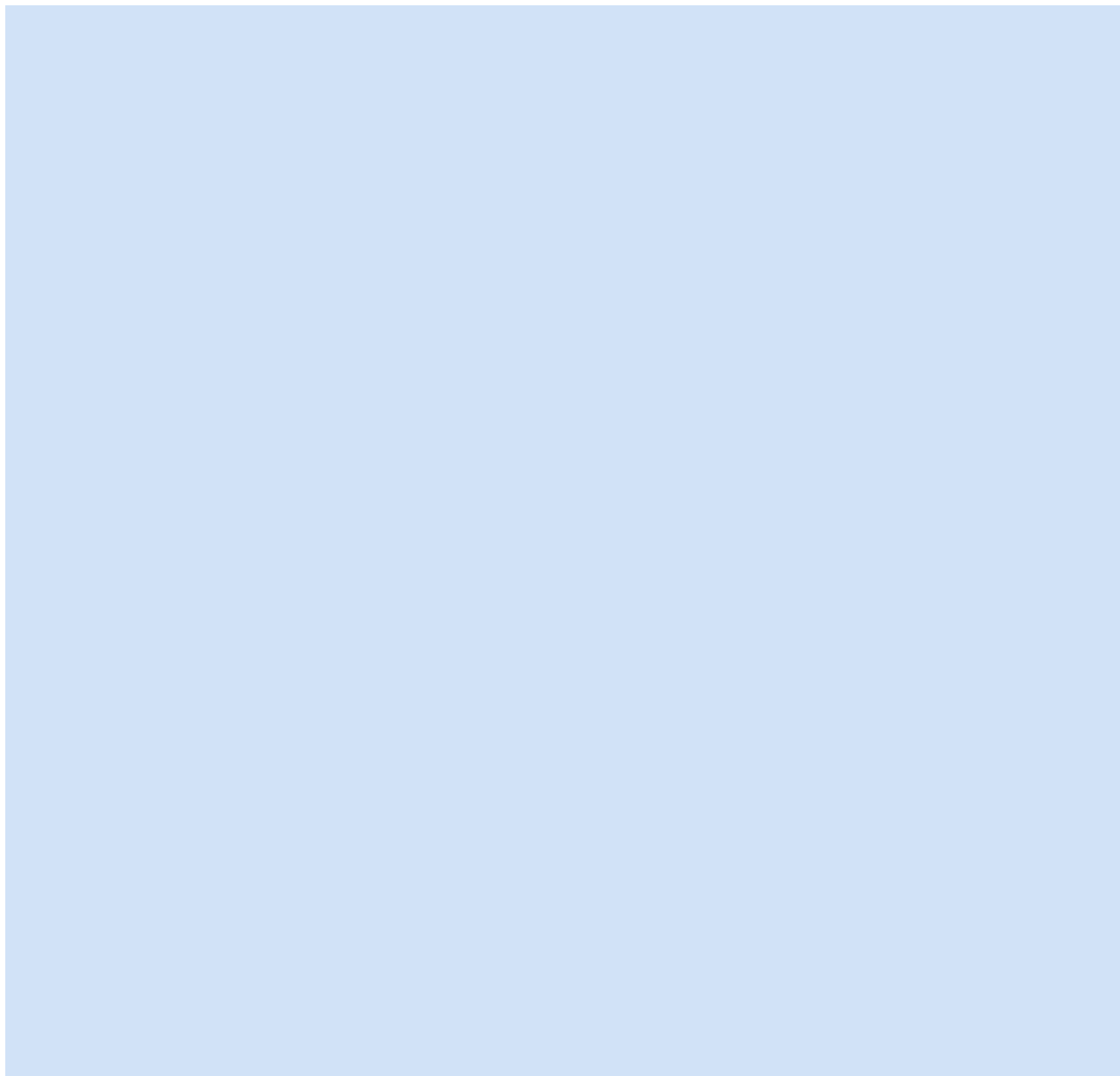


Risk review

Annual results 2015



Risk review

Zurich's approach to risk management aims to protect the Group's capital, enhance value creation, optimize its risk-return profile, support decision making and protect Zurich's reputation and brand. The risk review describes the Group's risk management framework and risk governance, reports on capital management and capital adequacy, and presents an analysis of its main risks.

Contents

Executive summary	3
Risk and capital management	4
Mission and objectives of risk management	4
Risk management framework	4
Risk governance and risk management organization	5
Objectives of capital management	5
Capital management framework	6
Capital management program	6
Own risk and solvency assessment	6
Economic capital adequacy	6
Insurance financial strength rating	11
Regulatory capital adequacy	11
Analysis by risk type	14
Insurance risk	14
Market risk including investment credit risk	21
Other credit risk	29
Operational risk	32
Liquidity risk	34
Strategic risk and risks to the Group's reputation	35

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

AUDITED

The folded corner indicates that the information contained within the shaded panel is audited and forms an integral part of the consolidated financial statements.

Executive summary

Enterprise risk management

Zurich reinforced its mission for risk management

The Group reinforced its mission for risk management to emphasize embedding disciplined risk taking in Zurich's culture, in which risk-reward trade-offs are transparent, understood, and risks are appropriately rewarded.

In 2015, the Group delivered its first own risk and solvency assessment report (ORSA) to FINMA, the Swiss supervisor. The ORSA reflects the Group's robust enterprise risk management and capital management framework.

Zurich's Total Risk Profiling™ (TRP) assesses risks strategically. The Group TRP identified and assessed risks in executing the Group's transformation program, customer strategy, information security and cyber risks.

Financial condition

The Group is well within its target capital level, which is calibrated to a 'AA' financial strength

As of July 1, 2015, the Group had a Zurich Economic Capital Model (Z-ECM) ratio of 123%, and was well above the Swiss Solvency Test requirements with a ratio of 203%.

123%

Z-ECM ratio (as of July 1, 2015)

AA-/stable

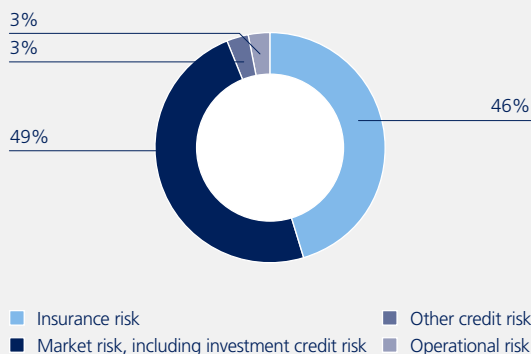
Standard & Poor's financial strength rating of Zurich Insurance Company Ltd (as of December 31, 2015)

Economic risk profile

Market risk and insurance risk are the main drivers of the Group's required capital

Total Z-ECM capital required: USD 33 billion

(as of July 1, 2015)



As of July 1, 2015, market risk, including investment credit risk, contributes 49% of the Z-ECM capital required, and insurance risk contributes 46%. Other credit risk and operational risk each contribute 3%.

Financial condition under stressed perspective

Stress scenarios demonstrate the capital resilience of the Group

Zurich uses scenario analyses to assess the potential impact of conditions under stress.

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

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

Risk review *continued*

AUDITED

Risk and capital management

Mission and objectives of risk management

The mission of risk management at Zurich Insurance Group (Zurich, or the Group) is to enhance the value of the Group by embedding disciplined risk taking in its culture, in which risk-reward trade-offs are transparent, understood and risks are appropriately rewarded.

The Group's major risk management objectives are to:

- Protect the capital base by monitoring that risks are not taken beyond the Group's risk tolerance
- Enhance value creation and contribute to an optimal risk-return profile by providing the basis for an efficient capital deployment
- Support decision-making processes by providing consistent, reliable and timely risk information
- Protect Zurich's reputation and brand by promoting a sound culture of risk awareness and disciplined and informed risk taking

Risk management framework

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

The Zurich Risk Policy is the Group's main risk governance document; it specifies the Group's risk tolerance, risk limits and authorities, reporting requirements, procedures to approve any exceptions and procedures for referring risk issues to senior management and the Board of Directors. Limits are specified per risk type. In 2015 the Zurich Risk Policy was updated in several areas, including general insurance claims and actuarial reserving, reinsurance, investment risk, capital management, model risk, and internal controls. Ongoing assessments verify that requirements are met.

The Group regularly reports on its risk profile at local and Group levels. The Group has procedures to refer risk issues to senior management and the Board of Directors in a timely way. To foster transparency about risk, the Board receives quarterly risk reports and additional updates. In 2015 reporting was enhanced with in-depth risk insights into the potential effects on Zurich of such topical issues as cyber resilience, the Swiss National Bank's decision to abandon the minimum exchange rate for the Swiss franc against the euro, the Brazil Petrobras scandal, and the VW emissions scandal.

The Group assesses risks systematically and from a strategic perspective through its proprietary Total Risk Profiling™ (TRP) process, which allows Zurich to identify and evaluate the probability and severity of a risk scenario. The Group

then develops, implements and monitors improvements. The TRP process is integral to how Zurich deals with change, and is particularly suited to evaluating strategic risks as well as risks to Zurich's reputation. At Group level this process is conducted annually, reviewed regularly and tied to the planning process.

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

Group's Overall Risk Tolerance and Appetite		
	>140%	Z-ECM ratio indicating over capitalization, requiring implementation of mitigation actions
40%		
	120-140%	Consider increased risk taking or remedial actions
20%		
	100-120% "AA" target range	No action required as within stated objective and equivalent to "AA" rating
00%		
	90-100%	Position may be tolerated for a certain length of time depending on the risk environment
90%		
	<90%	Z-ECM ratio below Group risk tolerance level, requiring appropriate remedial actions and implementation of de-risking measures
0%		
Z-ECM ratio		

AUDITED

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

Risk governance and risk management organization

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

Risk management organization

The Chief Risk Officer leads the Risk Management function, which develops frameworks and processes for identifying, measuring, managing, monitoring and reporting risks throughout the Group. The Chief Risk Officer is responsible for oversight of risks across the Group, regularly reporting risk matters to the Chief Executive Officer, senior management committees and the Risk Committee of the Board.

The Risk Management function consists of central teams at Group level and a decentralized risk management network at segment, regional, business unit and functional levels. Staff at Group level focus on model validation; quantitative assessments of insurance, market, credit and operational risks; operational risk management frameworks and tools; risk reporting; risk governance, and tools and methodologies. The risk management network consists of the Chief Risk Officers (CROs) of the Group's regions and segments, and the Local Risk Officers (LROs) of the business units and functions and their staff. The risk officers are part of the management teams in their respective businesses and are thus embedded in the business. The LROs also report to the regional or segment CROs, who in turn report to the Group's Chief Risk Officer.

The Group also has audit or oversight committees at the major business level. The committees are responsible for overseeing risk management and control functions including monitoring adherence to policies and periodic risk reporting. At the local level, these oversight activities are conducted through risk and control committees.

Objectives of capital management

The Group manages its capital to maximize long term shareholder value while maintaining financial strength within its 'AA' target range and meeting regulatory, solvency and rating agency requirements. In particular, the Group endeavors to manage its shareholders' equity under IFRS to balance maximization of shareholder value and constraints from its economic framework, rating agencies and regulators. Shareholders' equity of USD 31.2 billion and subordinated liabilities of USD 5.6 billion as of December 31, 2015 are part of the capital available in the Group's economic framework. Further adjustments usually include such items as intangible assets, deferred tax assets and liabilities, or allowing for discounting of liabilities and the value of in-force business. For more information, see 'analysis of the Group's Z-ECM available financial resources (unaudited).'

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

Risk review *continued*

AUDITED

Capital management framework

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

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

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

Capital management program

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

The Group seeks to maintain a balance between higher returns for shareholders on equity held, and the security a sound capital position provides. Dividends, share buy-backs, and issuances and redemption of debt have a significant influence on capital levels. In 2015 the Group paid a dividend out of the capital contribution reserve, and refinanced parts of maturing senior debt and callable hybrid debt with new senior and hybrid debt.

The Swiss Code of Obligations stipulates that dividends may only be paid out of freely distributable reserves or retained earnings. Apart from what is specified by the Swiss Code of Obligations, Zurich Insurance Group Ltd faces no legal restrictions on dividends it may pay to its shareholders. As of December 31, 2015, the amount of the general legal reserve exceeded 20 percent of the paid-in share capital.

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

For details on issuances and redemptions of debt, see note 19 of the consolidated financial statements.

Own risk and solvency assessment

Economic capital adequacy

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

The Group uses Z-ECM to assess the economic capital consumption of its business on a one-balance-sheet approach. Z-ECM is an integral part of how the Group is managed. It is embedded in the Group's organization and decision-making processes, and is used in capital allocation, business performance management, pricing, reinsurance purchasing, transaction evaluation, risk optimization, and regulatory, investor, and rating agency communication. Z-ECM quantifies the capital required for insurance-related risk (including premium and reserve, natural catastrophe, business and life insurance), market risk, reinsurance credit and operational risks. In 2015, Zurich enhanced its market risk model; market risk and investment credit risk are now quantified in an integrated way.

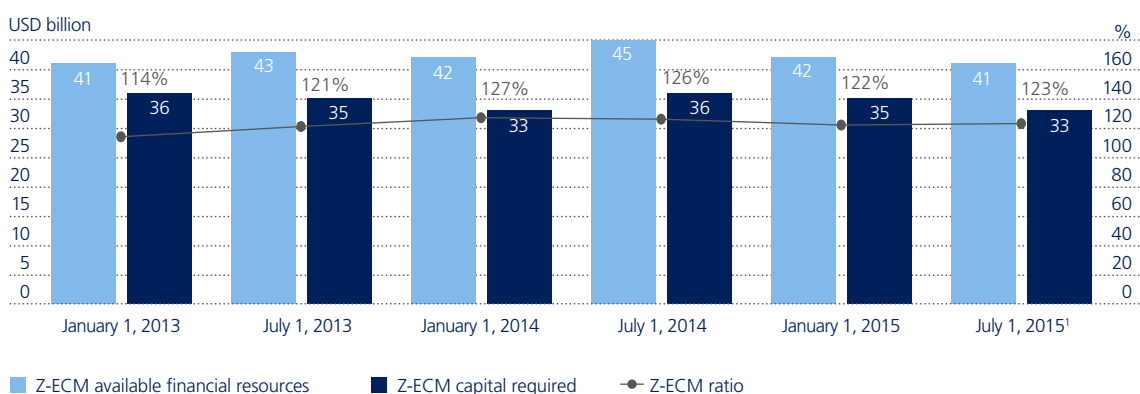
AUDITED

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

The chart below shows the development of the Group's Z-ECM available financial resources, Z-ECM capital required and Z-ECM ratio over time. As of October 1, 2015, the Z-ECM ratio was 114 percent.

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

(in USD billions)

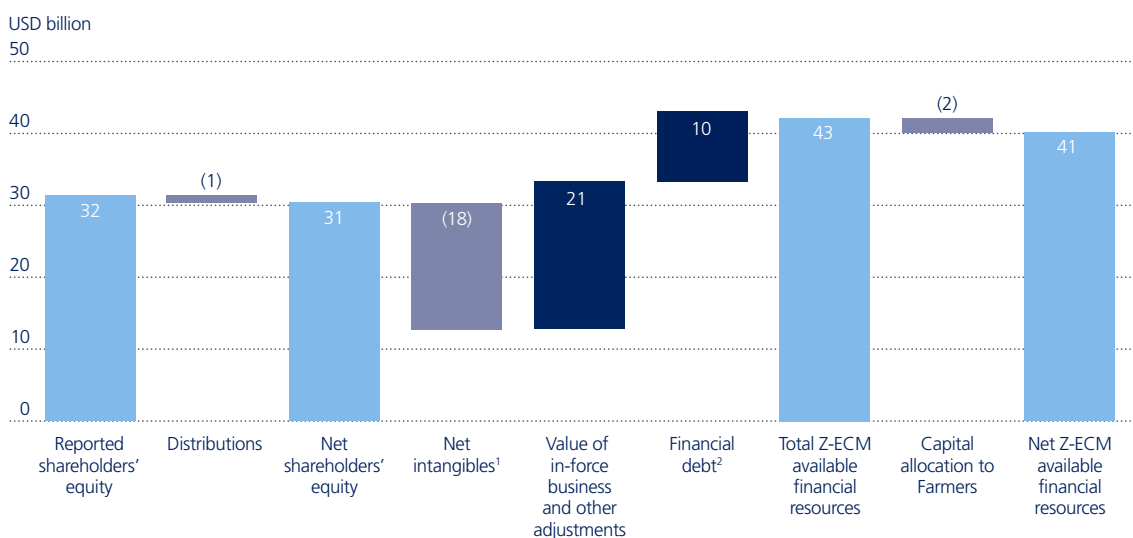


¹ Excludes macro equity hedge (for more information, see 'market risk including investment credit risk')

The chart below shows an analysis of the composition of the Group's Z-ECM available financial resources as of July 1, 2015.

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

(in USD billions as of July 1, 2015)



¹ Shareholders' intangible assets adjusted for taxes less deferred front-end fees and deferred tax liabilities

² All debt issues (senior and subordinated) excluding those classified as operational debt or maturing within one year

Risk review *continued*

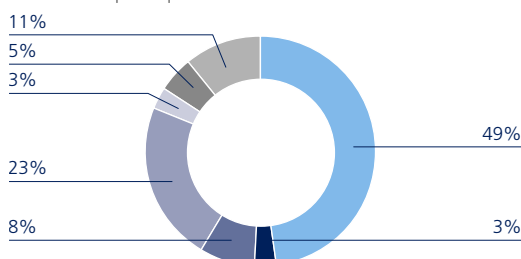
The chart below shows the Z-ECM capital required split by risk type as of July 1, 2015 and as of January 1, 2015 respectively. As of July 1, 2015, the largest proportion of Z-ECM capital required arose from market risk which comprised 49 percent of the total. Premium & reserve risk was the second-largest, comprising 23 percent.

Z-ECM capital required split by risk type

(%)

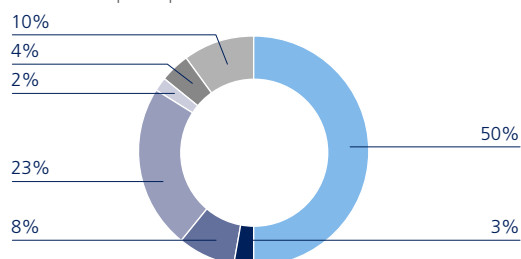
July 1, 2015

Total Z-ECM capital required: USD 33 billion



January 1, 2015

Total Z-ECM capital required: USD 35 billion



■ Market risk
 ■ Business risk
 ■ Reinsurance credit risk
 ■ Natural catastrophe risk
■ Operational risk
 ■ Premium & reserve risk
 ■ Life insurance risk

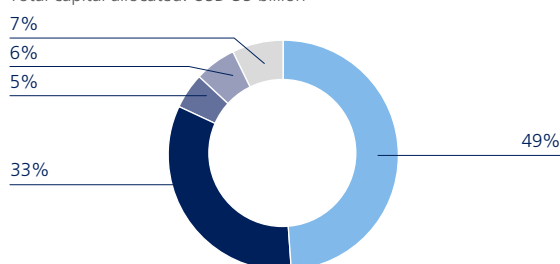
The following chart shows the Z-ECM capital required allocated to the segments as of July 1, 2015 and as of January 1, 2015. As of July 1, 2015 the largest proportion of Z-ECM capital required was allocated to General Insurance, which comprised 49 percent of the total, followed by Global Life with 33 percent of the total. Total allocated capital as of July 1, 2015 equaled USD 33 billion Z-ECM capital required plus USD 2 billion direct allocation to Farmers.

Total capital allocated, by segment

(%)

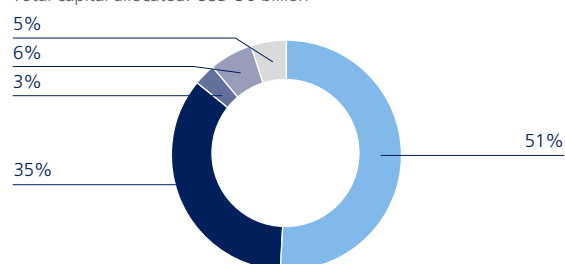
July 1, 2015

Total capital allocated: USD 35 billion



Jan 1, 2015

Total capital allocated: USD 36 billion



■ General Insurance
 ■ Life insurance
 ■ Other Operating Businesses
 ■ Farmers
 ■ Non-Core Businesses

Throughout the risk review, Z-ECM results, SST results and corresponding sensitivities and scenarios as of Q2 2015 are shown excluding macro equity hedge; for more information, see 'market risk including investment credit risk.'

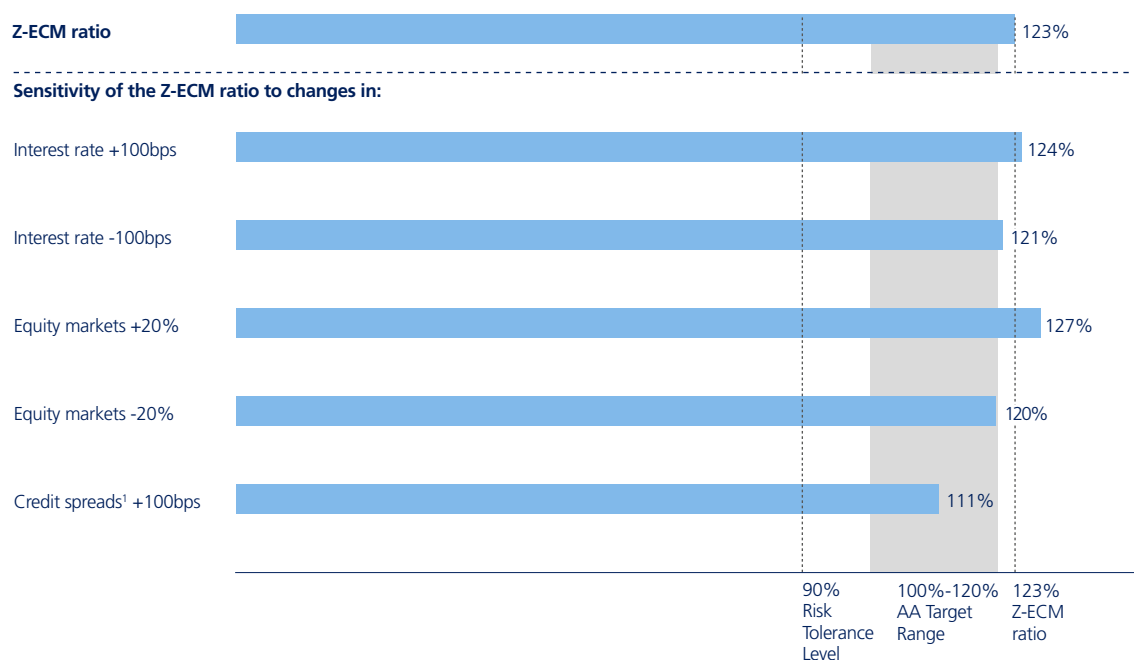
The chart below shows the estimated impact on the Group's Z-ECM ratio of:

- A one percentage point increase/decrease in yield curves
- A 20 percent rise/decline in all stock markets, after consideration of hedges in place
- A one percentage point change in credit spreads

The sensitivities are considered as separate but instantaneous scenarios. They are shown excluding the macro equity hedge (for more information, see 'market risk including investment credit risk'). They are best estimate and non-linear, i.e., will vary depending on prevailing market conditions at the time. The impact of the changes to the required capital is approximated and only taken into account for market risk.

Sensitivities for the Z-ECM ratio

(as of July 1, 2015)



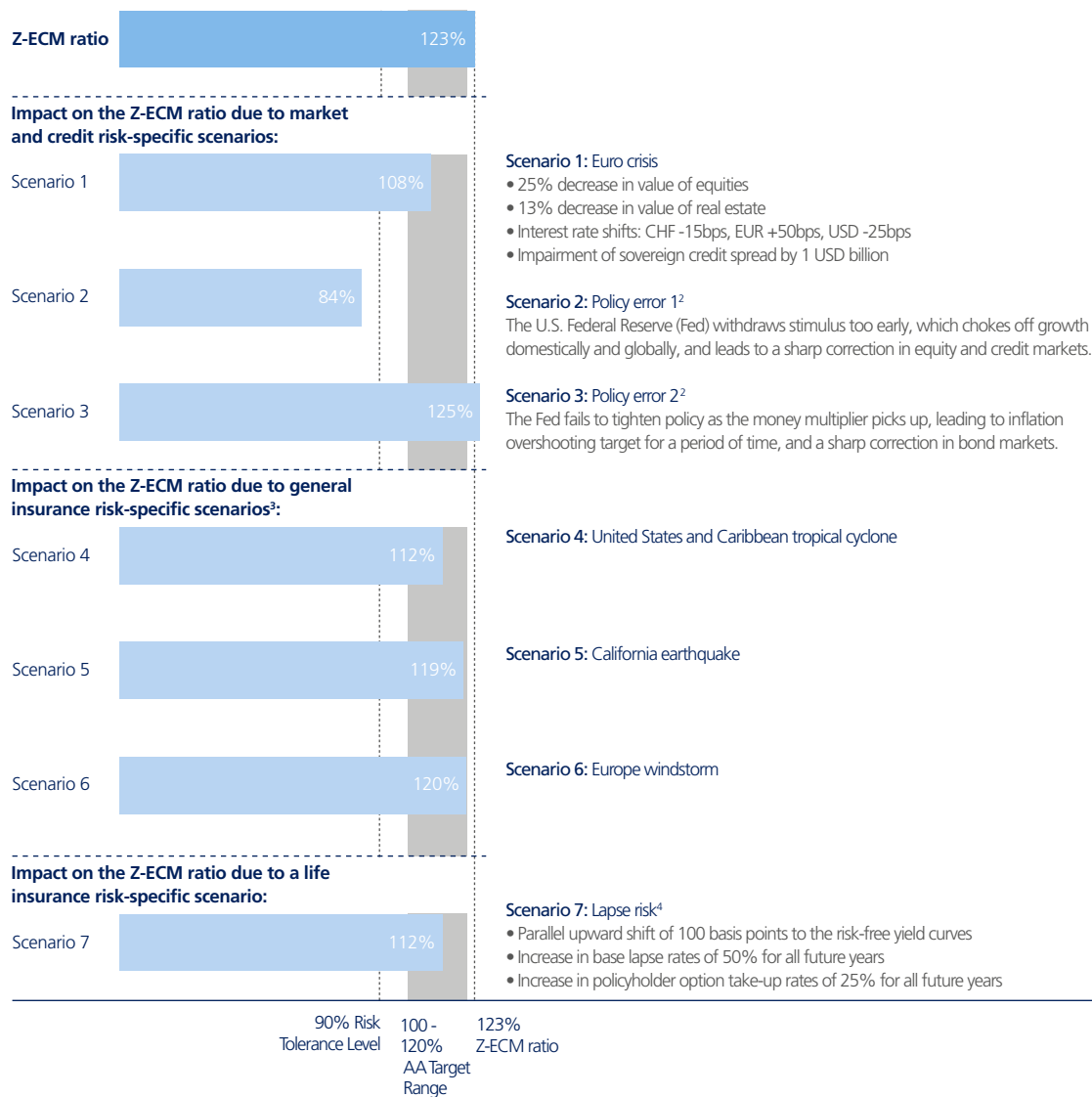
¹ The credit spread sensitivity is applied to corporate debt, mortgages and euro currency government debt (excluding Germany), and takes into account the buffering effect of policyholder participation.

In addition to the sensitivities shown in the preceding section, the Group also evaluates certain stress scenarios on the Z-ECM ratio. Scenarios are defined as events that have a very small probability of occurring but that could, if realized, negatively affect the Group's Z-ECM available financial resources. The chart below shows three groups of scenarios: market and credit risk-specific, general insurance risk-specific and life insurance risk-specific. In the 2015 market environment, two categories of threat scenarios were identified: a euro crisis, and monetary policy errors by the U.S. Federal Reserve (triggering market corrections). The general insurance risk-specific scenarios present the three largest natural catastrophe events to which the Group is exposed. Lapse risk represents the Group's largest life insurance risk-specific exposure.

Risk review *continued*

Impact of market, credit, and insurance risk scenarios on Z-ECM¹

as of July 1, 2015



¹ The impact of scenarios on changes to the Z-ECM capital required is not included in the sensitivities for the Z-ECM ratio as the impact is expected to be small and positive. Scenario 1 and Scenario 2 do not take into account the buffering effect of policyholder participation.

² Scenarios 2 and 3 focus on potential monetary policy errors. For scenario 2, parameters include a 30 percent decrease in value of equities, a 10 percent decrease in value of real estate, interest rate shifts (CHF -70bps, EUR -70bps, USD -100bps, GBP -100bps), and a 200-220bps increase in corporate credit spreads. For scenario 3, parameters include a 10 percent increase in value of equities, a 3 percent increase in value of real estate, interest rate shifts (CHF +100bps, EUR +100bps, USD +160bps, GBP +140 bps), and a 10bps decrease in corporate credit spreads.

³ The general insurance risk-specific scenarios relate to natural catastrophe events that are estimated on a modeled 250-year net aggregate loss (equivalent to a 99.6% probability of non-exceedance).

⁴ The second assumption under the lapse risk scenario, 'increase in base lapse rates of 50 percent for all future years,' is applied in a similar manner as the embedded value sensitivity; however the former is pre-tax while the latter is post-tax. (For more details, see the 'embedded value report 2015' at www.zurich.com/investor-relations/results-and-reports.) Also, combining the assumptions in the lapse risk scenario introduces potential non-linear effects, which makes it difficult to directly compare the scenario with the embedded value sensitivity.

AUDITED

Insurance financial strength rating

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

The Group maintained its strong rating level in 2015. As of December 31, 2015, the IFSR of Zurich Insurance Company Ltd (ZIC), the main operating entity of the Group, was 'AA-' by Standard and Poor's, 'Aa3' by Moody's and 'A+ (superior)' by A.M. Best.

Moody's left its stable outlook unchanged in 2015. Standard & Poor's revised its outlook for Zurich from 'positive' to 'stable,' while reaffirming Zurich's 'AA-' financial strength, on August 28, 2015. A.M. Best revised its outlook for Zurich Insurance Group and its core entities from 'stable' to 'negative' on October 2, 2015, following the preliminary update on third quarter results on September 21, 2015.

Regulatory capital adequacy

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

In each country in which the Group operates, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in addition to their liabilities. Besides the minimum capital required to comply with the solvency requirements, the Group aims to hold an adequate buffer to ensure regulated subsidiaries meet local capital requirements. The Group is subject to different capital requirements depending on the countries in which it operates.

Zurich pools risk and capital as much as possible at a Group level, realizing diversification benefits for the Group. This also allows the Group to take into account the benefits that arise in regions where these benefits are recognized under the capital adequacy regime, e.g., in the U.S., Ireland and Switzerland.

Regulatory requirements in Switzerland

Under the Swiss Solvency Test (SST), groups, conglomerates and reinsurers are required to use company-specific internal models to calculate risk-bearing and target capital. Internal models must be approved by the Swiss Financial Market Supervisory Authority (FINMA). FINMA approved the use of Zurich's internal model for 2015 on a provisional basis, without prejudicing the final approval. Zurich has filed an SST ratio with FINMA as of January 1, 2015, which is subject to FINMA approval.

As of July 1, 2015, a revised version of the Swiss Insurance Supervision Ordinance entered into force. Related FINMA circulars were adapted and became effective January 1, 2016. The revision includes a new requirement for insurance companies to produce an own risk and solvency assessment report (ORSA report), with the first Group report to be filed by January 31, 2016. The revision also eliminated, for insurance groups, the Solvency I requirement under Swiss law, which until then had remained in force after the introduction of SST. In December 2015, Zurich filed its first Group ORSA report with FINMA.

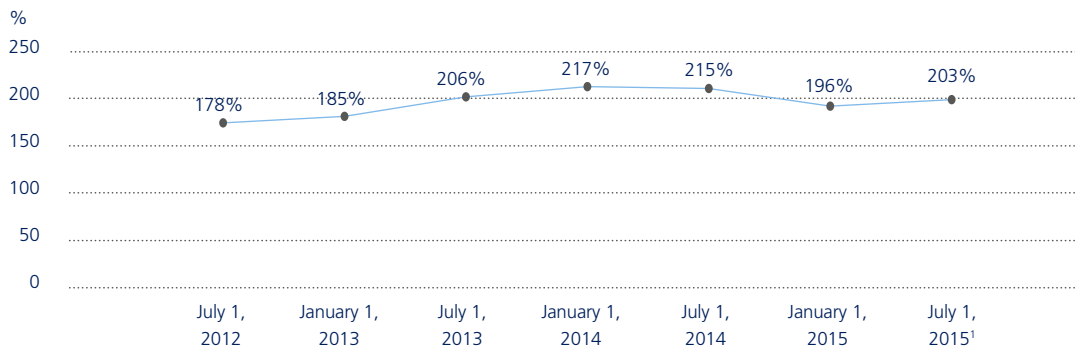
Swiss Solvency Test requirements

The Group uses an adaptation of its internal Zurich Economic Capital Model (Z-ECM) to comply with the Swiss Solvency Test (SST) requirements and runs a full SST calculation twice a year and files results with FINMA annually. The most recent results filed with FINMA are as of January 1, 2015.

Risk review *continued*

Development of the Group's Swiss Solvency Test ratio

(in %)

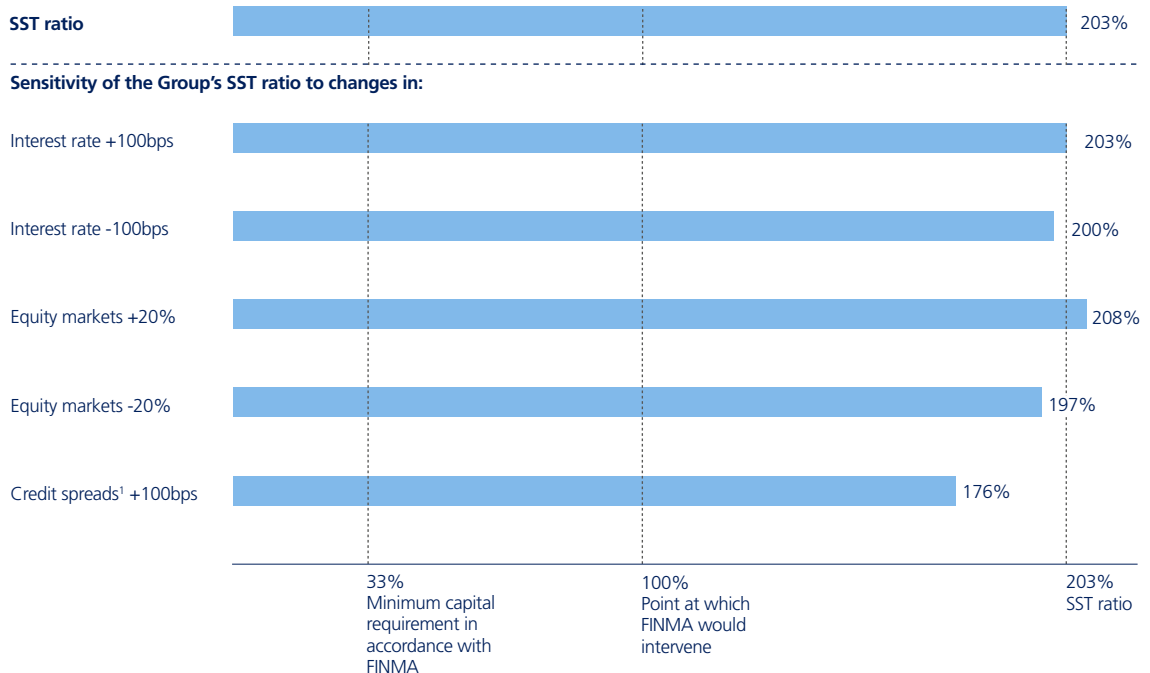


¹ Excludes macro equity hedge (for more information, see 'market risk including investment credit risk')

The following chart shows the estimated impact on the Group's SST ratio of a one percentage point increase/decrease in yield curves, a separate 20 percent rise/decline in all stock markets, after consideration of hedges in place and a separate one percentage point change in credit spreads, as of July 1, 2015. The sensitivities are considered separate but instantaneous scenarios. They are shown excluding the macro equity hedge (for more information, see 'market risk including investment credit risk'). They are best estimate and non-linear, i.e., will vary depending on prevailing market conditions at the time. The impact of the changes to the required capital is approximated and only taken into account for market risk.

Sensitivities for the Group's Swiss Solvency Test ratio

(as of July 1, 2015)



¹ The credit spread sensitivity is applied to corporate debt, mortgages and Euro currency government debt (excluding Germany). The credit spread sensitivity does not take into account the buffering effect of policyholder participation.

AUDITED

Regulatory requirements in other countries

Regulatory requirements in the European Economic Area

In countries of the European Economic Area (EEA), insurance entities are required to maintain minimum solvency margins according to the existing Solvency I legislation. Solvency I capital is calculated as a fixed percentage of premiums, claims, reserves and net amounts at risk. In certain European countries, both EU and non-EU, further requirements have been imposed by regulators.

The directive on Solvency II was adopted on November 25, 2009. The complete framework was introduced on January 1, 2016. Solvency II is designed to be more risk-sensitive and sophisticated in its approach than Solvency I. Solvency II capital requirements also take into account all material risks and how these interact. Under Solvency II, every insurance and reinsurance entity will be required to conduct its own risk and solvency assessment, including taking into account specific risk profiles. Under disclosure provisions, companies will have to publicly report their solvency and financial condition for the first time in 2017, based on 2016 figures.

Zurich is fully engaged in order to meet Solvency II requirements. Zurich Insurance plc (Ireland) will use its internal model, which aligns the Solvency II approach with that used for Z-ECM, and has received approval from the Central Bank of Ireland accordingly. Other EEA subsidiaries will use the Solvency II standard formula.

Regulatory requirements in the U.S.

In the U.S., required capital is determined to be 'company action level risk-based capital' calculated using the National Association of Insurance Commissioners' risk-based capital model. This method, which builds on regulatory accounts, measures the minimum amount of capital for an insurance company to support its overall business operations by taking into account its size and risk profile.

Regulatory requirements in Asia-Pacific, Latin America, and Middle East and Africa Every country has a capital standard for insurance companies. Some jurisdictions, including Japan, Mexico and South Africa, are reviewing their economic capital requirements, considering similar approaches to Solvency II.

Risk review *continued*

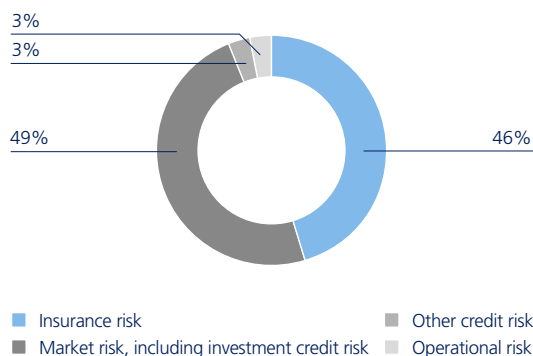
Analysis by risk type

Insurance risk

Section highlights

Total Z-ECM capital required: USD 33 billion

(as of July 1, 2015)



Key risk and capital indicators

(Z-ECM, in USD billions)

	Q2 2013	Q2 2014	Q2 2015
Business risk	3.7	3.0	2.6
Life insurance risk	1.0	0.7	1.6
Premium & reserve risk	7.4	6.9	7.6
Natural catastrophe risk	4.8	5.4	3.5

- The Group diversifies its sources of revenues by geographies, lines of business, products and customers. Therefore, Zurich is not exposed to concentrations of insurance risk beyond its risk appetite.

AUDITED

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. The exposure is transferred to Zurich through the underwriting process. Zurich actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. Zurich manages the customer risks it assumes, and minimizes unintended underwriting risks, through such means as:

- Establishing limits for underwriting authority
- Requiring specific approvals for transactions above established limits or new products
- Using a variety of reserving and modeling methods
- Ceding insurance risk through external proportional or non-proportional reinsurance treaties and facultative single-risk placement. The Group centrally manages reinsurance treaties.

General insurance risk

General insurance risk includes the reasonable possibility of significant loss due to uncertainty in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. The following provides an overview of the Group's main lines of business:

- Motor includes automobile physical damage, loss of the insured vehicle and automobile third-party liability insurance.
- Property includes fire risks (for example fire, explosion and business interruption), natural perils (for example earthquake, windstorm and flood), engineering lines (for example boiler explosion, machinery breakdown and construction) and marine (cargo and hull).
- Liability includes general/public and product liability, excess and umbrella liability, professional liability including medical malpractice, and errors and omissions liability.
- Special lines include directors and officers, credit and surety, crime and fidelity, accident and health, and crop.
- Worker injury includes workers compensation and employers liability.

AUDITED

The Group's underwriting strategy takes advantage of the diversification of general insurance risks across lines of business and geographic regions. The Group seeks to optimize shareholder value by achieving its mid-term return on equity target. Zurich's underwriting governance is applicable throughout the Group.

Underwriting discipline is a fundamental part of managing insurance risk. The Group sets limits on underwriting capacity, and delegates authority to individuals based on their specific expertise. The Group sets appropriate underwriting guidelines. These guidelines generally include a technical price set in line with common standards to allow a return on risk-based capital in line with the Group's target. The ratio of actual premium to technical price is a key performance metric, which is monitored regularly. Technical reviews confirm whether underwriters perform within authorities and adhere to underwriting philosophies and policies. The Group has governance procedures to review and approve potential new products to evaluate whether the risks are well understood and justified by the potential rewards.

Actual losses on claims provisions may be higher or lower than anticipated. General insurance reserves are therefore regularly estimated, reviewed and monitored. The total loss and loss adjustment expense reserves are based on work performed by qualified and experienced actuaries at local, regional and Group levels.

To arrive at their reserve estimates, the actuaries take into consideration, among other things, the latest available facts, historical trends and patterns of loss payments, exposure growth, court decisions, economic conditions, inflation, and public attitudes that may affect the ultimate cost of claim settlement. Inflation is monitored on a country basis; the monitoring process relies on both Zurich's economic view on inflation and specific claims activity, and feeds into actuarial models and Zurich's underwriting processes such as technical price reviews.

In most cases, these actuarial analyses are conducted at least twice a year for on-going business according to agreed timetables. Analyses are performed by product line, type and extent of coverage and year of occurrence. As with any projection, claim reserve estimates are inherently uncertain due to the fact that the ultimate liability for claims will be affected by trends as yet unknown, including future changes in the likelihood of claimants bringing suit, the size of court awards, and claimants' attitudes toward settlement of their claims.

The Group monitors potential new emerging risk exposures. Zurich has an Emerging Risk Group, with cross-functional expertise from core insurance functions such as underwriting, claims and risk to identify, assess and recommend actions for such risks.

In addition to the specific risks insured, each line of business could expose the Group to losses that could arise from natural and man-made catastrophes. The main concentrations of risks arising from such potential catastrophes are regularly reported to senior management. The most important peril regions and risks are U.S. and Caribbean tropical cyclone, Europe windstorm and California earthquake, as well as potential terrorism exposures.

Tables 1.a and 1.b show the Group's concentration of risk within the General Insurance business by region and line of business based on direct written premiums before reinsurance. General Insurance premiums ceded to reinsurers (including retrocessions) amounted to USD 5.6 billion and USD 5.5 billion for the years ended December 31, 2015 and 2014, respectively. Reinsurance programs are managed on a global basis, and therefore, net premium after reinsurance is monitored on an aggregated basis.

Table 1.a

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

	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,618	3,214	3,740	1,912	2,918	13,402
Europe, Middle East & Africa	5,176	4,491	2,231	1,953	461	14,312
Other regions	1,640	1,272	370	1,142	137	4,561
Total	8,434	8,977	6,341	5,007	3,515	32,274

General Insurance –
Direct written
premiums and
policy fees by line
of business – current
period

Risk review *continued*

General Insurance – Direct written premiums and policy fees by line of business – prior period

Table 1.b

in USD millions, for the year ended
December 31, 2014

	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,492	3,310	3,529	1,790	2,613	12,734
Europe, Middle East & Africa	6,077	5,026	2,554	2,208	522	16,387
Other regions	2,018	1,477	431	1,148	157	5,230
Total	9,587	9,813	6,515	5,146	3,291	34,351

Analysis of sensitivities for general insurance risk

Tables 2.a and 2.b show the sensitivity of net income before tax and the sensitivity of net assets, using the Group effective income tax rate, as a result of adverse development in the net loss ratio by one percentage point. Such an increase could develop either due to the insured events happening more frequently or due to resulting claims becoming more severe, or from a combination of frequency and severity. The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the sensitivity analysis in tables 2.a and 2.b, each additional percentage point increase in the loss ratio would have a linear impact on net income before tax and net assets. The Group also monitors insurance risk by evaluating extreme scenarios, taking into account non-linear effects of reinsurance contracts.

Insurance risk sensitivity for the General Insurance business – current period

Table 2.a

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

	Global Corporate	North America Commercial	Europe, Middle East & Africa	International Markets
+1% in net loss ratio				
Net income before tax	(60)	(80)	(107)	(34)
Net assets	(38)	(50)	(68)	(21)

Insurance risk sensitivity for the General Insurance business – prior period

Table 2.b

in USD millions, for the year ended December 31, 2014

	Global Corporate	North America Commercial	Europe, Middle East & Africa	International Markets
+1% in net loss ratio				
Net income before tax	(63)	(77)	(122)	(38)
Net assets	(46)	(56)	(89)	(28)

Life insurance risk

The risks associated with life insurance include:

- Mortality risk – when on average, the death incidence among the policyholders is higher than expected
- Longevity risk – when on average, annuitants live longer than expected
- Morbidity risk – when on average, the incidence of sickness or disability among the policyholders is higher or recovery rates from disability are lower than expected
- Policyholder behavior risk – on average, the policyholders discontinue or reduce contributions or withdraw benefits prior to the maturity of contracts at a rate that is different from expected
- Expense risk – expenses incurred in acquiring and administering policies are higher than expected
- New business risk – volumes of new business are lower than sufficient to cover fixed acquisition expenses
- Market risk – the risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets, which is analyzed in the 'market risk, including investment credit risk' section
- Credit risk – the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations, which is analyzed in the 'market risk, including investment credit risk' and 'other credit risk' sections

A more diversified portfolio of risks is less likely than an undiversified portfolio to be affected across the board by a change in any subset of the risks. As a result, the offsetting effects between unit-linked and traditional business reduce some of the risk associated with the Global Life business.

AUDITED

The Group has local product development committees and a Group-level product approval committee to analyze potential new life products that could significantly increase or change the nature of its risks. The Group regularly reviews the continued suitability and the potential risks of existing life products.

The Group uses market-consistent embedded value reporting principles, which allow Zurich to increase its understanding, and report on, the risk profile of its life products, and how these risks would change under different market conditions. Embedded value is a measure that markets use to value life businesses. For more information, see the 'embedded value report 2015' at www.zurich.com/investor-relations/results-and-reports.

From a risk-management perspective, unit-linked products are designed to reduce much of the market and credit risk associated with the Group's traditional business. Risks that are inherent in these products are largely passed on to the policyholder, although a portion of the Group's management fees are linked to the value of funds under management, and hence are at risk if fund values decrease. To the extent that there are guarantees built into the product design, unit-linked products carry mortality/morbidity risk and market risk. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are mitigated by mortality and morbidity charges.

Other life insurance liabilities include traditional life insurance products, such as protection and life annuity products. Protection products carry mortality, longevity and morbidity risk, as well as market and credit risk. Epidemics and lifestyle changes are among the most significant factors that could result in earlier or more claims than expected. Disability, defined in terms of the ability to perform an occupation, could be affected by economic conditions. To reduce pricing cross-subsidies, where permitted, premiums are adjusted for factors such as age, gender and smoker status. Policy terms and conditions and disclosure requirements in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that could result in severe financial loss.

In the life annuity business, medical advances and improved social conditions that lead to increased longevity are the most significant insurance risk. Annuitant (beneficiary) mortality assumptions include allowance for future mortality improvements.

The Group is also exposed to risks posed by policyholder behavior, and fluctuating expenses. Policyholder behavior risk is mitigated by designing products that, as closely as possible, match revenue and expenses associated with the contract. Expense risk is reduced by carefully controlling expenses, and through regular expense analysis and allocation exercises.

The subsidiary Zurich American Life Insurance Company (ZALICO) wrote variable annuity contracts that provide policyholders with certain guarantees related to minimum death and income benefits. After 2001, ZALICO stopped issuing new policies with such features. The Group has a dynamic hedging strategy to manage its economic exposure and reduce the volatility associated with its closed book of variable annuities products within its U.S. life business. These exposures have been substantially reduced as a result of a policy buy back program begun in 2015. The Group is also exposed to risks arising out of bank-owned life insurance contracts sold in the U.S. See heading 'other contracts' in note 7 of the consolidated financial statements for additional information.

Interest rate guarantees (with concentration in traditional, guaranteed business in Germany and Switzerland or variable annuity business in the U.S. containing minimum guaranteed death benefits) expose Zurich to financial losses that may arise as a result of adverse movements in interest rates. The management of these guarantees is through a combination of asset-liability matching and hedging.

The Group defines concentration risk in the Global Life business as the risk of exposure to increased losses associated with inadequately diversified portfolios of assets or obligations. Concentration risk for a life insurer may arise with respect to investments in a geographical area, economic sector, or individual issuers, or due to a concentration of business written within a geographical area, of a policy type, or of underlying risks covered.

Observing best estimate assumptions on cash flows related to benefits of insurance contracts gives some indication of the size of the exposure to risks and the extent of risk concentration. Table 3 shows the Group's concentration of risk within the life business by region and line of business based on reserves for life insurance on a net basis. The Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time. See note 8 of the consolidated financial statements for additional information on reserves for insurance contracts.

Risk review *continued*

Reserves, net of reinsurance, by region

Table 3

in USD millions, as of December 31

	Unit-linked insurance contracts		Other life insurance liabilities		Total reserves	
	2015	2014	2015	2014	2015	2014
Global Life						
North America	1,263	1,024	5,577	5,469	6,840	6,492
Latin America	8,036	9,897	3,863	4,917	11,899	14,814
Europe, Middle East & Africa	43,522	48,052	71,711	78,421	115,233	126,472
of which						
United Kingdom	20,778	23,367	3,054	5,119	23,832	28,485
Germany	13,530	13,818	36,418	41,237	49,948	55,055
Switzerland	726	737	18,015	18,427	18,741	19,164
Ireland	2,944	2,897	1,979	2,123	4,923	5,020
Spain	1,062	2,729	7,450	6,418	8,512	9,147
Italy	223	279	3,013	3,138	3,237	3,416
Rest of Europe	4,258	4,226	1,782	1,960	6,040	6,185
Asia-Pacific	403	458	2,489	2,782	2,892	3,240
Other	–	–	272	327	272	328
Subtotal	53,224	59,431	83,912	91,914	137,136	151,345
Other segments	11,169	11,970	4,144	4,718	15,313	16,688
Total	64,393	71,400	88,056	96,632	152,449	168,033

Modeling natural catastrophes

While specific catastrophes are unpredictable, modeling helps to determine potential losses and the likelihood of such losses. The Group uses adjusted third-party models to manage its underwriting and accumulations to stay within intended exposure limits and to guide how much reinsurance Zurich buys.

To have a consistent approach and form a global perspective on accumulations, the Group models general insurance exposures in a center of excellence, which works with local businesses to help improve the overall quality of data. The Group models potential losses from property policies in hazard-prone areas with material exposure and from workers' compensation policies covering earthquakes in California, Pacific Northwest and New Madrid (U.S. states of Arkansas, Illinois, Indiana, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Ohio, Tennessee, Wisconsin). Other non-property-related losses are estimated based on adjustments. Risk modeling mainly addresses climate-induced perils such as windstorms, river floods, tornadoes, hail storms, downburst and straight line winds, and geologically induced perils such as earthquakes. The Group constantly seeks to improve its modeling, fill in gaps in models with additional assessments, and increase the granularity of data collection. It uses internal and external knowledge in modeling accumulations. One such source of external knowledge is the Natural Catastrophe Advisory Council, a group of scientists associated with leading research organizations such as the U.S. National Center for Atmospheric Research, the U.S. Geological Survey and the Intergovernmental Panel on Climate Change. Zurich further validates modeling results by comparing them with claims experience. In 2015 Zurich joined the Risk Prediction Initiative (RPI), which is a membership organization funding academic research relevant to the reinsurance and insurance industry.

Risks from man-made catastrophes

Man-made catastrophes include such risks as industrial accidents and terrorism attacks. Zurich's experience in monitoring potential exposures to natural catastrophes is also applicable to threats posed by man-made catastrophes, particularly terrorism.

The Group reviews and aggregates worker injury, property and life risk exposures to identify areas of significant concentration and assesses other lines of business, such as liability and auto, although the potential exposure is not as significant. The data allows underwriters to evaluate how insuring a particular customer's risk might affect Zurich's overall exposure. Zurich uses a vendor-provided catastrophe model to evaluate potential exposures in every major U.S. city and selected cities in Europe. The Group undertakes more detailed and frequent analyses for cities in which Zurich has greater exposure.

The Group's analysis for general insurance business has shown that its exposures outside North America are lower, in large part due to government-provided pools; even so, the Group assesses the risk for countries with the next-greatest potential net exposure. The Group periodically monitors accumulation limits for these and other areas.

AUDITED

Reinsurance for general insurance and life insurance

The Group's objective in purchasing reinsurance is to provide market-leading capacity for customers while protecting the balance sheet and achieving capital efficiency. The Group follows a centralized reinsurance treaty purchasing strategy for both General Insurance and Global Life, and bundles programs, where appropriate, to benefit from diversification and economies of scale.

Zurich structures and aligns its reinsurance programs to achieve an optimum risk-return ratio. Zurich manages its central reinsurance purchasing according to these principles. The Group is thus able to manage its risks to retain a significant and stable portion of its risk exposure. The cession rate for General Insurance was 16.6 percent and 15.1 percent as of December 31, 2015 and December 31, 2014, respectively. The cession rate for Global Life was 17.2 percent and 4.6 percent as of December 31, 2015 and December 31, 2014, respectively. The increase in ceded premiums for Global Life is due to the temporary reinsurance of a run-off portfolio, pending regulatory approval of the portfolio transfer to a third party.

The Group continues to use traditional reinsurance markets and other alternatives, such as catastrophe bonds, to protect against extreme single events and increased frequency of events. In particular the Group is able to use its global reach for catastrophe protection. It has a combination of 'per event' and annual aggregate covers. This protects the Group's business by event and region, and also if multiple events occur across regions.

The Group uses reinsurance to manage risk related to unusually severe or frequent events, through the main in-force reinsurance covers. The chart below shows the covers for catastrophe events as of December 31, 2015.

The Group participates in the underlying risks through its retention and through its co-participation in the excess layers. The contracts are on a loss-occurrence basis except the aggregate catastrophe cover Lakeside Re III Cat bond and the Global Aggregate Catastrophe cover which operate on an annual aggregate basis. In addition to these covers, the Group has per risk programs, some local catastrophe covers and a bilateral risk swap in place. These covers are reviewed continuously and are subject to change going forward. The current catastrophe covers are placed annually: January 1 for the U.S. program and the Global Aggregate Catastrophe cover; April 1 for the European program and the Global Catastrophe treaty, and July 1 for the rest of the world program.

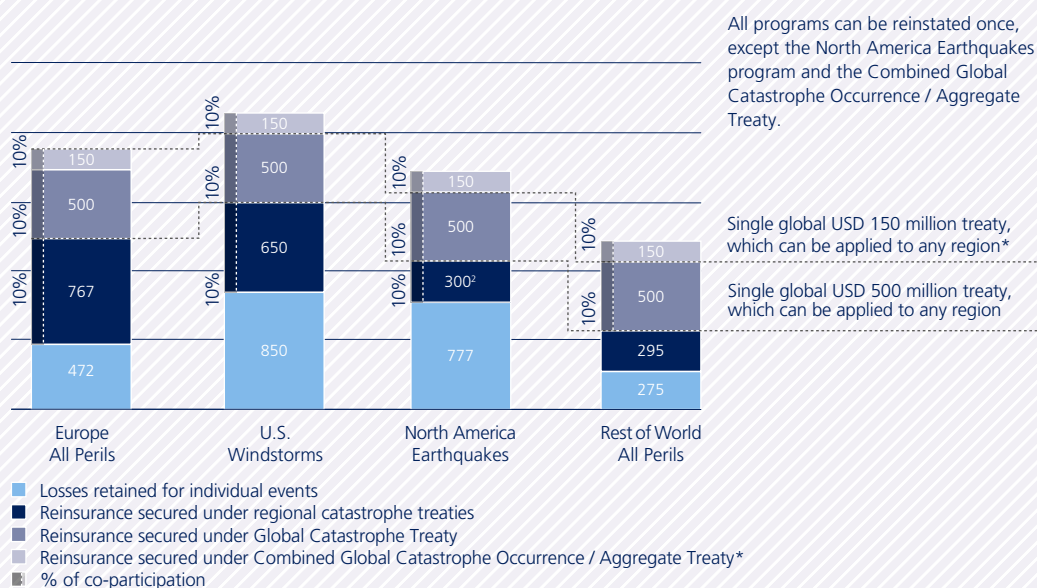
Risk review *continued*

AUDITED

The treaty structures of most catastrophe covers, including the regional retentions, remained stable in 2015. Zurich increased the attachment point of the Global Aggregate Catastrophe treaty, but included line of businesses-specific (marine and property) additional exposure to maintain a superior earnings protection for higher frequency scenarios within the retention of the regional covers.

Reinsurance for natural catastrophes by region – unusually severe catastrophe events¹

(in USD millions, as of December 31, 2015)



*This USD 150 million cover is the same combined global occurrence / aggregate treaty presiding over the global catastrophe treaty. This cover can be used only once, either for aggregated losses or for an individual event.

¹ US Cat Treaty and Global Aggregate Cat Treaty renewed on January 1, 2015; Europe Cat Treaty and Global Cat Treaty renewed on April 1, 2015; and International Cat Treaty renewed on July 1, 2015.

² Lakeside Re III - Cat Bond

Reinsurance for natural catastrophes, aggregated – unusually frequent catastrophe events

(in USD millions, as of December 31, 2015)



* This USD 150 million cover is the same Combined Global Catastrophe Occurrence / Aggregate Treaty presiding over the Global Catastrophe Treaty. This cover can be used only once, either for aggregated losses or for an individual event.

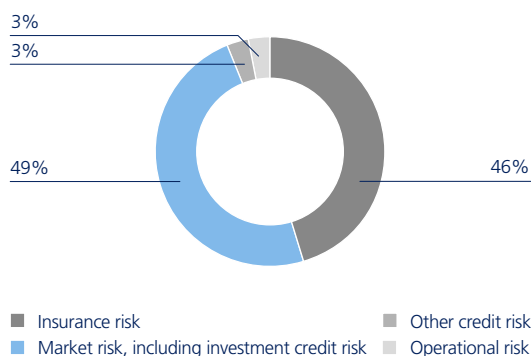
To complement existing treaties, the Group purchases catastrophe reinsurance specific to life insurance for its exposure to natural and man-made catastrophes.

Market risk including investment credit risk

Section highlights

Total Z-ECM capital required: USD 33 billion

(as of July 1, 2015)



Key risk and capital indicators

(Z-ECM, in USD billions)

	Q2 2013	Q2 2014	Q2 2015
Market risk	15.9	17.7	16.3

- In 2015 Zurich enhanced its market risk model; market risk and investment credit risk are now quantified in an integrated way.
- In 2015 the Group protected its capital from the potential exit of Greece from the Eurozone with a hedge, unwound in August 2015.

AUDITED

Market risk is the risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets. Risk factors include:

- Equity market prices
- Property market prices
- Interest rate risk
- Credit and swap spread changes
- Defaults of issuers
- Currency exchange rates

The Group manages the market risk of assets relative to liabilities on an economic total balance sheet basis. This is done to achieve the maximum risk-adjusted excess return on assets relative to the liability benchmark, while taking into account the Group's risk tolerance and local regulatory constraints.

The Group has policies and limits to manage market risk and keep its strategic asset allocation in line with its risk capacity. To control risk aggregation and ensure a consistent approach to constructing portfolios and choosing external asset managers, Zurich centrally manages certain asset classes to control aggregation of risk, and provides a consistent approach to constructing portfolios and selecting external asset managers. It diversifies portfolios, investments and asset managers, and regularly measures and manages market risk exposure. The Group has set limits on concentration in investments in single issuers and certain asset classes as well by how much asset interest rate sensitivities can deviate from liability interest-rate sensitivities. The Group also limits illiquid investments.

The Asset/Liability Management Investment Committee reviews and monitors Group strategic asset allocation and tactical boundaries, and monitors Group asset/liability exposure. The Group oversees the activities of local asset/liability management investment committees and regularly assesses market risks at both Group and local business levels. The economic effect of potential extreme market moves is regularly examined and considered when setting the asset allocation.

Risk assessment reviews include the analysis of the management of interest rate risk for each major maturity bucket and adherence to the aggregate positions with risk limits. The Group applies processes to manage market risks and to analyze market risk hotspots. Actions to mitigate risk are taken if necessary to manage fluctuations affecting asset/liability mismatch and risk-based capital.

Risk review *continued*

AUDITED

The Group uses derivative financial instruments to limit market risks arising from changes in currency exchange rates, interest rates and equity prices, from credit quality of assets and liabilities and commitments to third parties. The Group enters into derivative financial instruments mostly for economic hedging purposes and, in limited circumstances, the instruments may also meet the definition of an effective hedge for accounting purposes. The latter include cross-currency interest rate swaps in fair value hedges and cross-currency swaps in cash flow hedges of Zurich's borrowings, in order to mitigate exposure to foreign currency and interest rate risk. In compliance with Swiss insurance regulation, the Group's policy prohibits speculative trading in derivatives, meaning a pattern of 'in and out' activity without reference to an underlying position. The Group addresses the risks arising from derivatives through a stringent policy that requires approval of a derivative program before transactions are initiated, and by subsequent regular monitoring by Risk Management of open positions and annual reviews of derivative programs.

During 2015, the Group gradually increased market risk, in particular with equities and corporate bonds. However, due to uncertainties about the potential exit of Greece from the Eurozone, the Group implemented a macro equity hedge in April 2015 to protect against a drop of European equity assets. As of the end of August 2015, the Group unwound the hedge because the European bailout plan reduced the probability of such a tail event.

For more information on the Group's investment result, including impairments and the treatment of selected financial instruments, see note 6 of the consolidated financial statements. For more information on derivative financial instruments and hedge accounting, see note 7 of the consolidated financial statements.

Risk from equity securities and property

The Group is exposed to risks from price fluctuations on equity securities and property which could affect the Group's liquidity, reported income, surplus and regulatory capital position. Equity risk exposure includes common stocks, including equity unit trusts, private equity, common stock portfolios backing participating-with-profit policyholder contracts, and equities held for employee benefit plans. Exposure to property risk includes direct holdings in property, listed property company shares and funds, as well as property debt securities such as commercial and residential mortgages, commercial and residential mortgage-backed securities and mezzanine debt. Returns on unit-linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and property, but these risks are borne by policyholders. However, the Group is indirectly exposed to market movements from unit-linked contracts with respect to both earnings and economic capital. Market movements affect the amount of fee income earned when the fee income level is dependent on the valuation of the asset base. Therefore, the value of in-force business for unit-linked business can be negatively affected by adverse movements in equity and property markets.

The Group manages its risks from equity securities and property as part of the overall investment risk management process, and applies limits as expressed in policies and guidelines. Specifically, Zurich limits holdings in equities, real estate and alternative investments. In order to realize an optimal level of risk diversification, the strategy for equities is defined through a composite of market benchmark indices. The Group has the capability and processes in place to change the exposure to the key equity markets within a short time frame through the use of derivatives.

For additional information on equity securities and investment property, see note 6 of the consolidated financial statements.

Risk from interest rates and credit spreads

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Group is exposed to interest rate risk including from debt securities, reserves for insurance contracts, liabilities for investment contracts, employee benefit plans, and loans and receivables.

Zurich has limits on holdings in real assets and limits on deviations of asset interest rate sensitivities from liability interest rate sensitivities. The Group also manages credit spread risk, which describes the sensitivity of the values of assets and liabilities due to changes in the level or the volatility of credit spreads over the risk-free interest rate yield curves. Movements of credit spreads are driven by expected probability of default, expected losses in cases of defaults of issuers, the uncertainty of default probabilities and losses, as well as actual defaults of issuers.

Returns on unit-linked contracts, whether classified as insurance or investment contracts, are at the risk of the policyholder; however, the Group is exposed to fluctuations in interest rates in so far as they affect the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

AUDITED

Analysis of market risk sensitivities for interest rate, equity and credit spread risks

Basis of presentation – General Insurance and rest of the business

The basis of the presentation for tables 4, 5, and 6 is an economic valuation represented by the fair value for Group investments, IFRS insurance liabilities discounted at risk-free market rates (the Group describes risk-free market rates as swap rates) to reflect the present value of insurance liability cash flows and other liabilities, for example own debt. In the sensitivities, own debt does not include subordinated debt, which Zurich considers available to protect policyholders in a worst-case scenario.

Tables 4, 5 and 6 show the estimated economic market risk sensitivities of Group investments, including investment property, liabilities, including insurance and financial liabilities, and the net impact for General Insurance and the rest of the business. Positive values represent an increase in the balance, and values in parentheses represent a decrease. Mismatches in changes in value of assets relative to liabilities represent an economic risk to the Group. The net impact – the difference between the impact on Group investments and liabilities – represents the economic risk related to changes in market risk factors that the Group faces.

In determining the sensitivities, investments and liabilities are fully re-valued in the given scenarios. Each instrument is re-valued separately taking the relevant product features into account. Non-linear effects, where they exist, are reflected in the model. The sensitivities are shown after tax. They do not include the impact of transactions within the Group.

The impact of a 100 basis point decrease in interest rate yield curves in table 4 was restated for 2014 for General Insurance and rest of the business to allow for negative rates.

Sensitivities for the rest of the business include Farmers, Other Operating Businesses and Non-Core Businesses.

Basis of presentation – Global Life

Tables 4, 5 and 6 show the estimated economic sensitivity of the embedded value of the Global Life business to financial market movements. Actions that would be taken by management or policyholders are considered. For contracts with financial options and guarantees, such as some participating business, movements in financial markets can change the nature and value of these benefits. The dynamics of these liabilities are captured so that this exposure is quantified, monitored, managed and where appropriate, mitigated.

For more information, see the 'embedded value report 2015' at www.zurich.com/investor-relations/results-and-reports.

Risk review *continued*

AUDITED

Analysis of economic sensitivities for interest rate risk

Table 4 shows the estimated impacts of a 100 basis point increase/decrease in yield curves after consideration of hedges in place, as of December 31, 2015 and 2014, respectively.

Economic interest rate sensitivities	Table 4		
	In USD millions, as of December 31	2015	2014
	100 basis points increase in the interest rate yield curves		
	General Insurance business		
	Net impact after tax	(288)	(221)
	Global Life business		
	Total impact on Embedded Value	(276)	(65)
	Rest of the business		
	Net impact after tax	67	(47)
	100 basis points decrease in the interest rate yield curves		
	General Insurance business		
	Net impact after tax	247	72
	Global Life business		
	Total impact on Embedded Value	29	(222)
	Rest of the business		
	Net impact after tax	(157)	(11)

Analysis of economic sensitivities for equity risk

Table 5 shows the estimated impacts from a 10 percent decline in stock markets, after consideration of hedges in place, as of December 31, 2015 and 2014, respectively.

Economic equity price sensitivities	Table 5		
	In USD millions, as of December 31	2015	2014
	10% decline in stock markets		
	General Insurance business		
	Net impact after tax	(459)	(543)
	Global Life business		
	Total impact on Embedded Value	(289)	(301)
	Rest of the business		
	Net impact after tax	(31)	(61)

AUDITED

Analysis of economic sensitivities for credit spread risk

Table 6 shows the estimated impacts from a 100 basis points increase in corporate credit spreads, as of December 31, 2015 and 2014, respectively. The sensitivities apply to all fixed income instruments, excluding government, supranational and similar debt securities.

Table 6

Economic credit spread sensitivities

In USD millions, as of December 31	2015	2014
100 basis points increase in credit spreads		
General Insurance business		
Net impact after tax	(1,004)	(1,342)
Global Life business		
Total impact on Embedded Value	(1,056)	(884)
Rest of the business		
Net impact after tax	(220)	(423)

Limitations of the analysis for General Insurance and rest of the business:

- The sensitivities show the effects of a change of certain risk factors, while other assumptions remain unchanged.
- The interest rate scenarios assume a parallel shift of all interest rates in the respective currencies. They do not take into account the possibility that interest rate changes might differ by rating class; these are disclosed separately as credit spread risk sensitivities.
- The sensitivity analysis is based on economic net assets, and not on shareholders' equity or net income as set out in the consolidated financial statements.
- The sensitivity analysis is calculated after tax; the Group effective tax rate is 36.6 percent for 2015 and 27.0 percent for 2014.
- The equity market scenarios assume a concurrent movement of all stock markets.
- The sensitivity analysis does not take into account actions that might be taken to mitigate losses. Actions may involve changing the asset allocation, for example through selling and buying assets.
- The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent the Group's view of expected future market changes. In addition to the sensitivities, management uses stress scenarios to assess the impact of more severe market movements on the Group's financial condition. For more information on stress scenarios, see 'impact of market, credit, and insurance scenarios on Z-ECM (unaudited).'

Limitations of the analysis for Global Life:

- The sensitivities show the effects of a change in certain risk factors, while other assumptions remain unchanged, except where they are directly affected by the revised conditions.
- The market risk scenarios assume a concurrent movement of all stock markets and an unrelated parallel shift of all interest rates in different currencies.
- The assumptions on policyholder behavior, such as lapsing of policies, included in the sensitivity analysis for Global Life may be different from actual behavior. Therefore, the actual impact may deviate from the analysis.

Risks from defaults of counterparties

Debt securities

The Group is exposed to credit risk from third-party counterparties where the Group holds securities issued by those entities.

Table 7

Debt securities by rating of issuer

as of December 31	2015		2014	
	USD millions	% of total	USD millions	% of total
Rating				
AAA	29,228	21.2%	30,298	19.7%
AA	47,332	34.4%	58,011	37.8%
A	24,165	17.5%	27,513	17.9%
BBB	32,728	23.8%	33,962	22.1%
BB and below	4,235	3.1%	2,356	1.5%
Unrated	42	0.0%	1,508	1.0%
Total	137,730	100.0%	153,648	100.0%

Table 7 shows the credit risk exposure of debt securities, by issuer credit rating. As of December 31, 2015, 96.9 percent of the Group's debt securities is investment grade and 21.2 percent is rated 'AAA.' Downgrades of several Eurozone governments and related entities caused breaches of internal rating category limits; the breaches were approved. As of December 31, 2014, 97.5 percent of debt securities was investment grade and 19.7 percent was rated 'AAA.' The Group's investment policy prohibits non-investment-grade investments, unless specifically authorized. Where the Group identifies investments expected to be downgraded, it implements appropriate actions.

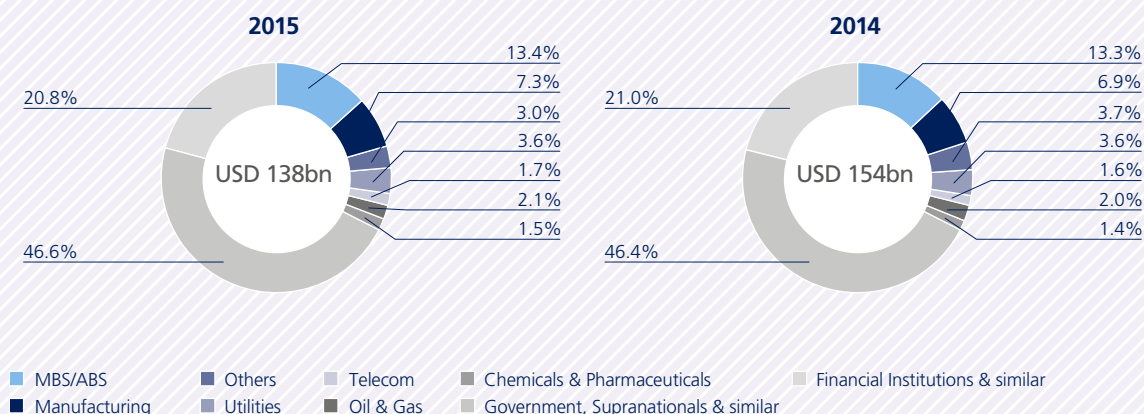
Risk review *continued*

AUDITED

The risk-weighted average issuer credit rating of the Group's debt securities portfolio was 'BBB' in 2015 and 'BBB+' in 2014.

Debt securities – credit risk concentration by industry

(%, as of December 31)



As of December 31, 2015, the largest concentration in the Group's debt securities portfolio was in governments, supranationals and similar at 46.6 percent. In all other categories, a total of USD 24.5 billion or 33.3 percent was secured. As of December 31, 2014, 46.4 percent of the Group's debt portfolio was invested in governments, supranationals and similar. In all other categories, a total of USD 35.9 billion or 44 percent was secured.

Table 8

in USD millions, as of December 31

	2015	2014
Germany	3,261	5,665
France	5,670	6,239
Austria	1,910	2,657
Belgium	2,015	2,184
Netherlands	1,355	2,041
Peripheral countries	15,344	14,847
Greece	–	–
Ireland	529	573
Italy	9,330	9,286
Portugal	515	532
Spain	4,970	4,456
Rest of Eurozone	794	1,128
Eurozone supranationals and similar	665	1,094
Total	31,014	35,853

The Group's debt exposure to Eurozone governments and supranationals & similar

In addition to debt exposure, the Group had sovereign loan exposure of USD 4.7 billion and USD 3.6 billion to Germany as of December 31, 2015 and 2014, respectively. For more information, see the 'other loans' section.

The second-largest concentration in the Group's debt securities portfolio is in financial institutions (including banks), at 20.8 percent, of which 38.4 percent is secured.

The third-largest concentration in the Group's debt securities portfolio is in structured finance securities (mortgage-backed securities (MBS)/asset-backed securities (ABS) and similar). Although credit risks of the underlying securities are diverse in nature, the Group also considers macro impacts that may affect structured finance sub-categories (e.g., auto or credit card ABS) in its credit assessments. Structured finance exposures are assessed on a look-through basis prior to acquisition and not merely on the strength of prevailing credit ratings or credit profiles.

AUDITED

Cash and cash equivalents

To reduce concentration, settlement and operational risks, the Group limits the amount of cash that can be deposited with a single counterparty. The Group also maintains an authorized list of acceptable cash counterparties.

Cash and cash equivalents amounted to USD 8.2 billion as of December 31, 2015 and USD 7.6 billion as of December 31, 2014. The risk-weighted average rating of the overall cash portfolio increased from 'BBB+' as of December 31, 2014 to 'A-' as of December 31, 2015. 60 percent of the total was with the ten largest global banks, whose risk-weighted average rating remained stable at 'A' as of December 31, 2015 and December 31, 2014.

Mortgage loans

The mortgage business is affected by local property market conditions and local legislation. Investment portfolio allocations made to mortgages take these factors into consideration, and are in line with the framework of the strategic asset allocation defined by the Group, and adapted and approved by local investment committees. Conservative lending criteria (i.e., maximum mortgage-loan to property-value ratios) and diversification of loans across many single borrowers, particularly in Germany and in Switzerland, help reduce potential loss. Furthermore, business units are required to clearly state criteria for determining borrower and collateral quality in their local mortgage policies. The Group sets requirements for local policies, and monitoring and reporting standards. The Group closely monitors performance of portfolios with respect to impairments and losses.

The Group's largest mortgage loan portfolios are in Germany (USD 2.6 billion) and in Switzerland (USD 3.6 billion); these are predominantly secured against residential property. In Switzerland, the underlying properties backing individual loans are revalued every 10 years. In Germany, the property valuation is not generally reassessed after the mortgage loan is granted. A less-frequent, or no revaluation of the underlying property means that reported loan-to-value (LTV) ratios will be higher (lower) than they would be if property prices had risen (fallen) since their valuation. For more details, see note 25 in the consolidated financial statements.

Other loans

The credit risk arising from other loans is assessed and monitored together with the fixed income securities portfolio. 51.8 percent of the reported loans are to governments, supranationals and similar, of which 94.4 percent are to the German Central Government or the German Federal States. Table 9 shows the composition of the loan portfolio by rating class. As of December 31, 2015, a total of USD 5.0 billion or 52.6 percent of loans are secured. As of December 31, 2014, a total of USD 6.0 billion or 55.5 percent of loans were secured.

Table 9

as of December 31

	2015		2014	
	USD millions	% of total	USD millions	% of total
Rating				
AAA	4,243	44.3%	4,998	46.1%
AA	696	7.3%	843	7.8%
A	1,702	17.8%	2,261	20.9%
BBB and below	1,624	17.0%	1,577	14.6%
Unrated	1,303	13.6%	1,155	10.7%
Total	9,569	100.0%	10,834	100.0%

Other loans
by rating
of issuer

Risk review *continued*

AUDITED

Derivatives

The positive replacement value of outstanding derivatives represents a credit risk to the Group. These instruments include interest-rate, currency, total-return and equity swaps, forward contracts and purchased options. A potential exposure also arises from possible changes in replacement values. The Group regularly monitors credit risk exposures arising from derivative transactions. Outstanding positions with external counterparties are managed through an approval process embedded in derivative programs.

To limit credit risk, derivative financial instruments are typically executed with counterparties rated 'A-' or better by an external rating agency, unless collateral is provided as per Zurich Risk Policy. The Group's standard practice is to only transact derivatives with those counterparties for which the Group has in place an ISDA Master Agreement, with a Credit Support Annex. This mitigates credit exposures from over-the-counter transactions due to close-out netting and requires the counterparty to post collateral when the derivative position is beyond an agreed threshold. The Group further mitigates credit exposures from derivative transactions by using exchange-traded instruments whenever possible.

Risk from currency exchange rates

Currency risk is the risk of loss resulting from changes in exchange rates. The Group operates internationally and therefore is exposed to the financial impact arising from changes in the exchange rates of various currencies. The Group's presentation currency is the U.S. dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in the euro, Swiss franc and British pound, as well as the U.S. dollar. On local balance sheets a currency mismatch may cause a balance sheet's net asset value to fluctuate, through either income or directly through equity. The Group manages this risk by matching foreign currency positions on local balance sheets within prescribed limits. Residual local mismatches are reported centrally to make use of the netting effect across the Group. Zurich hedges these residual local mismatches within an established limit through a central balance sheet. For information on net gains/losses on foreign currency transactions included in the consolidated income statements, see note 1 of the consolidated financial statements. The monetary currency risk exposure on local balance sheets is considered immaterial.

Differences arise when functional currencies are translated into the Group's presentation currency, the U.S. dollar. The Group applies net investment hedge accounting to protect against the impact that changes in certain exchange rates might have on selected net investments.

Table 10 shows the total IFRS equity's sensitivity to changes in exchange rates for the main functional currencies to which the Group is exposed. Positive values represent an increase in the value of the Group's total equity. See notes 1, 3 and 7 of the consolidated financial statements for additional information on foreign currency translation and transactions.

Table 10

in USD millions, as of December 31

10% increase in

	2015	2014
EUR/USD rate	584	825
GBP/USD rate	220	302
CHF/USD rate	153	(176)
BRL/USD rate	97	157
Other currencies/USD rates	525	573

The sensitivities show the effects of a change of the exchange rates only, while other assumptions remain unchanged. The sensitivity analysis does not take into account management actions that might be taken to mitigate such changes. The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent Zurich's view of expected future market changes. While table 10 shows the effect of a 10 percent increase in currency exchange rates, a decrease of 10 percent would have the converse effect.

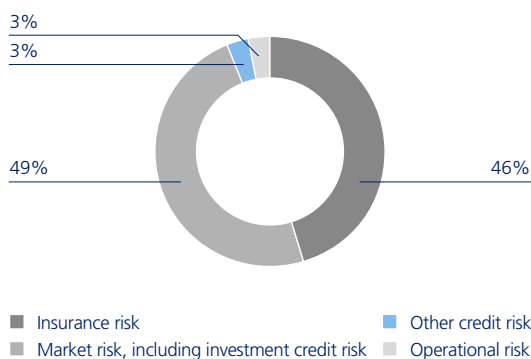
Sensitivity of the Group's total IFRS equity to exchange rate fluctuations

Other credit risk

Section highlights

Total Z-ECM capital required: USD 33 billion

(as of July 1, 2015)



Key risk and capital indicators

(Z-ECM, in USD billions)

	Q2 2013	Q2 2014	Q2 2015
Reinsurance credit risk	1.1	1.4	1.0

- The high and stable credit quality of the reinsurance assets portfolio and declining concentration risk allowed for a reduction in Z-ECM capital required.

AUDITED

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. See section 'risks from defaults of counterparties' for market-risk-related asset categories. The Group's exposure to other credit risk is derived from the following main categories of assets:

- Reinsurance assets
- Receivables

The Group's objective in managing credit risk exposures is to maintain them within parameters that reflect the Group's strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Group has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Group uses the ratings assigned by external rating agencies, qualified third parties, such as asset managers, and internal rating assessments. If external rating agencies' ratings differ, the Group generally applies the lowest, unless other indicators justify an alternative, which may be an internal credit rating.

The Group regularly tests and analyzes credit risk scenarios and prepares possible contingency measures that may be implemented, if the credit risk environment worsens.

The Group actively uses collateral to mitigate credit risks. Nevertheless, underlying credit risks are managed independently from the collateral. The Group has limits and quality criteria to identify acceptable letter-of-credit providers. Letters of credit enable Zurich to limit the risks embedded in reinsurance captives, deductibles, trade credit and surety.

Credit risk concentration

The Group limits and regularly monitors credit exposures to individual and related counterparties. The Group's exposure to counterparties' parent companies and subsidiaries is aggregated to include reinsurance assets, investments, certain insurance products and derivatives. There is no unapproved material exposure in excess of the Group's limits for counterparty aggregation as of December 31, 2015 or December 31, 2014.

On-balance sheet exposures are the main source of credit risk. Off-balance sheet exposures are related primarily to collateral used to protect underlying credit exposures on the balance sheet. The Group also has off-balance sheet exposures related to undrawn loan commitments of USD 8 million and USD 3 million as of December 31, 2015 and 2014, respectively. See note 23 of the consolidated financial statements for undrawn loan commitments.

Risk review *continued*

AUDITED

Credit risk related to reinsurance assets

The Group's Corporate Reinsurance Security Committee manages the credit quality of cessions and reinsurance assets. The Group typically cedes new business to authorized reinsurers with a minimum rating of 'A-' 73 percent and 67 percent of the business ceded to reinsurers that fall below 'A-' or are not rated is collateralized, as of December 31, 2015 and 2014 respectively. Of the business ceded to reinsurers that fall below 'A-' or are not rated, 32 percent and 50 percent were ceded to captive insurance companies, in 2015 and 2014, respectively.

Reinsurance assets include reinsurance recoverables (the reinsurers' share of reserves for insurance contracts) of USD 17.9 billion and USD 16.6 billion as of December 31, 2015 and 2014, respectively, and receivables arising from ceded reinsurance, gross of allowances for impairment, of USD 0.9 billion as of December 31, 2015 and 2014. Reserves for potentially uncollectible reinsurance assets amounted to USD 149 million as of December 31, 2015 and USD 135 million as of December 31, 2014. The Group's policy on impairment charges takes into account both specific charges for known situations (e.g., financial distress or litigation) and a general, prudent provision for unanticipated impairments.

Reinsurance assets in table 11 are shown before taking into account collateral such as cash or bank letters of credit and deposits received under ceded reinsurance contracts. Except for an immaterial amount, letters of credit are from banks rated 'A-' and better. Compared with December 31, 2014, collateral increased by USD 1.4 billion to USD 9.0 billion. The increase in collateral is due to the temporary reinsurance of a run-off portfolio, pending regulatory approval of the portfolio transfer to a third party.

Table 11 shows reinsurance premiums ceded and reinsurance assets split by rating.

Table 11

as of December 31

Reinsurance
premiums ceded and
reinsurance assets
by rating of reinsurer
and captive

Rating	2015				2014			
	Premiums ceded		Reinsurance assets		Premiums ceded		Reinsurance assets	
	USD millions	% of total	USD millions	% of total	USD millions	% of total	USD millions	% of total
AAA	72	0.9%	36	0.2%	63	1.0%	36	0.2%
AA	1,188	14.7%	4,770	25.6%	1,435	23.5%	5,314	30.6%
A	2,284	28.3%	8,271	44.3%	1,813	29.7%	7,264	41.8%
BBB	861	10.7%	1,244	6.7%	1,132	18.6%	1,968	11.3%
BB	325	4.0%	530	2.8%	375	6.1%	671	3.9%
B	258	3.2%	194	1.0%	55	0.9%	117	0.7%
Unrated	3,090	38.3%	3,617	19.4%	1,228	20.1%	2,017	11.6%
Total¹	8,078	100.0%	18,662	100.0%	6,101	100%	17,387	100.0%

¹ The value of the collateral received amounts to USD 9.0 billion and USD 7.6 billion as of December 31, 2015 and 2014, respectively. In 2014 collateral was under-reported by USD 1.9 billion.

AUDITED

Credit risk related to receivables

The Group's largest credit-risk exposure to receivables is related to third-party agents, brokers and other intermediaries, and arises where premiums are collected from customers to be paid to the Group, or to pay claims to customers on behalf of the Group. The Group has policies and standards to manage and monitor credit risk related to intermediaries. The Group requires intermediaries to maintain segregated cash accounts for policyholder money. The Group also requires that intermediaries satisfy minimum requirements of capitalization, reputation and experience, and provide short-dated business credit terms.

Receivables that are past due but not impaired should be regarded as unsecured, but some of these receivable positions may be offset by collateral. The Group reports internally on Group past-due receivable balances and strives to keep the balance of past-due positions as low as possible, while taking into account customer satisfaction.

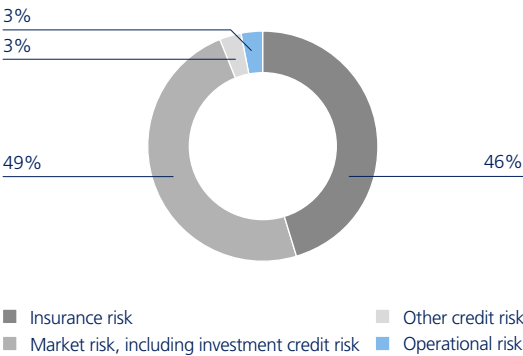
Receivables from ceded reinsurance are part of reinsurance assets and are managed accordingly. See notes 16 and 25 of the consolidated financial statements for additional information on receivables.

Risk review *continued*

Operational risk

Section highlights

Total Z-ECM capital required: USD 33 billion
(as of July 1, 2015)



Key risk and capital indicators
(Z-ECM, in USD billions)

	Q2 2013	Q2 2014	Q2 2015
Operational risk	1.1	1.1	0.9

- Mitigating and responding to cyber risks and threats to data security strengthen Zurich’s ability to handle and protect data and information in anticipation of a rapidly evolving external environment.
- In 2015 the Group enhanced the internal control framework for operations and investment management.

AUDITED

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events such as outsourcing, catastrophes, legislation, or external fraud.

Zurich has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk within the Group.

Within this framework, the Group:

- Uses a scenario-based approach to assess, model and quantify the capital required for operational risk for business units under extreme circumstances. This approach allows information to be compared across the Group and highlights the main scenarios contributing to the Z-ECM capital required. See chart ‘Z-ECM capital required for operational risk split by risk scenarios (unaudited)’ for more information.
- Documents and reviews loss events exceeding a threshold determined by the Zurich Risk Policy. Remedial action is taken to avoid a recurrence of such operational loss events.
- Conducts risk assessments where operational risks are identified for key business areas. Risks identified and assessed above a certain threshold must be mitigated. Risk mitigation plans are documented and tracked on an ongoing basis. In the assessments, the Group uses such sources of information as the Total Risk Profiling™ process, internal control assessments, and audit findings, as well as scenario modeling and loss event data.

The Group has specific processes and systems in place to focus on high priority operational matters such as managing information security and third party suppliers, as well as combating fraud.

Zurich mitigates and responds to cyber risks and threats to data security. Data held by Zurich’s business partners is protected through contractual arrangements and controls that are built into ‘cloud governance’ procedures designed to secure Zurich’s data in accordance with regulatory requirements and the Group’s information security policies.

The Group regularly assesses risks associated with strategic suppliers to verify that suppliers remain financially viable and able to deliver services, and that the Group is not exposed to geographic and supplier concentration risks.

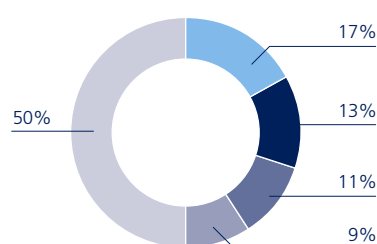
Preventing, detecting and responding to fraud is embedded in Zurich’s business. Both claims and non-claims fraud are included in the common framework for assessing and managing operational risks. For Z-ECM calculations, claims fraud is part of insurance risk and non-claims fraud is part of operational risk.

As part of Z-ECM, the Group uses a scenario-based approach to assess, model and quantify the capital required for operational risk under extreme circumstances and a very slight probability of occurrence. The chart below shows the operational risk scenarios that have the highest impact on Z-ECM capital required.

Z-ECM capital required for operational risk, split by risk scenario clusters

(as of July 1, 2015)

Risk scenario clusters contributing to the Z-ECM capital required for operational risk



- **Regulatory and Tax Compliance:** This risk cluster relates to possible non-compliance with applicable laws and regulations, leading to a range of consequences. It includes fines and penalties, litigation, compensation to policyholders, increased regulatory scrutiny, financial losses and increased cost of compliance, as well as consequences from a possible failure to comply with tax requirements.
- **Market Abuse, Mis-selling and Conduct of Business:** This risk cluster relates to the possibility that staff, processes or systems may operate in ways that lead to inappropriate conduct of business in relation to the customer. It includes the possibility of investigations, sanctions and fines imposed on Zurich as a company or any member of staff as a result of market abuse, mis-selling practices leading to regulatory breach or increased compensation.
- **M&A – Due Diligence and Integration:** This risk cluster relates to poor execution of both the due diligence and the post-M&A integration processes. It includes the understatement of liabilities and required investments, operational or legal risks in the acquired business, inadequate transaction decisions, loss of key staff, inability to realize synergies or deliver benefits.
- **Outsourcing:** This risk cluster relates to the need to exit a strategic supplier arrangement for (i) poor service quality; or (ii) a foreseeable disruption in services to financial distress of the ultimate parent company.
- **Other scenarios, e.g. project management, employment malpractice, record retention, licensing.**

Risk management and internal controls

The Group considers controls to be key instruments for monitoring and managing operational risk. The Board has overall responsibility for the Group's risk management and internal controls, in particular for their adequacy and integrity. The Group's internal control system increases the reliability of Zurich's financial reporting, makes operations more effective, and aims to ensure legal and regulatory compliance. The internal controls system is designed to manage rather than eliminate the material risk that business objectives might not be achieved. It can provide only reasonable, not absolute, assurance against material financial misstatement or loss.

The Group encourages risk awareness and understanding of controls with communication and training. Primary risk management and internal control systems are established at Group level and implemented Group-wide.

Management is responsible for identifying, evaluating and addressing significant risks, and designing and maintaining internal controls. Key processes and controls in the organization are subject to reviews by management, Risk Management, Group Audit and Group Compliance. Significant risks and the mitigation actions are reported regularly to the Risk and Audit Committees of the Board.

In 2015 the Group further enhanced specific areas of the internal control framework, focusing on significant financial reporting controls as well as operational key controls in the areas of investment management, operations, underwriting and claims. An internal control certification process is conducted regularly by local business units throughout the Group.

Significant controls are assessed for their design and operating effectiveness. Significant control issues or issues affecting more than one business unit may be categorized as having Group-level significance. The Board's Risk and Audit Committees monitor resolution of such issues.

The Group's Disclosure Committee, led by the Group Controller, assesses the content, accuracy and integrity of the disclosures and the effectiveness of the internal controls over financial reporting. The conclusions are reported to the Group Executive Committee and the Board Audit Committee, which may provide further challenge. The Board reviews and approves results announcements and the annual report. This ensures that both the Board and management have sufficient opportunity to review and challenge the Group's financial statements and other significant disclosures before they are made public.

Risk review *continued*

The Board Risk Committee has reviewed the effectiveness of the Group's risk management system, including the Group's risk tolerance and the enterprise-wide risk governance framework, and the Board Audit Committee has reviewed the effectiveness of the system of control over financial reporting for the calendar year 2015 and have reported to the Board accordingly. Issues identified have been communicated to the Board and either have been or are being addressed by the Group.

The internal and external auditors also regularly report conclusions, observations and recommendations that arise as a result of their independent reviews and testing of internal controls over financial reporting and operations.

Liquidity risk

AUDITED

Liquidity risk is the risk that the Group may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. Zurich's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under normal conditions and in times of stress. To achieve this, the Group assesses, monitors and manages its liquidity needs on an ongoing basis.

Group-wide liquidity management policies and specific guidelines govern how local businesses plan, manage and report their local liquidity and include regular stress tests for all major carriers within the Group. The stress tests use a standardized set of internally defined stress events, and are designed to provide an overview of the potential drain on liquidity if the Group had to recapitalize local balance sheets.

Similar guidelines apply at the Group level, and detailed liquidity forecasts are regularly conducted, based on local businesses' input and the Group's forecasts. As part of its liquidity management, the Group maintains sufficient cash and cash equivalents and high-quality, liquid investment portfolios to meet outflows under expected and stressed conditions. The Group also maintains internal liquidity sources that cover the Group's potential liquidity needs, including those that might arise in times of stress. The Group takes into account the amount, availability and speed at which these sources can be accessed. The Group has access to diverse funding sources to cover contingencies, including asset sales, external debt issuance and making use of committed borrowing facilities or letters of credit. The Group maintains a range of maturities for external debt securities. A potential source of liquidity risk is the effect of a downgrade of the Group's credit rating. This could affect the Group's commitments and guarantees, potentially increasing liquidity needs. This risk, and mitigating actions that might be employed, are assessed on an ongoing basis within the Group's liquidity framework.

The Group limits the percentage of the investment portfolio that is not readily realizable and regularly monitors exposures to take action if necessary to maintain an appropriate level of asset liquidity. During 2015, the Group was within its limits for asset liquidity. The fair value hierarchy tables in note 24 of the consolidated financial statements segregate financial assets into three levels, reflecting the basis for how fair value was determined. These tables indicate the high degree of liquidity of the Group's investments.

See note 19 of the consolidated financial statements for more information on debt obligation maturities and credit facilities and note 23 of the consolidated financial statements for information on commitments and guarantees. The Group's on-going liquidity monitoring includes regular reporting to the executive management and quarterly reporting to the Risk Committee of the Board, covering aspects such as the Group's actual and forecast liquidity, possible adverse scenarios that could affect the Group's liquidity and possible liquidity needs from the Group's main subsidiaries, including under conditions of stress.

For more information on the Group's other financial liabilities, see note 17 of the consolidated financial statements. See note 6 of the consolidated financial statements for information on the maturity of debt securities for total investments.

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis. See note 23 of the consolidated financial statements.

AUDITED

Strategic risk and risks to the Group's reputation

Strategic risk

Strategic risk corresponds to the risk that Zurich is unable to achieve its strategic targets.

Strategic risks can arise from:

- Inadequate assessment of strategic plans
- Ineffective implementation of strategic plans
- Unexpected changes to assumptions underlying strategic plans

Zurich defines the strategy as the long term plan of action designed to allow the Group to achieve its goals and aspirations.

The Group works to reduce unintended risks of strategic business decisions through its risk assessment processes and tools, including the Total Risk Profiling™ (TRP) process. As part of the regular TRP process, the Group Executive Committee assessed in 2015 the key strategic risk scenarios, looking at 2016 and beyond. The Group TRP identified and assessed risks in executing the Group's transformation program, delivering on its customer strategy, information security and cyber risks. We have put mitigating actions in place to manage and carry out the Group's transformation; to meet the challenge of evolving customer needs and changes in the distribution model affected by digitalization; and to strengthen Zurich's ability to handle and protect data and information in anticipation of a rapidly evolving external environment.

The Group evaluates the risks of M&A transactions both from a quantitative and a qualitative perspective. The Group conducts risk assessments of M&A transactions to evaluate risks specifically related to integrating acquired businesses.

Risks to the Group's reputation

Risks include acts or omissions by the Group or any of its employees that could damage the Group's reputation or lead to a loss of trust among its stakeholders. Every risk type has potential consequences for Zurich's reputation. Effectively managing each type of risk helps reduce threats to Zurich's reputation.

The Group aims to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of Zurich Basics, the Group's code of conduct, which promotes integrity and good business practice. The Group centrally manages certain aspects of reputation risk, for example, communications, through functions with the appropriate expertise.

Disclaimer and cautionary statement

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

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

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

Persons requiring advice should consult an independent advisor.

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

THIS COMMUNICATION DOES NOT CONTAIN AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES; SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION OR EXEMPTION FROM REGISTRATION, AND ANY PUBLIC OFFERING OF SECURITIES TO BE MADE IN THE UNITED STATES WILL BE MADE BY MEANS OF A PROSPECTUS THAT MAY BE OBTAINED FROM THE ISSUER AND THAT WILL CONTAIN DETAILED INFORMATION ABOUT THE COMPANY AND MANAGEMENT, AS WELL AS FINANCIAL STATEMENTS.