)*	*(28)*	*(11)*	**68**	**112**
Asia-Pacific	804	(92)	(12)	(147)	**553**	**535**
Other	34	(5)	–	(67)	**(38)**	**(87)**
Global Life	**13,575**	**(423)**	**(1,028)**	**(1,584)**	**10,540**	**10,966**

[1] CE is the certainty equivalent value of business in-force.
[2] FC is the frictional costs.
[3] TVFOG is the time value of financial options and guarantees including the application of a liquidity premium.
[4] CRNHR is the cost of residual non-hedgeable risk (see section 12 d) for further details).
[5] Mainly includes business written through licenses into Asia-Pacific and Middle East.
[6] 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.

Maturity profile of value of business in-force

The value in-force (VIF) maturity profile sets out the time period over which the VIF profits are expected to emerge as free surplus. It does not include the release of required capital to free surplus which usually accompanies the emergence of the VIF profit. The VIF emergence takes into account frictional costs, the cost of residual non-hedgeable risk and the time value of financial options and guarantees..

Maturity profile of value of business in-force

in USD millions, as of December 31

	2015		2014 Published[1]	
	VIF	% of Total	VIF	% of Total
1 to 5 years	3,731	35%	4,102	37%
6 to 10 years	2,594	25%	2,650	24%
11 to 15 years	1,850	18%	1,874	17%
16 to 20 years	989	9%	1,004	9%
more than 20 years	1,374	13%	1,337	12%
Total	**10,540**	**100%**	**10,966**	**100%**

[1] 2014 published figures do not allow for the change in the CRNHR methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015.

The VIF maturity profile shows that 35 percent of the VIF should emerge as free surplus over the next five years and an additional 25 percent over the following five years.

9. Reconciliation of shareholders' equity to embedded value

Reconciliation of shareholders' equity to embedded value

in USD billions, as of December 31, 2015	Total
Shareholders' equity[1]	**17.5**
Less intangible assets	
Goodwill	*(0.0)*
Deferred policy acquisition costs and deferred origination costs	*(13.8)*
Other intangibles and present value of future profits	*(2.9)*
Deferred front-end fees	*5.3*
Pension scheme liabilities[2]	0.9
Less non-controlling interests[3]	0.1
Other adjustments[4]	0.0
Embedded value shareholders' net assets	**7.1**
Value of business in-force	10.5
Embedded value	**17.6**

[1] Shareholders' equity is the Global Life share of total shareholders' equity as reported in the Consolidated financial statements prepared on the basis of the Group's accounting policies set out in note 3 of the Consolidated financial statements.
[2] Pension scheme liabilities are deducted from shareholders' equity but are not deducted from embedded value shareholders' net assets.
[3] Primarily from non-controlling interests in Zurich Santander and Spain.
[4] Other adjustments include tax differences, policyholders' share of intangibles, reserving differences and asset valuation differences.

Embedded value report *continued*

10. Sensitivities

Sensitivities

in USD millions, as of December 31, 2015	Change in embedded value[1]	Change in new business value[1]
Reported embedded value and new business value[1]	**17,637**	**912**
Base embedded value and base new business value[1]	**17,185**	**882**
Operating sensitivities		
10% increase in initial expenses	n/a	(4%)
10% decrease in maintenance expenses	3%	8%
10% increase in voluntary discontinuance rates	(4%)	(12%)
10% decrease in voluntary discontinuance rates	5%	14%
5% improvement in mortality and morbidity for assurances	3%	12%
5% improvement in mortality for annuities	(1%)	(1%)
Required capital set equal to minimum solvency capital	–	–
Economic sensitivities		
100 basis points increase in risk free yield curve	(2%)	4%
100 basis points decrease in risk free yield curve[2]	–	(7%)
10% fall in equity market values	(2%)	n/a
10% fall in property market values	(1%)	n/a
25% increase in implied volatilities for risk free yields	(2%)	(3%)
25% decrease in implied volatilities for risk free yields	1%	2%
25% increase in implied volatilities for equities and properties	(1%)	(1%)
25% decrease in implied volatilities for equities and properties	1%	1%

[1] Values used to calculate the sensitivities exclude a liquidity premium. Eliminating the liquidity premium reduces the reported embedded value and new business value by USD 451 million and USD 30 million, respectively.
[2] Risk free forward annual yields are decreased by 100 basis points at each duration. However, if a risk free forward annual yield at a given duration is less than 100 basis points, the decrease is to zero at that duration, not to a negative rate.

The key assumption changes represented by each of these sensitivities are given in section 12 p).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised assumption. The results include the impact of assumption changes on the time value of financial options and guarantees. The 100 basis points decrease in risk free yield curve increases the value of some products, such as term assurance, with fixed future cash flows discounted at lower rates. This increase is offset by a reduction in the value of other products, such as those where lower assumed investment returns reduce profitability.

11. Group MCEV

The Group MCEV is presented in the following table as the Global Life covered business valued using MCEV Principles and the non-covered businesses which are valued at the unadjusted shareholders' equity. Non-covered businesses include the life businesses managed as part of Non-Core Businesses outside Global Life and all other Group businesses including General Insurance and Farmers.

Group MCEV

in USD billions, for the year ended December 31, 2015	Covered business MCEV	Non-covered businesses	Total Group MCEV
Opening Group MCEV	**19.3**	**16.8**	**36.1**
Operating MCEV earnings[1]	*1.5*	*1.0*	**2.4**
Non-operating MCEV earnings	*(0.1)*	*0.0*	**(0.1)**
Total MCEV earnings	*1.3*	*1.0*	**2.3**
Other movements in shareholders' equity[2]	*0.0*	*(0.7)*	**(0.7)**
Adjustments[3]	*(3.0)*	*(2.1)*	**(5.1)**
Closing Group MCEV	**17.6**	**15.0**	**32.6**

[1] For non-covered businesses this is set equal to the Net Income After Tax over the period.
[2] For non-covered businesses this is equal to the change in non-controlling interests, net actuarial gains and losses on pension plans and unrealized gains and losses excluding the foreign currency translation effects over the period.
[3] Adjustments include dividends, capital and other movements and foreign currency translation effects.

Embedded value report *continued*

12. Embedded value methodology

The Group has applied Market Consistent Embedded Value (MCEV) Principles and Guidance issued by the European Insurance CFO Forum in October 2009, and the additional guidance issued in October in 2015 for its Embedded value report for the companies and businesses in its Global Life segment (the covered business). The Embedded value report primarily relates to Global Life. Total Group MCEV is shown in section 11. The embedded value methodology adopted by the Group is based on a "bottom-up" market consistent approach to allow explicitly for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in capital markets, and options and guarantees are valued using market consistent models calibrated to observable market prices. Where markets exhibit a limited capacity, the valuation is based on historical averages. Embedded value excludes any value from future new business.

In October 2015, the European Insurance CFO Forum (CFO Forum) announced additional guidance for embedded value reporting in advance of the effective date of Solvency II. In particular, the CFO Forum does not view that an allowance for Solvency II and its associated consequences is required when complying with the MCEV Principles by end of 2015. The current Embedded value report has been prepared making no allowance for the impact of Solvency II regulatory requirements in line with the additional guidance issued in October 2015 by the European CFO Forum.

All amounts shown in U.S. dollars are rounded. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

a) Covered business

Covered business includes all business written by companies that are included in Global Life, unless otherwise stated. In particular:

- life and critical illness;
- savings (with profit, non-profit and unit-linked);
- pensions and annuity; and
- long-term health and accident.

For certain smaller companies in Global Life, no embedded value has been calculated but these companies have been included in embedded value at shareholders' equity, as calculated in accordance with the Group's accounting policies. The contribution from these companies to embedded value is less than 5 percent.

b) Reporting of embedded value

In line with MCEV Principles, embedded value is split between shareholders' net assets, including free surplus and required capital, and the value of business in-force.

The results are disclosed in a format that the Group considers to be appropriate for the market consistent methodology adopted.

c) Shareholders' net assets

Shareholders' net assets represent the market value of net assets held in respect of the covered business, and consist of the required capital and free surplus. The level of required capital reflects the amount of capital considered by the directors of each legal entity to be appropriate to manage the business. This is set at least at the level equal to the regulatory required capital of each legal entity, at which the regulator would intervene to request a capital injection and in addition, for the main companies, an adequate buffer to cover short-term volatilities in solvency due to financial and non-financial risks or to achieve the capital required to maintain the desired credit rating.

The free surplus comprises the market value of shareholders' net assets allocated to the covered business of the Global Life Segment in excess of the assets backing the required capital.

The free surplus does not consider any allowance, for example, for capital required to fund future new business growth, group internal loans or pension deficits.

In the UK, insurers are required to assess capital requirements on two separate bases, Pillar 1 and Pillar 2. For Zurich Assurance Ltd, Pillar 1 was more onerous both at December 31, 2014 and at December 31, 2015. The amounts of required capital and free surplus shown in this report applicable to Zurich Assurance Ltd reflect those positions. The required capital modeled for embedded value is based on 125 percent of the Group's target Pillar 1 required capital, and the analysis of change is performed on a Pillar 1 basis.

In Switzerland, Required Capital for the embedded value at December 31, 2015 and 2014 has been calculated based on the Solvency I regulation instead of the Swiss Solvency Test (SST) capital regime.

Shareholders' net assets are based on local statutory and regulatory accounting. Adjustments are made to embedded value where appropriate, for example in respect of any unrealized gains attributable to shareholders. Any such adjustments are made consistently with the calculation of the value of business in-force.

d) Value of business in-force

The value of business in-force is the present value of future projected profits, distributable after tax to shareholders from the covered business. It is defined as the certainty equivalent value of business in-force less frictional costs, the time value of financial options and guarantees, and the cost of residual non-hedgeable risk. These components are explained below.

Certainty equivalent (CE) value is the value calculated using discount rates consistent with those applied to the underlying cash flows in the capital markets. It includes the intrinsic value but excludes the time value of financial options and guarantees which is allowed for separately, as described below.

Frictional costs (FC) reflect a deduction for the cost of holding the required capital. Under the market consistent framework, the FC represents tax in respect of the future investment return on required capital together with the cost of future investment management expenses on required capital.

For the purpose of these calculations, required capital is assumed to run off in line with existing business.

The allowance for FC is included both in the value of business in-force and in new business value. For new business value, FC is applied to the required capital to be held in respect of that business.

Time value of financial options and guarantees (TVFOG) represents additional costs in excess of the intrinsic value of options and guarantees which are already allowed for in the CE value. These are based on the variability of investment returns which need to be allowed for explicitly under MCEV Principles. The time value is calculated on a market consistent basis using stochastic modeling techniques, and after making allowance for expected management and policyholder behavior.

For products with significant guarantees, the time value has been calculated on a market consistent basis by deducting the average present value of shareholder cash flows using 1,000 stochastic economic simulations from the CE value (both for the value of business in-force and separately for new business value).

For most products, the average value has been calculated using Monte Carlo simulations. For a small number of products, the TVFOG has been derived using closed form solutions.

Where appropriate, the calculation of the TVFOG makes allowance for:

- dynamic actions that would be taken by management under different economic simulations, for example to implement a life business' investment strategy; and
- dynamic policyholder behavior, for example changes in surrender behavior as interest rates rise or fall, or take-up rates of guaranteed annuity options.

The **cost of residual non-hedgeable risk (CRNHR)** is an explicit deduction for non-hedgeable financial risks (non-hedgeable asset/liability management risks and reinsurance credit risk), and non-financial risks (mortality, persistency, expenses and operational risk). The CE value allows for best estimate shareholder cashflows. The CRNHR is largely an allowance for uncertainty in shareholder cashflows, and for risks which are not already considered in the CE value or the TVFOG, such as operational risk. Most residual non-hedgeable risks have a symmetric impact on embedded value apart from operational risk.

Embedded value report *continued*

CRNHR is calculated as a charge on the capital held for residual non-hedgeable risks. This is calculated according to Zurich's internal risk based capital model by applying 2,000 shocks to the embedded value assumptions. To align with the MCEV Principles the risk based capital is scaled to a 99.5 percent confidence level by using empirical distributions where available, or by assuming probability distributions as appropriate.

The capital is projected over the lifetime of the business using appropriate risk drivers for each risk type. The present value of the risk capital is calculated by applying the swap curve as of the valuation date. The CRNHR allows for diversification across risk types and across geographical segments. As a result of the restatement applied in 2015 no allowance for diversification between covered and non-covered business was allowed for. Therefore, starting in 2015 the CRNHR calculation is in line with the MCEV principles and guidance set by the CFO Forum.

A 4 percent cost of capital charge has been applied to the diversified present value of non-hedgeable risk based capital.

e) New business

New business covers new contracts sold during the reporting period and includes recurring single premiums, new premiums written during the period on existing contracts and variations to premiums on existing contracts where these premiums and variations have not previously been assumed to be part of business in-force. Where recurring single premiums are projected over time to derive the corresponding new business value, they are treated as annual premium for the volume definition. Corporate Life business valued with a contract renewal assumption is treated as annual premium.

New business is valued at the point of sale. Explicit allowance is made for FC, TVFOG, and CRNHR. New business value is valued using actual new business volumes.

The value generated by new business written during the period is the present value of the projected stream of after tax distributable profits from that business.

In certain profit sharing funds, the new business written can affect the TVFOG for business written in prior years. This effect is taken into account in the new business value by valuing the new business on a marginal approach, the difference between embedded value with and without the new business. This captures the effect of cross-subsidies between business in-force and new business due to, for example, different interest rate guarantees operating in a shared common pool of assets.

New business is valued on a discrete quarter basis. Once calculated and reported, new business value for a quarter will not change in subsequent quarters in local currency terms. For details on the assumptions used for new business see section 13.

New business amounts in the embedded value report are reported after the effects of non-controlling interests.

f) Asset and liability data

The majority of the Group's embedded value has been calculated using a "hard close" approach, such that all asset and liability data reflect the actual position as of the valuation date.

Germany has followed an approach where liability model points are set up in advance, using the structure of a previous run, and then projected to the valuation date by scaling to match the expected balance sheet figures.

g) Market consistent discounting

The Group has adopted a "bottom-up" market consistent approach for the projection and discounting of future cash flows in the calculation of embedded value. As a result, the risks inherent in the cash flows are allowed for in a way that is consistent with the way the market is expected to allow for such risks.

In principle, this method values each cash flow using a discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a debt security cash flow is valued using a debt security discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate.

In practice, the Group has applied a computational method known as a "risk neutral" approach. This involves projecting the assets and liabilities using a distribution of asset returns where all asset types, on average, earn the same risk free rate.

The risk free yield curve assumptions are based on the swap curve in each major currency (U.S. dollars, Euro, British pounds and Swiss francs). For liabilities where payouts are either independent or move linearly with markets, deterministic techniques (referred to as "certainty equivalent") have been used. In such cases, the projection and discounting are based on the same risk free yield curve. Further details are set out under "Economic assumptions" in section 13.

h) Economic scenario generator

All operations use actual yield curves observable as of the valuation date for the calculation of the certainty equivalent value of business in-force.

The calculations of the TVFOG are based on stochastic simulations using an economic scenario generator provided by Moody's Analytics. The outputs ("simulations") have been calibrated to conform to the economic parameters specified by the Group.

The simulations used for calculation of TVFOG reflect the actual yield curves and implied volatilities observable as of the valuation date.

Simulations are produced for the economies in the U.S., the UK, Switzerland and the Eurozone. In each economic area, risk free nominal interest rates are modeled using a LIBOR market model. Negative nominal interest rates, if any, are floored to zero. The excess return on other asset classes relative to the total returns on risk free assets are then modeled using a multi-factor lognormal model. Hong Kong uses U.S. dollar simulations because their principal liabilities are U.S. dollar-denominated. Chile uses closed form solutions rather than simulations. Other operations, not mentioned above, have no significant options and guarantees. Further details are set out under "Economic assumptions" in section 13.

i) Holding companies

Holding companies allocated to Global Life have been consolidated in embedded value at their shareholders' equity. Related expenses have been included in the projection assumptions. Holding companies outside Global Life are not included in embedded value of the covered business.

j) Consolidation adjustments

Where a reinsurance arrangement exists between two life companies within Global Life, the value of the reinsurance is shown in embedded value of the region to which the ceding company belongs.

k) Debt

Where a loan exists between a company in Global Life and a Group company outside Global Life, the loan is included in embedded value at the same value included in the balance sheet of the other Group company.

l) "Look through" principle – service companies

There are some companies within Global Life that provide administration and distribution services. These are valued on a "look through" basis. The results do not include any Group service companies outside Global Life.

In Germany, the majority of distribution and administration is provided by service companies. These are valued on a "look through" basis. These companies also provide limited services to companies outside Global Life. The value of business in-force and new business value reflect the services provided to companies within Global Life. The shareholders' net assets of Global Life include, however, the full shareholders' net assets of these service companies.

In Switzerland, an investment management company provides asset management services to pension schemes written in foundations and other pension funds. The present value of the net asset management fees, after tax, is included in embedded value and new business value.

Embedded value report *continued*

m) Employee pension schemes
In the Group's Consolidated financial statements, actuarial gains and losses arising from defined benefit pension and other defined benefit post-retirement plans are recognized in full in the period in which they occur and are presented on a separate line in the statement of comprehensive income, with a liability recognized for employee benefit deficits under IAS 19. This adjustment has not been made in the detailed embedded value described in this Embedded value report. If the adjustment had been made embedded value as of the valuation date would have been lower by USD 915 million. The actuarial and economic assumptions used for this adjustment are consistent with those used for the equivalent allowance made in the Group's Consolidated financial statements.

Expense assumptions for each life business include expected pension scheme costs in respect of future service entitlements.

n) Change in legislation or solvency regime
The impacts of changes in legislation or solvency regimes are included in economic variance for the analysis of movement when they occur.

o) Translation to Group presentation currency
To align embedded value reporting with the Group's Consolidated financial statements, relevant results have been translated to the Group presentation currency, U.S. dollar, using average exchange rates for the period. This applies to new business value and new business volumes (APE and PVNBP) for the current period and comparative figures. This approach has also been applied to the analysis of movement. Valuations as at a specified date are translated at end-of-period exchange rates.

The rates can be found in note 1 of the audited Consolidated financial statements as of December 31, 2015.

p) Sensitivities
The key assumption changes represented by each of the sensitivities in section 10 are as follows:

Operating sensitivities

A 10 percent increase in initial expenses was considered for new business value only.

A 10 percent decrease in maintenance expenses means that, for example, a base assumption of USD 30 per annum would decrease to USD 27 per annum.

A 10 percent decrease in voluntary discontinuance rates means that, for example, a base assumption of 5 percent per annum would decrease to 4.5 percent per annum.

A 5 percent improvement in mortality and morbidity assumptions for assurances means that, for example, if the actuarial mortality assumption for assurances was 90 percent of a particular table, this would decrease to 85.5 percent.

A 5 percent improvement in mortality assumptions for annuities means that, for example, if the actuarial mortality assumption for annuities was 90 percent of a particular table, this would decrease to 85.5 percent.

Required Capital set to Minimum Solvency Capital means that frictional costs are applied to minimum solvency capital only and frictional costs on excess solvency capital are released.

Economic sensitivities

A 100 basis points increase and decrease was applied to the risk free forward yield curve across all durations. For the 100 basis points decrease sensitivity, if a risk free forward annual yield at a given duration is less than 100 basis points, the decrease is to zero at that duration, not to a negative rate.

A 10 percent fall in equity and property market values was assessed for embedded value only.

A 25 percent increase in implied risk free volatilities means that, for example, a volatility of 20 percent per annum would increase to 25 percent per annum.

A 25 percent increase in implied equity and property volatilities means that, for example, a volatility of 20 percent per annum would increase to 25 percent per annum.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include any impact of the assumption changes on the time value of financial options and guarantees.

Embedded value report *continued*

13. Embedded value assumptions

Projections of future shareholder cash flows expected to emerge from covered business and for new business are determined using best estimate operating assumptions. These assumptions, including mortality, morbidity, persistency and expenses, reflect recent experience and are reviewed annually and updated as appropriate. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favorable changes in future operating efficiency are not anticipated in the assumptions – in particular for expenses and persistency.

For the purposes of calculating the value of business in-force, future economic assumptions, for example, investment returns and inflation, are based on period end conditions and assumed risk discount rates are consistent with these conditions.

For the purposes of calculating new business value, for each discrete quarter of new business, economic assumptions are based on market conditions at the start of the quarter. New business operating assumptions are reviewed annually and updated as appropriate with effect from the first quarter of the next calendar year. In general the operating assumptions remain unchanged throughout the year.

a) Economic assumptions

Market consistent framework

The Group has adopted a computational method known as "risk neutral." With this method the key economic assumptions are:

- risk free rates;
- implied volatilities of different assets; and,
- correlations between different asset returns.

Expected asset returns in excess of the risk free rate have no bearing on the calculated embedded value other than in the expected contribution used for the analysis of embedded value earnings. The expected return for equities comprises an equity risk premium added to the start of period one year swap rate. The expected return on corporate bonds is equal to the start of period one year swap rate plus a risk premium estimated by comparing the market yield on corporate bonds with the swap rates for equivalent durations. In addition, a reduction must be made to the yield to allow for the expected level of defaults.

Choice of "risk free yield curve"

The risk free yield curve is derived from mid-market swap rates applicable to each economy as of the valuation date. These curves were used to extract forward reinvestment yields that are used for all asset classes. The yield curves are consistent with the assumptions used by investment banks to derive their option prices and their use ensures consistency with the derivation of implied volatilities. They also have the advantage of being available for most of the markets in which the Group operates. Domestic yield curves are used by businesses in other countries, except Hong Kong and Argentina which use the U.S. dollar, as their liabilities are principally U.S. dollar-denominated.

Implied asset volatility and correlations

The Group's embedded value model is based on market consistent assumptions. Interest volatility is derived from the implied volatility of interest rate swaptions. Swaption implied volatilities vary both by the term of the option and also the term of the underlying swap contract, a fact that is reflected in the economic scenarios. The equity volatilities are based on at-the-money forward European options on capital indices, consistent with traded options in the market. Volatility of property investments is derived from relevant historical return data for each modeled economy. Assumptions for long-term equity volatility and long-term correlations between equity, property and bond indices are prepared with reference to historical analysis.

Inflation

Inflation assumptions have been derived from the yields on index linked government bonds relative to the corresponding nominal government yield curve, where such index linked government bonds exist. Where appropriate, allowance has been made for expense inflation to exceed the assumed level of price inflation reflecting the contribution of salary related expenses to life company expenses. In Switzerland, reference was made to Swiss Financial Market Supervisory Authority (FINMA) published rate.

Risk discount rate

Under the "risk neutral" approach, risk discount rates are based on the same risk free yield curves as those used to project the investment return.

For stochastic modeling, the risk discount rates are simulation specific and also vary by calendar year consistently with the projected risk free yields in each simulation.

Liquidity premiums

The CFO Forum engaged Moody's Analytics (former Barrie & Hibbert) who estimated a liquidity premium proxy to be equal to 50 percent times the credit spread over swaps less 40 basis points where credit spreads over swaps are equal to the credit spread on a representative corporate bond index less the swap rate for each particular currency.

The Group applies liquidity premium in the operating currencies of U.S. dollar, Euro, British pound and Swiss franc in its embedded value.

The liquidity premium is applied to the following lines of business:

- 100 percent for annuities;
- 75 percent for contracts with participating features, universal life contracts and fixed interest annuities in the U.S.;
- 0 percent for all other lines of business.

All sensitivities in the report relate to the base yield curve with no liquidity premium.

Expected contribution

The expected contribution for the analysis of embedded value earnings is based on a projection from the start of period to the end of period. This requires assumptions regarding the investment returns expected to be achieved over the period on different asset classes. The investment return assumptions (for this purpose only) are based on the "real world" returns expected by the Group. The use of "real world" investment assumptions gives a more realistic basis for the expected contribution calculation and allows for the risk underlying each asset. Any under or over performance will be reported through economic variance.

For fixed interest assets, the "real world" investment return assumptions are based on the gross redemption yield on the assets, less an allowance for defaults where appropriate, together with an adjustment to reflect the change over the period implied in the yield curve assumptions.

For equity assets for units where there is a substantial equity allocation, the investment return assumption is based on the long-term "real world" expected return. For equity assets for units without a material equity allocation the investment return assumption is based on the one year swap rate at the start of period plus a margin to reflect the additional risk associated with investment in this asset class.

For property assets, the investment return assumptions are based on the one year swap rate at the start of period plus a margin to reflect the additional risk associated with investment in this asset class.

These assumptions have been set by asset class and separately for each sub-fund in each life business in order to best reflect the actual assets held.

Participating business

Rates of future bonus or crediting rates have been set at levels consistent with the "risk neutral" investment return assumptions and current bonus plans. In the UK, bonus rates have been set so as to exhaust any remaining assets in the relevant long-term funds. In certain scenarios shareholder injections may be required to meet existing guaranteed benefits and this additional cost is included in the TVFOG.

In other European life businesses and in the U.S., bonuses have been set to be consistent with the investment return assumptions and with the book value approach used by these life businesses in practice. Existing practice, contractual and regulatory requirements as well as the reasonable expectations of policyholders are considered in setting bonuses.

Embedded value report *continued*

Taxation

Current income tax legislation and rates have been assumed to continue unaltered, except where changes in future such tax rates or practices have been announced.

b) Operating assumptions

Demographic assumptions

The assumed future mortality, morbidity and lapse rates have been derived from recent operating experience and relevant industry statistics. Where operating experience or industry statistics are limited, the assumptions are derived from a best estimate of future developments and are subject to regular review as more experience emerges. Where appropriate, surrender and option take-up rate assumptions that vary according to the investment simulation under consideration have been used, based on an assessment of likely policyholder behavior.

Expense assumptions

Management expenses have been analyzed between expenses related to acquisition of new business, the maintenance of business in-force and, where appropriate, development expenses and one-off expenses. Future expense assumptions allow for expected levels of maintenance expenses. Headquarters' expenses relating to covered business have been allocated to business units, or to Global Life's central unit which is in region Other, and are reflected in assumed future expenses.

The maintenance expense assumptions allow for the expected cost of providing future service benefits in respect of the Group staff pension schemes. An adjustment to embedded value is noted in section 12 m) for pension scheme liabilities and no allowance is made in the expense assumptions for any contributions as a result of past service benefits.

No allowance has been made for future productivity improvements in the expense assumptions.

Where service companies have been valued on a "look through" basis, the value of profits or losses arising from these services have been included in embedded value and new business value.

The Group is liable for payments to be made to various distributors, each payment being dependent on preceding sales volumes or profits or other factors, in accordance with distribution agreements. As part of the economic valuation, for each such agreement, a liability is included in embedded value shareholders' net assets for the best estimate of the next potential payment attributable to the business issued to date.

In countries where significant development work is performed these are shown under "development expenses".

Any expense excluded from the unit cost base used for assumption setting requires approval from the Global Life Chief Financial Officer.

Expenses excluded from the unit cost base for embedded value reporting are split into development expenses and one-off expenses. Development expenses relate to expenses incurred to improve the long-term capacity of the business or to reduce its future unit costs, and include certain expenses for start-up operations, certain expenses for regional offices, and certain central overhead expenses not reflected in the long-term assumptions of the business units. They also include certain project-based costs and certain distribution expenses. One-off expenses are those that are not expected to recur and are short-term in nature.

All expenses in embedded value are net of tax appropriate to the business unit to which the expense is charged.

c) Dynamic decisions

To reflect more realistically the outcome of stochastic simulations, the assumptions for each simulation make allowance for the behavior of policyholders and management actions in response to the investment conditions modeled.

In many life businesses, policyholders can exercise an option against the life company in certain circumstances, such as to surrender a policy. This leads to an increase in the assumed lapse rates when interest rates rise (or a corresponding reduction when interest rates fall). This dynamic effect in relation to lapse rates has been allowed for in the stochastic models.

The stochastic models allow, where appropriate, for management actions to change investment strategy in response to market conditions.

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Appendix

Embedded value results Global Life, by region[3]

in USD millions, for the years ended December 31	North America		Latin America	
	2015	2014 Published	**2015**	2014 Published
Embedded value information:				
Opening embedded value before the methodology change	**2,883**	**2,634**	**1,081**	**1,315**
Methodology change[1]	**(58)**	**–**	**(27)**	**–**
Opening embedded value after the methodology change	**2,826**	**2,634**	**1,054**	**1,315**
Dividends in the first six months of the year	(65)	(50)	(12)	(18)
Injections in the first six months of the year	–	97	25	38
Other movements in the first six months of the year	(295)	18	(3)	(39)
New business value	100	120	125	170
Expected contribution from in-force	97	94	114	139
Operating experience variances	(11)	15	5	(35)
Operating assumption changes	8	(124)	(104)	(100)
Other operating variances	(31)	(24)	(92)	(37)
Embedded value operating earnings	**163**	**81**	**49**	**137**
Economic variances	(50)	51	9	(77)
Other non-operating variances	(22)	92	(4)	5
Embedded value earnings	**91**	**224**	**53**	**65**
Dividends in the last six months of the year	(45)	(100)	(176)	(131)
Injections in the last six months of the year	–	61	38	29
Other movements in the last six months of the year	(4)	–	105	(2)
Foreign currency translation effects	–	–	(295)	(176)
Closing embedded value	**2,507**	**2,883**	**790**	**1,081**
New business information:[2]				
Annual premiums	137	165	691	837
Single premiums	416	436	2,658	3,236
Annual premium equivalent (APE)	179	208	957	1,160
Present value of new business premiums (PVNBP)	1,670	1,869	3,884	5,623
New business value	**100**	**120**	**125**	**170**
New business margin (% of APE)	56.1%	57.8%	21.1%	23.0%
New business margin (% of PVNBP)	6.0%	6.4%	5.0%	4.7%

[1] This includes the change in the CRNHR methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015, at beginning of period exchange rates.
[2] Premiums, APE and PVNBP are reported gross of non-controlling interests.
[3] 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.

	of which Zurich Santander		**EMEA**		**Asia-Pacific**		**Other**		**Global Life**	
	2015	2014 Published	**2015**	2014 Published	**2015**	2014 Published	**2015**	2014 Published	**2015**	2014 Published
	733	**776**	**13,988**	**14,335**	**1,586**	**1,493**	**(248)**	**(277)**	**19,290**	**19,499**
	(7)	**–**	**(334)**	**–**	**(36)**	**–**	**(13)**	**–**	**(467)**	**–**
	726	**776**	**13,653**	**14,335**	**1,551**	**1,493**	**(261)**	**(277)**	**18,823**	**19,499**
	(5)	(2)	(782)	(497)	(13)	–	(8)	(8)	(880)	(574)
	–	6	69	32	62	37	–	–	157	203
	–	(39)	(6)	21	(31)	35	(14)	(1)	(349)	34
	99	113	526	583	112	91	49	58	912	1,022
	45	52	402	473	55	55	3	2	672	764
	21	17	(14)	71	11	11	(24)	(14)	(33)	49
	23	1	(77)	(46)	(71)	(79)	73	2	(170)	(347)
	(4)	2	231	163	(20)	7	(14)	(90)	73	20
	184	**184**	**1,068**	**1,245**	**87**	**86**	**87**	**(41)**	**1,454**	**1,507**
	(6)	18	17	329	(6)	52	(16)	31	(46)	386
	(12)	10	(33)	29	6	25	(35)	16	(89)	166
	167	**211**	**1,052**	**1,602**	**87**	**163**	**35**	**6**	**1,318**	**2,060**
	(176)	(123)	(353)	(139)	(13)	(52)	–	–	(586)	(422)
	–	7	55	96	29	24	–	–	122	210
	57	(2)	(16)	(20)	(22)	(3)	308	–	370	(25)
	(196)	(102)	(875)	(1,442)	(156)	(111)	(12)	33	(1,339)	(1,695)
	573	**733**	**12,797**	**13,988**	**1,495**	**1,586**	**48**	**(248)**	**17,637**	**19,290**
	505	584	1,774	2,054	149	118	57	57	2,809	3,230
	2,210	2,625	16,473	15,966	74	95	–	–	19,621	19,733
	726	846	3,422	3,651	157	127	57	57	4,772	5,203
	2,791	4,090	44,717	43,899	1,520	1,051	690	512	52,482	52,954
	99	**113**	**526**	**583**	**112**	**91**	**49**	**58**	**912**	**1,022**
	26.8%	26.1%	16.3%	16.6%	72.1%	73.0%	85.1%	102.1%	21.6%	22.1%
	7.0%	5.4%	1.2%	1.4%	7.4%	8.8%	7.1%	11.4%	1.9%	2.1%

Appendix *continued*

Embedded value results Europe[4]

in USD millions, for the years ended December 31

	United Kingdom		Germany	
	2015	2014 Published	2015	2014 Published
Embedded value information:				
Opening embedded value before the methodology change	**4,210**	**4,193**	**2,691**	**3,046**
Methodology change[1]	**(86)**	**–**	**(96)**	**–**
Opening embedded value after the methodology change	**4,124**	**4,193**	**2,595**	**3,046**
Dividends in the first six months of the year	(367)	(231)	(196)	(31)
Injections in the first six months of the year	69	32	–	–
Other movements in the first six months of the year	–	–	–	92
New business value	200	205	19	42
Expected contribution from in-force	56	61	72	106
Operating experience variances	(20)	65	12	(1)
Operating assumption changes	134	56	17	(55)
Other operating variances	95	33	14	122
Embedded value operating earnings	**466**	**421**	**135**	**215**
Economic variances	(58)	50	21	(193)
Other non-operating variances	(60)	18	(23)	2
Embedded value earnings	**348**	**489**	**132**	**23**
Dividends in the last six months of the year	(199)	(46)	(123)	(67)
Injections in the last six months of the year	55	40	–	–
Other movements in the last six months of the year	–	–	–	–
Foreign currency translation effects	(216)	(266)	(262)	(372)
Closing embedded value	**3,815**	**4,210**	**2,147**	**2,691**
New business information:[2]				
Annual premiums	758	842	230	311
Single premiums	4,838	6,685	1,769	1,163
Annual premium equivalent (APE)	1,242	1,510	406	428
Present value of new business premiums (PVNBP)	24,202	24,795	3,874	4,194
New business value	**200**	**205**	**19**	**42**
New business margin (% of APE)	16.1%	13.6%	4.9%	9.9%
New business margin (% of PVNBP)	0.8%	0.8%	0.5%	1.0%

[1] This includes the change in the CRNHR methodology (not allowing for diversification benefits between covered and non-covered business in accordance with MCEV Guidance 9.7) effective from January 1, 2015, at beginning of period exchange rates.
[2] Premiums, APE and PVNBP are reported gross of non-controlling interests.
[3] Mainly includes business written through licenses into Asia-Pacific and Middle East.
[4] 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.

EMEA											
Switzerland		**Ireland**		**Spain**		**Italy**		**Zurich International Life[3]**		**Rest of EMEA**	
2015	2014 Published	**2015**	2014 Published	**2015**	2014 Published	**2015**	2014 Published	**2015**	2014 Published	**2015**	2014 Published
2,875	**2,946**	**1,451**	**1,328**	**605**	**533**	**684**	**721**	**1,150**	**1,215**	**321**	**354**
(69)	**–**	**(23)**	**–**	**(17)**	**–**	**(7)**	**–**	**(32)**	**–**	**(4)**	**–**
2,807	**2,946**	**1,428**	**1,328**	**588**	**533**	**678**	**721**	**1,118**	**1,215**	**317**	**354**
(131)	(151)	–	–	(61)	–	–	(54)	–	–	(27)	(30)
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	(3)	(68)	–	–	(2)	(3)	(1)	–
70	72	57	52	90	89	–	14	84	99	5	8
131	149	30	31	27	39	25	19	46	49	16	19
(14)	3	23	11	28	53	(3)	(4)	(41)	(52)	–	(4)
(59)	133	(73)	53	4	(19)	(18)	(36)	(25)	(172)	(57)	(5)
151	23	(2)	(5)	2	(6)	(25)	(5)	(16)	14	10	(12)
280	**379**	**36**	**142**	**151**	**155**	**(20)**	**(12)**	**47**	**(61)**	**(27)**	**7**
(32)	43	47	118	38	75	9	206	(19)	(1)	9	30
(24)	3	–	–	(8)	7	(4)	(83)	85	80	1	1
225	**426**	**83**	**260**	**182**	**237**	**(14)**	**110**	**114**	**19**	**(17)**	**38**
–	(20)	–	–	(27)	–	–	–	(5)	(6)	–	–
–	–	–	53	–	–	–	–	–	–	–	3
–	–	–	–	(17)	(18)	–	–	(2)	(2)	2	–
(25)	(326)	(148)	(190)	(62)	(78)	(69)	(93)	(63)	(73)	(31)	(44)
2,876	**2,875**	**1,363**	**1,451**	**600**	**605**	**594**	**684**	**1,160**	**1,150**	**243**	**321**
134	108	138	142	99	123	84	98	312	409	19	22
2,010	1,458	3,054	3,098	2,785	2,029	1,494	918	371	301	152	316
335	253	443	452	378	325	234	190	349	439	34	53
4,104	2,872	3,842	3,856	3,704	3,068	2,135	1,564	2,498	3,010	357	541
70	**72**	**57**	**52**	**90**	**89**	**–**	**14**	**84**	**99**	**5**	**8**
21.0%	28.5%	13.0%	11.6%	44.4%	49.8%	0.2%	7.2%	23.9%	22.6%	13.6%	15.9%
1.7%	2.5%	1.5%	1.4%	4.6%	5.4%	0.0%	0.9%	3.3%	3.3%	1.3%	1.6%

Statement by Directors

Statement by Directors

This Embedded value report has been prepared in all material respects in accordance with the Market Consistent Embedded Value Principles and Guidance issued by the European Insurance CFO Forum in October 2009 and the additional guidance issued in October 2015.

The methodology and assumptions underlying the report are described in sections 12 and 13.

Auditor's report on embedded value

Auditor's report on embedded value

To the Board of Directors of Zurich Insurance Group Ltd

We have audited the Embedded value report of Zurich Insurance Group Ltd ("the Company") for the year ended December 31, 2015. The embedded value information included in the Embedded value report has been prepared in accordance with the Market Consistent Embedded Value ("MCEV") Principles and Guidance issued by the European Insurance CFO Forum, as described on pages 24 to 29.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the Embedded value report in accordance with the MCEV Principles and Guidance, including consistency of the applied methodology and the assumptions used and for an internal control system as determined necessary to enable the preparation of the Embedded value report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on whether the Embedded value report has been properly prepared in accordance with the MCEV Principles and Guidance. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Embedded value report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Embedded value report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Embedded value report, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the Embedded value report 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 principles used and the reasonableness of significant estimates made, as well as evaluating the adequacy of the overall presentation of the Embedded value report.

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 Embedded value report of the Company for the year ended December 31, 2015 is prepared, in all material respects, in accordance with the MCEV Principles and Guidance.

Basis of preparation
Without modifying our opinion, we draw attention to sections 12 and 13 of the Embedded value report, which describe the basis of embedded value methodology and embedded value assumptions. The Embedded value report is prepared in compliance with the MCEV Principles and Guidance referred to above and as a result, may not be suitable for another purpose. This report does not extend to any financial statements of Zurich Insurance Group Ltd.

PricewaterhouseCoopers AG

Peter Eberli	Stephen O'Hearn
Audit expert	Global relationship partner

Zurich, February 10, 2016

Disclaimer & Cautionary Statement

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

All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors. Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the Farmers Exchanges and in that capacity provide certain non-claims administrative and management services to the Farmers Exchanges. Neither Farmers Group, Inc., nor its parent companies, Zurich Insurance Company Ltd and Zurich Insurance Group Ltd, have any ownership interest in the Farmers Exchanges. Financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Reinsurance Company.

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

Persons requiring advice should consult an independent advisor.

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

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