Annual Report 2017

# Zurich Insurance Company Group

Zurich Insurance Group is a leading multi-line insurer that serves its customers in global and local markets. With about 53,000 employees, it provides a wide range of property and casualty, and life insurance products and services in more than 210 countries and territories. Zurich's customers include individuals, small businesses, and mid-sized and large companies, as well as multinational corporations. The Group is headquartered in Zurich, Switzerland.

## Contents

# Risk review

The risk review is an integral part of the consolidated financial statements. Risk and capital are managed at the Zurich Insurance Group, segment, region and business unit level according to our risk and capital management framework. The principles of the Zurich Insurance Group's enterprise risk management described in the 'risk and capital management section' are equally applicable to the Zurich Insurance Company Ltd (ZIC) and its consolidated subsidiaries (collectively the 'ZIC Group'). The figures presented are prepared on a ZIC Group basis.

## Contents

# Risk management

## Objectives of risk management

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

The major risk management objectives at Zurich Insurance Group are to:

- Support achievement of the Zurich Insurance Group strategy and protect capital, liquidity, earnings and reputation by monitoring that risks are taken within the Zurich Insurance Group's risk tolerance
- Enhance value creation by embedding disciplined risk taking in the company culture and contribute to an optimal risk-return profile where risk reward trade-offs are transparent, understood, and risks are appropriately rewarded
- Efficiently and effectively diversify risk and mitigate unrewarded risks
- Encourage openness and transparency to enable effective risk management
- Support decision-making processes by providing consistent, reliable and timely risk information
- Protect Zurich Insurance Group'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 Zurich Insurance Group's main risk governance document; it sets standards for effective risk management throughout the Zurich Insurance Group. The policy describes the Zurich Insurance Group's risk management framework, identifies Zurich Insurance Group's principal risk types and defines the Zurich Insurance Group's appetite for risks at Group level. Risk-specific policy manuals provide guidelines and procedures to implement the principles in the Zurich Risk Policy. Ongoing assessments verify that requirements are met.

The Zurich Insurance Group regularly reports on its risk profile at local and Zurich Insurance Group levels. The Zurich Insurance Group has procedures to refer risk issues to senior management and the Board of Directors in a timely way. To foster transparency about risk, the Board receives quarterly risk reports and risk updates. In 2017, reporting was enhanced with in-depth risk insights into ongoing topics such as information security and cyber risk; insurance market trends; the potential adverse impact that accelerating inflation and expectations about inflation could have on reserves; and the potential effects on the Zurich Insurance Group of such topical issues as the Brexit negotiations and geopolitical developments in Asia and Latin America.

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

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

# Risk review (continued)

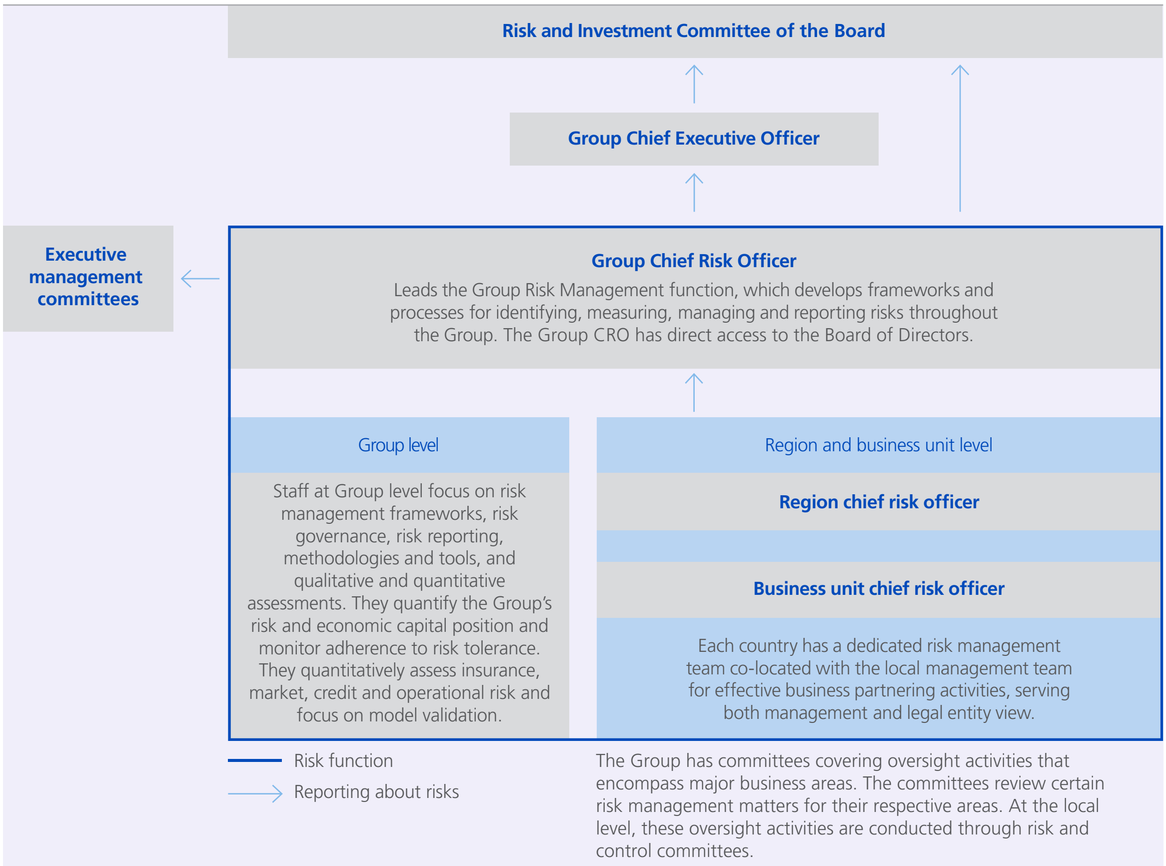
### Risk-based remuneration

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

## Risk governance and risk management organization

### Risk management organization

The Zurich Insurance Group Risk Management function is a global function, led by the Zurich Insurance Group CRO.




The risk function is independent of the business by being a vertically integrated function where all risk employees globally directly report into the Zurich Insurance Group's CRO. Risk officers are embedded in the business, positioning them to support and advise, and independently challenge, business decisions from a risk perspective. As business advisers on risk matters, the risk officers, equipped with technical risk skills as well as business skills, help foster a risk-aware culture in the business.

# Capital management

## Objectives of capital management

The Zurich Insurance 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 Zurich Insurance Group endeavors to manage its shareholders' equity under IFRS to balance maximization of shareholder value and constraints imposed by its economic framework, rating agencies and regulators. As of December 31, 2017, Zurich Insurance Group's shareholder's equity of USD 33.1 billion, subordinated debts of USD 6.9 billion and senior financial debts not maturing within the next year of USD 2.9 billion were part of the capital available in the Zurich Insurance 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.

Zurich Insurance Group strives to simplify its legal entity structure to reduce complexity and increase fungibility of capital.

## Capital management framework

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

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

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

## Capital management program

The Zurich Insurance Group's capital management program comprises various actions to optimize shareholders' total return and to meet capital needs, while enabling Zurich Insurance Group 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 Zurich Insurance 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 2017, the Zurich Insurance Group paid a dividend out of retained earnings and the capital contribution reserve, redeemed senior debt, and called hybrid debts that had been pre-financed during 2016.

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 Company Ltd faces no legal restrictions on dividends it may pay to its shareholders. As of December 31, 2017, the amount of the general legal reserve exceeded 20 times the paid-in share capital.

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

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

## Insurance financial strength rating

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

The Zurich Insurance Group maintained its strong rating level in 2017. On Dec 8, 2017, AM Best modified the rating outlook from negative to stable while reaffirming the A+ (Superior) Financial Strength Rating (FSR) and aa- Issuer Credit Rating (ICR) of the Zurich Insurance Company Ltd and of its subsidiaries rated by AM Best. With this, AM Best recognized "the positive impact of the strong corrective actions management has taken on the Zurich Insurance Group's Property & Casualty (P&C) operations." This change is also based on the recognition of the Zurich Insurance Group's diversified sources of earnings in terms of businesses and geographies, as well as the strength of the balance sheet.

Standard & Poor's sees Zurich Insurance Group's ERM as 'very strong,' based on a positive view of our risk management culture, risk controls, emerging risk management, risk models and strategic risk assessment.

As of December 31, 2017, the IFSR of Zurich Insurance Company Ltd (ZIC), the main operating entity of the Zurich Insurance Group, was 'AA–/Stable' by Standard and Poor's, 'Aa3/Stable' by Moody's, and 'A+ (Superior)/Stable' by A.M. Best.

## Regulatory capital adequacy

The Zurich Insurance 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 Zurich Insurance 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. In addition to the minimum capital required to comply with the solvency requirements, the Zurich Insurance Group aims to hold an adequate buffer to ensure regulated subsidiaries meet local capital requirements.

### Regulatory requirements in Switzerland

Under the Swiss Solvency Test (SST), insurance companies and insurance groups can apply to use company-specific internal models to calculate risk-bearing and target capital, as well as the SST ratio. The SST ratio has to be calculated as per January 1 and must be submitted to the Swiss Financial Market Supervisory Authority (FINMA).

In 2017, Zurich Insurance Group enhanced its internal model and submitted it to FINMA for approval. Enhancements include changes that were necessary to meet evolving FINMA requirements.

## Regulatory requirements in other countries

### Regulatory requirements in the European Economic Area (EEA)

The complete Solvency II framework was introduced on January 1, 2016. Solvency II is 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.

Zurich Insurance plc (Ireland) applies the internal model, which aligns the Solvency II approach with that used for Z-ECM, and has received approval from the Central Bank of Ireland accordingly. Other EEA subsidiaries use the Solvency II standard formula.

### Regulatory requirements in the U.S.

In the U.S., required capital is determined to be 'company action level risk-based capital' calculated using the National Association of Insurance Commissioners' risk-based capital model. This method, which builds on regulatory accounts, measures the minimum amount of the 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. Several jurisdictions (e.g., Chile, Brazil, Mexico and Japan) have taken approaches similar to Solvency II.

# Analysis by risk type

## Insurance risk

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance cash flows. The profitability of insurance business is also susceptible to business risk in the form of unexpected changes in expenses, policyholders' behavior, and fluctuations in new business volumes. The exposure is transferred to Zurich Insurance Group through the underwriting process. Zurich Insurance Group actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. Zurich Insurance Group 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 Zurich Insurance Group centrally manages reinsurance treaties.

### Property and casualty insurance risk

Property and casualty risk comprises premium and reserve risk, catastrophe risk, and business risk. Premium and reserve risk covers uncertainties in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. Business risk for property & casualty predominantly relates to unexpected increases in the expenses relating to claims handling, underwriting, and administration. The following provides an overview of the ZIC Group's main lines of business:

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

The Zurich Insurance Group's underwriting strategy takes advantage of the diversification of property and casualty risks across lines of business and geographic regions. Zurich Insurance Group's underwriting governance is applicable throughout the Zurich Insurance Group.

Underwriting discipline is a fundamental part of managing insurance risk. The Zurich Insurance Group sets limits on underwriting capacity, and delegates authority to individuals based on their specific expertise. The Zurich Insurance Group sets appropriate underwriting and pricing guidelines, which are monitored regularly. Technical reviews confirm whether underwriters perform within authorities and adhere to underwriting philosophies and policies. The Zurich Insurance Group has governance procedures to review and approve potential new products, in order 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. Property and casualty 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 Zurich Insurance 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 Insurance Group's economic view on inflation and specific claims activity, and feeds into actuarial models and Zurich's underwriting processes and pricing. To ensure a common understanding of business insights and new trends for reserve analysis, financial plans, underwriting and pricing decisions, the Zurich Insurance Group has established a culture of continuous cross-functional collaboration. For this, underwriting, actuarial (pricing and reserving), claims, finance, sales and distribution, risk engineering and risk management contribute to quarterly meetings on local and Zurich Insurance Group level.

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

In addition to the specific risks insured, the Zurich Insurance Group is exposed to losses that could arise from natural and man-made catastrophes. The main concentrations of risks arising from such potential catastrophes are regularly reported to executive management. The most important peril regions and natural catastrophes are U.S. and Caribbean tropical cyclone, Europe windstorm and California earthquake.

Tables 1.a and 1.b show the ZIC Group's concentration of risk within the Property & Casualty business by region and line of business based on direct written premiums before reinsurance. Property & Casualty premiums ceded to reinsurers (including retrocessions) amounted to USD 6.5 billion and USD 7.0 billion for the years ended December 31, 2017 and 2016, respectively. Reinsurance programs are managed on a global basis, and therefore, net premium after reinsurance is monitored on an aggregated basis.

**Table 1.a**

**Property & Casualty – Direct written premiums and policy fees by line of business – current period**

| in USD millions, for the year ended December 31, 2017 | Motor | Property | Liability | Special lines | Worker injury | Total |
|---|---|---|---|---|---|---|
| Europe, Middle East & Africa | 4,459 | 3,869 | 1,927 | 1,895 | 335 | 12,486 |
| North America | 1,750 | 2,691 | 3,175 | 3,864 | 2,934 | 14,414 |
| Other regions | 1,472 | 1,184 | 341 | 1,646 | 138 | 4,781 |
| **Total** | **7,681** | **7,745** | **5,443** | **7,405** | **3,408** | **31,681** |

**Table 1.b**

**Property & Casualty – Direct written premiums and policy fees by line of business – prior period**

| in USD millions, for the year ended December 31, 2016 | Motor | Property | Liability | Special lines | Worker injury | Total |
|---|---|---|---|---|---|---|
| Europe, Middle East & Africa | 4,715 | 4,045 | 2,026 | 1,955 | 361 | 13,102 |
| North America | 1,689 | 2,733 | 3,258 | 3,819 | 2,844 | 14,342 |
| Other regions | 1,382 | 1,196 | 357 | 1,249 | 143 | 4,326 |
| **Total** | **7,785** | **7,973** | **5,641** | **7,023** | **3,347** | **31,770** |

## Analysis of sensitivities for property and casualty risks

Tables 2.a and 2.b show the sensitivity of net income before tax and the sensitivity of net assets, using the ZIC 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 Zurich Insurance Group also monitors insurance risk by evaluating extreme scenarios, taking into account the non-linear effects of reinsurance contracts.

**Insurance risk sensitivity for the Property & Casualty business – current period**

Table 2.a

| in USD millions, for the year ended December 31, 2017 | Europe, Middle East & Africa | North America | Asia Pacific | Latin America | Reinsurance | Total |
|---|---|---|---|---|---|---|
| **+1% in net loss ratio** | | | | | | |
| Net income before tax | (119) | (105) | (19) | (19) | 1 | (260) |
| Net assets | (81) | (72) | (13) | (13) | 1 | (179) |

**Insurance risk sensitivity for the Property & Casualty business – prior period**

Table 2.b

| in USD millions, for the year ended December 31, 2016 | Europe, Middle East & Africa | North America | Asia Pacific | Latin America | Reinsurance | Total |
|---|---|---|---|---|---|---|
| **+1% in net loss ratio** | | | | | | |
| Net income before tax | (128) | (100) | (19) | (16) | 2 | (261) |
| Net assets | (87) | (68) | (13) | (11) | 2 | (178) |

## Life insurance risk

The risks associated with life insurance include:

Life liability risk

- Mortality risk – when on average, the death incidence among the policyholders is higher than expected
- Longevity risk – when on average, annuitants live longer than expected
- Morbidity risk – when on average, the incidence of sickness or disability among the policyholders is higher or recovery rates from disability are lower than expected

Business risk

- 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 insufficient to cover fixed acquisition expenses
- Market risk – the risk associated with the Zurich Insurance 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 life business.

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

Unit-linked products are designed to reduce much of the market and credit risk associated with the Zurich Insurance Group's traditional business. Risks that are inherent in these products are largely passed on to the policyholder, although a portion of the Zurich Insurance Group's management fees is linked to the value of funds under management, and hence is 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 adverse 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 Zurich Insurance 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 Zurich Insurance Group has a dynamic hedging strategy to reduce the investment risk associated with the closed book of variable annuities written by its U.S. subsidiary Zurich American Life Insurance Company (ZALICO). This exposure has fallen substantially as a result of several policy buy-back programs since 2015.

The Zurich Insurance Group is also exposed to investment and surrender risks related to bank-owned life insurance contracts sold in the U.S. These risks have reduced significantly in recent years as several major clients have switched into less risky investment divisions. 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 and variable annuity business in the U.S. containing minimum guaranteed death benefits) expose Zurich Insurance Group to financial losses that may arise as a result of adverse movements in interest rates. These guarantees are managed through a combination of asset-liability management and hedging.

The Zurich Insurance Group defines concentration risk in the 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 ZIC Group's concentration of risk within Life by region and line of business based on reserves for life insurance on a net basis. These reserves for life insurance also include policyholder surplus reserves with a loss absorbing capacity, predominantly in Germany (USD 8.2 billion) and the UK (USD 0.6 billion). The ZIC 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)

Table 3

**Reserves, net of reinsurance, by region**

| in USD millions, as of December 31 | Unit-linked insurance contracts | | Other life insurance liabilities | | Total reserves | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Life** | | | | | | |
| Europe, Middle East & Africa | 46,802 | 40,668 | 80,499 | 72,666 | 127,302 | 113,333 |
| of which: | | | | | | |
| United Kingdom | 18,699 | 17,359 | 3,051 | 2,618 | 21,750 | 19,977 |
| Germany | 17,178 | 14,183 | 39,593 | 35,159 | 56,771 | 49,341 |
| Switzerland | 731 | 718 | 18,063 | 17,586 | 18,794 | 18,304 |
| Italy | 1,073 | 394 | 4,148 | 3,046 | 5,220 | 3,440 |
| Ireland | 3,133 | 2,832 | 2,143 | 1,909 | 5,276 | 4,740 |
| Spain | 856 | 813 | 11,157 | 10,320 | 12,014 | 11,133 |
| Zurich international | 4,784 | 4,068 | 212 | 334 | 4,996 | 4,402 |
| Rest of Europe, Middle East & Africa | 349 | 302 | 2,131 | 1,694 | 2,480 | 1,996 |
| North America[1] | 9,298 | 885 | 840 | 503 | 10,138 | 1,388 |
| Asia Pacific | 584 | 469 | 2,667 | 2,513 | 3,251 | 2,982 |
| Latin America | 13,687 | 11,961 | 5,021 | 4,657 | 18,708 | 16,618 |
| Subtotal | 70,371 | 53,983 | 89,027 | 80,339 | 159,398 | 134,322 |
| **Other businesses[1, 2]** | **5,042** | **11,546** | **7,733** | **10,205** | **12,775** | **21,752** |
| **Total** | **75,413** | **65,530** | **96,760** | **90,544** | **172,173** | **156,074** |

[1] In 2017, the ZIC Group transferred a portfolio of stable value products (SVP) marketed with life insurance policies (Bank Owned Life Insurance, BOLI) from Non-Core Businesses (part of Other businesses) to Life. The change resulted in a transfer of USD 8.3 billion of investments for unit-linked contracts and of reserves for unit-linked contracts.
[2] The Other businesses are defined in note 27 of the consolidated financial statements.

## Analysis of sensitivities for life insurance risk

The Zurich Insurance Group uses market-consistent embedded value reporting principles, which allow Zurich Insurance Group to increase its understanding of, and report on, the risk profile of its life products, and how these risks would change under different market conditions. Embedded value is a measure that markets use to value life businesses. For more information, see the 'embedded value report 2017' (unaudited but subject to assurance review) at www.zurich.com/investor-relations/results-and-reports.

## Modeling natural catastrophes

While specific catastrophes are unpredictable, modeling helps to determine potential losses and the likelihood of such losses. The Zurich Insurance 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 Insurance Group buys.

To have a consistent approach and form a global perspective on accumulations, the Zurich Insurance Group models property and casualty insurance exposures in a center of excellence, which works with local businesses to help improve the overall quality of data.

The Zurich Insurance Group models potential losses from property policies in hazard-prone areas with material exposure and from workers' compensation policies covering earthquakes in the U.S. in California, the Pacific Northwest and New Madrid Seismic Zone. Other non-property-related losses are estimated based on adjustments. Risk modeling mainly addresses climate-induced perils such as windstorms, river floods, tornadoes, hailstorms, and geologically induced perils such as earthquakes.

The Zurich Insurance 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 Advisory Council for Catastrophes, a group of scientists associated with leading research organizations such as the U.S. National Center for Atmospheric Research, the U.S. Geological Survey and the Intergovernmental Panel on Climate Change. Furthermore, Zurich is a Governor Sponsor of the Global Earthquake Model (GEM) Foundation, a shareholder of PERILS AG, and a member of the Risk Prediction Initiative (RPI) and the Oasis Loss Modeling Framework. Zurich Insurance Group validates modeling results by comparing them with claims experience.

## Risks from man-made catastrophes

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

For terrorism, the Zurich Insurance Group reviews and aggregates worker injury, property and life risk exposures to identify areas of significant concentration and assesses other lines of business, such as liability and auto, although the potential exposure is not as significant. The data allow underwriters to evaluate how insuring a particular customer's risk might affect Zurich Insurance Group's overall exposure. Zurich Insurance Group uses a vendor-provided catastrophe model to evaluate potential exposures in every major U.S. city and selected cities in Europe. The Zurich Insurance Group undertakes more detailed and frequent analyses for cities in which Zurich Insurance Group has greater exposure. The Zurich Insurance Group's analysis for the property and casualty business has shown that its exposures outside of North America are lower, in a large part due to government-provided pools; even so, the Zurich Insurance Group assesses the risk for countries with the potential for significant net exposure. The Zurich Insurance Group periodically monitors accumulation limits for these and other areas. Outside the modeled areas, exposure concentrations are identified directly on Zurich's Risk Exposure Data Store (REDS), a system that stores information about Zurich Insurance Group's location-based exposure to risk in a single place. Exposure concentrations for location-based man-made scenarios other than terrorism include, for example, industrial explosions at global ports, which are also identified in REDS.

The Zurich Insurance Group models the impact from cyber scenarios. In 2017, a cyber-risk expert was newly appointed as a member of the Advisory Council for Catastrophes.

## Reinsurance for Property & Casualty and Life

The Zurich Insurance Group's objective in purchasing reinsurance is to provide market-leading capacity for customers while protecting the balance sheet, supporting earnings volatility management, and achieving capital efficiency. The Zurich Insurance Group follows a centralized reinsurance purchasing strategy for both Property & Casualty (P&C) and Life, and bundles programs, where appropriate, to benefit from diversification and economies of scale. In support of the Zurich Insurance Group's empowerment-based management model and to align risk-bearing capacities between the Zurich Insurance Group and individual country operations, a new internal reinsurance vehicle was introduced in 2017. In addition, to actively manage and reduce potential claims-recovery risks on facultative cessions and to support the strategy on operational excellence, the Zurich Insurance Group started to tailor specific facultative property and casualty facilities. Operational excellence was also the driver for the consolidation of several individual 'property per risk' treaties into one global protection.

The Zurich Insurance Group structures and aligns its external reinsurance protection to its capital position to achieve an optimum risk-return ratio. This includes a participation in the underlying risks through self-retentions. The Zurich Insurance Group manages its central reinsurance purchasing according to these principles. The cession rate for Property & Casualty was 19.7 percent and 21.2 percent as of December 31, 2017 and December 31, 2016, respectively. The cession rate for Life was 8.0 percent and 4.7 percent as of December 31, 2017 and December 31, 2016, respectively. The increased Life reinsurance cession is predominantly due to transferring the Bansabadell Vida Life portfolio reinsurance to an external reinsurer.

The Zurich Insurance Group uses traditional and collateralized reinsurance markets to protect itself against extreme single events, multiple event occurrences across regions, or increased frequency of events. Specifically, to protect the Zurich Insurance Group against man-made and natural catastrophe scenarios, Zurich Insurance Group arranges per event and annual aggregate global covers as illustrated on the graph on the next page.

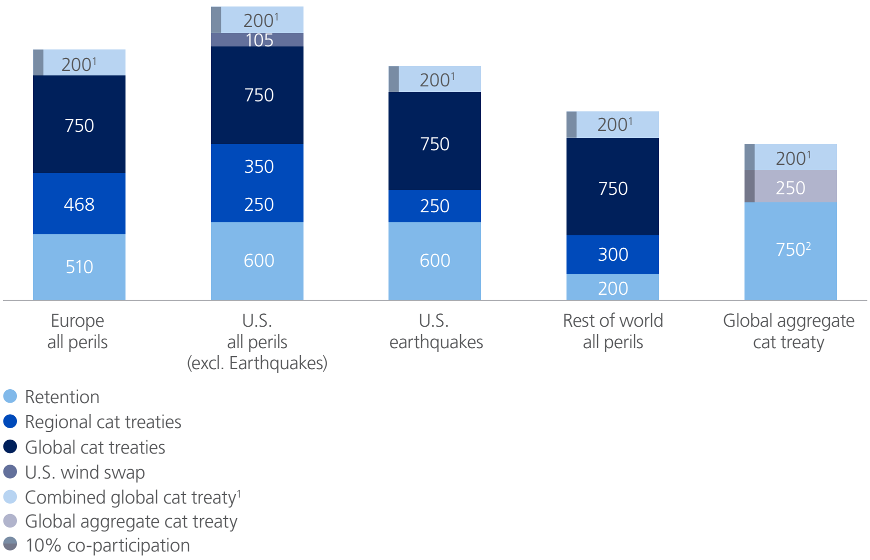
The Zurich Insurance Group participates in the underlying risks through its retention and through its co-participation in excess layers. The contracts are on a loss-occurrence basis except the Global Aggregate Catastrophe cover, which operates on an annual aggregate basis. The current catastrophe covers are placed annually with the exception of the USD 750 million Global Catastrophe treaty, which is a three-year treaty expiring in 2019. In addition to these covers, the Zurich Insurance Group has some local catastrophe covers, a bilateral risk swap, and various lines of business-specific risk treaties in place. These covers are reviewed continuously and are subject to change going forward.

Major changes in 2017 included the significantly decreased attachment point of the Global Aggregate Catastrophe treaty, which supports a superior earnings protection for higher-frequency catastrophe scenarios, and the increased attachment point of the U.S. catastrophe towers which was counterbalanced by an increased cession of the inuring U.S. Property Quota Share treaty.

Risk review (continued)

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

**2017 Group catastrophe reinsurance protection**
USD millions, as of December 31, 2017




[1] This cover can be used only once, either for aggregated losses or for an individual occurrence or event.
[2] Franchise deductible of USD 25 million, i.e. losses greater than USD 25 million count toward the erosion of the retention (annual aggregate deductible).

## Market risk, including investment credit risk

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

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

The Zurich Insurance 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 Zurich Insurance Group's risk appetite and tolerance and local regulatory constraints.

The Zurich Insurance Group has policies and limits to manage market risk and keep its strategic asset allocation in line with its risk capacity. Zurich Insurance Group 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 Zurich Insurance Group has set limits on concentration in investments in single issuers and certain asset classes, as well as by how much asset interest rate sensitivities can deviate from liability interest-rate sensitivities. The Zurich Insurance Group regularly reviews its capacity to hold illiquid investments.

The Asset/Liability Management Investment Committee reviews and monitors Zurich Insurance Group strategic asset allocation and tactical boundaries, and monitors Zurich Insurance Group asset/liability exposure. The Zurich Insurance Group oversees the activities of local asset/liability management investment committees and regularly assesses market risks at both Zurich Insurance 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 Zurich Insurance 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.

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

For more information on the ZIC 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 real estate

The Zurich Insurance Group is exposed to risks from price fluctuations on equity securities and real estate. These could affect the Zurich Insurance Group's liquidity, reported income, economic surplus and regulatory capital position. Equity risk exposure includes common stocks, including equity unit trusts, private equity, common stock portfolios backing participating-with-profit policyholder contracts, and equities held for employee benefit plans. Exposure to real estate risk includes direct holdings in property and property company shares and funds. Returns on unit-linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and real estate, but these risks are borne by policyholders. However, the Zurich Insurance 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 real estate markets.

The Zurich Insurance Group manages its risks from equity securities and real estate as part of the overall investment risk management process, and applies limits as expressed in policies and guidelines. Specifically, Zurich Insurance Group limits holdings in equities, real estate and alternative investments. To realize an optimal level of risk diversification, the strategy for equities is defined through a composite of market benchmark indices. The Zurich Insurance 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 Zurich Insurance Group is exposed to interest-rate risk from debt securities, reserves for insurance contracts, liabilities for investment contracts, debt issued by the Zurich Insurance Group, commercial and residential mortgages, employee benefit plans, and loans and receivables.

The Zurich Insurance Group 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.

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

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

### Zurich Insurance Company Group investments sensitivities

The economic market risk sensitivities for the fair value for ZIC Group investments before tax as of 2017 is USD (10.7) billion (USD (10.4) billion as of 2016) for a 100-basis-point increase in interest rate. For a 100-basis-point decrease in interest rate, the sensitivity is USD 12.0 billion (USD 11.9 billion as of 2016). For a 10% decline in equity market, ZIC Group investments drop in value by USD 1.2 billion compared to USD 1.1 billion as of 2016. A 100-basis-point increase in credit spreads results in a decrease of USD 5.4 billion compared to USD 5.2 billion as of 2016.

The following describes limitations of the ZIC Group investment sensitivities. ZIC Group 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 assets, and not on shareholders' equity or net income as set out in the consolidated financial statements. The sensitivities only cover ZIC Group investments, not insurance or other liabilities. 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 ZIC Group's view of expected future market changes.

## Risks from defaults of counterparties

### Debt securities

The ZIC Group is exposed to credit risk from third-party counterparties where the ZIC Group holds securities issued by those entities. The default risk is controlled by ZIC Group counterparty concentration risk limits keeping the size of potential losses to an acceptable level.

**Table 4**

**Debt securities by rating of issuer**

| as of December 31 | 2017 | | 2016 | |
|---|---|---|---|---|
| | USD millions | % of total | USD millions | % of total |
| **Rating** | | | | |
| AAA | 37,426 | 25.2% | 28,503 | 20.3% |
| AA | 39,664 | 26.7% | 46,497 | 33.2% |
| A | 26,011 | 17.5% | 23,133 | 16.5% |
| BBB | 38,360 | 25.9% | 35,733 | 25.5% |
| BB and below | 6,033 | 4.1% | 5,193 | 3.7% |
| Unrated | 767 | 0.5% | 1,122 | 0.8% |
| **Total** | **148,261** | **100.0%** | **140,181** | **100.0%** |

Table 4 shows the credit risk exposure of debt securities, by issuer credit rating. As of December 31, 2017, 95.4 percent of the ZIC Group's debt securities was investment grade and 25.2 percent was rated 'AAA'. As of December 31, 2016, 95.5 percent of debt securities was investment grade and 20.3 percent was rated 'AAA'. The shift in portfolio exposure from AA to AAA largely reflects the outcome of a review of the ratings assigned to U.S. agency mortgage-backed-securities, which moved assets from AA+ to AAA.

Exposure-level limits are in place and are based on default and recovery rates that tighten progressively for lower ratings. Where the ZIC Group identifies investments expected to trigger limit breaches, appropriate actions are implemented.

The risk-weighted average issuer credit rating of the ZIC Group's debt securities portfolio is 'A-' in 2017, compared with 'BBB+' in 2016.

As of December 31, 2017, the largest concentration in the ZIC Group's debt securities portfolio was in governments, supranationals and similar at 47.6 percent. In all other categories, a total of USD 31.7 billion (40.8 percent) was secured. As of December 31, 2016, 47.5 percent of the ZIC Group's debt portfolio was invested in governments, supranationals and similar. In all other categories, a total of USD 31.3 billion (42.5 percent) was secured.

In addition to debt exposure, the ZIC Group had loan exposure of USD 4.9 billion and USD 4.3 billion to the German Central Government or the German Federal States as of December 31, 2017 and 2016, respectively. For more information, see the 'other loans' section.

The second-largest concentration in the ZIC Group's debt securities portfolio is in financial institutions (including banks), at 19.6 percent, of which 38.4 percent is secured.

The third-largest concentration in the ZIC Group's debt securities portfolio is in structured finance securities (mortgage-backed securities (MBS)/asset-backed securities (ABS) and similar).

### Cash and cash equivalents

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

For ZIC Group, cash and cash equivalents amounted to USD 8.5 billion and USD 7.1 billion as of December 31, 2017 and December 31, 2016, respectively. The risk-weighted average rating of the overall cash portfolio is 'A–' as of December 31, 2017 and December 31, 2016. 72 percent of the total was with the 10 largest global banks, whose risk-weighted average rating is 'A' as of December 31, 2017 and December 31, 2016.

### Mortgage loans and other loans

The ZIC Group's largest mortgage loan portfolios are held in Germany (USD 2.6 billion) and in Switzerland (USD 3.6 billion); these are predominantly secured against residential property but also include mortgages secured by commercial property. The ZIC Group invests in mortgages in the U.S. (USD 0.6 billion); these are mainly participations in large mortgage loans secured against commercial property.

The credit risk arising from other loans is assessed and monitored together with the 'debt securities' portfolio: 59.6 percent of the reported loans are to governments, supranationals and similar, of which 94.2 percent are to the German central government or the German federal states. As of December 31 2017, USD 5.1 billion were rated as 'AAA' (58.1 percent) compared with 3.9 billion as of December 31, 2016, USD 0.7 billion as 'AA' (7.7 percent) compared to 0.6 billion as of December 31, 2016, USD 0.6 billion as 'A' (6.8 percent) compared to with 3.3 billion as of December 31, 2016, USD 1.2 billion as 'BBB' and below (13.5 percent) compared with 1.3 billion as of December 31, 2016, and USD 1.2 billion as unrated (14.0 percent) compared with none as of December 31, 2016.

### Derivatives

The replacement value of outstanding derivatives represents a credit risk to the Zurich Insurance Group. These instruments include interest rate and cross-currency swaps, forward contracts and purchased options. A potential exposure could also arise from possible changes in replacement values. The Zurich Insurance 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's risk policy manuals. The Zurich Insurance Group's standard practice is to only transact derivatives with those counterparties for which the Zurich Insurance Group has in place an ISDA Master Agreement, with a Credit Support Annex. This mitigates credit exposures from over-the-counter transactions due to close-out netting and requires the counterparty to post collateral when the derivative position exceeds an agreed threshold. The Zurich Insurance Group further mitigates credit exposures from derivative transactions by using exchange-traded instruments whenever possible.

# Risk review (continued)

### Risk from currency exchange rates

Currency risk is the risk of loss resulting from changes in exchange rates. The Zurich Insurance Group operates internationally and therefore is exposed to the financial impact of changes in the exchange rates of various currencies. The Zurich Insurance Group's presentation currency is the U.S. dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in the euro, Swiss franc and British pound, as well as the U.S. dollar. On local balance sheets a currency mismatch may cause a balance sheet's net asset value to fluctuate, either through income or directly through equity. The Zurich Insurance 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 Zurich Insurance Group. Zurich Insurance Group 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 Zurich Insurance Group's presentation currency, the U.S. dollar. The Zurich Insurance Group applies net investment hedge accounting to protect against the impact that changes in certain exchange rates might have on selected net investments.

Table 5 shows the total IFRS equity's sensitivity to changes in exchange rates for the main functional currencies to which the ZIC Group is exposed. Positive values represent an increase in the value of the ZIC Group's total equity. See notes 1, 3 and 7 of the consolidated financial statements for additional information on foreign currency translation and transactions.

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

Table 5

| in USD millions, as of December 31 | **2017** | 2016 |
|---|---|---|
| **10% increase in** | | |
| EUR/USD rate | 467 | 518 |
| GBP/USD rate | 232 | 163 |
| CHF/USD rate | 372 | 441 |
| BRL/USD rate | 147 | 139 |
| Other currencies/USD rates | 645 | 546 |

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 Insurance Group's view of expected future market changes. While table 9 shows the effect of a 10 percent increase in currency exchange rates, a decrease of 10 percent would have the converse effect.

## Other credit risk

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 Zurich Insurance Group's exposure to other credit risk is derived from the following main categories of assets:

- Reinsurance assets
- Receivables

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

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

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

### Credit risk concentration

The Zurich Insurance Group has counterparty limits, which are regularly monitored. Exposure to counterparties' parent companies and subsidiaries is aggregated to include reinsurance assets, investments, derivatives, and for the largest counterparties, certain insurance products. There was no unapproved material exposure in excess of the Zurich Insurance Group's limits for counterparty aggregation as of December 31, 2017 or December 31, 2016.

On-balance sheet exposures are the main source of credit risk. Off-balance sheet credit exposures are related primarily to certain insurance products, reinsurance and collateral used to protect underlying credit exposures on the balance sheet. The ZIC Group also has off-balance sheet exposures related to undrawn loan commitments of USD 16 million and USD 7 million as of December 31, 2017 and 2016, respectively. See note 22 of the consolidated financial statements for undrawn loan commitments.

## Credit risk related to reinsurance assets

The Zurich Insurance Group's Corporate Reinsurance Security Committee manages the credit quality of cessions and reinsurance assets. The Zurich Insurance Group typically cedes new business to authorized reinsurers with a minimum rating of 'A–.' As of December 31, 2017 and 2016 respectively, 52 percent and 66 percent of the exposure ceded to reinsurers that are rated below 'A–' or are not rated is collateralized. Of the exposure ceded to reinsurers that are rated below 'A–' or are not rated, 51 percent was ceded to captive insurance companies, in 2017 and 32 percent in 2016.

Reinsurance assets included reinsurance recoverables (the reinsurers' share of reserves for insurance contracts) of USD 21 billion and USD 18.4 billion, and receivables arising from ceded reinsurance of USD 1.2 billion and USD 1.4 billion as of December 31, 2017 and 2016, respectively, gross of allowance for impairment. Reserves for potentially uncollectible reinsurance assets amounted to USD 94 million as of December 31, 2017 and 2016. The Zurich Insurance 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 6 are shown before taking into account collateral such as cash or bank letters of credit and deposits received under ceded reinsurance contracts. Unsecured reinsurance assets shown are after deducting collateral. Except for an immaterial amount, letters of credit are from banks rated 'A–' or better. Compared with December 31, 2016, collateral increased by USD 1.0 billion to USD 9.4 billion.

Table 6 shows reinsurance assets and unsecured reinsurance assets split by rating.

**Table 6**

**Reinsurance assets and unsecured reinsurance assets by rating of reinsurer and captive**

| as of December 31 | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Reinsurance assets | | Unsecured reinsurance assets | | Reinsurance assets | | Unsecured reinsurance assets | |
| | USD millions | % of total | USD millions | % of total | USD millions | % of total | USD millions | % of total |
| **Rating** | | | | | | | | |
| AAA | – | 0.0% | – | 0.0% | 29 | 0.1% | 29 | 0.3% |
| AA | 5,939 | 26.9% | 5,378 | 42.5% | 5,402 | 27.4% | 4,479 | 39.5% |
| A | 10,562 | 47.9% | 4,619 | 36.5% | 8,625 | 43.7% | 4,903 | 43.3% |
| BBB | 1,634 | 7.4% | 974 | 7.7% | 1,366 | 6.9% | 877 | 7.7% |
| BB | 247 | 1.1% | 57 | 0.5% | 566 | 2.9% | 311 | 2.7% |
| B and below | 638 | 2.9% | 168 | 1.3% | 395 | 2.0% | 160 | 1.4% |
| Unrated | 3,036 | 13.8% | 1,446 | 11.4% | 3,367 | 17.0% | 576 | 5.1% |
| **Total[1]** | **22,056** | **100.0%** | **12,642** | **100.0%** | **19,749** | **100.0%** | **11,335** | **100.0%** |

[1] The value of the collateral received amounts to USD 9.4 billion and USD 8.4 billion as of December 31, 2017 and 2016, respectively.

### Credit risk related to receivables

The ZIC Group's largest credit-risk exposure to receivables is related to third-party agents, brokers and other intermediaries. It arises where premiums are collected from customers to be paid to the ZIC Group, or to pay claims to customers on behalf of the ZIC Group. The Zurich Insurance Group has policies and standards to manage and monitor credit risk related to intermediaries. The Zurich Insurance Group requires intermediaries to maintain segregated cash accounts for policyholder money. The Zurich Insurance 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 Zurich Insurance Group reports internally on Zurich Insurance Group past-due receivable balances and strives to keep the balance of past-due positions as low as possible, while taking into account customer satisfaction.

Receivables from ceded reinsurance are part of reinsurance assets and are managed accordingly. See notes 15 and 24 of the consolidated financial statements for additional information on receivables.

## Operational risk

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

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

Within this framework, the Zurich Insurance 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.
- Documents and reviews loss events exceeding a threshold determined per Zurich's risk policy manuals. 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 Zurich Insurance 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 Zurich Insurance 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 Insurance Group mitigates and responds to cyber risks and threats to data security. Data held by Zurich Insurance Group's business partners are protected through contractual arrangements and controls that are built into 'cloud governance' procedures designed to secure Zurich Insurance Group's data in accordance with regulatory requirements and the Zurich Insurance Group's information security policies.

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

Preventing, detecting and responding to fraud are embedded in Zurich Insurance Group'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.

## Liquidity risk

Liquidity risk is the risk that the Zurich Insurance 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 Insurance Group'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 Zurich Insurance Group assesses, monitors and manages its liquidity needs on an ongoing basis.

Zurich Insurance 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 Zurich Insurance Group had to recapitalize local balance sheets. Similar guidelines apply at the Zurich Insurance Group level, and detailed liquidity forecasts are regularly conducted, based on local businesses' input and the Zurich Insurance Group's forecasts. As part of its liquidity management, the Zurich Insurance Group maintains sufficient cash and cash equivalents and high-quality, liquid investment portfolios to meet outflows under expected and stressed conditions. The Zurich Insurance Group also maintains internal liquidity sources that cover the Zurich Insurance Group's potential liquidity needs, including those that might arise in times of stress. The Zurich Insurance Group takes into account the amount, availability and speed at which these sources can be accessed. The Zurich Insurance 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 Zurich Insurance Group maintains a range of maturities for external debt securities. A potential source of liquidity risk is the effect of a downgrade of the Zurich Insurance Group's credit rating. This could affect the Zurich Insurance 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 Zurich Insurance Group's liquidity framework.

The Zurich Insurance Group regularly analyzes the liquidity of the investment assets, and monitors that the liquidity of assets stays in line with the liquidity needs. During 2017, the Zurich Insurance Group was within its capacity to hold illiquid assets.

The fair value hierarchy tables in note 23 of the consolidated financial statements segregate financial assets into three levels, reflecting the basis for how fair value was determined. These tables indicate the high degree of liquidity of the ZIC Group's investments.

For more information on debt obligation maturities, see note 18 of the consolidated financial statements, and for information on commitments and guarantees, see note 22 of the consolidated financial statements. The Zurich Insurance Group's ongoing liquidity monitoring includes regular reporting to the executive management and quarterly reporting to the Risk and Investment Committee of the Board, covering aspects such as the Zurich Insurance Group's actual and forecast liquidity, possible adverse scenarios that could affect the Zurich Insurance Group's liquidity and possible liquidity needs from the Zurich Insurance Group's main subsidiaries, including under conditions of stress.

For more information on the ZIC Group's other financial liabilities, see note 16 of the consolidated financial statements. See note 6 of the consolidated financial statements for information on the maturity of debt securities.

The Zurich Insurance 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 Zurich Insurance Group on a timely basis. See note 22 of the consolidated financial statements.

# Strategic risk and risks to the Group's reputation

## Strategic risk

Strategic risk corresponds to the risk that Zurich Insurance Group 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 Insurance Group defines the strategy as the long-term plan of action designed to allow the Zurich Insurance Group to achieve its goals and aspirations.

The Zurich Insurance Group works to reduce unintended risks of strategic business decisions through its risk assessment processes and tools, including the Total Risk Profiling™ (TRP) process. As part of the regular TRP process, in 2017 the Executive Committee (ExCo) assessed the key strategic risk scenarios, looking at 2018 and beyond. The Zurich Insurance Group TRP identified and assessed risks from both external and internal factors. External risks include changes in inflation or interest rates beyond expected forecasts; geopolitical uncertainties such as Brexit; looming European banking crisis; insurance market trends, and changing customer expectations. Internally, key risks include Zurich Insurance Group's ability to engage and provide service to customers at the desired level; technical excellence in underwriting; information security and cyber threats; challenges related to Zurich Insurance Group's workforce, and managing the growing requirements and complexity of the global regulatory landscape. Mitigation actions have been assigned to executive owners and their status is reviewed at least quarterly.

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

## Risks to the Zurich Insurance Group's reputation

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

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

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# Operating and financial review

The operating and financial review is the management analysis of the business performance of Zurich Insurance Company Group Ltd and its subsidiaries (collectively the Zurich Insurance Company Group or ZIC Group) for the year ended December 31, 2017, compared with 2016.

## Contents



The information contained within the operating and financial review is unaudited and is based on the consolidated results of the ZIC Group for the years ended December 31, 2017 and 2016. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated, with the consequence that the rounded amounts may not always add up to the rounded total. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts. This document should be read in conjunction with the annual results 2017 of the ZIC Group and, in particular, with its consolidated financial statements for the year ended December 31, 2017.

In addition to the figures stated in accordance with International Financial Reporting Standards (IFRS), the ZIC Group uses business operating profit (BOP) and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the separately published glossary. These should be viewed as complementary to, and not as substitutes for the IFRS figures. For a reconciliation of BOP to net income attributable to shareholders (NIAS), see note 27 (table 27.4) of the audited consolidated financial statements.

Certain comparatives have been revised as a result of reclassifications and other adjustments. For details refer to note 1 of the audited consolidated financial statements.

# Group structure

The Zurich Insurance Company Group consists of Zurich Insurance Company Ltd and its subsidiaries (the 'ZIC Group' or 'Zurich Insurance Company Group').

ZIC Group's business is focused on providing best-in-class general and life insurance products and services to individuals, small businesses, mid-sized and large companies.

The operational group structure reflects both, ZIC Group's businesses and geographical regions. ZIC Group pursues a customer-centric strategy, with the Property & Casualty (P&C) and Life businesses which are managed through a regional structure. For details on the activities of the various businesses refer to note 27 of the audited consolidated financial statements.

ZIC Group further divides its P&C and Life business into Retail and Commercial customer units.

ZIC Group has identified the following 13 reportable and operating segments.

## Group structure

| Businesses | Property & Casualty (P&C) | Life | Farmers | Non-Core Businesses | Group Functions and Operations |
|---|---|---|---|---|---|
| Reportable segments | Europe, Middle East & Africa (EMEA)<br>North America<br>Asia Pacific<br>Latin America<br>Group Reinsurance | Europe, Middle East & Africa (EMEA)<br>North America<br>Asia Pacific<br>Latin America<br>Group Reinsurance | Farmers | Non-Core Businesses | Group Functions and Operations |
| Customer units | Commercial<br>Retail | | | | |

Operating and financial review (continued)

## Financial highlights

| in USD millions, for the years ended December 31, unless otherwise stated | 2017 | 2016 | Change[1] |
|---|---|---|---|
| Business operating profit | **4,065** | 4,127 | (2%) |
| Net income attributable to shareholders | **3,257** | 2,911 | 12% |
| | | | |
| P&C business operating profit | **1,827** | 2,157 | (15%) |
| P&C gross written premiums and policy fees | **33,024** | 33,122 | – |
| P&C combined ratio | **99.8%** | 99.2% | (0.6 pts) |
| | | | |
| Life business operating profit | **1,258** | 1,130 | 11% |
| Life gross written premiums, policy fees and insurance deposit | **33,242** | 29,323 | 13% |
| | | | |
| Farmers business operating profit | **1,616** | 1,645 | (2%) |
| Farmers Management Services management fees and other related revenues | **2,892** | 2,867 | 1% |
| Farmers Management Services managed gross earned premium margin | **7.0%** | 7.0% | – |
| Farmers Re gross written premiums and policy fees | **995** | 1,587 | (37%) |
| Farmers Life gross written premiums, policy fees and insurance deposits | **1,026** | 1,024 | – |
| | | | |
| Average Group investments[2] | **190,065** | 184,664 | 3% |
| Net investment result on Group investments | **7,248** | 7,037 | 3% |
| Net investment return on Group investments[3] | **3.8%** | 3.8% | – |
| Total return on Group investments[3] | **4.1%** | 4.4% | (0.4 pts) |
| | | | |
| Shareholders' equity[4] | **31,969** | 29,363 | 9% |

[1] Parentheses around numbers represent an adverse variance.
[2] Including investment cash.
[3] Calculated on average Group investments.
[4] As of December 31, 2017 and December 31, 2016, respectively.

# Performance overview

ZIC Group's business operating profit of USD 4.1 billion decreased by USD 63 million or 2 percent in U.S. dollar terms and 1 percent on a local currency basis. This decrease includes the impacts of catastrophe and weather related events beyond historically normal average levels, in particular the hurricanes impacting the U.S. in the third quarter, Harvey, Irma and Maria. In addition, business operating profit was adversely affected by a change to capital gains tax indexation relief in the UK and measures related to ZIC Group's restructuring.

Adjusted for the impact of the U.S. hurricanes, the change to capital gains tax indexation relief in the UK and the measures related to ZIC Group's restructuring, business operating profit increased by USD 0.9 billion compared to 2016, with improved performance of the Life business across all segments on a local currency basis and to the Property & Casualty (P&C) underlying loss ratio. Excluding the one-time pension plan curtailment gain in 2016, Farmers business operating profit also improved, benefiting from a lower combined ratio in Farmers Re and a strong result of Farmers Life.

Net income attributable to shareholders of USD 3.3 billion increased by USD 347 million, or by 12 percent in U.S dollar terms and by 13 percent on a local currency basis. The increase is primarily the result higher net realized capital gains which were partly offset by higher income tax expense.

Shareholders' equity increased by USD 2.6 billion to USD 32 billion during the year, with net income for the period more than offsetting the cost of the dividend approved in March 2017. Additionally, positive currency translation adjustments and net actuarial gains on pension plans further contributed to the increase in shareholders' equity.

**Business operating profit** of USD 4.1 billion decreased USD 63 million with improvements in all businesses other than P&C and Farmers.

- **P&C** business operating profit decreased by USD 330 million to USD 1.8 billion, or 15 percent in U.S. dollar terms. Natural catastrophes and other weather events were above expected levels, the largest part of which related to the net impact of USD 700 million for the hurricanes Harvey, Irma and Maria, impacting North America and EMEA with reinsurance recoveries reflected in the Group Reinsurance segment.
- **Life** business operating profit increased by USD 129 million to USD 1.3 billion, or 11 percent both in U.S. dollar terms and on a local currency basis. On a local currency basis, all segments showed increases except EMEA which was impacted by a change to capital gains tax indexation relief in the UK. Overall business operating profit benefited from growth resulting in higher loadings and fees net of acquisition costs, as well as improved technical margin and investment margin, partly offset by increases in policyholder taxes.
- **Farmers** business operating profit decreased by USD 29 million to USD 1.6 billion, a decrease of 2 percent in U.S. dollar terms. An increase in Farmers Life primarily due to the favorable impact of actuarial assumption updates, as well as an increase in Farmers Re driven by an improved combined ratio, were more than offset by the effect of a pension plan curtailment gain in 2016, which benefited Farmers Management Services and Farmers Life.
- **Group Functions and Operations (GF&O)** business operating loss reduced to USD 711 million due to administration cost savings and lower financing costs, partially offset by lower recharges to business units.
- **Non-Core Businesses** business operating profit increased by USD 120 million to USD 74 million driven by reserve releases in run-off books.

The **net investment result on Group investments**, before allocations to policyholders, of USD 7.2 billion increased by USD 211 million, or by 3 percent in U.S. dollar terms and but remained flat on a local currency basis, resulting in a **net investment return on average Group investments** of 3.8 percent, in line with the same period of 2016. **Net investment income**, predominantly included in the core business results, of USD 5.2 billion decreased by USD 265 million, or 5 percent in U.S. dollar terms and 8 percent on a local currency basis as a result of the continued low-yield environment. **Net capital gains on investments and impairments** in the net investment result increased by USD 476 million to USD 2 billion, mainly due to sales of equity securities compared with the prior period. **Total return on average Group investments** was 4.1 percent, compared with 4.4 percent in the same period of 2016. Total return includes the net investment result, net capital gains and the favorable impact from net unrealized capital gains before allocations to policyholders reported in shareholders' equity, which were USD 504 million compared with USD 1.2 billion in 2016. This decline was mainly a result of rising European government bond yields after yields fell in 2016.

The **shareholders' effective tax rate** decreased to 31.4 percent for the period ended December 31, 2017 compared with 31.7 percent for the same period of 2016. This decrease is explained by the one-off US tax reform impact from the re-measurement of the deferred tax position of the ZIC Group's U.S. entities, partially offset by the adverse impacts of the catastrophe events (mainly Hurricanes Harvey, Irma and Maria), several non-recurring charges in 2017, which did not attract tax relief and changes in the geographical profit mix.

# Property & Casualty (P&C)

| in USD millions, for the years ended December 31 | | Total | | | Of which Commercial[1] | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| Gross written premiums and policy fees | 33,024 | 33,122 | – | 15,852 | 15,873 | – |
| Net earned premiums and policy fees | 26,033 | 26,102 | – | 11,007 | 11,739 | (6%) |
| Insurance benefits and losses, net of reinsurance | 17,715 | 17,625 | (1%) | 9,080 | 8,560 | (6%) |
| Net underwriting result | 50 | 204 | (76%) | (1,119) | (57) | n.m. |
| Net investment result | 2,038 | 1,958 | 4% | 1,271 | 1,186 | 7% |
| **Business operating profit** | **1,827** | **2,157** | **(15%)** | **87** | **1,167** | **(93%)** |
| Loss ratio | 68.0% | 67.5% | (0.5 pts) | 82.5% | 72.9% | (9.6 pts) |
| Expense ratio | 31.8% | 31.7% | (0.1 pts) | 27.7% | 27.6% | (0.1 pts) |
| **Combined ratio** | **99.8%** | **99.2%** | **(0.6 pts)** | **110.2%** | **100.5%** | **(9.7 pts)** |

[1] Excluding Group Reinsurance and intersegment eliminations.

**BOP by segment**

| in USD millions, for the years ended December 31 | | Business operating profit (BOP) | | | Net underwriting result | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| Europe, Middle East & Africa (EMEA) | 540 | 773 | (30%) | 106 | 68 | 57% |
| North America | 800 | 1,207 | (34%) | (296) | 242 | n.m. |
| Asia Pacific | 155 | 270 | (43%) | 90 | 210 | (57%) |
| Latin America | 177 | 196 | (10%) | 45 | 27 | 69% |
| Group Reinsurance[1] | 155 | (289) | n.m. | 105 | (343) | n.m. |
| **Total** | **1,827** | **2,157** | **(15%)** | **50** | **204** | **(76%)** |

[1] Including intersegment elimination.

**Business operating profit** decreased by USD 330 million to USD 1.8 billion, heavily affected by catastrophe losses beyond a normal level, in particular hurricanes Harvey, Irma and Maria during the third quarter of 2017, with a total net loss of USD 700 million impacting North America, EMEA and Group Reinsurance. Adjusted for the U.S. hurricanes and the impact of measures related to the ZIC Group's restructuring of USD 99 million, business operating profit increased by USD 469 million compared with the prior year. Non-technical expenses increased compared with 2016, impacted by lower foreign exchange gains, and other negative non-recurring items. This was partly offset by an improvement in net investment result due to hedge fund gains, mostly in North America.

**EMEA** business operating profit decreased by USD 233 million, due to higher catastrophe and weather related losses, and was further affected by lower volumes and higher non-technical expenses, the latter reflecting mainly the impacts of measures related to the ZIC Group's restructuring. In **North America**, business operating profit decreased by USD 407 million, reflecting improved underlying loss experience, lower other underwriting expenses and higher hedge fund gains compared with 2016, only partly offsetting the impact of the hurricane losses. In **Asia Pacific**, business operating profit decreased by USD 115 million, as 2016 benefited from higher favorable development of loss reserves established in prior years. This was only partly offset by improved underlying loss experience mostly in Australia and Japan. **Latin America** declined by USD 19 million, as foreign exchange gains decreased compared with 2016, in particular in Venezuela. The improvement in **Group Reinsurance** reflects the recoveries on hurricane losses.

**Commercial Insurance** business operating loss stemmed from catastrophe losses, including the impact of hurricanes in the U.S. during the third quarter of 2017. The result also reflected a lower level of favorable development of loss reserves established in prior years, partly related to higher loss reserve releases in 2016 in Asia Pacific. An increase in non-technical expenses in UK and Venezuela, the latter due to lower foreign exchange gains, was partly offset by hedge fund gains in North America.

**Gross written premiums and policy fees** remained broadly flat in U.S. dollar terms but decreased 3 percent on a local currency basis. Excluding businesses exited in South Africa, Morocco, Taiwan and the Middle East over the last eighteen months, gross written premiums and policy fees increased by 1 percent on a local currency basis. Growth in Latin America was mainly driven by the mass-consumer business in Brazil and motor insurance in Mexico. In Asia Pacific the acquisition of Cover-More contributed to the growth. EMEA and North America's large commercial book showed decreases, impacted by soft market conditions. Overall, rates rose by around 2 percent in 2017.

The **net underwriting result** decreased by USD 155 million to USD 50 million, with an overall combined ratio of 99.8 percent, 0.6 percentage points higher than in 2016. Adjusted for the impact of the U.S. hurricanes Harvey, Irma and Maria of USD 700 million, the combined ratio was 97.2 percent, with the loss ratio improving due to higher favorable development of loss reserves established in prior years. An improvement in the underlying loss experience was partly offset by higher other catastrophe and weather-related losses. The other underwriting expense ratio improved by 1.2 percentage points compared with 2016, benefiting from a lower expense base as a result of initiatives to reduce costs, while commissions increased across the segments, reflecting changes in the business mix, resulting in a slightly higher expense ratio.

The net underwriting result in **EMEA** improved by USD 39 million despite higher catastrophe and weather related losses, with a favorable development in loss reserves established in prior years compared to prior year, and lower net premium volumes, partly due to higher internal reinsurance cessions. The expense ratio remained broadly flat, with an increase in commissions offset by lower other underwriting expenses. **North America** decreased by USD 539 million, heavily affected by catastrophe losses in the third quarter of 2017. This was partly offset by an improvement in underlying loss experience, mainly on workers compensation and property lines of business, as well as higher gains on crop business, mostly due to higher retention. Other underwriting expenses also improved, benefiting from initiatives to reduce costs and lower corporate center charges, only partially offset by an increase in commissions due to changes in business mix. **Asia Pacific** was USD 121 million lower than in 2016, which benefited from higher favorable development of loss reserves established in prior years. The result was also affected by an increase in large losses, partly offset by improved underlying loss experience, mostly in Australia's property and motor lines of business and Japan. The net underwriting result in **Latin America** improved by USD 19 million, reflecting higher volumes and improvements in the underlying loss experience, only partly offset by a lower level of favorable development of reserves established in prior years, higher catastrophe losses, and higher commissions and other underwriting expenses.

## Life

| in USD millions, for the years ended December 31 | 2017 | 2016 | Change |
|---|---|---|---|
| Insurance deposits | 19,172 | 14,666 | 31% |
| Gross written premiums and policy fees | 14,070 | 14,657 | (4%) |
| Net investment income on Group investments | 2,925 | 2,993 | (2%) |
| Insurance benefits and losses, net of reinsurance | (9,259) | (11,130) | 17% |
| **Business operating profit** | **1,258** | **1,130** | **11%** |
| | | | |
| Net policyholder flows[1] | 7,705 | 7,804 | (1%) |
| Assets under management[2, 3] | 269,843 | 248,906 | 8% |
| | | | |
| Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[3] | 214,626 | 203,039 | 6% |

[1] Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.
[2] Assets under management comprise on balance sheet Group investments and unit-linked investments plus assets that are managed by third parties, on which fees are earned.
[3] As of December 31, 2017 and December 31, 2016, respectively.

### BOP by segment

| in USD millions, for the years ended December 31 | 2017 | 2016 | Change |
|---|---|---|---|
| Europe, Middle East & Africa (EMEA) | 831 | 889 | (7%) |
| North America | (2) | (85) | 98% |
| Asia Pacific | 132 | 76 | 73% |
| Latin America | 296 | 249 | 19% |
| Group Reinsurance[1] | 1 | – | n/a |
| **Total** | **1,258** | **1,130** | **11%** |

[1] Including intersegment elimination.

**Business operating profit** increased by USD 129 million to USD 1.3 billion, or 11 percent both in U.S. dollar terms and on a local currency basis, with increases on a local currency basis in all segments except EMEA. Adjusted for USD 121 million reflecting both the impact of the UK capital gains tax indexation relief and measures related to the ZIC Group's restructuring, business operating profit increased by USD 250 million compared to prior year, or 22 percent in U.S. dollar terms, with increases in all segments. A significant portion of the increase occurred in **North America**, driven by improved claims experience, in addition 2016 was impacted by an adverse variance resulting from a review of expected persistency in certain universal life books of business. **Asia Pacific** benefited from both organic and inorganic growth across the region, as well as improved persistency in Hong Kong. In **Latin America** higher overall volumes were the main contributors on a local currency basis. These positive contributions were partly offset by a deterioration in **EMEA**, largely due to the effect of the change to UK capital gains tax indexation relief.

**Gross written premiums, policy fees and insurance deposits** increased by USD 3.9 billion to USD 33.2 billion, or by 13 percent both in U.S. dollar terms and on a local currency basis. Improvements occurred in North America, driven by a large contribution to an existing corporate protection scheme, subsequent to a transfer of that business from the Non-Core segment, and improved corporate savings sales across EMEA. The latter was partly offset by an expected reduction of sales of individual savings products in Spain and Italy. **Net policyholder flows** of USD 7.7 billion remained flat compared with 2016, substantially reflecting the same factors.

**Assets under management** increased by 8 percent in U.S. dollar terms, but decreased 1 percent on a local currency basis compared with December 31, 2016. On a local currency basis, favorable market movements and positive net policyholder flows were offset by a reclassification of approximately USD 29 billion to held for sale of assets related to the disposal of the UK workplace pensions and savings business to Lloyds Banking Group (LBG). In U.S. dollar terms, a further improvement stemmed from the impact of the weaker U.S. dollar against the euro and the British pound on investments denominated in those currencies compared with December 31, 2016.

## Farmers

| in USD millions, for the years ended December 31 | 2017 | 2016 | Change |
|---|---|---|---|
| Farmers Management Services (FMS) | 1,349 | 1,410 | (4%) |
| Farmers Re | 57 | 41 | 38% |
| Farmers Life[1] | 210 | 194 | 9% |
| **Total business operating profit** | **1,616** | **1,645** | **(2%)** |

[1] Reflects management view and contains the ongoing business and certain closed books of Farmers New World Life Insurance Company (FNWL).

**Farmers business operating** profit decreased by USD 29 million to USD 1.6 billion, or by 2 percent. **Farmers Management Services** business operating profit decreased by USD 61 million to USD 1.3 billion. Higher revenues from premium growth at the Farmer Exchanges[1] in 2017 partly offset a one-time USD 86 million favorable impact in 2016 from a pension curtailment gain related to changes in the Farmers pension plan. **Farmers Life** business operating profit increased by USD 17 million to USD 210 million, primarily due to the impact of updated actuarial assumptions to industry mortality tables, partly offset by the 2016 pension curtailment gain of USD 10 million. Farmers Re business operating profit increased by USD 16 million to USD 57 million, driven by an improved underwriting result, partially offset by lower investment income.

### Farmers Management Services

| in USD millions, for the years ended December 31 | 2017 | 2016 | Change |
|---|---|---|---|
| Management fees and other related revenues | 2,892 | 2,867 | 1% |
| Management and other related expenses | 1,503 | 1,500 | – |
| Gross management result | 1,389 | 1,367 | 2% |
| Managed gross earned premium margin | 7.0% | 7.0% | – |

**Management fees and other related revenues** of USD 2.9 billion increased USD 25 million, or 1 percent, due to growth in gross earned premiums of the Farmers Exchanges. **Management and other related expenses** of USD 1.5 billion remained flat.

The **managed gross earned premium margin** remained unchanged at 7.0 percent.

### Farmers Re

| in USD millions, for the years ended December 31 | 2017 | 2016 | Change |
|---|---|---|---|
| Gross written premiums and policy fees | 995 | 1,587 | (37%) |
| Net underwriting result | (1) | (51) | 97% |
| Loss ratio | 68.1% | 71.3% | 3.2 pts |
| Expense ratio | 32.0% | 32.0% | – |
| **Combined ratio** | **100.1%** | **103.3%** | **3.2 pts** |

**Gross written premiums and policy fees** decreased by USD 592 million to USD 995 million, or by 37 percent, mainly due to a portfolio transfer as a result of the reduced participation in the All Lines quota share reinsurance agreement with the Farmers Exchanges to 1.0 percent effective December 31, 2017 from 8.0 percent previously.

The **net underwriting result** improved by USD 49 million to a loss of USD 1 million reflected in a 3.2 percentage point improvement in the combined ratio. The **loss ratio** decreased 3.2 percentage points as a result of an improved underlying loss ratio, favorable development of loss reserves established in prior years and slightly lower impact from catastrophe events. The **expense ratio** remained flat at 32 percent.

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

## Farmers Life

| in USD millions, for the years ended December 31 | 2017 | 2016 | Change |
|---|---|---|---|
| Insurance deposits | 149 | 151 | (1%) |
| Gross written premiums and policy fees | 877 | 873 | – |
| | | | |
| Assets under management[1, 2] | 5,415 | 6,823 | (21%) |
| Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[2] | 4,679 | 6,085 | (23%) |

[1] Assets under management comprise on balance sheet Group investments and unit-linked investments plus assets that are managed by third parties, on which fees are earned.
[2] As of December 31, 2017 and December 31, 2016, respectively.

**Insurance deposits** decreased by USD 2 million to USD 149 million. **Gross written premiums and policy fees** increased by USD 4 million to USD 877 million.

**Assets under management** decreased by USD 1.4 billion to USD 5.4 billion and **total reserves** decreased by USD 1.4 billion to USD 4.7 billion. Reductions in both items were related to an agreement signed in the second quarter of 2017 with Reinsurance Group of America to reinsure a portion of Farmers Life's closed U.S. annuity book.

## Farmers Exchanges

Financial information about the Farmers Exchanges, which are owned by their policyholders, is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Re.

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

| in USD millions, for the years ended December 31 | 2017 | 2016 | Change |
|---|---|---|---|
| Gross written premiums | 19,908 | 19,714 | 1% |
| Gross earned premiums | 19,841 | 19,528 | 2% |

**Gross written premiums** in the Farmers Exchanges increased by USD 194 million to USD 19.9 billion, or by 1 percent. Continuing operations[2] were up 3 percent, with growth across most books of business, driven primarily by rate increases in the auto lines of business.

**Gross earned premiums** in the Farmers Exchanges increased by USD 312 million to USD 19.8 billion, or by 2 percent.

[2] Continuing operations exclude 21st Century outside of California and Hawaii and other discontinued operations.

## Group Functions and Operations

| in USD millions, for years ended December 31 | 2017 | 2016 | Change |
|---|---|---|---|
| Holding and Financing | (430) | (528) | 19% |
| Headquarters | (281) | (230) | (22%) |
| **Total business operating profit** | **(711)** | **(758)** | **6%** |

**Holding and Financing** business operating loss of USD 430 million improved by USD 98 million or 19 percent in U.S. dollar terms and 21 percent on a local currency basis. The main factors driving the improvement were savings in administration costs and lower financing costs, partly offset by lower foreign exchange gains than in the previous year.

**Headquarters** recorded a business operating loss of USD 281 million, USD 51 million higher compared to 2016, or 22 percent in U.S. dollar terms and 19 percent on a local currency basis. Underlying expense savings were more than offset by lower recharges to business units and a software impairment.

## Non-Core Businesses

| in USD millions, for the years ended December 31 | 2017 | 2016 | Change |
|---|---|---|---|
| Zurich Legacy Solutions | 27 | (55) | n.m. |
| Other run-off | 47 | 9 | n.m. |
| **Total business operating profit** | **74** | **(46)** | **n.m.** |

**Zurich Legacy Solutions**, which predominantly comprises P&C run-off portfolios, reported a business operating profit of USD 27 million, an improvement of USD 83 million driven by net reserve releases in run-off portfolios, while the prior year included the strengthening of reserves relating to the Ogden discount rate.

**Other run-off**, which largely comprises U.S. life insurance and annuity portfolios, reported a USD 37 million increase in business operating profit. This arose primarily from the release of long-term reserves as a consequence of in-force management activities in a closed Life book, market value volatility, partly offset by lower releases of long-term reserves compared to prior year.

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# Consolidated financial statements

## Contents

# Consolidated income statements

| in USD millions, for the years ended December 31 | Notes | 2017 | 2016 |
|---|---|---|---|
| **Revenues** | | | |
| Gross written premiums | | 46,685 | 48,208 |
| Policy fees | | 2,429 | 2,407 |
| Gross written premiums and policy fees | | 49,114 | 50,615 |
| Less premiums ceded to reinsurers | | (7,977) | (7,843) |
| Net written premiums and policy fees | | 41,136 | 42,772 |
| Net change in reserves for unearned premiums | 10 | (79) | (150) |
| Net earned premiums and policy fees | | 41,057 | 42,622 |
| Farmers management fees and other related revenues | 26 | 2,892 | 2,867 |
| Net investment income on Group investments | | 5,212 | 5,477 |
| Net capital gains/(losses) and impairments on Group investments | | 2,036 | 1,560 |
| Net investment result on Group investments | 6 | 7,248 | 7,037 |
| Net investment result on unit-linked investments | | 11,664 | 13,613 |
| Net gains/(losses) on divestment of businesses | | (84) | (89) |
| Other income | | 1,181 | 1,193 |
| Total revenues | | 63,958 | 67,243 |
| **Benefits, losses and expenses** | | | |
| Insurance benefits and losses, gross of reinsurance | 10 | 34,579 | 35,438 |
| Less ceded insurance benefits and losses | 10 | (6,252) | (4,682) |
| Insurance benefits and losses, net of reinsurance | 10 | 28,328 | 30,756 |
| Policyholder dividends and participation in profits, net of reinsurance | 10 | 12,984 | 14,519 |
| Underwriting and policy acquisition costs, net of reinsurance | 10 | 9,039 | 8,538 |
| Administrative and other operating expense | 12 | 7,186 | 7,450 |
| Interest expense on debt | | 412 | 425 |
| Interest credited to policyholders and other interest | | 546 | 523 |
| Total benefits, losses and expenses | | 58,494 | 62,212 |
| Net income before income taxes | | 5,463 | 5,031 |
| of which: Attributable to non-controlling interests | | 535 | 486 |
| Income tax (expense)/benefit | 17 | (1,831) | (1,802) |
| attributable to policyholders | 17 | (171) | (304) |
| attributable to shareholders | 17 | (1,660) | (1,498) |
| of which: Attributable to non-controlling interests | | (160) | (168) |
| **Net income after taxes** | | **3,632** | **3,229** |
| attributable to non-controlling interests | | 375 | 319 |
| attributable to shareholders | | 3,257 | 2,911 |

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

# Consolidated statements of comprehensive income

in USD millions, for the years ended December 31

| | Net income attributable to shareholders | Net unrealized gains/(losses) on available-for-sale investments | Cash flow hedges |
|---|---|---|---|
| **2016** | | | |
| Comprehensive income for the period | 2,911 | 284 | 125 |
| Details of movements during the period | | | |
| Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders) | | 1,339 | 163 |
| Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders) | | (898) | (7) |
| Deferred income tax (before foreign currency translation effects) | | (38) | (23) |
| Foreign currency translation effects | | (119) | (8) |
| **2017** | | | |
| Comprehensive income for the period | 3,257 | 290 | (9) |
| Details of movements during the period | | | |
| Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders) | | 1,508 | (23) |
| Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders) | | (1,552) | (18) |
| Reclassification to retained earnings | | – | – |
| Deferred income tax (before foreign currency translation effects) | | 130 | 14 |
| Foreign currency translation effects | | 205 | 18 |

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

| | Cumulative foreign currency translation adjustment | Total other comprehensive income recycled through profit or loss | Revaluation reserve | Net actuarial gains/(losses) on pension plans | Total other comprehensive income not recycled through profit or loss | Total other comprehensive income attributable to shareholders | Total comprehensive income attributable to shareholders | Total comprehensive income attributable to non-controlling interests | Total comprehensive income |
|---|---|---|---|---|---|---|---|---|---|
| | (646) | (237) | 7 | (993) | (986) | (1,223) | 1,687 | 316 | 2,003 |
| | (787) | 715 | 9 | (1,612) | (1,603) | (888) | | | |
| | 141 | (764) | – | – | – | (764) | | | |
| | – | (62) | (2) | 270 | 268 | 207 | | | |
| | – | (127) | – | 349 | 349 | 222 | | | |
| – | 1,100 | 1,381 | (7) | 348 | 341 | 1,722 | 4,979 | 523 | 5,502 |
| – | 1,080 | 2,564 | 15 | 1,018 | 1,033 | 3,597 | | | |
| – | 20 | (1,550) | – | – | – | (1,550) | | | |
| – | – | – | (22) | – | (22) | (22) | | | |
| – | – | 144 | – | (384) | (384) | (240) | | | |
| – | – | 223 | – | (286) | (286) | (63) | | | |

# Consolidated balance sheets

## Assets

| in USD millions, as of December 31 | Notes | 2017 | 2016 |
|---|---|---|---|
| **Assets:** | | | |
| Cash and cash equivalents | | 8,464 | 7,129 |
| Total Group investments | 6 | 194,435 | 182,943 |
| Equity securities | | 18,138 | 16,240 |
| Debt securities | | 148,261 | 140,181 |
| Investment property | | 12,238 | 10,562 |
| Mortgage loans | | 7,047 | 6,794 |
| Other loans | | 8,730 | 9,146 |
| Investments in associates and joint ventures | | 21 | 20 |
| Investments for unit-linked contracts | | 120,699 | 125,907 |
| Total investments | | 315,134 | 308,850 |
| Reinsurers' share of liabilities for insurance contracts | 8 | 20,918 | 18,347 |
| Deposits made under reinsurance contracts | | 1,269 | 1,764 |
| Deferred policy acquisition costs | 11 | 18,663 | 17,796 |
| Deferred origination costs | 11 | 460 | 426 |
| Receivables and other assets | 15 | 18,189 | 17,756 |
| Deferred tax assets | 17 | 1,075 | 1,470 |
| Assets held for sale[1] | 5 | 29,371 | 530 |
| Property and equipment | 13 | 961 | 953 |
| Attorney in fact contracts | 14 | 1,025 | 1,025 |
| Goodwill | 14 | 2,353 | 1,795 |
| Other intangible assets | 14 | 4,762 | 4,795 |
| **Total assets** | | **422,645** | **382,636** |

[1] In 2017, the ZIC Group reclassified USD 29 billion of assets to held for sale based on agreements signed to sell businesses in the UK (see note 5). In addition, assets held for sale include land and buildings formerly classified as investment property and held for own use amounting to USD 41 million and USD 9 million, respectively. In 2016, the ZIC Group reclassified USD 456 million of assets to held for sale based on agreements signed to sell businesses in Taiwan and Middle East (see note 5). In addition, assets held for sale include land and buildings formerly classified as investment property and held for own use amounting to USD 67 million and USD 7 million, respectively.

## Liabilities and equity

| in USD millions, as of December 31 | Notes | 2017 | 2016 |
|---|---|---|---|
| **Liabilities** | | | |
| Liabilities for investment contracts | 9 | 55,627 | 69,113 |
| Deposits received under ceded reinsurance contracts | | 512 | 568 |
| Deferred front-end fees | | 5,429 | 4,872 |
| Liabilities for insurance contracts | 8 | 261,335 | 239,684 |
| Obligations to repurchase securities | | 1,394 | 1,280 |
| Other liabilities | 16 | 19,494 | 19,322 |
| Deferred tax liabilities | 17 | 4,357 | 4,562 |
| Liabilities held for sale[1] | 5 | 29,271 | 290 |
| Senior debt | 18 | 3,950 | 4,239 |
| Subordinated debt | 18 | 6,938 | 7,050 |
| **Total liabilities** | | **388,306** | **350,981** |
| | | | |
| **Equity** | | | |
| Share capital | 19 | 660 | 660 |
| Additional paid-in capital | 19 | 14,427 | 14,427 |
| Net unrealized gains/(losses) on available-for-sale investments | | 3,042 | 2,753 |
| Cash flow hedges | | 410 | 418 |
| Cumulative foreign currency translation adjustment | | (7,150) | (8,251) |
| Revaluation reserve | | 228 | 235 |
| Retained earnings | | 20,353 | 19,122 |
| Shareholders' equity | | 31,969 | 29,363 |
| Non-controlling interests | | 2,370 | 2,292 |
| **Total equity** | | **34,338** | **31,656** |
| **Total liabilities and equity** | | **422,645** | **382,636** |

[1] In 2017, the ZIC Group reclassified USD 29 billion of liabilities to held for sale based on agreements signed to sell businesses in the UK (see note 5). In 2016, the ZIC Group reclassified USD 290 million of liabilities to held for sale based on agreements signed to sell businesses in Taiwan and Middle East (see note 5).

Consolidated financial statements (continued)

## Consolidated statements of cash flows

| in USD millions, for the years ended December 31 | **2017** | 2016 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income attributable to shareholders | 3,257 | 2,911 |
| Adjustments for: | | |
| Net (gains)/losses on divestment of businesses | 84 | 89 |
| (Income)/expense from equity method accounted investments | (3) | (3) |
| Depreciation, amortization and impairments of fixed and intangible assets | 936 | 781 |
| Other non-cash items | 450 | 479 |
| | | |
| Underwriting activities: | 14,445 | 15,098 |
| *Liabilities for insurance contracts, gross* | *7,284* | *7,966* |
| *Reinsurers' share of liabilities for insurance contracts* | *(1,543)* | *(977)* |
| *Liabilities for investment contracts* | *7,760* | *9,506* |
| *Deferred policy acquisition costs* | *308* | *(1,056)* |
| *Deferred origination costs* | *15* | *31* |
| *Deposits made under assumed reinsurance contracts* | *705* | *(46)* |
| *Deposits received under ceded reinsurance contracts* | *(83)* | *(326)* |
| | | |
| Investments: | (13,794) | (16,135) |
| *Net capital (gains)/losses on total investments and impairments* | *(12,203)* | *(13,569)* |
| *Net change in derivatives* | *(229)* | *(243)* |
| *Net change in money market investments* | *(1,528)* | *(195)* |
| *Sales and maturities* | | |
| *Debt securities* | *71,787* | *67,572* |
| *Equity securities* | *52,611* | *47,735* |
| *Other* | *7,502* | *7,780* |
| *Purchases* | | |
| *Debt securities* | *(71,521)* | *(72,029)* |
| *Equity securities* | *(53,753)* | *(46,139)* |
| *Other* | *(6,459)* | *(7,048)* |
| | | |
| Net changes in sale and repurchase agreements | 24 | (137) |
| Movements in receivables and payables | 127 | (1,230) |
| Net changes in other operational assets and liabilities | 380 | (1,229) |
| Deferred income tax, net | (288) | 348 |
| Net cash provided by/(used in) operating activities | 5,622 | 970 |

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

| in USD millions, for the years ended December 31 | **2017** | 2016 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Additions to tangible and intangible assets | (530) | (715) |
| Disposals of tangible and intangible assets | 29 | 59 |
| (Acquisitions)/disposals of equity method accounted investments, net | 3 | (2) |
| Acquisitions of companies, net of cash acquired | (578) | (826) |
| Divestments of companies, net of cash divested | 220 | 341 |
| Dividends from equity method accounted investments | 1 | 1 |
| Net cash provided by/(used in) investing activities | (856) | (1,142) |
| **Cash flows from financing activities** | | |
| Dividends paid | (2,948) | (1,897) |
| Issuance of debt | 19 | 3,066 |
| Repayment of debt | (1,049) | (1,752) |
| Net cash provided by/(used in) financing activities | (3,978) | (583) |
| Foreign currency translation effects on cash and cash equivalents | 418 | (249) |
| Change in cash and cash equivalents[1] | 1,206 | (1,003) |
| Cash and cash equivalents as of January 1 | 7,880 | 8,883 |
| **Cash and cash equivalents as of December 31** | **9,086** | **7,880** |
| of which: Group cash and cash equivalents | 8,464 | 7,129 |
| of which: Unit-linked cash and cash equivalents | 622 | 751 |
| | | |
| **Other supplementary cash flow disclosures** | | |
| | | |
| Other interest income received | 4,783 | 4,882 |
| Dividend income received | 1,710 | 1,837 |
| Other interest expense paid | (936) | (861) |
| Income taxes paid | (1,557) | (1,445) |

[1] The movement for the year ended December 31, 2017 and 2016, includes USD 102 million and USD 42 million, respectively, of cash and cash equivalents reclassified to assets held for sale, which has been recognized in net changes in other operational assets and liabilities (see note 5).

## Cash and cash equivalents

| in USD millions, as of December 31 | **2017** | 2016 |
|---|---|---|
| **Cash and cash equivalents comprise the following:** | | |
| Cash at bank and in hand | 7,976 | 5,492 |
| Cash equivalents | 1,109 | 2,388 |
| **Total[1]** | **9,086** | **7,880** |

[1] Includes cash and cash equivalents for unit-linked contracts of USD 622 million and USD 751 million as of December 31, 2017 and 2016, respectively.

For the periods ending December 31, 2017 and 2016, cash and cash equivalents held to meet local regulatory requirements were USD 652 million and USD 625 million, respectively.

## Consolidated statements of changes in equity

in USD millions

| | Share capital | Additional paid-in capital |
|---|---|---|
| Balance as of December 31, 2015 | 660 | 14,666 |
| Issuance of share capital | – | – |
| Dividends to shareholders | – | – |
| Share-based payment transactions | – | (257) |
| Treasury share transactions | – | 18 |
| Change in ownership interests with no loss of control | – | – |
| Total comprehensive income for the period, net of tax | – | – |
| *Net income* | – | – |
| *Net unrealized gains/(losses) on available-for-sale investments* | – | – |
| *Cash flow hedges* | – | – |
| *Cumulative foreign currency translation adjustment* | – | – |
| *Revaluation reserve* | – | – |
| *Net actuarial gains/(losses) on pension plans* | – | – |
| Net changes in capitalization of non-controlling interests | – | – |
| Balance as of December 31, 2016 | 660 | 14,427 |
| | | |
| Balance as of December 31, 2016 | 660 | 14,427 |
| Issuance of share capital | – | – |
| Dividends to shareholders | – | – |
| Share-based payment transactions | – | – |
| Treasury share transactions | – | – |
| Change in ownership interests with no loss of control | – | – |
| Reclassification from revaluation reserves | – | – |
| Total comprehensive income for the period, net of tax | – | – |
| *Net income* | – | – |
| *Net unrealized gains/(losses) on available-for-sale investments* | – | – |
| *Cash flow hedges* | – | – |
| *Cumulative foreign currency translation adjustment* | – | – |
| *Revaluation reserve* | – | – |
| *Net actuarial gains/(losses) on pension plans* | – | – |
| Net changes in capitalization of non-controlling interests | – | – |
| **Balance as of December 31, 2017** | **660** | **14,427** |

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

| | Net unrealized gains/(losses) on available-for-sale investments | Cash flow hedges | Cumulative foreign currency translation adjustment | Revaluation reserve | Retained earnings | Shareholders' equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | 2,469 | 294 | (7,605) | 228 | 18,934 | 29,646 | 2,155 | 31,801 |
| | – | – | – | – | – | – | – | – |
| | – | – | – | – | (1,772) | (1,772) | (125) | (1,897) |
| | – | – | – | – | 40 | (218) | – | (218) |
| | – | – | – | – | – | 18 | – | 18 |
| | – | – | – | – | 3 | 3 | – | 3 |
| | 284 | 125 | (646) | 7 | 1,918 | 1,687 | 316 | 2,003 |
| | – | – | – | – | *2,911* | *2,911* | | |
| | *284* | – | – | – | – | *284* | | |
| | – | *125* | – | – | – | *125* | | |
| | – | – | *(646)* | – | – | *(646)* | | |
| | – | – | – | *7* | – | *7* | | |
| | – | – | – | – | *(993)* | *(993)* | | |
| | – | – | – | – | – | – | (54) | (54) |
| | 2,753 | 418 | (8,251) | 235 | 19,122 | 29,363 | 2,292 | 31,656 |
| | | | | | | | | |
| – | 2,753 | 418 | (8,251) | 235 | 19,122 | 29,363 | 2,292 | 31,656 |
| – | – | – | – | – | – | – | – | – |
| – | – | – | – | – | (2,397) | (2,397) | (339) | (2,736) |
| – | – | – | – | – | 5 | 5 | – | 5 |
| – | – | – | – | – | – | – | – | – |
| – | – | – | – | – | – | – | – | – |
| – | – | – | – | – | 17 | 17 | – | 17 |
| – | 289 | (9) | 1,100 | (7) | 3,605 | 4,979 | 523 | 5,502 |
| – | – | – | – | – | *3,257* | *3,257* | | |
| – | *289* | – | – | – | – | *290* | | |
| – | – | *(9)* | – | – | – | *(9)* | | |
| – | – | – | *1,100* | – | – | *1,100* | | |
| – | – | – | – | *(7)* | – | *(7)* | | |
| – | – | – | – | – | *348* | *348* | | |
| – | – | – | – | – | – | – | (106) | (106) |
| **–** | **3,042** | **410** | **(7,150)** | **228** | **20,353** | **31,969** | **2,370** | **34,338** |

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

Zurich Insurance Company Ltd, is incorporated in Zurich, Switzerland. The registered office is Mythenquai 2, 8002 Zurich, Switzerland. Zurich Insurance Company Ltd is a wholly owned subsidiary of Zurich Insurance Group Ltd and together with its subsidiaries forms part of the Zurich Insurance Group.

On March 7, 2018, the Board of Directors of Zurich Insurance Company Ltd authorized these consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on April 4, 2018.

## 1. Basis of presentation

### General information

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

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

Disclosures under IFRS 4 'Insurance Contracts' and IFRS 7 'Financial Instruments: Disclosures' relating to the nature and extent of risks, and capital disclosures under IAS 1 'Presentation of Financial Statements' have been included in the audited sections of the Risk review on pages 3 to 22, and they form an integral part of the consolidated financial statements.

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

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

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

Maturity tables have been provided for the following balances: debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), reserves for insurance contracts (tables 8.10a and 8.10b), liabilities for investment contracts (tables 9.3a and 9.3b), other financial liabilities (table 16.2) and outstanding debt (table 18.2).

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

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 71 million and USD 122 million for the years ended December 31, 2017 and 2016, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (12) million and USD (132) million for the years ended December 31, 2017 and 2016, respectively. For its Venezuela business, the ZIC Group had net gains/(losses) on foreign currency transactions of USD 70 million and USD 119 million for the years ended December 31, 2017 and 2016, respectively, and a cumulative foreign currency translation adjustment loss of USD 258 million in equity as of December 31, 2017 (both before non-controlling interest).

**Principal exchange rates**

**Table 1.1**

| USD per foreign currency unit | Consolidated balance sheets at end-of-period exchange rates | | Consolidated income statements and cash flows at average exchange rates | |
|---|---|---|---|---|
| | **12/31/17** | 12/31/16 | **12/31/17** | 12/31/16 |
| Euro | 1.2007 | 1.0557 | 1.1292 | 1.1067 |
| Swiss franc | 1.0260 | 0.9845 | 1.0159 | 1.0153 |
| British pound | 1.3515 | 1.2346 | 1.2882 | 1.3550 |
| Brazilian real | 0.3023 | 0.3077 | 0.3134 | 0.2886 |

## Reclassifications

### Changes in presentation

Cash and cash equivalents are shown outside of total investments and income from operating cash and cash equivalents is included in other income (non-technical) and not in investment income any longer. Insurance liability related balances in the total amount of USD 1 billion per December 31, 2016, have been reclassified from receivables and other assets, reserve for premium refunds and other liabilities to liabilities for insurance contracts. In addition, accrued investment income and accrued liabilities were merged with receivables and other assets and other liabilities, respectively. Accrued liabilities have been split into accrued liabilities and other financial liabilities within note 16 according their nature. Prior year comparative figures have been revised accordingly (see note 15 and 16).

### Reclassification of unwind of discounted reserves for losses and loss adjustment expenses

The ZIC Group has changed its presentation of the unwind of discount and changes in discount rates. As a consequence there was a shift of USD 50 million within BOP between losses and loss adjustment expenses and interest credited to policyholders and other interest (included in the non-technical result) for the period ended December 31, 2016. Prior year comparative figures have been revised accordingly.

### Change in the structure of the ZIC Group

Following the changes to the ZIC Group's management effective July 1, 2016, reportable segments and their composition have been changed in accordance with IFRS 8. Prior year comparative figures have been revised accordingly (see note 27).

## Other adjustments

### Change in the ZIC Group's BOP policy

As of January 1, 2017, the ZIC Group amended its policy relating to Business Operating Profit (BOP). The amendments mainly relate to certain litigation, earn-out and acquisition expenses which will no longer be eligible for exclusion from BOP. Prior year comparative figures have been revised accordingly, resulting in a reduction in BOP of USD 32 million for the period ended December 31, 2016.

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

### Standards, amendments and interpretations effective or early adopted as of January 1, 2017 and relevant for the ZIC Group's operations

Table 2.1 shows new accounting standards or amendments to and interpretations of standards relevant to the ZIC Group that have been implemented for the financial year beginning January 1, 2017, with no material impact on the ZIC Group's financial position or performance. Amendments resulting from the IASB annual improvements project have no impact on the ZIC Group's financials.

Table 2.1

Standard/ Interpretation

| | | Effective date |
|---|---|---|
| **Amended standards** | | |
| IAS 7 | Disclosure Initiative | January 1, 2017 |
| IAS 12 | Recognition of Deferred Tax Assets for Unrealized Losses | January 1, 2017 |

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

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

Table 2.2

Standard/ Interpretation

| | | Effective date |
|---|---|---|
| **New standards/ interpretations** | | |
| IFRS 15 | Revenue from Contracts with Customers | January 1, 2018 |
| IFRS 16 | Leases | January 1, 2019 |
| IFRS 9 | Financial Instruments | January 1, 2021 |
| IFRS 17 | Insurance Contracts | January 1, 2021 |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | January 1, 2018 |
| IFRIC 23 | Uncertainty over Income Tax Treatments | January 1, 2019 |
| | | |
| **Amended standards** | | |
| IFRS 2 | Classification and Measurement of Share-based Payment Transactions | January 1, 2018 |
| IFRS 4 | Applying IFRS 9 with IFRS 4 | January 1, 2018 |
| IAS 40 | Transfers of Investment Property | January 1, 2018 |
| IAS 28 | Long-term Interests in Associates and Joint Ventures | January 1, 2019 |
| IFRS 9 | Prepayment Features with Negative Compensation | January 1, 2021 |

#### IFRS 17 'Insurance contracts' and IFRS 9 'Financial Instruments'

IFRS 17 'Insurance contracts' was published on May 18, 2017 with the effective date of January 1, 2021 (retrospective application). IFRS 17 provides comprehensive guidance on accounting for insurance contracts and investment contracts with discretionary participation features. For non-life and short-term life insurance contracts IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk, for which confidence level equivalent disclosure will be required. Further, IFRS 17 will change the presentation of insurance contract revenue, as gross written premium will no longer be presented in profit or loss.

For long duration life insurance contracts, IFRS 17 is expected to have a significant impact on actuarial modeling as granular cash flow projections and regular updates of all assumptions will be required resulting in either profit or loss volatility or affecting 'contractual service margin,' a separate component of the insurance liability representing unearned profits from in-force contracts. Further, IFRS 17 introduces different measurement approaches for the insurance contract liabilities reflecting a different extent of policyholder participation in investment or insurance entity performance (non-participating, indirect participating, direct participating). Due to the strong interaction between underlying assets held and the measurement of direct participating insurance contracts, the ZIC Group decided to use the option to defer the full implementation of IFRS 9 until IFRS 17 becomes effective on January 1, 2021.

Under IFRS 9, all equity securities and fund investments, and more debt instruments will be measured at fair value through profit or loss because the characteristics of the contractual cash flows from such instruments are not solely payments of principal and interest on the principal amount outstanding. Furthermore, credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in other comprehensive income (OCI), are expected to increase due to the introduction of the expected credit loss methodology. Though overall profit or loss volatility is expected to increase under IFRS 9, the measurement approach for direct participating contracts in IFRS 17 allows such volatility to be largely absorbed in the measurement of insurance liabilities with an option to reflect in shareholders' equity (OCI) the effect of any asset-liability mismatch.

In order to further evaluate the effects of adopting IFRS 17 in the consolidated financial statements, a joint IFRS 17 and IFRS 9 ZIC Group Implementation Program (Program) has been set up sponsored by ZIC Group Chief Financial Officer. A steering committee comprised of senior management from various functions (finance, risk, operations and investment management) oversees the work performed by individual work streams. The methodology work stream covers ZIC Group accounting policies, actuarial methodologies and disclosure requirements to be consistently implemented throughout the ZIC Group. The implementation work stream takes responsibility for analyzing systems implications and data flows. In 2017 significant progress was made in defining ZIC Group methodologies and data requirements. In 2018, the focus of the Program will be on local and central implementation efforts and preparation for a dry run simulation scheduled for 2019.

The ZIC Group is currently assessing the impact of the application of both IFRS 17 and IFRS 9. At the date of publication of these consolidated financial statements, it was not practicable to quantify what the potential impact would be on the ZIC Group consolidated financial statements once these standards will be adopted.

### IFRS 16 'Leases'

IFRS 16 'Leases' will have an impact on the accounting for contracts where the ZIC Group acts as a lessee (and intermediate lessor), especially on real estate rental contracts. The ZIC Group intends to apply the modified retrospective approach for transition to IFRS 16 and make use of the optional exemption for short-term leases and leases of low-value assets. Further, the impact on the ZIC Group balance sheet as of January 1, 2019 will depend on the use of transition options available on a lease-by-lease basis. Based on the volume of in-force non-cancellable operating leases as of December 31, 2017 (see Table 22.2) the recognition of a right-of-use asset and a corresponding lease liability under IFRS 16 would result in an increase of both assets and liabilities of the ZIC Group of less than USD 2 billion. No material impact is expected in the consolidated statements of comprehensive income.

### IFRS 15 'Revenue from Contracts with Customers' and other standards

IFRS 15 'Revenue from Contracts with Customers' will not have a significant impact on the ZIC Group's financial position or performance. Other standards, amendments and interpretations shown in table 2.2 not explicitly addressed above are expected to have no or only an insignificant impact on the ZIC Group's financial position or performance.

# 3. Summary of significant accounting policies

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

## a) Consolidation principles

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

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

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

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

## b) Foreign currency translation and transactions

### Foreign currency translation

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

### Foreign currency transactions and balances

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

- Foreign currency translation differences that are recognized in OCI in conjunction with the recognition of unrealized gains or losses on available-for-sale investments
- Foreign currency translation differences arising on monetary items that form part of net investments in foreign operations, as well as foreign currency translation differences arising from monetary items that are designated as hedging instruments in a qualifying net investment hedge relationship, are included directly in OCI as CTA.

## c) Common control business combination

A business combination of entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations between entities under common control are accounted for by applying the pooling of interest method. The acquirer (entity that receives the net assets or the equity interest) initially recognizes the assets and liabilities transferred at their previous carrying amounts in the accounts of the transferor at the date of transfer. Any difference between the consideration paid and the carrying value of the net assets received is recorded in shareholders' equity. Such business combinations are recorded as if they had taken place at the beginning of the earliest period presented (or the date that the entities were first under common control, if later), for the purpose of including the result of the transferee in the retained earnings of the acquirer.

### d) Insurance contracts and investment contracts with discretionary participating features (DPF)

Classification

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

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

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

Premiums

*Property & Casualty*

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

*Life insurance*

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

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

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

Reserves for losses and loss adjustment expenses

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

Reserves for life benefits

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

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

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

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

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

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

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

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

### Deferred acquisition costs (DAC)

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

#### *Property & Casualty*

DAC for property & casualty contracts is amortized over the period in which the related premiums are earned.

#### *Life insurance*

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

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

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

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

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

### Liability adequacy tests

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

#### *Property & Casualty*

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

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

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

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

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

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

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

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

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

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

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

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

### f) Group investments excluding derivative financial instruments

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

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

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

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

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

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

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

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

#### Impairment of financial assets

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

### g) Derivative financial instruments and hedge accounting

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

### Derivative financial instruments that qualify for hedge accounting

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

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

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

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

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

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

## i) Goodwill

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

## j) Intangible assets

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

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

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

### Distribution agreements

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

### Software

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

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

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

### k) Other fees and commission income

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

### l) Employee benefits

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

The ZIC Group operates long-term incentive plans that are accounted for as cash-settled share-based compensation plans. The fair value of these incentive plans is determined at the grant date and is recognized as an expense in income over the vesting period, with a corresponding increase recorded within other liabilities for employee benefit plans.

Subsequently, the fair value of the liability is re-measured at the end of each reporting period with any changes in fair value recognized in profit or loss for the period.

#### Retirement benefits

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

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

#### Other post-employment benefits

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

# 4. Critical accounting judgments and estimates

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

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

### Property & Casualty

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

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

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

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

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

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

### Life insurance

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

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

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

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

### b) Fair value measurement

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

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

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

### c) Impairment of assets

#### Financial assets

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

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

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

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

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

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

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

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

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

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

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

Table 4.1 sets out for the major CGUs the applied discount rates and the perpetual nominal growth rates beyond the projection period that depend on expectations about country-specific growth rates and inflation as of the date of valuation, as well as the value of goodwill and AIF as of December 31, 2017. No impairment was identified.

# Consolidated financial statements (continued)

Table 4.1

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

| | Business | in USD millions | Discount rates in % 2017 | Discount rates in % 2016 | Perpetual nominal growth rate in % 2017 | Perpetual nominal growth rate in % 2016 |
|---|---|---|---|---|---|---|
| Farmers | Farmers | 1,845 | 10.8 | 9.1 | – | – |
| North America | P&C | 350 | 9.2 | 7.5 | 2.3 | 2.3 |
| Europe, Middle East & Africa | P&C | 297 | 7.4 | 6.7 | 1.9 | 1.8 |
| Asia Pacific | P&C | 635 | 7.8 | 7.1 | 2.3 | 2.1 |
| Asia Pacific | Life | 178 | 8.8 | 7.5 | 2.4 | 2.3 |
| Latin America | P&C | 68 | 15.6 | 15.1 | 4.4 | 5.4 |

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

### Distribution agreements

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

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

## d) Deferred taxes

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

See note 17 for further information on deferred taxes.

## e) Employee benefits

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

See note 20 for further information on employee benefits.

# 5. Acquisitions and divestments

## Transactions in 2017

Acquisitions

*Bright Box*

On December 22, 2017, the ZIC Group announced it has acquired 100 percent of the shares of Bright Box HK Limited (Bright Box) and its subsidiaries, a provider of telematics solutions linking vehicle drivers, dealers and manufacturers.

*ANZ's life and consumer credit insurance businesses*

On December 11, 2017, the ZIC Group announced it has entered into an agreement to acquire 100 percent of the Australian life insurance and consumer credit businesses (OnePath Life) of Australia and New Zealand Banking Group Limited (ANZ) for AUD 2.85 billion (USD 2 billion) subject to a purchase price adjustment. Both parties expect the transaction, which is subject to regulatory approvals, to be completed by the end of 2018.

*Cover-More*

On April 13, 2017, the ZIC Group completed the acquisition of all the shares in Cover-More Group Limited (Cover-More), a travel insurance and assistance solutions provider listed on the Australian Securities Exchange, with main operations in Australia, India and the U.S. In conjunction with this acquisition, the ZIC Group also acquired Halo Insurance Services Limited (Halo), a distributor of vehicle hire related insurance in the UK.

The final purchase price for Cover-More and Halo amounted to USD 580 million gross of a pre-closing dividend of USD 14 million. Based on the initial purchase accounting, the fair value of net tangible assets acquired amounted to negative USD 99 million and identifiable intangible assets estimated at USD 163 million, gross of related deferred tax liabilities of USD 49 million. Residual goodwill amounted to USD 566 million which represents the future growth potential of the travel insurance assistance business, the value of the workforce with their distribution capabilities and related know-how and synergies with the ZIC Group.

Table 5.1 shows the main balance sheet line items as of the acquisition date, representing the fair value of Cover-More and Halo net tangible assets acquired, intangible assets and goodwill.

**Table 5.1**

**Cover-More balance sheet as of the acquisition date**

| in USD millions, as of April 13, 2017 | **Total** |
|---|---|
| Cash and cash equivalents | 38 |
| Receivables and other assets | 34 |
| Property and equipment | 4 |
| Goodwill | 566 |
| Other intangible assets | 163 |
| **Assets acquired** | **804** |
| | |
| Other liabilities | 182 |
| Deferred tax liabilities | 41 |
| **Liabilities acquired** | **223** |
| | |
| Net assets acquired | 581 |
| Non-controlling interests | (1) |
| **Total acquisition costs** | **580** |

Cover-More's net income after taxes for the nine months since the acquisition date, as included in the ZIC Group consolidated income statements for the year ended December 31, 2017, amounts to USD 17 million including transaction-related costs. Pro-forma net income after taxes for the full twelve months ended December 31, 2017, amounts to approximately USD 24 million, adjusted for transaction-related costs incurred by Cover-More.

In addition, the ZIC Group incurred transaction-related costs of approximately USD 10 million in non-technical expenses in BOP. The majority has been incurred in 2017.

### Divestments

*Held for sale*

During the twelve months ended December 31, 2017, the ZIC Group entered into various agreements to sell Property & Casualty (P&C) and Life businesses in the UK. On January 2, 2018, the ZIC Group announced the sale of the Endsleigh group of companies to A-Plan Holdings (except for Endsleigh Financial Services Limited and Endsleigh Pension Trustee Limited), subject to regulatory approval. On October 12, 2017, the ZIC Group announced a strategic deal under which Lloyds Banking Group (LBG) will acquire the UK workplace pensions and savings business. The assets and liabilities of both transactions have been reclassified to held for sale. As of December 31, 2017, the total assets and total liabilities reclassified were USD 29 billion and USD 29 billion, respectively. Re-measurements of assets held for sale resulted in a pre-tax loss of USD 97 million which is recorded within net gains/(losses) on divestment of businesses. These transactions are expected to close during 2018.

*Middle East operations*

On June 19, 2017, the ZIC Group closed the sale of its P&C insurance operations in the Middle East to Cigna International Corporation for a sales price of approximately USD 48 million subject to a purchase price adjustment. A pre-tax gain of USD 10 million has been recorded within net gains/(losses) on divestment of businesses.

*Taiwan operations*

On January 17, 2017, the ZIC Group closed the sale of its P&C insurance operations in Taiwan to Hotai Motor Co., Ltd for a sales price of approximately USD 213 million. A pre-tax loss of USD 9 million has been recorded within net gains/(losses) on divestment of businesses.

## Transactions in 2016

### Acquisitions

*Macquarie Life Insurance Business*

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

*MAA Takaful Berhad*

On June 30, 2016, the ZIC Group completed the acquisition of 100 percent of MAA Takaful Berhad, a family and general takaful operator incorporated in Malaysia, from MAA Group Berhad (MAA) and Solidarity Group Holding BSC (Closed), for a total purchase price of USD 118 million of which an amount of approximately USD 30 million will be retained by the ZIC Group for three years. Based on the purchase accounting the net tangible assets acquired amounted to USD 26 million and identifiable intangible assets, net of related deferred tax, amounted to USD 30 million consisting of the present value of profits of acquired takaful contracts. Goodwill amounted to USD 63 million and mainly reflects the takaful business know-how and future growth opportunities.

*Rural Community Insurance Services*

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

The final purchase price amounted to USD 692 million. Based on the purchase accounting, the fair value of net tangible assets acquired amounted to USD 241 million and identifiable intangible assets estimated at USD 101 million which mainly consists of the valuation of agent relationships. Residual goodwill amounted to USD 350 million, which will be deductible for tax purposes. It represents the value of the RCIS workforce and management, the capabilities and related know-how of RCIS to participate in the federal crop insurance program and future growth opportunities. A 25 percent quota share reinsurance contract was in place between RCIS and the ZIC Group prior to completion of the transaction. The ZIC Group has assessed the fair value and the classification of assets and liabilities. Certain balances are presented net in receivables and other assets, as these balances will be settled on a net basis.

Table 5.2 shows the main balance sheet line items as of the acquisition date, representing the final fair value of RCIS net tangible assets acquired, intangible assets and goodwill, excluding the impact of the 25 percent quota share reinsurance contract.

Table 5.2

**RCIS final balance sheet as of the acquisition date**

| in USD millions, as of March 31, 2016 | Total |
|---|---|
| Cash and cash equivalents | 183 |
| Reinsurers' share of liabilities for insurance contracts | 235 |
| Receivables and other assets[1] | 2,131 |
| Deferred tax assets | 11 |
| Property and equipment | 12 |
| Goodwill | 350 |
| Other intangible assets | 101 |
| **Assets acquired** | **3,021** |
| | |
| Liabilities for insurance contracts | 289 |
| Other liabilities | 2,040 |
| **Liabilities acquired** | **2,329** |
| | |
| **Total acquisition costs** | **692** |

[1] Includes USD 980 million of balances which have been settled net.

Table 5.3 shows the result for the nine months since the acquisition date as included in the ZIC Group consolidated income statement for the year ended December 31, 2016. Furthermore, the table shows information related to the full twelve month period to December 31, 2016. This information is based on the local statutory accounts which includes a reinsurance contract with the ZIC Group which was eliminated in the consolidated figures.

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

Table 5.3

**Income statement information**

| in USD millions, information for the nine months from acquisition ended December 31, 2016 | Total |
|---|---|
| Gross written premiums | 1,702 |
| Net income after taxes | 122 |
| | |
| in USD millions, local statutory information for the twelve months ended December 31, 2016 | Total |
| Gross written premiums | 1,676 |
| Net income after taxes | 24 |

For the year ended December 31, 2016, the ZIC Group incurred transaction-related costs of USD 1 million included in other administrative expenses.

*Kono Insurance Limited*

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

Loss of control

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

### Divestments

On December 7, 2016, the ZIC Group closed the sale of its insurance business in South Africa to Fairfax Financial Holdings Limited. The contractually agreed sales price amounted to USD 128 million. A pre-tax loss of USD 200 million has been recorded within net gains/(losses) on divestment of businesses.

On November 3, 2016, the ZIC Group closed the sale of its insurance business in Morocco to Allianz Group. The contractually agreed sales price amounted to USD 289 million. A pre-tax gain of USD 101 million has been recorded within net gains/(losses) on divestment of businesses.

# 6. Group investments

Group investments are those for which the ZIC Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Net investment result on Group investments includes investment related cash, which is included in cash and cash equivalents on the consolidated balance sheets.

**Table 6.1**

**Net investment result on Group investments**

| in USD millions, for the years ended December 31 | Net investment income | | Net capital gains/(losses) and impairments | | Net investment result | | of which impairments | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Investment cash | 11 | 2 | – | – | 11 | 2 | – | – |
| Equity securities | 402 | 489 | 1,425 | 545 | 1,826 | 1,034 | (77) | (168) |
| Debt securities | 3,942 | 4,034 | 558 | 789 | 4,500 | 4,823 | – | (12) |
| Investment property[1] | 463 | 440 | 355 | 408 | 818 | 848 | – | – |
| Mortgage loans | 198 | 222 | – | 2 | 198 | 224 | – | 2 |
| Other loans | 415 | 423 | 9 | 17 | 424 | 440 | 8 | (1) |
| Investments in associates and joint ventures | 3 | 3 | – | 3 | 3 | 6 | – | – |
| Derivative financial instruments | – | – | (310) | (204) | (310) | (204) | – | – |
| Investment result, gross, for Group investments | 5,433 | 5,612 | 2,036 | 1,560 | 7,469 | 7,172 | (69) | (179) |
| Investment expenses for Group investments | (221) | (135) | – | – | (221) | (135) | – | – |
| Investment result, net, for Group investments | 5,212 | 5,477 | 2,036 | 1,560 | 7,248 | 7,037 | (69) | (179) |

[1] Rental operating expenses for investment property amounted to USD 91 million and USD 88 million for the years ended December 31, 2017 and 2016, respectively.

**Table 6.2**

**Details of Group investments by category**

| as of December 31 | **2017** | | 2016 | |
|---|---|---|---|---|
| | **USD millions** | **% of total** | USD millions | % of total |
| **Equity securities:** | | | | |
| Fair value through profit or loss | 3,597 | 1.8 | 3,359 | 1.8 |
| Available-for-sale | 14,542 | 7.5 | 12,881 | 7.0 |
| Total equity securities | 18,138 | 9.3 | 16,240 | 8.9 |
| **Debt securities:** | | | | |
| Fair value through profit or loss | 5,699 | 2.9 | 5,672 | 3.1 |
| Available-for-sale | 140,240 | 72.1 | 131,967 | 72.1 |
| Held-to-maturity | 2,322 | 1.2 | 2,543 | 1.4 |
| Total debt securities | 148,261 | 76.3 | 140,181 | 76.6 |
| Investment property | 12,238 | 6.3 | 10,562 | 5.8 |
| Mortgage loans | 7,047 | 3.6 | 6,794 | 3.7 |
| Other loans | 8,730 | 4.5 | 9,146 | 5.0 |
| Investments in associates and joint ventures | 21 | 0.0 | 20 | 0.0 |
| **Total Group investments** | **194,435** | **100.0** | **182,943** | **100.0** |

Investments with a carrying value of USD 6.4 billion and USD 6.8 billion are held to meet local regulatory requirements as of December 31, 2017 and 2016, respectively.

# Consolidated financial statements (continued)

## Details of debt securities by category

Table 6.3

| in USD millions, as of December 31 | Fair value through profit or loss | | Available-for-sale | | Held-to-maturity | | Total | Total |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Debt securities:** | | | | | | | | |
| Government and supra-national bonds | 2,982 | 3,041 | 64,491 | 60,941 | 2,109 | 2,342 | 69,581 | 66,325 |
| Corporate securities | 2,320 | 2,144 | 58,711 | 54,355 | 214 | 200 | 61,245 | 56,699 |
| Mortgage and asset-backed securities | 397 | 487 | 17,038 | 16,671 | – | – | 17,434 | 17,158 |
| **Total debt securities** | **5,699** | **5,672** | **140,240** | **131,967** | **2,322** | **2,543** | **148,261** | **140,181** |

## Debt securities maturity schedule

Table 6.4

| in USD millions, as of December 31 | Fair value through profit or loss | | Available-for-sale | | Held-to-maturity | | Total | Total |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Debt securities:** | | | | | | | | |
| < 1 year | 527 | 561 | 7,030 | 8,398 | 162 | 367 | 7,719 | 9,325 |
| 1 to 5 years | 1,164 | 1,283 | 39,059 | 36,716 | 149 | 259 | 40,372 | 38,258 |
| 5 to 10 years | 1,184 | 1,106 | 36,284 | 32,573 | 900 | 804 | 38,368 | 34,483 |
| > 10 years | 2,427 | 2,235 | 40,830 | 37,610 | 1,110 | 1,112 | 44,367 | 40,957 |
| Subtotal | 5,302 | 5,185 | 123,202 | 115,296 | 2,322 | 2,543 | 130,826 | 123,023 |
| **Mortgage and asset-backed securities:** | | | | | | | | |
| < 1 year | 1 | – | 16 | 27 | – | – | 17 | 27 |
| 1 to 5 years | 105 | 109 | 1,679 | 1,708 | – | – | 1,784 | 1,816 |
| 5 to 10 years | 39 | 56 | 2,499 | 2,319 | – | – | 2,538 | 2,375 |
| > 10 years | 252 | 322 | 12,844 | 12,618 | – | – | 13,095 | 12,940 |
| Subtotal | 397 | 487 | 17,038 | 16,671 | – | – | 17,434 | 17,158 |
| **Total** | **5,699** | **5,672** | **140,240** | **131,967** | **2,322** | **2,543** | **148,261** | **140,181** |

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

## Investment property

Table 6.5

| in USD millions | Total | |
|---|---|---|
| | **2017** | 2016 |
| As of January 1 | 10,562 | 9,865 |
| Additions and improvements | 1,124 | 938 |
| Acquisitions/(divestments) | (2) | (28) |
| Disposals | (418) | (183) |
| Market value revaluation | 243 | 281 |
| Transfer from/to assets held for own use | 51 | (5) |
| Transfer to assets held for sale | (70) | (84) |
| Foreign currency translation effects | 749 | (222) |
| **As of December 31** | **12,238** | **10,562** |

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

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

Table 6.6

| in USD millions, as of December 31 | Total 2017 | Total 2016 |
|---|---|---|
| Equity securities: available-for-sale | 1,830 | 1,290 |
| Debt securities: available-for-sale | 9,720 | 9,637 |
| Other | 350 | 469 |
| Gross unrealized gains/(losses) on Group investments | 11,900 | 11,396 |
| Less amount of unrealized gains/(losses) on investments attributable to: | | |
| Life policyholder dividends and other policyholder liabilities | (6,779) | (6,500) |
| Life deferred acquisition costs and present value of future profits | (702) | (696) |
| Deferred income taxes | (928) | (1,006) |
| Non-controlling interests | (40) | (22) |
| **Total**[1] | **3,452** | **3,171** |

[1] Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 410 million and USD 418 million as of December 31, 2017 and 2016, respectively.

## Securities lending, repurchase and reverse repurchase agreements

Table 6.7

| in USD millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| **Securities lending agreements** | | |
| Securities lent under securities lending agreements[1] | 970 | 3,465 |
| Collateral received for securities lending | 1,082 | 3,744 |
| of which: Cash collateral | 153 | 126 |
| of which: Non-cash collateral[2] | 929 | 3,619 |
| Liabilities for cash collateral received for securities lending | 153 | 126 |
| **Repurchase agreements** | | |
| Securities sold under repurchase agreements[3] | 1,397 | 1,284 |
| Obligations to repurchase securities | 1,394 | 1,280 |
| **Reverse repurchase agreements** | | |
| Securities purchased under reverse repurchase agreements[4] | 156 | 973 |
| Receivables under reverse repurchase agreements | 153 | 970 |

[1] The ZIC Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 970 million and USD 3.5 billion as of December 31, 2017 and 2016, respectively. The majority of these assets were debt securities.
[2] The ZIC Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 818 million and USD 3.3 billion as of December 31, 2017 and 2016, respectively.
[3] The ZIC Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 797 million and USD 724 million as of December 31, 2017 and 2016, respectively. The majority of these assets were debt securities.
[4] The ZIC Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of nil and USD 845 million as of December 31, 2017 and 2016, respectively.

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

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

# 7. Group derivative financial instruments and hedge accounting

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

Table 7.1 shows the fair value and notional amounts for instruments which did not qualify for hedge accounting as of December 31, 2017 and 2016. While these notional amounts express the extent of the ZIC Group's involvement in derivative transactions, they do not, however, represent the amounts at risk.

**Table 7.1**

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

| in USD millions, as of December 31 | | | | **2017** | | | | | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | **Maturity by notional amount** | | | **Notional amounts** | **Positive fair values** | **Negative fair values** | Notional amounts | Positive fair values | Negative fair values |
| | < 1 year | 1 to 5 years | > 5 years | | | | | | |
| **Interest rate contracts:** | | | | | | | | | |
| OTC | | | | | | | | | |
| Swaps | 105 | 513 | 2,004 | 2,622 | 97 | (12) | 3,166 | 116 | (19) |
| Swaptions | 333 | 1,319 | 745 | 2,397 | 52 | (17) | 2,185 | 57 | (23) |
| Exchange traded | | | | | | | | | |
| Futures | 136 | – | – | 136 | – | – | 77 | – | – |
| **Total interest rate contracts** | **574** | **1,832** | **2,749** | **5,155** | **149** | **(30)** | **5,428** | **173** | **(43)** |
| **Equity contracts:** | | | | | | | | | |
| OTC | | | | | | | | | |
| Options | 1,665 | 2,896 | 200 | 4,761 | 70 | (29) | 4,813 | 115 | (77) |
| Exchange traded | | | | | | | | | |
| Futures | 363 | – | – | 363 | – | (2) | 358 | 3 | – |
| **Total equity contracts** | **2,028** | **2,896** | **200** | **5,124** | **71** | **(32)** | **5,170** | **118** | **(77)** |
| **Foreign exchange contracts:** | | | | | | | | | |
| OTC | | | | | | | | | |
| Swaps and forwards | 16,324 | – | – | 16,324 | 78 | (50) | 16,996 | 88 | (76) |
| **Total foreign exchange contracts** | **16,324** | **–** | **–** | **16,324** | **78** | **(50)** | **16,996** | **88** | **(76)** |
| **Other contracts:** | | | | | | | | | |
| OTC | | | | | | | | | |
| Options | – | – | 11 | 11 | – | (1) | – | – | – |
| Swaps | – | – | 46 | 46 | – | (7) | 51 | – | (6) |
| **Total other contracts** | **–** | **–** | **58** | **58** | **–** | **(8)** | **51** | **–** | **(6)** |
| **Total ZIC Group derivative financial instruments** | **18,925** | **4,728** | **3,007** | **26,660** | **297** | **(119)** | **27,645** | **380** | **(200)** |

## Interest rate contracts

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

## Equity contracts

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

### Foreign exchange contracts

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

### Other contracts

Other contracts predominantly include stable value products (SVPs) issued to insurance company separate accounts in connection with certain life insurance policies (Bank Owned Life Insurance (BOLI) and Company Owned Life Insurance (COLI)) with an account value of USD 10.8 billion and USD 9.0 billion as of December 31, 2017 and 2016, respectively and with a market value of the underlying investments of USD 10.7 billion and USD 8.9 billion as of December 31, 2017 and 2016, respectively (not included in the table above). The ZIC Group includes the likelihood of surrender as one of the input parameters to determine the fair value of the SVPs which was nil as of December 31, 2017 and 2016.

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

**Table 7.2**

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

| in USD millions, as of December 31 | 2017 | | | | | | 2016 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Maturity by notional amount | | | Notional principal amounts | Positive fair values | Negative fair values | Notional principal amounts | Positive fair values | Negative fair values |
| | < 1 year | 1 to 5 years | > 5 years | | | | | | |
| **Fair value hedges:** | | | | | | | | | |
| Cross currency swaps | – | – | 62 | 62 | – | (47) | 69 | – | (59) |
| Interest rate swaps | – | 1,283 | 1,007 | 2,289 | 75 | (8) | 2,137 | 96 | (2) |
| Forex swaps and forwards | 336 | – | – | 336 | 1 | (1) | 449 | – | (2) |
| **Total fair value hedges** | **336** | **1,283** | **1,068** | **2,687** | **76** | **(56)** | **2,655** | **97** | **(63)** |
| **Cash flow hedges:** | | | | | | | | | |
| Interest rate swaptions | – | 867 | 1,277 | 2,144 | 450 | – | 2,058 | 448 | – |
| Cross currency swaps | – | 212 | 122 | 334 | 24 | (17) | 264 | 12 | – |
| Interest rate swaps[1] | – | 12 | 825 | 837 | 14 | – | 555 | 9 | – |
| Forex swaps and forwards | 772 | – | – | 772 | 7 | – | – | – | – |
| Forwards bonds | – | 300 | – | 300 | 10 | (22) | 264 | 11 | (16) |
| **Total cash flow hedges** | **772** | **1,391** | **2,224** | **4,387** | **505** | **(39)** | **3,141** | **479** | **(16)** |
| **Net investment hedges:** | | | | | | | | | |
| Forex swaps and forwards | 3,164 | – | – | 3,164 | 26 | – | 4,686 | 11 | (64) |
| **Total net investment hedges** | **3,164** | **–** | **–** | **3,164** | **26** | **–** | **4,686** | **11** | **(64)** |

[1] Includes USD 667 million and USD 325 million notional related to derivatives centrally cleared as of December 31, 2017 and 2016, respectively.

### Fair value hedges

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

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

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

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

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

**Gains/(losses) arising from fair value hedges**

**Table 7.3**

| in USD millions, for the years ended December 31 | **2017** | 2016 |
|---|---|---|
| **Gains/(losses)** | | |
| on hedging instruments[1] | (38) | (4) |
| on hedged items attributable to the hedged risk | 30 | 2 |

[1] Excluding current interest income, which is recognized as an offset on the same line as the interest expense of the hedged debt.

## Cash flow hedges

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

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

The ZIC Group uses foreign exchange swaps and forwards to protect against the exposure of the variability of future cash outflows related to reinsurance transactions. The effective portion of the gains and losses are initially recognized in OCI and will be recycled to profit or loss within underwriting and policy acquisition costs using the same pattern as the hedged item.

As of December 31, 2017, there were no debt issuances designated as hedged items in a cash flow hedge relationship (see note 18).

The net change of gains/(losses) deferred in OCI on derivative financial instruments designated as cash flow hedges were USD (36) million and USD 158 million before tax for the years ended December 31, 2017 and 2016, respectively.

The ZIC Group recognized gains of USD 33 million and USD 3 million in the consolidated income statement within net investment income on Group investments for the years ended December 31, 2017 and 2016, respectively. The ZIC Group also recognized net gains/(losses) of USD 15 million and USD 4 million within administrative and other operating expense for the years ended December 31, 2017 and 2016, respectively, as an offset to the foreign currency revaluation on the underlying hedged items.

A nil amount for the years ended December 31, 2017 and 2016, respectively, was recognized in net capital gains/(losses) and impairments due to hedge ineffectiveness.

### Net investment hedges

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

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

The net change of gains/(losses) deferred in OCI were USD 59 million and USD (58) million before tax for the years ended December 31, 2017 and 2016, respectively as a result of a hedge relationship through foreign exchange forwards and swaps.

The ZIC Group has also designated certain debt issuances as hedging instruments on a non-derivative net investment hedge relationship. The notional amount of these financial instruments was USD 4.7 billion and 4.2 billion for the years ended December 31, 2017 and 2016, respectively. The net gains/(losses) deferred in OCI were USD (168) million and USD (16) million before tax for the years ended December 31, 2017 and 2016, respectively.

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

No ineffectiveness of net investment hedges was recognized in net capital gains/(losses) and impairments for the years ended December 31, 2017 and 2016.

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

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

**Table 7.4**

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

| in USD millions, as of December 31 | Derivative assets | | Derivative liabilities | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Fair value | 903 | 967 | (214) | (344) |
| Related amounts not offset | (71) | (142) | 69 | 141 |
| Cash collateral (received)/pledged | (758) | (717) | 69 | 79 |
| Non-cash collateral (received)/pledged | (60) | (22) | 35 | 22 |
| **Net amount** | **14** | **87** | **(41)** | **(102)** |

# 8. Liabilities for insurance contracts and reinsurers' share of liabilities for insurance contracts

## Liabilities for insurance contracts

Table 8.1

| in USD millions, as of December 31 | Gross | | Ceded | | Net | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Reserves for losses and loss adjustment expenses | 65,368 | 61,470 | (11,070) | (9,777) | 54,298 | 51,693 |
| Reserves for unearned premiums | 17,060 | 16,416 | (3,167) | (2,910) | 13,893 | 13,507 |
| Future life policyholder benefits[1,2,3] | 77,529 | 72,440 | (3,201) | (3,766) | 74,328 | 68,674 |
| Policyholder contract deposits and other funds[2] | 24,944 | 22,785 | (3,533) | (1,958) | 21,411 | 20,827 |
| Reserves for unit-linked contracts | 75,413 | 65,530 | – | – | 75,413 | 65,530 |
| Other insurance liabilities | 1,021 | 1,043 | – | – | 1,021 | 1,043 |
| **Total liabilities for insurance contracts[4]** | **261,335** | **239,684** | **(20,971)** | **(18,411)** | **240,364** | **221,273** |

[1] The ZIC Group's life operations in the UK finalized the transfer of USD 1.6 billion of insurance assets and liabilities, associated with an annuities portfolio as of June 30, 2017.
[2] Farmers New World Life Insurance Company entered into a retrospective reinsurance agreement to transfer the risk of certain annuity portfolios with effect from April 1, 2017, which resulted in an initial increase of USD 1.6 billion in ceded policyholder contract deposits and other funds and USD 362 million of ceded future life policyholder benefits. The net gain of the transaction will be amortized over the remaining life of the underlying annuity contracts which is estimated to be between 30 to 50 years.
[3] In July 2017, Bansabadell Vida signed a reinsurance agreement on its individual life risk portfolio which resulted in an initial increase of USD 363 million of ceded future life policyholder benefits.
[4] Total liabilities for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 53 million and USD 64 million as of December 31, 2017 and 2016, respectively.

## Discounted reserves for losses and loss adjustment expenses

Table 8.2

| in USD millions, as of December 31 | Gross | | Ceded | | Net | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Reserves for losses and loss adjustment expenses | 65,368 | 61,470 | (11,070) | (9,777) | 54,298 | 51,693 |
| of which: Discounted reserves | 2,887 | 2,551 | (25) | (22) | 2,862 | 2,529 |
| Discount effect | 1,347 | 1,099 | (22) | (19) | 1,325 | 1,080 |
| Undiscounted reserves for losses and loss adjustment expenses | 66,715 | 62,569 | (11,092) | (9,796) | 55,623 | 52,773 |
| of which: Undiscounted amount of discounted reserves | 4,235 | 3,649 | (47) | (40) | 4,188 | 3,609 |
| Average discount rate | 2.2% | 2.2% | 2.8% | 2.7% | 2.2% | 2.2% |

## Development of reserves for losses and loss adjustment expenses

Table 8.3

| in USD millions | Gross | | Ceded | | Net | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| As of January 1 | 61,470 | 62,971 | (9,777) | (9,231) | 51,693 | 53,739 |
| Losses and loss adjustment expenses incurred: | | | | | | |
| Current year | 24,504 | 23,044 | (5,083) | (4,081) | 19,421 | 18,963 |
| Prior years | (977) | (377) | 335 | 214 | (641) | (164) |
| Total incurred | 23,527 | 22,667 | (4,748) | (3,868) | 18,779 | 18,799 |
| Losses and loss adjustment expenses paid: | | | | | | |
| Current year | (8,504) | (8,256) | 986 | 873 | (7,517) | (7,383) |
| Prior years | (13,770) | (14,145) | 2,776 | 2,456 | (10,994) | (11,690) |
| Total paid | (22,274) | (22,401) | 3,763 | 3,329 | (18,511) | (19,072) |
| Interest effects of discounted reserves | 121 | 50 | (1) | – | 120 | 50 |
| Acquisitions/(divestments) and transfers[1] | 18 | (224) | (2) | (205) | 16 | (430) |
| Foreign currency translation effects | 2,506 | (1,592) | (305) | 198 | 2,201 | (1,393) |
| **As of December 31** | **65,368** | **61,470** | **(11,070)** | **(9,777)** | **54,298** | **51,693** |

[1] The 2017 net movement mainly relates to the divestment of operations in Middle East and Taiwan (see note 5). The 2016 net movement of USD (430) million consists of USD 90 million related to the acquisitions of RCIS, Kono Insurance Limited and Zurich Takaful Company Limited and USD (244) million related to the sale of the ZIC Group's insurance operations in Morocco and South Africa. Additionally, USD (147) million are reclassified to assets and liabilities held for sale (see note 5) and USD (128) million relate to a reinsurance agreement which transferred the benefits and risks of some of the ZIC Group's non-core business portfolio to a third party.

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

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

For the year ended December 31, 2017, the increase of USD 2.6 billion in the net reserves for losses and loss adjustment expenses is driven by an increase of USD 2.2 billion due to foreign currency translation effects.

The increase in current year incurred losses versus the previous year mainly relates to catastrophe events during 2017, most notably the hurricanes in North America during the third quarter of 2017.

Net favorable reserve development emerged from reserves established in prior years amounting to USD 641 million mainly related to the following:

- In North America, favorable prior year development of USD 344 million driven by workers' injury;
- In EMEA, favorable prior year development driven by retail insurance, partially offset by the unfavorable prior year development for commercial liability.

For the year ended December 31, 2016, the decrease of USD 2 billion in net reserves for losses and loss adjustment expenses is driven by a decrease of USD 1.4 billion due to foreign currency translation effects as well as a net decrease of USD 430 million related to acquisitions/(divestments) and transfers (see table 8.3). In addition, net favorable reserve development emerged from reserves established in prior years amounting to USD 164 million largely driven by:

- In Europe, Middle East & Africa, unfavorable prior year development of USD 315 million related to the update of the Ogden rate in the UK;
- In North America, favorable prior year development of USD 293 million driven by property and motor;
- In APAC, favorable prior year development of USD 186 million driven by property.

# Consolidated financial statements (continued)

## Development of insurance losses, net

Table 8.4

| in USD millions, as of December 31 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | **2017** |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross reserves for losses and loss adjustment expenses (undiscounted) | 65,218 | 68,126 | 68,274 | 67,762 | 69,986 | 68,312 | 64,472 | 62,971 | 62,569 | 66,715 |
| Reinsurance recoverable (undiscounted) | (12,232) | (12,182) | (12,093) | (12,421) | (12,601) | (10,993) | (9,770) | (9,231) | (9,796) | (11,092) |
| Initial net reserves for losses and loss adjustment expenses | 52,986 | 55,944 | 56,180 | 55,341 | 57,385 | 57,319 | 54,703 | 53,739 | 52,773 | 55,623 |
| Cumulative paid as of: | | | | | | | | | | |
| *One year later* | *(13,047)* | *(12,716)* | *(13,092)* | *(13,525)* | *(13,799)* | *(13,301)* | *(12,576)* | *(11,690)* | *(10,994)* | |
| *Two years later* | *(19,909)* | *(19,821)* | *(21,073)* | *(21,245)* | *(21,465)* | *(21,002)* | *(19,460)* | *(18,562)* | | |
| *Three years later* | *(24,693)* | *(25,623)* | *(27,137)* | *(26,871)* | *(27,064)* | *(26,021)* | *(24,475)* | | | |
| *Four years later* | *(28,808)* | *(30,127)* | *(31,375)* | *(31,129)* | *(30,691)* | *(29,851)* | | | | |
| *Five years later* | *(32,170)* | *(33,325)* | *(34,478)* | *(33,836)* | *(33,515)* | | | | | |
| *Six years later* | *(34,596)* | *(35,678)* | *(36,556)* | *(35,935)* | | | | | | |
| *Seven years later* | *(36,480)* | *(37,324)* | *(38,192)* | | | | | | | |
| *Eight years later* | *(37,798)* | *(38,695)* | | | | | | | | |
| *Nine years later* | *(38,960)* | | | | | | | | | |
| Cumulative incurred: | | | | | | | | | | |
| *One year later* | *(1,059)* | *(1,378)* | *(1,302)* | *(571)* | *(757)* | *(59)* | *149* | *(164)* | *(641)* | |
| *Two years later* | *(2,350)* | *(2,565)* | *(1,819)* | *(891)* | *(652)* | *(139)* | *(25)* | *(1,106)* | | |
| *Three years later* | *(3,048)* | *(2,700)* | *(2,028)* | *(677)* | *(777)* | *(72)* | *(438)* | | | |
| *Four years later* | *(3,176)* | *(2,770)* | *(1,891)* | *(804)* | *(709)* | *(214)* | | | | |
| *Five years later* | *(3,235)* | *(2,587)* | *(2,020)* | *(826)* | *(912)* | | | | | |
| *Six years later* | *(2,958)* | *(2,677)* | *(2,051)* | *(1,018)* | | | | | | |
| *Seven years later* | *(2,973)* | *(2,629)* | *(2,107)* | | | | | | | |
| *Eight years later* | *(2,883)* | *(2,603)* | | | | | | | | |
| *Nine years later* | *(2,823)* | | | | | | | | | |
| Net undiscounted reserves re-estimated[1]: | | | | | | | | | | |
| *One year later* | *51,927* | *54,565* | *54,878* | *54,770* | *56,628* | *57,259* | *54,852* | *53,575* | *52,131* | |
| *Two years later* | *50,637* | *53,379* | *54,361* | *54,450* | *56,734* | *57,180* | *54,677* | *52,633* | | |
| *Three years later* | *49,939* | *53,243* | *54,152* | *54,664* | *56,609* | *57,246* | *54,265* | | | |
| *Four years later* | *49,810* | *53,173* | *54,289* | *54,537* | *56,676* | *57,105* | | | | |
| *Five years later* | *49,752* | *53,357* | *54,160* | *54,515* | *56,474* | | | | | |
| *Six years later* | *50,028* | *53,267* | *54,129* | *54,323* | | | | | | |
| *Seven years later* | *50,014* | *53,315* | *54,073* | | | | | | | |
| *Eight years later* | *50,103* | *53,341* | | | | | | | | |
| *Nine years later* | *50,164* | | | | | | | | | |
| Cumulative (deficiency)/ redundancy of net reserves | 2,823 | 2,603 | 2,107 | 1,018 | 912 | 214 | 438 | 1,106 | 641 | |
| Cumulative (deficiency)/ redundancy as a percentage of initial net reserves | 5.3% | 4.7% | 3.8% | 1.8% | 1.6% | 0.4% | 0.8% | 2.1% | 1.2% | |
| Gross reserves re-estimated | 61,102 | 63,795 | 64,837 | 65,513 | 67,489 | 67,080 | 63,690 | 61,733 | 61,592 | |
| Cumulative (deficiency)/ redundancy of gross reserves | 4,116 | 4,331 | 3,437 | 2,249 | 2,498 | 1,233 | 783 | 1,238 | 977 | |
| Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves | 6.3% | 6.4% | 5.0% | 3.3% | 3.6% | 1.8% | 1.2% | 2.0% | 1.6% | |

[1] Undiscounted amounts starting 2016, prior years are shown discounted.

Table 8.4 presents changes in the historical reserves for losses and loss adjustment expenses, net of reinsurance, that the ZIC Group established in 2008 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. Similarly, the cumulative incurred losses section details the sum of the cumulative paid amounts shown in the triangle above and the changes in loss reserves since the end of each financial year. The net undiscounted reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2017. It is the difference between the initial net reserve estimate and the last entry of the diagonal in the net undiscounted reserves re-estimated portion of the table. Conditions and trends that have affected the development of reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.4.

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

Table 8.5

| in USD millions | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Gross** | **Net** | Gross | Net |
| **Asbestos** | | | | |
| As of January 1 | 2,209 | 1,954 | 2,712 | 2,395 |
| Losses and loss adjustment expenses incurred | 62 | 34 | (13) | (17) |
| Losses and loss adjustment expenses paid | (118) | (102) | (145) | (125) |
| Foreign currency translation effects | 178 | 153 | (345) | (299) |
| **As of December 31** | **2,331** | **2,039** | **2,209** | **1,954** |

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

For the year ended December 31, 2017, reserves for asbestos claims increased by USD 121 million gross and USD 85 million net. The increase in the gross reserves primarily arose from foreign currency translation effects of USD 178 million and incurred losses of USD 62 million mainly in the UK partly offset by payments of USD 118 million mainly in the UK and North America.

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

# Consolidated financial statements (continued)

**Table 8.6**

### Development of future life policyholder benefits

| in USD millions | Gross | | Ceded | | Net | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| As of January 1 | 72,440 | 71,952 | (3,766) | (4,016) | 68,674 | 67,935 |
| Premiums[1,2] | 12,593 | 13,532 | (1,609) | (820) | 10,984 | 12,711 |
| Claims | (10,899) | (9,747) | 783 | 625 | (10,116) | (9,122) |
| Fee income and other expenses | (3,947) | (3,694) | 198 | 151 | (3,749) | (3,543) |
| Interest and bonuses credited to policyholders | 2,136 | 2,177 | (146) | (117) | 1,990 | 2,060 |
| Changes in assumptions | (133) | 168 | – | (6) | (133) | 162 |
| Acquisitions/(divestments) and transfers[3,4] | (1,561) | (55) | 1,561 | 23 | – | (32) |
| Increase/(decrease) recorded in other comprehensive income | (65) | (12) | – | – | (65) | (12) |
| Foreign currency translation effects | 6,964 | (1,879) | (222) | 394 | 6,742 | (1,486) |
| **As of December 31** | **77,529** | **72,440** | **(3,201)** | **(3,766)** | **74,328** | **68,674** |

1 Farmers New World Life Insurance Company entered into a retrospective reinsurance agreement to transfer the risk of certain annuity portfolios with effect from April 1, 2017, which resulted in an initial increase of USD 362 million of ceded future life policyholder benefits.
2 In July 2017, Bansabadell Vida signed a reinsurance agreement on its individual life risk portfolio which resulted in an initial increase of USD 363 million of ceded future life policyholder benefits.
3 ZIC Group's life operations in the UK finalized the transfer of USD 1.6 billion of insurance assets and liabilities, associated with an annuities portfolio as of June 30, 2017.
4 The 2016 net movement of USD (32) million relates to acquisitions and divestments (see note 5).

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

Future life policyholder benefits are generally calculated by a net premium valuation. In terms of U.S. dollars, the weighted average discount rate used in the calculation of future life policyholder benefits is 2.5 percent and 2.6 percent as of December 31, 2017 and 2016, respectively.

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

The net impact of changes in assumptions on future life policyholder benefits by type of assumption is shown in table 8.7.

**Table 8.7**

### Effect of changes in assumptions for future life policyholder benefits

| in USD millions, for the years ended December 31 | **2017** | 2016 |
|---|---|---|
| Interest rates | 2 | 152 |
| Investment return | (154) | 8 |
| Changes in modeling | – | 12 |
| Expense | 2 | 6 |
| Morbidity | 3 | (10) |
| Longevity | (4) | (10) |
| Lapses | 8 | 11 |
| Other | 10 | (6) |
| **Net impact of changes in assumptions** | **(133)** | **162** |

**Table 8.8**

### Policyholder contract deposits and other funds gross

| in USD millions, as of December 31 | **2017** | 2016 |
|---|---|---|
| Universal life and other contracts | 12,987 | 12,126 |
| Policyholder dividends | 11,957 | 10,658 |
| **Total** | **24,944** | **22,785** |

## Development of policyholder contract deposits and other funds

Table 8.9

| in USD millions | Gross 2017 | Gross 2016 | Ceded 2017 | Ceded 2016 | Net 2017 | Net 2016 |
|---|---|---|---|---|---|---|
| As of January 1 | 22,785 | 22,076 | (1,958) | (1,956) | 20,827 | 20,121 |
| Premiums[1] | 1,086 | 1,105 | (1,719) | (58) | (632) | 1,046 |
| Claims | (1,207) | (1,265) | 272 | 137 | (935) | (1,128) |
| Fee income and other expenses | (401) | (460) | (13) | (6) | (414) | (466) |
| Interest and bonuses credited to policyholders | 1,295 | 1,002 | (114) | (75) | 1,181 | 927 |
| Acquisitions/(divestments) and transfers[2] | – | 6 | – | – | – | 6 |
| Increase/(decrease) recorded in other comprehensive income | (456) | 894 | – | – | (456) | 894 |
| Foreign currency translation effects | 1,842 | (574) | (1) | – | 1,840 | (574) |
| **As of December 31** | **24,944** | **22,785** | **(3,533)** | **(1,958)** | **21,411** | **20,827** |

[1] Farmers New World Life Insurance Company entered into a retrospective reinsurance agreement to transfer the risk of certain annuity portfolios with effect from April 1, 2017, which resulted in an initial increase of USD 1.6 billion in ceded policyholder contract deposits and other funds.
[2] The 2016 net movement of USD 6 million relates to reclassifications to liabilities held for sale (see note 5).

Tables 8.10a and 8.10b provide an analysis of the expected maturity profile of reserves for insurance contracts, net of reinsurance, based on expected cash flows without considering the surrender values as of December 31, 2017 and 2016. Reserves for unit-linked insurance contracts amounting to USD 75 billion and USD 66 billion as of December 31, 2017 and 2016, respectively, are not included, as policyholders can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are largely borne by the policyholders of unit-linked contracts.

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

Table 8.10a

| in USD millions, as of December 31, 2017 | Reserves for losses and loss adjustment expenses | Future life policyholder benefits | Policyholder contract deposits and other funds | Total |
|---|---|---|---|---|
| < 1 year | 14,757 | 9,434 | 1,571 | 25,762 |
| 1 to 5 years | 22,440 | 18,606 | 1,900 | 42,945 |
| 5 to 10 years | 8,434 | 13,932 | 2,237 | 24,603 |
| 10 to 20 years | 6,239 | 14,928 | 2,691 | 23,858 |
| > 20 years | 2,428 | 17,429 | 13,012 | 32,869 |
| **Total** | **54,298** | **74,328** | **21,411** | **150,037** |

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

Table 8.10b

| in USD millions, as of December 31, 2016 | Reserves for losses and loss adjustment expenses | Future life policyholder benefits | Policyholder contract deposits and other funds | Total |
|---|---|---|---|---|
| < 1 year | 13,999 | 9,015 | 1,491 | 24,505 |
| 1 to 5 years | 21,386 | 17,184 | 1,641 | 40,211 |
| 5 to 10 years | 8,104 | 12,393 | 1,946 | 22,443 |
| 10 to 20 years | 5,777 | 14,228 | 2,414 | 22,419 |
| > 20 years | 2,427 | 15,854 | 13,335 | 31,616 |
| **Total** | **51,693** | **68,674** | **20,827** | **141,193** |

# 9. Liabilities for investment contracts

**Liabilities for investment contracts**

Table 9.1

| in USD millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| Unit-linked investment contracts[1] | 45,484 | 60,233 |
| Investment contracts (amortized cost) | 510 | 506 |
| Investment contracts with DPF | 9,633 | 8,374 |
| **Total** | **55,627** | **69,113** |

[1] In 2017, ZIC Group reclassified USD 29 billion of unit-linked investment contracts to liabilities held for sale based on agreements to sell businesses in the UK (see note 5).

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

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

**Development of liabilities for investment contracts**

Table 9.2

| in USD millions | 2017 | 2016 |
|---|---|---|
| As of January 1 | 69,113 | 70,627 |
| Premiums | 12,460 | 9,818 |
| Claims | (10,727) | (7,719) |
| Fee income and other expenses | (564) | (430) |
| Interest and bonuses credited to policyholders | 6,591 | 8,149 |
| Acquisitions/(divestments) and transfers[1] | (29,073) | (2,545) |
| Increase/(decrease) recorded in other comprehensive income | 5 | (12) |
| Foreign currency translation effects | 7,823 | (8,775) |
| **As of December 31** | **55,627** | **69,113** |

[1] In 2017, ZIC Group reclassified USD 29 billion of unit-linked investment contracts to liabilities held for sale based on agreements to sell businesses in the UK (see note 5). The 2016 movement relates to the sale of unit-linked Private Banking Solutions business in Luxembourg.

Tables 9.3a and 9.3b provide an analysis of investment contract liabilities according to maturity, based on expected cash flows as of December 31, 2017 and 2016. The undiscounted contractual cash flows for investment contract liabilities are USD 56 billion and USD 69 billion as of December 31, 2017 and 2016, respectively. Liabilities for unit-linked investment contracts amounted to USD 45 billion and USD 60 billion as of December 31, 2017 and 2016, respectively. Policyholders of unit-linked investment contracts can generally surrender their contracts at any time, leading the underlying assets to be liquidated, risks arising from liquidation of unit-linked assets are borne by the policyholders. Certain non-unit-linked contracts also allow for surrender of the contract by the policyholder at any time. Liabilities for such contracts amounted to USD 558 million and USD 633 million as of December 31, 2017 and 2016, respectively. The ZIC Group actively manages the Life in-force business to improve persistency and retention.

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

**Table 9.3a**

in USD millions, as of December 31, 2017

| | Liabilities related to unit-linked investment contracts | Liabilities related to investment contracts (amortized cost) | Liabilities related to investment contracts with discretionary participation features | Total |
|---|---|---|---|---|
| < 1 year | 2,608 | 200 | 265 | 3,073 |
| 1 to 5 years | 7,338 | 149 | 1,554 | 9,042 |
| 5 to 10 years | 8,280 | 81 | 1,792 | 10,154 |
| 10 to 20 years | 8,209 | 47 | 1,185 | 9,441 |
| > 20 years | 19,049 | 33 | 4,836 | 23,918 |
| **Total** | **45,484** | **510** | **9,633** | **55,627** |

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

**Table 9.3b**

in USD millions, as of December 31, 2016

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

Consolidated financial statements (continued)

# 10. Gross and ceded insurance revenues and expenses

## Insurance benefits and losses

Table 10.1

| in USD millions, for the years ended December 31 | Gross | | Ceded | | Net | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Losses and loss adjustment expenses | 23,527 | 22,667 | (4,748) | (3,868) | 18,779 | 18,799 |
| Life insurance death and other benefits | 11,053 | 12,771 | (1,504) | (814) | 9,548 | 11,957 |
| **Total insurance benefits and losses** | **34,579** | **35,438** | **(6,252)** | **(4,682)** | **28,328** | **30,756** |

## Policyholder dividends and participation in profits

Table 10.2

| in USD millions, for the years ended December 31 | **2017** | 2016 |
|---|---|---|
| Change in policyholder contract deposits and other funds | 1,202 | 856 |
| Change in reserves for unit-linked products | 5,331 | 5,776 |
| Change in liabilities for investment contracts – unit-linked | 6,428 | 7,930 |
| Change in liabilities for investment contracts – other | 175 | 230 |
| Change in unit-linked liabilities related to UK capital gains tax | (150) | (273) |
| **Total policyholder dividends and participation in profits** | **12,984** | **14,519** |

## Underwriting and policy acquisition costs

Table 10.3

| in USD millions, for the years ended December 31 | Gross | | Ceded | | Net | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Amortization of deferred acquisition costs | 6,777 | 6,145 | (583) | (620) | 6,193 | 5,524 |
| Amortization of deferred origination costs | 74 | 75 | – | – | 74 | 75 |
| Commissions and other underwriting and acquisition expenses[1] | 3,027 | 3,325 | (255) | (387) | 2,772 | 2,938 |
| **Total underwriting and policy acquisition costs** | **9,877** | **9,545** | **(838)** | **(1,007)** | **9,039** | **8,538** |

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

## Change in reserves for unearned premiums

Table 10.4

| in USD millions, for the years ended December 31 | Gross | | Ceded | | Net | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Change in reserves for unearned premiums** | **295** | **319** | **(217)** | **(168)** | **79** | **150** |

# 11. Deferred policy acquisition costs and deferred origination costs

**Development of deferred policy acquisition costs**

Table 11.1

| in USD millions | Property & Casualty | | Life | | Other businesses[1] | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| As of January 1 | 4,830 | 4,226 | 11,117 | 11,690 | 1,849 | 1,761 | 17,796 | 17,677 |
| Acquisition costs deferred[2] | 4,438 | 4,466 | 995 | 1,561 | 397 | 554 | 5,829 | 6,580 |
| Amortization | (4,114) | (3,831) | (1,561) | (1,205) | (454) | (486) | (6,129) | (5,522) |
| Impairments[3] | – | (2) | (8) | – | (55) | – | (64) | (2) |
| Amortization (charged)/ credited to other comprehensive income | – | – | 46 | (43) | 13 | 3 | 59 | (40) |
| Acquisitions/(divestments) and transfers[4] | (4) | (24) | – | (16) | – | 19 | (4) | (21) |
| Foreign currency translation effects | 140 | (5) | 1,035 | (870) | 1 | (1) | 1,177 | (876) |
| **As of December 31** | **5,289** | **4,830** | **11,624** | **11,117** | **1,751** | **1,849** | **18,663** | **17,796** |

[1] Net of eliminations from inter-segment transactions.
[2] In July 2017, Bansabadell Vida signed a reinsurance agreement on its individual life risk portfolio which resulted in an initial increase of USD 755 million of reinsurance deferred acquisition costs.
[3] Farmers New World Life Insurance Company entered into a retrospective reinsurance agreement to transfer the risk of certain annuity portfolios with effect from April 1, 2017, which resulted in deferred policy acquisition costs impairment of USD 55 million.
[4] In 2017 Property & Casualty reclassified USD 4 million to assets held for sale based on agreement to sell business in the UK (see note 5). The 2016 Property & Casualty movement of USD 24 million includes USD 12 million related to the sale of businesses in South Africa and Morocco, USD 9 million reclassified to assets held for sale (see note 5) and a portfolio transfer of USD 3 million to Non-Core Businesses. The 2016 Life movement of USD 16 million related to the portfolio transfer of Zurich Life Insurance Singapore Pte Ltd to Non-Core Businesses.

**Development of deferred origination costs**

Table 11.2

| in USD millions | **2017** | 2016 |
|---|---|---|
| As of January 1 | 426 | 506 |
| Origination costs deferred | 59 | 44 |
| Amortization | (74) | (75) |
| Foreign currency translation effects | 49 | (50) |
| **As of December 31** | **460** | **426** |

## 12. Expenses

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

**Table 12**

**Expenses**

| in USD millions, for the years ended December 31 | **2017** | 2016 |
|---|---|---|
| Administrative and other operating expenses | 7,186 | 7,450 |
| Other underwriting and policy acquisition costs[1] | 2,188 | 2,291 |
| Claims handling expenses[2] | 1,261 | 1,343 |
| Other investment expenses[3] | 221 | 135 |
| **Total** | **10,855** | **11,220** |
| of which: | | |
| Personnel and other related costs | 5,442 | 5,438 |
| Amortization and impairments of intangible assets | 570 | 416 |
| Depreciation and impairments of property and equipment | 152 | 174 |
| Building and infrastructure costs | 539 | 551 |
| Brand and marketing expenses | 344 | 401 |
| Life recurring commission | 431 | 398 |
| Asset and other non-income taxes | 31 | 76 |
| IT expenses | 1,393 | 1,437 |
| Restructuring costs (excl. impairments) | 294 | 309 |
| Outsourcing and professional services | 878 | 873 |
| Foreign currency translation | (71) | (122) |
| Other | 853 | 1,269 |
| **Total** | **10,855** | **11,220** |

[1] Included within commissions and other underwriting and acquisition expenses (see table 10.3).
[2] Included within losses and loss adjustment expenses (see table 10.1).
[3] Excludes expenses arising from investment property within investment expenses for Group investments (see table 6.1).

## 13. Property and equipment

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

- buildings 25 to 50 years;
- furniture and fixtures 5 to 10 years;
- computer equipment 3 to 6 years;
- other equipment 6 to 10 years (or determined by the term of lease).

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

Table 13.1

**Property and equipment – current period**

| in USD millions | Land held for own use | Buildings held for own use | Furniture and fixtures | Computer equipment | Other equipment | Total |
|---|---|---|---|---|---|---|
| **Gross carrying value as of January 1, 2017** | **168** | **427** | **377** | **311** | **727** | **2,009** |
| Less: accumulated depreciation/impairments | (6) | (176) | (223) | (244) | (408) | (1,056) |
| **Net carrying value as of January 1, 2017** | **162** | **251** | **154** | **67** | **319** | **953** |
| Additions and improvements | 1 | 41 | 27 | 44 | 99 | 213 |
| Acquisitions | – | – | 1 | 1 | 2 | 4 |
| Disposals[1] | (1) | (2) | (5) | (3) | (27) | (39) |
| Transfers | (17) | (48) | – | 1 | 1 | (62) |
| Depreciation and impairments | – | (10) | (35) | (31) | (76) | (152) |
| Foreign currency translation effects | 10 | 18 | 5 | 2 | 9 | 44 |
| **Net carrying value as of December 31, 2017** | **155** | **250** | **147** | **82** | **327** | **961** |
| Plus: accumulated depreciation/impairments | – | 165 | 231 | 241 | 413 | 1,051 |
| **Gross carrying value as of December 31, 2017** | **155** | **415** | **378** | **323** | **740** | **2,012** |

[1] Includes USD 1 million related to the sale of businesses in Taiwan and USD 10 million re-measurement losses related to assets held for sale (see note 5).

Table 13.2

**Property and equipment – prior period**

| in USD millions | Land held for own use | Buildings held for own use | Furniture and fixtures | Computer equipment | Other equipment | Total |
|---|---|---|---|---|---|---|
| **Gross carrying value as of January 1, 2016** | **217** | **737** | **364** | **362** | **759** | **2,439** |
| Less: accumulated depreciation/impairments | (6) | (363) | (226) | (297) | (407) | (1,299) |
| **Net carrying value as of January 1, 2016** | **211** | **374** | **138** | **65** | **352** | **1,140** |
| Additions and improvements | – | 21 | 62 | 37 | 87 | 207 |
| Disposals[1] | (19) | (42) | (6) | (3) | (24) | (94) |
| Transfers | (27) | (89) | – | – | – | (116) |
| Depreciation and impairments | – | (17) | (38) | (30) | (89) | (174) |
| Foreign currency translation effects | (3) | (4) | (3) | (5) | (10) | (25) |
| **Net carrying value as of December 31, 2016** | **162** | **251** | **154** | **67** | **319** | **953** |
| Plus: accumulated depreciation/impairments | 6 | 176 | 223 | 244 | 408 | 1,056 |
| **Gross carrying value as of December 31, 2016** | **168** | **427** | **377** | **311** | **727** | **2,009** |

[1] Includes USD 24 million related to the sale of businesses in South Africa and Morocco and USD 24 million reclassification to assets held for sale (see note 5).

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

Table 14.1

**Intangible assets – current period**

| in USD millions | Attorney-in-fact contracts | Goodwill | PVFP | Distribution agreements | Software | Other | Total |
|---|---|---|---|---|---|---|---|
| **Gross carrying value as of January 1, 2017** | **1,025** | **2,110** | **2,422** | **3,860** | **4,646** | **251** | **14,315** |
| Less: accumulated amortization/ impairments | – | (315) | (1,918) | (1,147) | (3,196) | (124) | (6,700) |
| **Net carrying value as of January 1, 2017** | **1,025** | **1,795** | **504** | **2,713** | **1,450** | **128** | **7,615** |
| Additions and acquisitions | – | 565 | – | 119 | 320 | 38 | 1,043 |
| Divestments and transfers | – | (61) | – | (2) | (44) | (23) | (129) |
| Amortization[1] | – | – | (55) | (213) | (350) | (9) | (626) |
| Amortization charged to other comprehensive income | – | – | 14 | – | – | – | 14 |
| Impairments | – | – | – | – | (156) | – | (156) |
| Foreign currency translation effects | – | 53 | 45 | 210 | 68 | 4 | 380 |
| **Net carrying value as of December 31, 2017** | **1,025** | **2,353** | **507** | **2,828** | **1,288** | **139** | **8,140** |
| Plus: accumulated amortization/ impairments | – | 353 | 2,112 | 1,465 | 3,486 | 109 | 7,525 |
| **Gross carrying value as of December 31, 2017** | **1,025** | **2,706** | **2,619** | **4,293** | **4,774** | **247** | **15,665** |

[1] Amortization of distribution agreements is included within underwriting and policy acquisition costs.

As of December 31, 2017, intangible assets related to non-controlling interests were USD 79 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1.2 billion for distribution agreements and USD 32 million for software.

As a result of the acquisition of Cover-More intangible assets increased by USD 728 million of which USD 566 million related to goodwill and USD 163 million to distribution agreements, software and other intangible assets (see note 5).

For the year ended December 31, 2017, divestments and transfers include re-measurements of intangible assets related to assets held for sale of USD 124 million (see note 5).

Following a review, software was identified, which was not utilized as originally expected, resulting in USD 156 million of impairments, primarily in Property & Casualty in the UK and in Group Functions and Operations.

Table 14.2

**Intangible assets by business – current period**

| in USD millions, as of December 31, 2017 | Attorney-in-fact contracts | Goodwill | PVFP | Distribution agreements | Software | Other | Total |
|---|---|---|---|---|---|---|---|
| Property & Casualty | – | 1,350 | – | 820 | 524 | 138 | 2,833 |
| Life | – | 183 | 434 | 2,007 | 324 | 1 | 2,950 |
| Farmers | 1,025 | 819 | 73 | – | 370 | – | 2,288 |
| Group Functions and Operations | – | – | – | – | 70 | – | 70 |
| **Net carrying value** | **1,025** | **2,353** | **507** | **2,828** | **1,288** | **139** | **8,140** |

## Intangible assets – prior period

Table 14.3

| in USD millions | Attorney-in-fact contracts | Goodwill | PVFP | Distribution agreements | Software | Other | Total |
|---|---|---|---|---|---|---|---|
| **Gross carrying value as of January 1, 2016** | **1,025** | **1,667** | **2,501** | **3,715** | **4,666** | **173** | **13,746** |
| Less: accumulated amortization/ impairments | – | (378) | (2,035) | (963) | (3,161) | (130) | (6,666) |
| **Net carrying value as of January 1, 2016** | **1,025** | **1,289** | **466** | **2,752** | **1,505** | **43** | **7,080** |
| Additions and acquisitions | – | 576 | 106 | 112 | 395 | 101 | 1,291 |
| Divestments and transfers | – | (33) | – | (5) | (15) | (3) | (56) |
| Amortization[1] | – | – | (23) | (188) | (343) | (8) | (563) |
| Amortization charged to shareholders' equity | – | – | (21) | – | – | – | (21) |
| Impairments | – | – | – | (2) | (41) | (1) | (44) |
| Foreign currency translation effects | – | (38) | (24) | 45 | (51) | (4) | (72) |
| **Net carrying value as of December 31, 2016** | **1,025** | **1,795** | **504** | **2,713** | **1,450** | **128** | **7,615** |
| Plus: accumulated amortization/ impairments | – | 315 | 1,918 | 1,147 | 3,196 | 124 | 6,700 |
| **Gross carrying value as of December 31, 2016** | **1,025** | **2,110** | **2,422** | **3,860** | **4,646** | **251** | **14,315** |

[1] Amortization of distribution agreements is included within underwriting and policy acquisition costs.

As of December 31, 2016, intangible assets related to non-controlling interests were USD 82 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1.2 billion for distribution agreements and USD 32 million for software.

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

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

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

## Intangible assets by business – prior period

Table 14.4

| in USD millions, as of December 31, 2016 | Attorney-in-fact contracts | Goodwill | PVFP | Distribution agreements | Software | Other | Total |
|---|---|---|---|---|---|---|---|
| Property & Casualty | – | 808 | – | 744 | 591 | 127 | 2,269 |
| Life | – | 168 | 418 | 1,969 | 371 | 1 | 2,927 |
| Farmers | 1,025 | 819 | 86 | – | 389 | – | 2,320 |
| Group Functions and Operations | – | – | – | – | 99 | – | 99 |
| **Net carrying value** | **1,025** | **1,795** | **504** | **2,713** | **1,450** | **128** | **7,615** |

## 15. Receivables and other assets

**Receivables and other assets**

Table 15

| in USD millions, as of December 31 | **2017** | 2016 |
|---|---|---|
| **Financial assets** | | |
| Group derivative assets | 903 | 967 |
| Unit-linked derivative assets | 19 | 26 |
| Receivables from policyholders | 3,281 | 3,139 |
| Receivables from insurance companies, agents and intermediaries | 5,665 | 4,860 |
| Receivables arising from ceded reinsurance | 1,179 | 1,432 |
| Reverse repurchase agreements | 153 | 970 |
| Amounts due from investment brokers | 847 | 562 |
| Other receivables | 2,309 | 2,054 |
| Allowance for impairments[1] | (258) | (230) |
| Accrued premiums | 845 | 826 |
| Accrued investment income[2] | 1,695 | 1,653 |
| Assets for defined benefit plans[3] | 201 | – |
| Other financial assets | 187 | 154 |
| **Non-financial assets** | | |
| Current income tax receivables | 501 | 641 |
| Prepaid expenses | 350 | 432 |
| Other non-financial assets | 313 | 270 |
| **Total receivables and other assets** | **18,189** | **17,756** |

[1] Includes receivables arising from ceded reinsurance of USD 41 million and USD 30 million as of December 31, 2017 and 2016, respectively.
[2] Accrued investment income on the unit-linked investments amounts to USD 107 million and USD 91 million as of December 31, 2017 and 2016, respectively.
[3] See note 20

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

# 16. Other liabilities

**Other liabilities**

Table 16.1

| in USD millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| **Other financial liabilities** | | |
| Group derivative liabilities | 214 | 344 |
| Unit-linked derivative liabilities | 15 | 9 |
| Amounts due to policyholders | 726 | 694 |
| Amounts due to insurance companies, agents and intermediaries | 1,040 | 1,141 |
| Amounts due to reinsurers | 1,477 | 1,827 |
| Liabilities for cash collateral received for securities lending | 153 | 126 |
| Amounts due to investment brokers | 1,096 | 1,151 |
| Collateralized bank financing for structured lease vehicles | 518 | 541 |
| Liabilities for defined benefit plans[1] | 3,590 | 4,317 |
| Other liabilities for employee benefit plans | 433 | 420 |
| Accrued liabilities | 2,076 | 1,713 |
| Other financial liabilities | 5,507 | 5,137 |
| **Other non-financial liabilities** | | |
| Current income tax payables | 944 | 541 |
| Restructuring provisions | 269 | 331 |
| Other non-financial liabilities | 1,436 | 1,030 |
| **Total other liabilities** | **19,494** | **19,322** |

[1] See note 20

Table 16.2 shows the maturity schedule of other financial liabilities excluding liabilities for defined benefit plans as of December 31, 2017 and 2016. The allocation to the time bands is based on the expected maturity date for the carrying value and the earliest contractual maturity for the undiscounted cash flows.

**Maturity schedule – other financial liabilities**

Table 16.2

| in USD millions, as of December 31 | 2017 | | 2016 | |
|---|---|---|---|---|
| | Carrying value | Undiscounted cash flows | Carrying value | Undiscounted cash flows |
| < 1 year | 12,320 | 12,369 | 12,181 | 12,225 |
| 1 to 2 years | 284 | 420 | 58 | 96 |
| 2 to 3 years | 183 | 245 | 271 | 305 |
| 3 to 4 years | 23 | 39 | 170 | 238 |
| 4 to 5 years | 87 | 107 | 9 | 25 |
| > 5 years | 357 | 593 | 413 | 757 |
| **Total** | **13,255** | **13,773** | **13,103** | **13,648** |

## Restructuring provisions

Table 16.3

| in USD millions | 2017 | 2016 |
| --- | --- | --- |
| As of January 1 | 331 | 376 |
| Provisions made during the period | 192 | 257 |
| Increase of provisions set up in prior years | 56 | 89 |
| Provisions used during the period | (294) | (349) |
| Provisions reversed during the period | (41) | (33) |
| Foreign currency translation effects | 24 | (9) |
| **As of December 31** | **269** | **331** |

During the year ended December 31, 2017, the ZIC Group incurred total restructuring costs of USD 356 million, of which USD 207 million was due to net increases in restructuring provisions, affecting mainly Property & Casualty in Europe, Middle East & Africa and North America.

During the year ended December 31, 2016, the ZIC Group incurred total restructuring costs of USD 377 million, of which USD 313 million was due to net increases in restructuring provisions, affecting mainly Property & Casualty in North America and Europe, Middle East & Africa.

## 17. Income taxes

### Income tax expense – current/deferred split

Table 17.1

| in USD millions, for the years, ended December 31 | 2017 | 2016 |
|---|---|---|
| Current | 2,119 | 1,455 |
| Deferred | (288) | 348 |
| **Total income tax expense/(benefit)** | **1,831** | **1,802** |

### Expected and actual income tax expense

Table 17.2

| in USD millions, for the years ended December 31 | Rate | 2017 | Rate | 2016 |
|---|---|---|---|---|
| Net income before income taxes | | 5,463 | | 5,031 |
| less: income tax (expense)/benefit attributable to policyholders | | (171) | | (304) |
| Net income before income taxes attributable to shareholders | | 5,292 | | 4,727 |
| Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate | 22.0% | 1,164 | 22.0% | 1,040 |
| Increase/(reduction) in taxes resulting from: | | | | |
| *Tax rate differential in foreign jurisdictions* | | *321* | | *324* |
| *Tax exempt and lower taxed income* | | *(124)* | | *(95)* |
| *Non-deductible expenses* | | *133* | | *121* |
| *Tax losses not recognized* | | *71* | | *38* |
| *Prior year adjustments and other* | | *95* | | *71* |
| **Actual income tax expense attributable to shareholders** | **31.4%** | **1,660** | **31.7%** | **1,498** |
| plus: income tax expense/(benefit) attributable to policyholders | | 171 | | 304 |
| Actual income tax expense | 33.5% | 1,831 | 35.8% | 1,802 |

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

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

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

# Consolidated financial statements (continued)

Table 17.3

## Deferred tax assets/(liabilities) analysis by source

| in USD millions, as of December 31 | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | Assets | Liabilities |
| **Gross deferred tax** | | | | |
| Deferred acquisition and origination costs | 52 | (659) | 38 | (1,017) |
| Depreciable and amortizable assets | 39 | (55) | 25 | (63) |
| Life policyholders' benefits and deposits[1] | – | (3) | 1 | (2) |
| Unrealized (gains)/losses on available-for-sale investments and cash flow hedges | 38 | (179) | 92 | (273) |
| Accruals and deferred income | 95 | (22) | 197 | (8) |
| Reserves for losses and loss adjustment expenses | 210 | (238) | 449 | (229) |
| Reserves for unearned premiums | 691 | – | 1,057 | (24) |
| Pensions and other employee benefits | 644 | (62) | 696 | (48) |
| Other assets/liabilities | 200 | (20) | 285 | (45) |
| Tax loss carryforwards | 661 | – | 695 | – |
| Gross deferred tax assets/(liabilities) before valuation allowance | 2,631 | (1,239) | 3,537 | (1,709) |
| Valuation allowance | (318) | – | (357) | – |
| Gross deferred tax assets/(liabilities) after valuation allowance | 2,314 | (1,239) | 3,180 | (1,709) |
| **Deferred tax assets** | **1,075** | | **1,470** | |
| **Gross deferred tax** | | | | |
| Deferred acquisition and origination costs | 24 | (2,167) | 27 | (2,189) |
| Depreciable and amortizable assets | 142 | (1,798) | 113 | (1,964) |
| Life policyholders' benefits and deposits[1] | 1,816 | (949) | 1,350 | (793) |
| Unrealized (gains)/losses on available-for-sale investments and cash flow hedges | 226 | (1,054) | 165 | (1,038) |
| Accruals and deferred income | 81 | (87) | 124 | (92) |
| Reserves for losses and loss adjustment expenses | 97 | (118) | 56 | (85) |
| Reserves for unearned premiums | 20 | (64) | 31 | (40) |
| Deferred front-end fees | 522 | – | 471 | – |
| Pensions and other employee benefits | 352 | (278) | 616 | (319) |
| Other assets/liabilities | 677 | (1,845) | 462 | (1,546) |
| Tax loss carryforwards | 99 | – | 92 | – |
| Gross deferred tax assets/(liabilities) before valuation allowance | 4,056 | (8,361) | 3,505 | (8,067) |
| Valuation allowance | (52) | – | – | – |
| Gross deferred tax assets/(liabilities) after valuation allowance | 4,005 | (8,361) | 3,505 | (8,067) |
| **Deferred tax liabilities** | | **(4,357)** | | **(4,562)** |
| | | | | |
| **Net deferred tax liabilities** | | **(3,282)** | | **(3,091)** |

[1] Includes reserves for unit-linked contracts

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

As of December 31, 2017 and 2016, the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized amount to approximately USD 2 billion and USD 1 billion, respectively. In the remote likelihood that these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

### Development of net deferred tax liabilities

Table 17.4

| in USD millions | 2017 | 2016 |
|---|---|---|
| As of January 1 | (3,091) | (3,028) |
| Net change recognized in the income statement | 288 | (348) |
| Net change recognized in equity | (240) | 207 |
| Net changes due to acquisitions/(divestments) | (60) | (12) |
| Foreign currency translation effects | (178) | 89 |
| **As of December 31** | **(3,282)** | **(3,091)** |
| attributable to policyholders | (688) | (632) |
| attributable to shareholders | (2,594) | (2,460) |

The net deferred tax liabilities related to non-controlling interests amounted to USD 263 million and USD 338 million as of December 31, 2017 and 2016, respectively.

### Development of deferred income taxes included in equity

Table 17.5

| in USD millions | 2017 | 2016 |
|---|---|---|
| As of January 1 | 297 | 134 |
| Net unrealized gains/(losses) on available-for-sale investments | 130 | (38) |
| Cash flow hedges | 14 | (23) |
| Revaluation reserve | – | (2) |
| Net actuarial gains/(losses) on pension plans | (384) | 270 |
| Foreign currency translation effects | 5 | (43) |
| **As of December 31** | **62** | **297** |

### Tax loss carryforwards and tax credits

Table 17.6

| in USD millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| For which deferred tax assets have been recognized, expiring | | |
| < 5 years | 15 | 28 |
| 5 to 20 years | 156 | 412 |
| > 20 years or with no time limitation | 1,267 | 1,175 |
| Subtotal | 1,438 | 1,614 |
| For which deferred tax assets have not been recognized, expiring | | |
| < 5 years | 64 | 62 |
| 5 to 20 years | 33 | 155 |
| > 20 years or with no time limitation | 1,288 | 878 |
| Subtotal | 1,384 | 1,095 |
| **Total** | **2,822** | **2,710** |

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 26.1 percent and 26.2 percent as of December 31, 2017 and 2016, respectively.

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

Management assesses the recoverability of the deferred tax-asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2017, to be recoverable.

# 18. Senior and subordinated debt

**Senior and subordinated debt**

**Table 18.1**

| in USD millions, as of December 31 | | **2017** | 2016 |
|---|---|---|---|
| **Senior debt** | | | |
| Zurich Insurance Company Ltd | 2.25% CHF 500 million notes, due July 2017[1] | – | 492 |
| | 2.375% CHF 525 million notes, due November 2018[1] | 538 | 515 |
| | 1.50% CHF 400 million notes, due June 2019[1,2] | 418 | 405 |
| | 1.125% CHF 400 million notes, due September 2019[1,2] | 421 | 409 |
| | 0.625% CHF 250 million notes, due July 2020[1,2] | 262 | 254 |
| | 2.875% CHF 250 million notes, due July 2021[1] | 255 | 244 |
| | 3.375% EUR 500 million notes, due June 2022[1,3] | 634 | 564 |
| | 1.875% CHF 100 million notes, due September 2023[1,2] | 112 | 109 |
| | 1.750% EUR 500 million notes, due September 2024[1,2,3] | 608 | 538 |
| | 1.500% CHF 150 million notes, due July 2026[1,2] | 167 | 163 |
| | Various debt instruments payable within 1 year to related parties[5] | 101 | 77 |
| Zurich Holding Comp. of America Inc | Euro commercial paper notes, due in less than 3 months | 399 | 399 |
| Zurich Santander Insurance America S.L. | 7.5% EUR 42 million loan, due December 2035 | 11 | 44 |
| Other | Various debt instruments | 22 | 24 |
| Senior debt | | 3,950 | 4,239 |
| **Subordinated debt** | | | |
| Zurich Insurance Company Ltd | 8.25% USD 500 million perpetual capital notes, first callable January 2018[1,3] | 500 | 499 |
| | 4.625% CHF 500 million perpetual notes, first callable May 2018[1] | 513 | 491 |
| | 7.5% EUR 425 million notes, due July 2039, first callable July 2019[1,3] | 509 | 447 |
| | 2.75% CHF 225 million perpetual capital notes, first callable June 2021[1] | 230 | 221 |
| | 2.75% CHF 200 million perpetual capital notes, first callable September 2021[1,2] | 212 | 205 |
| | 4.75% USD 1 billion perpetual capital notes, first callable January 2022[1,3] | 994 | 993 |
| | 4.25% EUR 1 billion notes, due October 2043, first callable October 2023[1,3] | 1,192 | 1,046 |
| | 4.25% USD 300 million notes, due October 2045, first callable October 2025[1,3] | 299 | 299 |
| | 5.625% USD 1 billion notes, due June 2046, first callable June 2026[1] | 996 | 996 |
| | 3.5% EUR 750 million notes, due October 2046, first callable October 2026[1,2] | 890 | 785 |
| Zurich Finance (UK) plc | 6.625% GBP 450 million perpetual notes, first callable October 2022[1,4] | 604 | 551 |
| ZFS Finance (USA) Trust V | Series V 6.5% USD 501 million trust preferred securities, due May 2067, first callable May 2017 | – | 501 |
| Other | Various debt instruments | – | 16 |
| Subordinated debt | | 6,938 | 7,050 |
| **Total senior and subordinated debt** | | **10,888** | **11,289** |

[1] Issued under the Zurich Insurance Group's Euro Medium Term Note Programme (EMTN Programme).
[2] The ZIC Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.
[3] These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.
[4] The holders of the perpetual notes benefit from the replacement capital covenant which states that if Series V fixed/floating trust preferred securities, issued by ZFS Finance (USA) Trust V, are called before 2047, the ZIC Group will issue a replacement debt instrument with terms and provisions that will be as or more equity-like than the replaced notes. Such replacement debt instrument was issued allowing the ZIC Group to call the Series V fixed/floating trust preferred securities, issued by ZFS Finance (USA) Trust V in May 2017.
[5] Loans with subsidiaries of Zurich Insurance Group which are not part of Zurich Insurance Company Group Ltd.

None of the debt instruments listed in table 18.1 were in default as of December 31, 2017 or December 31, 2016.

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

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

**Table 18.2**

### Maturity schedule of outstanding debt

| in USD millions, as of December 31 | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Carrying value** | **Undiscounted cash flows** | Carrying value | Undiscounted cash flows |
| < 1 year | 2,053 | 2,449 | 1,469 | 1,903 |
| 1 to 2 years | 1,369 | 1,699 | 1,505 | 1,882 |
| 2 to 3 years | 262 | 553 | 1,262 | 1,586 |
| 3 to 4 years | 697 | 987 | 278 | 530 |
| 4 to 5 years | 2,232 | 2,460 | 670 | 947 |
| 5 to 10 years | 4,264 | 4,707 | 6,061 | 6,702 |
| > 10 years | 11 | 18 | 44 | 74 |
| **Total** | **10,888** | **12,872** | **11,289** | **13,623** |

Debt maturities reflect original contractual dates, taking early redemption options into account. For call/redemption dates, see table 18.1. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 18.2. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2017 and 2016. Floating interest rates are assumed to remain constant as of December 31, 2017 and 2016. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

**Table 18.3**

### Development of debt arising from financing activities

| in USD millions | Total | |
|---|---|---|
| | **2017** | 2016 |
| As of January 1 | 11,289 | 10,270 |
| Issuance of debt recognized in cash flows | 19 | 3,066 |
| Repayment of debt recognized in cash flows | (1,049) | (1,752) |
| Acquisitions/(divestments) and transfers[1] | (18) | – |
| Changes in fair value | (27) | (4) |
| Other changes | 3 | (14) |
| Foreign currency translation effects | 672 | (277) |
| **As of December 31** | **10,888** | **11,289** |

[1] The 2017 movement relates to the reclassification to liabilities held for sale based on agreements signed to sell businesses in the UK (see note 5).

# 19. Shareholders' equity

## Share capital and profit sharing certificates

Table 19

| number of shares, as of December 31 | 2017 | 2016 |
|---|---|---|
| Contingent and issued share capital, CHF 10 par value | 82,500,000 | 86,000,000 |
| Issued share capital, CHF 10 par value | 82,500,000 | 82,500,000 |
| Profit sharing certificates (Genussscheine)[1] | – | 2 |

[1] These profit sharing certificates confer on their holder the right to receive a dividend if and to the extent the General Meeting decides. However, they do not confer on their holder any voting rights or rights associated thereto, any rights to subscribe for new shares, or any rights to liquidation proceeds.

### a) Contingent share capital

At the General Meeting of Shareholders on June 11, 1997, a contingent capital of CHF 35,000,000, or 3,500,000 shares with a par value of CHF 10 each, was created, of which 2,500,000 shares can be issued in connection with the granting of conversion and/or option rights and 1,000,000 shares can be issued for the purpose of employees' share ownership plans. In 2017, the contingent share capital has been cancelled.

### b) Profit sharing certificates

The profit sharing certificates have been revoked in 2017. As of December 31, 2016, the ZIC Group had issued two profit sharing certificates with no par value.

### c) Additional paid-in capital

On April 25, 2008, a subordinated loan agreement was entered into between Zurich Insurance Company Ltd and Zurich Group Holding, which was assumed by Zurich Insurance Group Ltd as a consequence of its merger with Zurich Group Holding. The remaining loan was CHF 4.8 billion (USD 5 billion) and CHF 4.8 billion (USD 4.8 billion) as of December 31, 2017 and 2016, respectively.

The loan is undated and pays interest subject to solvency thresholds and the payment of interest is optional if Zurich Insurance Company Ltd does not declare or pay any dividends or other profit distributions to its shareholders. The loan is classified as an equity instrument under IFRS as it meets the classification criteria as such under IAS 32.

### d) Equity component related to contracts with DPF

Certain investment and insurance contracts sold by the ZIC Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the ZIC Group. Where that discretion has not been exercised, the total amount of undeclared funds surplus is included in equity. Mandated allocations related to unrealized results and earnings are included in policyholder liabilities and, upon declaration, discretionary bonuses are allocated to policyholders. The balances of unallocated gains and retained earnings after charging discretionary bonuses to policyholder liabilities amounted to USD 3.7 billion and USD 3.2 billion as of December 31, 2017 and 2016, respectively.

# 20. Employee benefits

Personnel and other related costs incurred were USD 5.6 billion for both years ended December 31, 2017 and 2016, including wages and salaries of USD 4.8 billion and USD 4.6 billion, respectively.

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

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

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

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

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

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

**a) Defined benefit pension plans**

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

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

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

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

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

For post-employment defined benefit plans, total contributions to funded plans and benefits paid directly by the ZIC Group were USD 550 million for 2017 compared with USD 424 million for 2016. The estimated total for 2018 is USD 438 million (actual amount may differ).

*Swiss pension plan*

The plan provides benefits that exceed the minimum benefit requirements under Swiss pension law. It provides a lifetime pension to members at the normal retirement age of 65 (age 62 for Executive Staff). Participants can draw retirement benefits early from age 60 (age 58 for Executive Staff). Alternatively, the benefit can be taken as a lump sum payment at retirement. Contributions to the plan are paid by the employees and the employer, both for retirement savings and to finance risk benefits paid out in the event of death and disability. The accumulated balance on the pension account is based on the employee and employer pension contributions and interest accrued. The interest rate credited is defined annually by the plan's Board of Trustees which is responsible for the governance of the plans. The amount of pension payable on retirement is a result of the conversion rate applied on the accumulated balance of the individual participant's pension account at the retirement date. As of December 31, 2017, the technical interest rate was reduced from 2.75 percent to 1.75 percent and the conversion rate is being phased down over a six-year period to align more closely with the revised technical interest rate and increased life expectancy. At the same time, it was agreed to reduce the impact on existing members' retirement benefits by the employer making additional contributions to members' pension accounts to ensure that benefits at normal retirement age will be at least equal to 98.5 percent of their previous pensions expectations under the previous conversion rates. The impact of both of these measures resulted in a past service credit of USD 35 million which has been reflected as a reduction in expenses in 2017. These changes, along with the adjustment of key financial assumptions and a positive asset return resulted in the plan to be in a net funded status as of December 31, 2017. Although the Swiss plan operates like a defined contribution plan under local regulations, it is accounted for as a defined benefit pension plan under IAS 19 'Employee Benefits' because of the need to accrue interest on the pension accounts and the payment of a lifetime pension at a fixed conversion rate under the plan rules.

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

*UK pension plan*

The major UK pension plan is a hybrid arrangement and defined benefits entitlements accrued to December 31, 2015 increase in line with salary increases. Normal retirement age for the plan is 60. The plan is split into distinct sections and the two defined benefit sections are closed to new entrants and, with effect from January 1, 2016, to future benefit accrual. All employees now participate in a defined contribution section within the same trust. The notes that follow consider only the defined benefit sections. The UK Pension Trustee Board is responsible for the governance of the plan. The employer contributions are determined based on regular triennial actuarial valuations which are conducted using assumptions agreed by the Trustee Board and the sponsoring company. A local statutory valuation was carried out at an effective date of June 30, 2016 and was finalized in June 2017. This valuation disclosed a funding surplus of USD 411 million (GBP 304 million) after taking into account the value of the asset-backed funding arrangement established in 2014.

The ongoing funding of the plan is closely monitored by the Trustee Board and a dedicated funding committee is made up of representatives from the Trustee Board and the ZIC Group. The plan rules and UK pension legislation set out maximum levels of inflationary increases applied to plan benefits. The plan assets are invested in diversified classes of assets. In 2017, the Trustees replaced the previous interest rate swap contract (which provided partial protection against volatility in interest rates) with a specialist liability-driven investment mandate which will eventually increase hedging ratios from 60 percent to 80 percent for interest rates and from 30 percent to 60 percent for inflation.

*U.S. pension plans*

There are two major pension plans in the U.S., the Zurich North America (ZNA) plan and the Farmers Group, Inc. (FGI) pension plan. These are both cash balance pension plans funded entirely by the participating employers. The ZNA plan is entirely cash balance and the FGI pension plan provides benefits on a cash balance pension formula for benefits accruing after January 1, 2009, except with respect to certain grandfathered participants. A final average pay defined benefit formula applies for the grandfathered participants. For both cash balance plans, an amount is credited to the cash balance plan each quarter, determined by an employee's age, service and their level of earnings up to and above the social security taxable wage base. The minimum annual interest earned on the account balance is 5 percent. The retirement account is available from age 65, or age 55 with five years of service. The benefit can be taken as a monthly annuity or as a lump sum. Both the ZNA plan and the FGI pension plan have fiduciaries as required under local pension laws. The fiduciaries are responsible for the governance of the plans. Actuarial valuations are completed regularly and the Group has historically elected to make contributions to the plans to maintain a funding ratio of at least 90 percent as valued under local pension regulations. The annual employer contributions are equal to the present value of benefits accrued each year, plus a rolling amortization of any prior underfunding. The FGI plan will be frozen with effect from December 31, 2018 following a decision in late 2016. The impact of this is reflected in 2017 and 2016. Farmers Group employees will earn only defined contribution retirement benefits starting January 1, 2019.

The ZNA cash balance pension plan has been amended effective December 31, 2018 following a decision and announcements in November 2017 so that employees will no longer earn pay credits. However, ZNA employees will continue to earn interest credits on their existing account balance. The impact resulted in a past service credit of USD 81 million in 2017. In conjunction with the change in the pension plan, ZNA employees will receive an additional company contribution within their defined contribution plan.

*German pension plans*

There are a number of legacy defined benefit plans in Germany, most of which were set up under works council agreements. In 2007, a contractual trust arrangement was set up to support all pension commitments of the employing companies in Germany. From this time, new contributions to the contractual trust arrangement relate to the pension payment refund of the employer companies.

A separate arrangement was also established in 2010 to provide for retirement obligations that were in payment at that time. Consideration is given from time to time based on the fiscal efficiency of adding recent retirees to this arrangement and to adding assets to the contractual trust. On July 1, 2017 Germany transferred around USD 121 million (EUR 100 million) of retiree liabilities from the contractual trust arrangement to this separate arrangement with equivalent cash funding. These defined benefit plans provide benefits on either a final salary, career average salary or a cash balance basis. These plans are now closed to new entrants, who instead participate in a new cash balance arrangement, which has the characteristics of a defined contribution arrangement with a capital guarantee on members' balances, which mirrors the capital guarantee given in a conventional life insurance arrangement in Germany.

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

# Consolidated financial statements (continued)

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

Table 20.1a

| in USD millions | Defined benefit obligation | Fair value of assets | Asset ceiling | Net defined benefit asset/ (liability) |
|---|---|---|---|---|
| **As of January 1, 2017** | **(22,191)** | **17,883** | **(9)** | **(4,317)** |
| Net post-employment benefit (expense)/income: | | | | |
| Current service cost | (262) | – | – | (262) |
| Interest (expense)/income | (444) | 349 | – | (95) |
| Settlements gains/(losses) | (2) | – | – | (2) |
| Past service (cost)/credit | 123 | – | – | 123 |
| **Net post-employment benefit (expense)/income** | **(584)** | **349** | **–** | **(235)** |
| Remeasurement effects included in other comprehensive income: | | | | |
| Return on plan assets excluding interest income | – | 582 | – | 582 |
| Experience gains/(losses) | (65) | – | – | (65) |
| Actuarial gains/(losses) arising from changes in demographic assumptions | 517 | – | – | 517 |
| Actuarial gains/(losses) arising from changes in financial assumptions | (41) | – | – | (41) |
| Change in asset ceiling | – | – | (86) | (86) |
| **Remeasurement effects included in other comprehensive income** | **411** | **582** | **(86)** | **907** |
| Employer contributions | – | 513 | – | 513 |
| Employer contributions paid to meet benefits directly | 37 | – | – | 37 |
| Plan participants' contributions | (57) | 57 | – | – |
| Payments from the plan (incl. settlements) | 734 | (734) | – | – |
| Foreign currency translation effects | (1,578) | 1,284 | – | (294) |
| **As of December 31, 2017** | **(23,227)** | **19,934** | **(95)** | **(3,388)** |
| of which: Assets for defined pension plans | | | | 201 |
| of which: Liabilities for defined pension plans | | | | (3,590) |

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

Table 20.1b

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

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

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

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

**Table 20.2**

**Fair value of assets held in funded defined benefit pension plans**

| in USD millions, as of December 31 | **2017** | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Quoted in active markets** | **Other** | **Total** | **% of Total** | Quoted in active markets | Other | Total | % of Total |
| Cash and cash equivalents | 88 | – | 88 | – | 542 | – | 542 | 3% |
| Equity securities | 4,162 | 116 | 4,277 | 21% | 3,794 | 88 | 3,882 | 22% |
| Debt securities | 84 | 13,691 | 13,775 | 69% | – | 11,839 | 11,839 | 66% |
| Investment property | – | 1,491 | 1,491 | 7% | – | 1,318 | 1,318 | 7% |
| Mortgage loans | – | 293 | 293 | 1% | – | 295 | 295 | 2% |
| Other assets[1] | – | 8 | 8 | – | – | 7 | 7 | – |
| **Total** | **4,335** | **15,599** | **19,934** | **100%** | **4,336** | **13,547** | **17,883** | **100%** |

[1] UK annuity policies

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

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

Tables 20.3a and 20.3b provide a breakdown of the key information included in tables 20.1a and 20.1b for the main countries for the years ended December 31, 2017 and 2016 respectively.

**Table 20.3a**

**Key information by main country – current period**

| in USD millions, as of December 31, 2017 | **Switzerland** | **United Kingdom** | **United States** | **Germany** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| Defined benefit obligation | (4,793) | (11,952) | (3,639) | (1,424) | (1,419) | (23,227) |
| Fair value of plan assets | 5,081 | 9,439 | 3,003 | 1,275 | 1,135 | 19,934 |
| Impact of asset ceiling | (87) | (8) | – | – | – | (95) |
| **Net defined benefit asset/(liability)** | **201** | **(2,521)** | **(636)** | **(149)** | **(284)** | **(3,388)** |
| Net post-employment benefit (expense)/income[1] | (64) | (80) | (39) | (17) | (36) | (235) |

[1] Switzerland and the U.S. include a past service credit of USD 35 million and USD 81 million, respectively.

# Consolidated financial statements (continued)

## Key information by main country – prior period

**Table 20.3b**

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

[1] Following plan amendments in FGI a one-off curtailment gain of USD 96 million has been reflected as a reduction in expenses.

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

## Key financial assumptions used for major plans

**Table 20.4**

| as of December 31 | **2017** | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Switzerland** | **United Kingdom** | **United States** | **Germany** | Switzerland | United Kingdom | United States | Germany |
| Discount rate | 0.6% | 2.4% | 3.6% | 1.7% | 0.6% | 2.6% | 4.0% | 1.7% |
| Inflation rate (CPI)[1] | 1.3% | 2.2% | 2.3% | 1.8% | 1.2% | 2.2% | 2.0% | 1.8% |
| Salary increase rate | 1.3% | 2.1% | 4.5% | 3.1% | 1.5% | 3.2% | 4.5% | 3.1% |
| Expected future pension increases | 0.1% | 3.5% | n/a | 1.8% | 0.7% | 3.4% | n/a | 1.8% |
| Interest crediting rate | 0.6% | n/a | 5.0% | n/a | 0.6% | n/a | 5.0% | n/a |

[1] In the UK part of the liability is linked to the inflation measure of the Retail Price Index (RPI), which is assumed to be 1.0 percent higher than the Consumer Price Index (CPI) as of both December 31, 2017 and 2016.

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

## Mortality tables and life expectancies for major plans – current period

**Table 20.5a**

| in years, as of December 31, 2017 | | **Life expectancy at age 65 for a male currently** | | **Life expectancy at age 65 for a female currently** | |
|---|---|---|---|---|---|
| | | **aged 65** | **aged 45** | **aged 65** | **aged 45** |
| Country | Mortality table for major plans | | | | |
| Switzerland | BVG 2015 Generational | 22.38 | 24.26 | 24.43 | 26.29 |
| United Kingdom | PNXA00 with CMI_2015 projection with plan specific adjustments | 22.92 | 24.22 | 23.69 | 25.19 |
| | RP 2014 with MP-2017 Generational projection and white collar adjustment | 22.22 | 23.76 | 23.71 | 25.24 |
| United States | RP 2014 with plan specific adjustments | 21.20 | 22.17 | 23.22 | 24.12 |
| Germany | Heubeck 2005G | 19.26 | 21.90 | 23.32 | 25.82 |

### Mortality tables and life expectancies for major plans – prior period

Table 20.5b

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

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

### Maturity profile of future benefit payments for major plans

Table 20.6

| as of December 31 | **2017** | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Switzerland** | **United Kingdom** | **United States** | **Germany** | Switzerland | United Kingdom | United States | Germany |
| Duration of the defined benefit obligation (in years) | 14.5 | 21.2 | 12.8 | 14.7 | 16.0 | 21.7 | 13.2 | 14.7 |
| **Maturity analysis of benefits expected to be paid (in USD millions):** | | | | | | | | |
| < 1 year | 215 | 563 | 214 | 54 | 213 | 219 | 215 | 45 |
| 1 to 5 years | 891 | 2,067 | 876 | 229 | 856 | 996 | 907 | 197 |
| 5 to 10 years | 1,143 | 2,194 | 1,077 | 307 | 1,085 | 1,602 | 1,168 | 257 |

### Sensitivity analysis of significant actuarial assumptions

Table 20.7

| | **Defined benefit obligation**[1] | |
|---|---|---|
| in USD millions, as of December 31 | **2017** | 2016 |
| Discount rate +50 bps | 1,927 | 1,897 |
| Discount rate –50 bps | (2,217) | (2,190) |
| Salary increase rate +50 bps | (85) | (117) |
| Salary decrease rate –50 bps | 89 | 109 |
| Price inflation increase rate +50 bps | (1,036) | (1,167) |
| Price inflation decrease rate –50 bps | 920 | 1,034 |
| Cash balance interest credit rate +50 bps | (128) | (131) |
| Cash balance interest credit rate –50 bps | 78 | 86 |
| Mortality 10% increase in life expectancy | (2,020) | (1,881) |
| Mortality 10% decrease in life expectancy | 1,890 | 1,815 |

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

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

**b) Defined contribution pension plans**

Certain of the ZIC Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either immediate on commencement of employment or based on completion of a specified period of continuous service. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 12 percent of annual pensionable salary, depending on a number of factors. The ZIC Group's contributions under these plans amounted to USD 139 million and USD 189 million for the years ended December 31, 2017 and 2016, respectively.

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

The ZIC Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the ZIC Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based compensation plans are based on the provision of Zurich Insurance Group Ltd shares, the ultimate parent which is not part of the ZIC Group.

**a) Cash incentive plans**

Various businesses throughout the ZIC Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 484 million and USD 448 million for the years ended December 31, 2017 and 2016, respectively.

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

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

The cost of share-based payments depend on various factors, including achievement of targets, and are subject to the discretion of the Remuneration Committee. Costs may therefore vary significantly from year to year. The net amounts of USD 157 million and USD 98 million for the years ended December 31, 2017 and 2016, respectively, reflect all aspects of share-based compensation, including adjustments made during the year.

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

Employee share plans

*Share Incentive Plan for employees in the UK*

The ZIC Group established an Inland Revenue approved Share Incentive Plan and launched the Partnership Shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Insurance Group Ltd shares at the prevailing market price from their gross earnings. This plan was terminated in 2007. There were 55 and 75 participants in the plan as of December 31, 2017 and 2016, respectively.

A revised Partnership Share Scheme was launched in March 2013. Participants benefit from purchasing shares by making deductions from gross salary up to a maximum of GBP 1,800 or 10 percent of their year-to-date earnings. There were 754 and 848 active participants in the plan as of December 31, 2017 and 2016, respectively.

The ZIC Group also operates a profit-sharing element of the Share Incentive Plan (Reward Shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on business operating profit (BOP) after tax for the year achieved by the business unit of each participating employee. Individual awards are subject to a maximum of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,600. The total number of participating employees in Reward Shares as of December 31, 2017 and 2016 was 4,174 and 4,964, respectively.

A Dividend Shares scheme was launched in 2014 which allows employees to reinvest their dividends from Partnership Shares 3 and Reward Shares 3. As of December 31, 2017 and 2016, there were 313 and 346 participants in the scheme, respectively.

*Share Incentive Plan for employees in Switzerland*

Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is equivalent to CHF 3,500 per employee per annum. During 2017, 4,161 employees were eligible to participate in the share incentive plan, compared with 4,551 in 2016. For the years ended December 31, 2017 and 2016, 1,672 and 1,710 employees, respectively, purchased shares under the 2016 and 2015 share plans.

*The Zurich Insurance Group Long-Term Incentive Plan (LTIP)*

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

Target shares allocated in 2017 will vest after a period of three years following the year of allocation (three year cliff vesting), with the actual level of vesting between 0 percent and 200 percent of the target shares allocated, depending on the achievement of pre-defined performance criteria. The performance criteria used to determine the level of vesting are the Zurich Insurance Group's return on shareholders' equity (ROE), the position of its relative total shareholder return (TSR) measured against an international peer group of insurance companies, and the achievement of cash remittance targets. The three pre-defined performance criteria are each assessed over a period of three consecutive financial years starting in the year of allocation. One half of the shares that actually vest are sales-restricted for a further three years. To further align the participants with the interests of the shareholders, effective from January 1, 2014, the target shares are credited with dividend equivalent shares during the vesting period to compensate participants in LTIP for dividends paid to Zurich Insurance Group shareholders. As of December 31, 2017 and 2016 there were 1,129 and 1,203 participants in this plan, respectively.

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

## Shares allocated during the period

**Table 21**

| for the years ended December 31 | Number | | Fair value at the allocation date (in CHF) | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Shares allocated during the period | 592,859 | 779,846 | 264 | 203 |

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

Prior to 2011, for selected senior executives, performance shares and options in shares of Zurich Insurance Group Ltd were allocated. All unexercised share options have expired in 2017. The number of shares allocated under option amount to 0 and 172,978 as of December 31, 2017 and 2016, respectively. For the years ended December 31, 2017 and 2016, 172,978 and 141,416 share options, respectively, were exercised.

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

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

## Quantifiable commitments and contingencies

Table 22.1

| in USD millions, as of December 31 | **2017** | 2016 |
|---|---|---|
| Remaining commitments under investment agreements | 1,820 | 2,009 |
| Guarantees and letters of credit[1] | 871 | 799 |
| Future operating lease commitments | 2,127 | 1,960 |
| Undrawn loan commitments | 16 | 7 |
| Other commitments and contingent liabilities[2] | 2,625 | 199 |

[1] Guarantee features embedded in life insurance products are not included.
[2] Other commitments include an agreement related to the acquisition of ANZ's life insurance businesses (see note 5).

### Commitments under investment agreements

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

### Guarantees and letters of credit

In 2017 and 2016, USD 642 million and USD 586 million, respectively, related to guarantees in the aggregate amount of GBP 475 million which were provided to the directors of a wholly owned subsidiary in connection with the repatriation of capital. These guarantees have no expiry date.

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

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

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

### Commitments under lease agreements

The ZIC Group has entered into various non-cancellable operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 256 million and USD 260 million for the years ended December 31, 2017 and 2016, respectively.

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

Table 22.2

| in USD millions, as of December 31 | **2017** | 2016 |
|---|---|---|
| < 1 year | 285 | 262 |
| 1 to 2 years | 249 | 217 |
| 2 to 3 years | 202 | 195 |
| 3 to 4 years | 188 | 157 |
| 4 to 5 years | 148 | 135 |
| > 5 years | 1,055 | 994 |
| **Total** | **2,127** | **1,960** |

### Other contingent liabilities

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

The ZIC Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA– by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available amounts to nil as of both December 31, 2017 and 2016.

In common with other insurance companies in Europe, the ZIC Group is mindful of the trend toward enhanced consumer protection. There is significant uncertainty about the ultimate cost this trend might have on our business. The main areas of uncertainty concern court decisions as well as the volume of potential customer complaints related to sales activities and withdrawal rights, and their respective individual assessments.

### Pledged assets

The majority of assets pledged to secure the ZIC Group's liabilities relate to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 2.4 billion and USD 4.9 billion as of December 31, 2017 and 2016, respectively.

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

### Legal, compliance and regulatory developments

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

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

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

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

### Legal proceedings and regulatory investigations

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

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

## 23. Fair value measurement

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

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

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

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

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

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

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

Table 23.1

**Fair value and carrying value of financial assets and financial liabilities**

| in USD millions, as of December 31 | Total fair value | | Total carrying value | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Available-for-sale securities** | | | | |
| Equity securities | 14,542 | 12,881 | 14,542 | 12,881 |
| Debt securities | 140,240 | 131,967 | 140,240 | 131,967 |
| Total available-for-sale securities | 154,781 | 144,847 | 154,781 | 144,847 |
| **Fair value through profit or loss securities** | | | | |
| Equity securities | 3,597 | 3,359 | 3,597 | 3,359 |
| Debt securities | 5,699 | 5,672 | 5,699 | 5,672 |
| Total fair value through profit or loss securities | 9,295 | 9,032 | 9,295 | 9,032 |
| **Derivative assets** | **903** | **967** | **903** | **967** |
| **Held-to-maturity debt securities** | **2,966** | **3,213** | **2,322** | **2,543** |
| **Mortgage loans** | **7,501** | **7,330** | **7,047** | **6,794** |
| **Other loans** | **10,396** | **10,909** | **8,730** | **9,146** |
| **Total financial assets** | **185,843** | **176,298** | **183,079** | **173,328** |
| **Derivative liabilities** | **(214)** | **(344)** | **(214)** | **(344)** |
| **Financial liabilities held at amortized cost** | | | | |
| Liabilities related to investment contracts | (631) | (637) | (510) | (506) |
| Senior debt | (4,075) | (4,383) | (3,950) | (4,239) |
| Subordinated debt | (7,594) | (7,370) | (6,938) | (7,050) |
| Total financial liabilities held at amortized cost | (12,300) | (12,391) | (11,398) | (11,795) |
| **Total financial liabilities** | **(12,514)** | **(12,735)** | **(11,613)** | **(12,138)** |

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

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

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

# Consolidated financial statements (continued)

## Recurring fair value measurements of assets and liabilities

### Fair value hierarchy – non unit-linked – current period

Table 23.2a

| in USD millions, as of December 31, 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale securities | | | | |
| Equity securities | 11,211 | 2,342 | 988 | 14,542 |
| Debt securities | – | 133,989 | 6,251 | 140,240 |
| Total available-for-sale securities | 11,211 | 136,331 | 7,239 | 154,781 |
| Fair value through profit or loss securities | | | | |
| Equity securities | 959 | 71 | 2,566 | 3,597 |
| Debt securities | – | 5,615 | 84 | 5,699 |
| Total fair value through profit or loss securities | 959 | 5,686 | 2,650 | 9,295 |
| Derivative assets | – | 842 | 61 | 903 |
| Investment property | – | 2,774 | 9,464 | 12,238 |
| Reinsurers' share of reserves for insurance contracts fair value option[1] | – | – | 224 | 224 |
| Total | 12,171 | 145,634 | 19,638 | 177,443 |
| Derivative liabilities | (3) | (182) | (30) | (214) |
| Reserves for insurance contracts fair value option[2] | – | – | (2,436) | (2,436) |
| Total | (3) | (182) | (2,465) | (2,650) |

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

### Fair value hierarchy – non unit-linked – prior period

Table 23.2b

| in USD millions, as of December 31, 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale securities | | | | |
| Equity securities | 9,569 | 2,395 | 917 | 12,881 |
| Debt securities | – | 126,459 | 5,508 | 131,967 |
| Total available-for-sale securities | 9,569 | 128,853 | 6,425 | 144,847 |
| Fair value through profit or loss securities | | | | |
| Equity securities | 783 | 40 | 2,536 | 3,359 |
| Debt securities | – | 5,575 | 97 | 5,672 |
| Total fair value through profit or loss securities | 783 | 5,615 | 2,633 | 9,032 |
| Derivative assets | 3 | 542 | 422 | 967 |
| Investment property | – | 2,007 | 8,555 | 10,562 |
| Reinsurers' share of reserves for insurance contracts fair value option[1] | – | – | 237 | 237 |
| Total | 10,355 | 137,018 | 18,273 | 165,645 |
| Derivative liabilities | – | (282) | (61) | (344) |
| Reserves for insurance contracts fair value option[2] | – | – | (2,720) | (2,720) |
| Total | – | (282) | (2,781) | (3,064) |

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

### Fair value hierarchy – unit-linked – current period

Table 23.3a

| in USD millions, as of December 31, 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Fair value through profit or loss securities** | | | | |
| Equity securities | 85,886 | 20,256 | 503 | 106,645 |
| Debt securities | – | 7,064 | 51 | 7,115 |
| Other loans | 288 | 2,620 | – | 2,907 |
| **Total fair value through profit or loss securities** | **86,174** | **29,939** | **554** | **116,667** |
| **Derivative assets** | **4** | **15** | **–** | **19** |
| **Investment property** | **–** | **–** | **3,410** | **3,410** |
| **Total investments for unit-linked contracts[1]** | **86,178** | **29,954** | **3,963** | **120,096** |
| **Financial liabilities at FV through profit or loss** | | | | |
| Liabilities related to unit-linked investment contracts | – | (45,484) | – | (45,484) |
| **Derivative liabilities** | **(3)** | **(12)** | **–** | **(15)** |
| **Total** | **(3)** | **(45,496)** | **–** | **(45,500)** |

[1] Excluding cash and cash equivalents.

### Fair value hierarchy – unit-linked – prior period

Table 23.3b

| in USD millions, as of December 31, 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Fair value through profit or loss securities** | | | | |
| Equity securities | 92,232 | 20,684 | 446 | 113,362 |
| Debt securities | – | 7,168 | 30 | 7,198 |
| Other loans | – | 1,458 | – | 1,458 |
| **Total fair value through profit or loss securities** | **92,232** | **29,309** | **476** | **122,018** |
| **Derivative assets** | **5** | **21** | **–** | **26** |
| **Investment property** | **–** | **–** | **3,138** | **3,138** |
| **Total investments for unit-linked contracts[1]** | **92,236** | **29,331** | **3,614** | **125,182** |
| **Financial liabilities at FV through profit or loss** | | | | |
| Liabilities related to unit-linked investment contracts | – | (60,233) | – | (60,233) |
| **Derivative liabilities** | **(4)** | **(5)** | **–** | **(9)** |
| **Total** | **(4)** | **(60,238)** | **–** | **(60,242)** |

[1] Excluding cash and cash equivalents.

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

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

Where there are active and transparent markets and no significant adjustments to the observable data required, the ZIC Group classified also a small portion of its investment property within level 2.

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

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

Within level 3, the Group has classified:

- Unlisted stocks, private equity funds and hedge funds that are not actively traded. Such instruments are obtained from net asset value information and audited financial statements provided by the issuing company. Quantitative unobservable inputs are not developed by the ZIC Group when measuring fair value of these assets.
- Non-agency MBS and ABS rated below 'AAA' that are valued by independent pricing providers using a variety of valuation techniques which may require use of significant unobservable input parameters such as asset prepayment rate, default rates and credit curves. Quantitative unobservable inputs are not developed by the ZIC Group when measuring fair value of these assets.
- Options and long-dated derivative financial instruments with fair values determined using counterparty valuations or calculated using significant unobservable inputs such as historical volatilities, historical correlation, implied volatilities from the counterparty or derived using extrapolation techniques. Quantitative information on unobservable inputs are not available when counterparty pricing was used. For internally calculated fair values significant increases/(decreases) in volatilities or correlation, would result in a significantly higher/(lower) fair value measurement.
- Investment properties for which fair value is based on valuations performed annually by internal valuation specialists and generally on a rotation basis at least once every three years by an independent qualified appraiser. In general the portfolio is valued using an internal income capitalization approach. The model is asset specific and capitalizes the sustainable investment income of a property with its risk specific cap rate. This cap rate is an 'all risk yield' with components such as asset class yield for core assets (lowest risk) plus additional premiums for additional risks, for example second tier location or deterioration risk. All cap rate components (risk premiums) are reviewed and, if necessary, adjusted annually before revaluations are performed. The model takes into consideration external factors such as interest rate, market rent and vacancy rate. The significant unobservable inputs which are outside this model, are estimated rental value, rental growth, long term vacancy rate and discount rate. Significant increases/(decreases) in rental value and rental growth, in isolation, would result in a significantly higher/(lower) fair value measurement. Significant increases/(decreases) in the long term vacancy rate and discount rate, in isolation, would result in a significantly lower/(higher) fair value measurement.
- Reinsurers' share of reserves and reserves for insurance contracts fair value option. The fair values are determined using discounted cash flow models. The discount factors used are based on derived rates for LIBOR swap forwards, spreads to U.S. Treasuries and spreads to U.S. corporate A or higher rated bond segments for financials, industrials and utilities. The liability-projected cash flows use contractual information for premiums, benefits and agent commissions, administrative expenses under third party administrative service agreements and best estimate parameters for policy decrements. The primary unobservable inputs are the policy decrement assumptions used in projecting cash flows. These include disability claim parameters for incidence and termination (whether for recovery or death) and lapse rates. Significant increases/(decreases) in claim incidence rates and significant decreases/(increases) in claim termination rates would result in a significantly higher/(lower) fair value measurement.
- The ZIC Group's private debt holdings comprise certain private placements and other collateralized loan obligations (CLO) which are valued by dedicated external asset managers applying a combination of expert judgment and other specific adjustments for which interest rates as well as credit spreads serve as input parameters. Quantitative unobservable inputs are not developed by the ZIC Group when measuring fair value of these assets.

For details on ZIC Group investments sensitivities, refer to section analysis by risk type in the risk review.

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

No material transfers between level 1 and level 2 occurred for the year ended December 31, 2017. The ZIC Group transferred 2.1 billion of unit-linked equity securities out of level 2 into level 1 as a result of a review of the classification of certain mutual fund investments for the year ended December 31, 2016.

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

Table 23.4a

| in USD millions | Available-for-sale securities | | Fair value through profit or loss securities | | | | |
|---|---|---|---|---|---|---|---|
| | Equity securities | Debt securities | Equity securities | Debt securities | Derivative assets | Derivative liabilities | Investment property |
| As of January 1, 2017 | 917 | 5,508 | 2,536 | 97 | 422 | (61) | 8,555 |
| Realized gains/(losses) recognized in income[1] | 199 | 8 | 6 | 1 | 2 | (48) | 177 |
| Unrealized gains/(losses) recognized in income[1,2] | 2 | (9) | 238 | 4 | (56) | 41 | 129 |
| Unrealized gains/(losses) recognized in other comprehensive income | (40) | 34 | – | – | (2) | (4) | 38 |
| Purchases | 212 | 1,753 | 206 | 44 | 7 | (1) | 668 |
| Settlements/sales/redemptions | (334) | (1,263) | (455) | (67) | (10) | 48 | (563) |
| Transfer from/to assets held for own use | – | – | – | – | – | – | 51 |
| Transfer to assets held for sale | – | – | – | – | – | – | (37) |
| Transfers into level 3 | – | 121 | – | – | – | – | – |
| Transfers out of level 3 | – | (115) | – | – | (316) | – | – |
| Foreign currency translation effects | 32 | 214 | 34 | 4 | 14 | (5) | 446 |
| **As of December 31, 2017** | **988** | **6,251** | **2,566** | **84** | **61** | **(30)** | **9,464** |

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

For the year ended December 31, 2017, the ZIC Group transferred USD 115 million of available-for-sale debt securities out of level 3 into level 2. The transfers were mainly due to credit rating upgrades of certain asset-backed securities resulting in an increase in market activity of these instruments. The ZIC Group also transferred derivatives with a market value of USD 316 million out of level 3 into level 2. The transfers resulted from an increase in significance of certain observable input parameters used to derive the fair value.

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

Table 23.4b

| in USD millions | Available-for-sale securities | | Fair value through profit or loss securities | | | | |
|---|---|---|---|---|---|---|---|
| | Equity securities | Debt securities | Equity securities | Debt securities | Derivative assets | Derivative liabilities | Investment property |
| As of January 1, 2016 | 959 | 5,962 | 2,419 | 146 | 523 | (94) | 7,828 |
| Realized gains/(losses) recognized in income[1] | 105 | 24 | 9 | – | – | – | 129 |
| Unrealized gains/(losses) recognized in income[1,2] | (15) | (34) | 154 | – | (28) | (6) | 236 |
| Unrealized gains/(losses) recognized in other comprehensive income | (9) | 24 | – | – | 59 | 38 | 9 |
| Purchases | 223 | 1,291 | 448 | 1 | 8 | – | 836 |
| Settlements/sales/redemptions | (299) | (1,416) | (471) | (29) | (6) | – | (245) |
| Transfer from/to assets held for own use | – | – | – | – | – | – | (5) |
| Transfer to assets held for sale | – | – | – | – | – | – | (74) |
| Transfers into level 3 | – | 29 | 1 | – | – | – | – |
| Transfers out of level 3 | – | (228) | – | (6) | (130) | – | – |
| Acquisitions and divestments | (6) | – | – | – | – | – | – |
| Foreign currency translation effects | (42) | (145) | (25) | (15) | (4) | 1 | (159) |
| **As of December 31, 2016** | **917** | **5,508** | **2,536** | **97** | **422** | **(61)** | **8,555** |

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

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

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

Table 23.5a

| in USD millions | Gross | Ceded | Net |
|---|---|---|---|
| As of January 1, 2017 | 2,720 | (237) | 2,483 |
| Premiums | 69 | (6) | 64 |
| Claims | (365) | 22 | (343) |
| Fee income and other expenses | (10) | 1 | (9) |
| Interest and bonuses credited to policyholders | 43 | (4) | 38 |
| Changes in assumptions | 11 | – | 11 |
| (Decreases)/increases recorded in other comprehensive income | (33) | – | (33) |
| **As of December 31, 2017** | **2,436** | **(224)** | **2,212** |

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

Table 23.5b

| in USD millions | Gross | Ceded | Net |
|---|---|---|---|
| As of January 1, 2016 | 2,927 | (270) | 2,657 |
| Premiums | 77 | (6) | 71 |
| Claims | (363) | 44 | (319) |
| Fee income and other expenses | (38) | 10 | (28) |
| Interest and bonuses credited to policyholders | 60 | (8) | 52 |
| Changes in assumptions | 56 | (7) | 49 |
| (Decreases)/increases recorded in other comprehensive income | – | – | – |
| **As of December 31, 2016** | **2,720** | **(237)** | **2,483** |

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

Table 23.6a

| in USD millions | Fair value through profit or loss securities | | |
|---|---|---|---|
| | Equity securities | Debt securities | Investment property |
| As of January 1, 2017 | 446 | 30 | 3,138 |
| Realized gains/(losses) recognized in income[1] | – | (1) | (20) |
| Unrealized gains/(losses) recognized in income[1] | 38 | (3) | 128 |
| Purchases | 89 | 17 | 133 |
| Sales/redemptions | (56) | – | (189) |
| Transfers into level 3 | – | 8 | – |
| Transfers out of level 3 | (16) | (1) | – |
| Acquisitions and divestments | – | – | (79) |
| Foreign currency translation effects | 1 | 2 | 300 |
| **As of December 31, 2017** | **503** | **51** | **3,410** |

[1] Presented as net investment result on unit-linked investments in the consolidated income statements.

Table 23.6b

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

| in USD millions | Fair value through profit or loss securities | | |
|---|---|---|---|
| | Equity securities | Debt securities | Investment property |
| As of January 1, 2016 | 336 | 43 | 4,341 |
| Realized gains/(losses) recognized in income[1] | – | – | (4) |
| Unrealized gains/(losses) recognized in income[1] | 11 | (1) | (89) |
| Purchases | 164 | – | 116 |
| Sales/redemptions | (63) | (7) | (567) |
| Transfers into level 3 | 1 | 1 | – |
| Foreign currency translation effects | (2) | (6) | (659) |
| **As of December 31, 2016** | **446** | **30** | **3,138** |

[1] Presented as net investment result on unit-linked investments in the consolidated income statements.

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

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

## 24. Analysis of financial assets

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

**Analysis of financial assets – current period**

Table 24.1a

| in USD millions, as of December 31, 2017 | Debt securities | Mortgage loans | Other loans | Receivables and other financial assets | Total |
|---|---|---|---|---|---|
| **Neither past due nor impaired financial assets** | **148,159** | **6,943** | **8,720** | **12,626** | **176,448** |
| **Past due but not impaired financial assets. Past due by:** | | | | | |
| 1 to 90 days | – | 69 | – | 1,393 | 1,463 |
| 91 to 180 days | – | 9 | – | 197 | 206 |
| 181 to 365 days | – | 4 | – | 158 | 163 |
| > 365 days | – | 7 | – | 182 | 189 |
| **Past due but not impaired financial assets** | **–** | **90** | **–** | **1,931** | **2,020** |
| **Financial assets impaired** | **102** | **22** | **21** | **164** | **308** |
| **Gross carrying value** | **148,261** | **7,054** | **8,741** | **14,721** | **178,776** |
| **Less: impairment allowance** | | | | | |
| Impairment allowances on individually assessed financial assets | – | 2 | 11 | 92 | 105 |
| Impairment allowances on collectively assessed financial assets | – | 5 | – | 167 | 172 |
| **Net carrying value** | **148,261** | **7,047** | **8,730** | **14,462** | **178,500** |

**Analysis of financial assets – prior period**

Table 24.1b

| in USD millions, as of December 31, 2016 | Debt securities | Mortgage loans | Other loans | Receivables and other financial assets | Total |
|---|---|---|---|---|---|
| **Neither past due nor impaired financial assets** | **140,038** | **6,719** | **9,145** | **13,011** | **168,913** |
| **Past due but not impaired financial assets. Past due by:** | | | | | |
| 1 to 90 days | – | 38 | – | 1,156 | 1,194 |
| 91 to 180 days | – | 10 | – | 252 | 262 |
| 181 to 365 days | – | 5 | – | 184 | 189 |
| > 365 days | – | 8 | – | 181 | 189 |
| **Past due but not impaired financial assets** | **–** | **60** | **–** | **1,773** | **1,834** |
| **Financial assets impaired** | **143** | **21** | **21** | **121** | **306** |
| **Gross carrying value** | **140,181** | **6,800** | **9,166** | **14,905** | **171,052** |
| **Less: impairment allowance** | | | | | |
| Impairment allowances on individually assessed financial assets | – | 1 | 20 | 71 | 92 |
| Impairment allowances on collectively assessed financial assets | – | 5 | – | 159 | 164 |
| **Net carrying value** | **140,181** | **6,794** | **9,146** | **14,675** | **170,796** |

Tables 24.2a and 24.2b show how the allowances for impairments of financial assets in tables 24.1a and 24.1b developed during the periods ended December 31, 2017 and 2016, respectively.

**Development of allowance for impairments – current period**

Table 24.2a

| in USD millions | Mortgage loans | Other loans | Receivables |
|---|---|---|---|
| As of January 1, 2017 | 6 | 20 | 230 |
| Increase/(decrease) in allowance for impairments | – | (8) | 70 |
| Amounts written-off | – | – | (49) |
| Acquisitions and divestments | – | – | (1) |
| Foreign currency translation effects | 1 | – | 8 |
| **As of December 31, 2017** | **7** | **11** | **258** |

**Development of allowance for impairments – prior period**

Table 24.2b

| in USD millions | Mortgage loans | Other loans | Receivables |
|---|---|---|---|
| As of January 1, 2016 | 9 | 20 | 249 |
| Increase/(decrease) in allowance for impairments | (2) | 2 | 33 |
| Amounts written-off | (1) | (2) | (19) |
| Acquisitions and divestments | – | – | (31) |
| Foreign currency translation effects | – | (1) | (2) |
| **As of December 31, 2016** | **6** | **20** | **230** |

## 25. Related-party transactions

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

Table 25.1 sets out related-party transactions reflected in the consolidated income statements and consolidated balance sheets.

**Related party transactions included in the consolidated financial statements**

Table 25.1

| in USD millions for the years ended December 31 | **2017** | 2016 |
|---|---|---|
| Net earned premiums and policy fees | 4 | – |
| Net investment result on Group investments | – | 8 |
| Other income | 2 | 8 |
| Insurance benefits and losses, net of reinsurance | – | (4) |
| Underwriting and policy acquisition costs, net of reinsurance | (1) | – |
| Administrative and other operating expense | (21) | (34) |
| Interest expense on debt | (1) | (2) |
| | | |
| in USD millions, as of December 31 | | |
| Cash and cash equivalents | 258 | – |
| Equity securities | 352 | 332 |
| Other loans[1] | 15 | 6 |
| Receivables and other assets | 3 | 3 |
| Other liabilities[1] | (812) | (541) |
| Senior debt | (104) | (77) |

[1] Includes other liabilities with Zurich Insurance Group Ltd of USD 807 million and USD 537 million as of December 31, 2017 and 2016, respectively.

On April 25, 2008 a subordinated loan agreement was entered into between Zurich Insurance Company Ltd and Zurich Group Holding, which was assumed by Zurich Insurance Group Ltd as a consequence of its merger with Zurich Group Holding. The remaining loan was CHF 4.8 billion (USD 5 billion) and CHF 4.8 billion (USD 4.8 billion) as of December 31, 2017 and 2016, respectively (see note 19).

Table 25.2 summarizes related-party transactions with key personnel reflected in the consolidated financial statements. Key personnel includes members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd and members of the Executive Committee.

**Related party transactions – key personnel**

Table 25

| in USD millions, for the years ended December 31 | **2017** | 2016 |
|---|---|---|
| Remuneration of key personnel of the Group | | |
| Cash compensation, current benefits and fees | 28 | 21 |
| Post-employment benefits | 4 | 4 |
| Share-based compensation | 22 | 17 |
| Other remuneration | 3 | 2 |
| **Total remuneration of key personnel** | **56** | **43** |

As of December 31, 2017 and 2016 there were no loans, advances or credits outstanding from members of the Executive Committee. Outstanding loans and guarantees granted to members of the Board of Directors amounted to nil for the years ended December 31, 2017 and 2016. The terms 'members of the Board of Directors' and 'members of the Executive Committee' in this context include the individual as well as members of their respective households. The figures in table 25.2 include the fees paid to members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd, which were USD 5 million for both years ended December 31, 2017 and 2016, respectively.

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

## 26. Relationship with the Farmers Exchanges

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

**a) Certificates of contribution/surplus notes issued by the Farmers Exchanges**
As of December 31, 2017 and 2016, FGI and other ZIC Group companies held the following certificates of contribution and surplus note issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

**Certificates of contribution/surplus notes**

Table 26.1

| in USD millions, as of December 31 | **2017** | 2016 |
|---|---|---|
| 6.15% certificate of contribution, due June 2021 | 200 | 707 |
| 3.758% surplus note, due December 2027 | 100 | – |
| Various other certificates of contribution | 23 | 23 |
| **Total** | **323** | **730** |

In 2017, Farmers Exchanges issued USD 400 million of 40-year, no-call 20-year notes to private investors and repaid USD 507 million of the USD 707 million certificate of contribution at the 6.15 percent rate to Zurich America Insurance Company. Additionally, Farmers Exchanges issued USD 100 million of 10-year, no-call five-year notes at a 3.758 percent rate to Farmers New World Life Insurance Company.

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

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

The Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges was not renewed in 2016.

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

Quota share reinsurance treaties

Table 26.2

| in USD millions, for the years ended December 31 | APD agreement | | All Lines agreement | | Total | |
|---|---|---|---|---|---|---|
| | **2017**[1] | 2016[2] | **2017**[3] | 2016[4] | **2017** | 2016 |
| Net earned premiums and policy fees | – | – | 1,541 | 1,521 | 1,541 | 1,521 |
| Insurance benefits and losses, net[5] | – | (1) | (1,049) | (1,084) | (1,049) | (1,085) |
| Total net technical expenses[6] | – | – | (493) | (487) | (493) | (487) |
| **Net underwriting result** | **–** | **(1)** | **(1)** | **(50)** | **(1)** | **(51)** |

1 All prior year's business in run-off were settled in 2017.
2 The APD agreement was not renewed in 2016. Net underwriting result in 2016 reflects adverse development on prior year's business in run-off.
3 From January 1, 2017, ZIC assumed an 8.0 percent quota share. Another 16.0 percent was assumed by third parties. Subject to the approval of the California Department of Insurance, effective December 31, 2017, Farmers Re Co assumed an 1.0 percent quota share, while another 28.0 percent was assumed by third parties. ZIC has no participation in the December 31, 2017 All Lines agreement.
4 From January 1, 2016, ZIC assumed an 8.0 percent quota share. Another 12.0 percent was assumed by third parties.
5 Under the All Lines agreement the Farmers Exchanges catastrophe losses are subject to a provisional maximum of USD 1.3 billion dependent on loss experience and recoveries at a specified rate for each year. Based on the results for 2017, the total catastrophe recoveries subject to the All Lines agreement was USD 1.3 billion.
6 Under the All Lines agreement, the Farmers Exchanges receive a ceding commission of 26.7 percent, 8.1 percent of premiums for unallocated loss adjustment expenses (8.2 percent in 2016) and 5.3 percent of premiums for other expenses.

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

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

FGI has historically charged a lower management fee than the amount allowed by policyholders. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 19.8 billion and USD 19.5 billion for the years ended December 31, 2017 and 2016, respectively.

## 27. Segment information

The ZIC Group pursues a customer-centric strategy, where the Property & Casualty (P&C) and Life businesses are managed on a regional basis. The ZIC Group's reportable segments have been identified on the basis of the businesses operated by the ZIC Group and how these are strategically managed to offer different products and services to specific customer groups. The ZIC Group has identified 13 reportable segments in accordance with IFRS 8 and segment information is presented accordingly as follows:

- → P&C regions
- → Life regions
- → Farmers
- → Group Functions and Operations
- → Non-Core Businesses

The ZIC Group's reportable segments comprise the following:

**P&C and Life regions**

- → Europe, Middle East & Africa
- → North America
- → Asia Pacific
- → Latin America
- → Group Reinsurance

P&C regions provide a variety of motor, home and commercial products and services for individuals, as well as small and large businesses on both a local and global basis. Products are sold through multiple distribution channels including agents, brokers and bank distribution.

Life regions provide a comprehensive range of life and health insurance products on both an individual and a group basis, including annuities, endowment and term insurance, unit-linked and investment-oriented products, as well as full private health, supplemental health and long-term care insurance. In addition to the agent distribution channel, certain of these products are offered via bank distribution channels.

**Farmers**, through Farmers Group, Inc. and its subsidiaries (FGI), provides certain non-claims administrative and management services to the Farmers Exchanges, which are owned by their policyholders. This segment also includes all reinsurance assumed from the Farmers Exchanges by the ZIC Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S. In addition, this segment includes the activities of Farmers Life, a writer of individual life insurance business in the U.S.

**Group Functions and Operations** comprise the ZIC Group´s Holding and Financing and Headquarters activities. Certain alternative investment positions not allocated to business operating segments are included within Holding and Financing. In addition, this segment includes operational technical governance activities relating to technology, underwriting, claims, actuarial and pricing.

**Non-Core Businesses** include insurance and reinsurance businesses that the ZIC Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. Non-core businesses are mainly situated in the U.S., Bermuda, and the UK.

## Aggregations and additional information

Regional P&C and Life results are further aggregated to show a total P&C and total Life business view.

- → P&C – Total
- → Life – Total

For additional informational purposes, the ZIC Group also discloses income statement information for P&C Commercial Insurance and P&C Retail and Other Insurance results. Other Insurance include SME, direct market and other program business.

- → P&C Commercial Insurance
- → P&C Retail and Other Insurance

## Business operating profit

The segment information includes the ZIC Group's internal performance measure, business operating profit (BOP). This measure is the basis on which the ZIC Group manages all of its business units. It indicates the underlying performance of the ZIC Group's business units, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and impairments on investments (except for certain non-insurance operations included in Non-Core Businesses, investments in hedge funds as at fair value through profit or loss, certain securities held for specific economic hedging purposes and policyholders' share of investment results for the life businesses) and non-operational foreign exchange movements. Significant items arising from special circumstances, including restructuring charges, legal matters outside the ordinary course of business, gains and losses on divestment of businesses and impairments of goodwill are also excluded from BOP.

# Consolidated financial statements (continued)

## Property & Casualty – Overview by segment

Table 27.1

| in USD millions, for the year ended December 31 | Europe, Middle East & Africa | | North America | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Revenues** | | | | |
| Direct written premiums | 12,486 | 13,102 | 14,414 | 14,342 |
| Assumed written premiums | 1,589 | 1,586 | 724 | 825 |
| Gross written premiums and policy fees | 14,075 | 14,688 | 15,137 | 15,167 |
| Less premiums ceded to reinsurers | (2,209) | (2,088) | (4,549) | (5,159) |
| Net written premiums and policy fees | 11,866 | 12,600 | 10,588 | 10,008 |
| Net change in reserves for unearned premiums | (1) | 179 | (132) | 11 |
| Net earned premiums and policy fees | 11,865 | 12,779 | 10,456 | 10,019 |
| Net investment income on Group investments | 647 | 732 | 964 | 922 |
| Net capital gains/(losses) and impairments on Group investments | 34 | 17 | 157 | 50 |
| Net investment result on Group investments | 681 | 749 | 1,121 | 972 |
| Other income | 405 | 487 | 27 | 51 |
| Total BOP revenues | 12,950 | 14,015 | 11,604 | 11,042 |
| **Benefits, losses and expenses** | | | | |
| Losses and loss adjustment expenses, net | 8,198 | 8,883 | 7,917 | 6,947 |
| Life insurance death and other benefits, net | (1) | (2) | – | – |
| Insurance benefits and losses, net | 8,197 | 8,882 | 7,917 | 6,947 |
| Policyholder dividends and participation in profits, net | (1) | 1 | 8 | 6 |
| Underwriting and policy acquisition costs, net | 2,223 | 2,317 | 2,461 | 2,366 |
| Administrative and other operating expense (excl. depreciation/amortization) | 1,711 | 1,913 | 360 | 504 |
| Interest credited to policyholders and other interest | 185 | 118 | 31 | 30 |
| Restructuring provisions and other items not included in BOP | (115) | (137) | (50) | (107) |
| Total BOP benefits, losses and expenses (before interest, depreciation and amortization) | 12,200 | 13,094 | 10,726 | 9,746 |
| **Business operating profit (before interest, depreciation and amortization)** | **751** | **921** | **878** | **1,296** |
| Depreciation and impairments of property and equipment | 39 | 49 | 26 | 35 |
| Amortization and impairments of intangible assets | 143 | 69 | 52 | 45 |
| Interest expense on debt | 15 | 14 | – | 9 |
| Business operating profit before non-controlling interests | 553 | 789 | 800 | 1,207 |
| Non-controlling interests | 14 | 16 | – | – |
| **Business operating profit** | **540** | **773** | **800** | **1,207** |

| | Asia Pacific | | Latin America | | Group Reinsurance | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | | | | | | | | | | |
| | 2,221 | 2,078 | 2,560 | 2,249 | – | – | – | – | 31,681 | 31,770 |
| | 184 | 191 | 79 | 81 | 214 | 240 | (1,447) | (1,571) | 1,343 | 1,352 |
| | 2,405 | 2,269 | 2,639 | 2,329 | 214 | 240 | (1,447) | (1,571) | 33,024 | 33,122 |
| | (392) | (385) | (419) | (462) | (369) | (491) | 1,447 | 1,571 | (6,492) | (7,014) |
| | 2,013 | 1,884 | 2,220 | 1,868 | (155) | (251) | – | – | 26,532 | 26,108 |
| | (101) | – | (287) | (224) | 22 | 27 | – | – | (499) | (6) |
| | 1,912 | 1,884 | 1,933 | 1,644 | (133) | (224) | – | – | 26,033 | 26,102 |
| | 60 | 76 | 161 | 144 | 15 | 15 | – | 1 | 1,847 | 1,891 |
| | – | – | – | – | – | – | – | – | 191 | 67 |
| | 60 | 76 | 161 | 144 | 15 | 15 | – | 1 | 2,038 | 1,958 |
| | 112 | 5 | 74 | 57 | 142 | 120 | (9) | (12) | 751 | 708 |
| | 2,084 | 1,965 | 2,168 | 1,845 | 25 | (89) | (10) | (11) | 28,822 | 28,768 |
| | | | | | | | | | | |
| | 1,055 | 964 | 805 | 739 | (259) | 94 | – | – | 17,716 | 17,627 |
| | – | – | – | – | – | – | – | – | (1) | (2) |
| | 1,055 | 964 | 805 | 739 | (259) | 94 | – | – | 17,715 | 17,625 |
| | – | – | – | – | – | – | – | – | 7 | 7 |
| | 452 | 436 | 832 | 651 | 2 | (6) | – | – | 5,970 | 5,765 |
| | 396 | 269 | 231 | 167 | 39 | 35 | (9) | (11) | 2,727 | 2,878 |
| | 3 | – | 2 | 5 | (3) | – | – | – | 218 | 153 |
| | (16) | (4) | (6) | (55) | 2 | – | – | – | (185) | (304) |
| | 1,890 | 1,665 | 1,864 | 1,508 | (218) | 123 | (9) | (11) | 26,453 | 26,125 |
| | **194** | **300** | **304** | **338** | **243** | **(211)** | **–** | **–** | **2,369** | **2,643** |
| | 16 | 14 | 5 | 7 | 4 | 3 | – | – | 89 | 109 |
| | 23 | 16 | 10 | 17 | – | – | – | – | 228 | 148 |
| | – | – | – | – | 85 | 74 | – | – | 100 | 97 |
| | 155 | 270 | 288 | 313 | 155 | (289) | – | – | 1,951 | 2,289 |
| | – | – | 111 | 117 | – | – | – | – | 124 | 133 |
| | **155** | **270** | **177** | **196** | **155** | **(289)** | **–** | **–** | **1,827** | **2,157** |

# Consolidated financial statements (continued)

## Life – Overview by segment

Table 27.2

| in USD millions, for the years ended December 31 | Europe, Middle East & Africa | | North America | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Revenues** | | | | |
| Life insurance deposits | 15,107 | 12,218 | 1,735 | 238 |
| Gross written premiums | 8,364 | 9,911 | 58 | 49 |
| Policy fees | 1,605 | 1,539 | 265 | 102 |
| Gross written premiums and policy fees | 9,969 | 11,450 | 323 | 151 |
| Net earned premiums and policy fees | 9,239 | 10,917 | 301 | 132 |
| Net investment income on Group investments | 2,430 | 2,521 | 19 | 6 |
| Net capital gains/(losses) and impairments on Group investments | 572 | 568 | 14 | 4 |
| Net investment result on Group investments | 3,002 | 3,089 | 33 | 11 |
| Net investment income on unit-linked investments | 1,301 | 1,385 | (4) | (3) |
| Net capital gains/(losses) and impairments on unit-linked investments | 7,978 | 10,436 | 80 | 40 |
| Net investment result on unit-linked investments | 9,279 | 11,822 | 75 | 36 |
| Other income | 506 | 605 | 19 | 11 |
| Total BOP revenues | 22,026 | 26,433 | 429 | 190 |
| **Benefits, losses and expenses** | | | | |
| Insurance benefits and losses, net | 7,754 | 9,842 | 131 | 62 |
| Policyholder dividends and participation in profits, net | 10,423 | 12,572 | 117 | 47 |
| Income tax expense/(benefit) attributable to policyholders | 157 | 296 | – | – |
| Underwriting and policy acquisition costs, net | 1,173 | 1,011 | 81 | 93 |
| Administrative and other operating expense (excl. depreciation/amortization) | 1,367 | 1,559 | 73 | 52 |
| Interest credited to policyholders and other interest | 235 | 238 | 28 | 20 |
| Restructuring costs and other items not included in BOP | (104) | (101) | (1) | (1) |
| Total BOP benefits, losses and expenses | 21,004 | 25,417 | 429 | 272 |
| **Business operating profit (before interest, depreciation and amortization)** | **1,021** | **1,016** | **–** | **(82)** |
| Depreciation and impairments of property and equipment | 10 | 14 | – | – |
| Amortization and impairments of intangible assets | 133 | 73 | 1 | 2 |
| Interest expense on debt | 9 | 10 | – | – |
| Business operating profit before non-controlling interests | 870 | 919 | (2) | (85) |
| Non-controlling interests | 40 | 31 | – | – |
| **Business operating profit** | **831** | **889** | **(2)** | **(85)** |

Life includes approximately USD 2.2 billion and USD 4 billion of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the ZIC Group's Spanish operations for the years ended December 31, 2017 and 2016, respectively (see note 3).

| Asia Pacific | | Latin America | | Group Reinsurance | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | | | | | | | | | |
| 102 | 114 | 2,228 | 2,097 | – | – | – | – | 19,172 | 14,666 |
| 931 | 697 | 2,690 | 2,208 | 7 | – | (16) | (14) | 12,034 | 12,851 |
| 117 | 114 | 49 | 51 | – | – | – | – | 2,036 | 1,806 |
| 1,048 | 811 | 2,739 | 2,259 | 7 | – | (16) | (14) | 14,070 | 14,657 |
| 792 | 688 | 2,478 | 2,116 | 1 | – | – | – | 12,810 | 13,854 |
| 118 | 116 | 361 | 350 | – | – | (2) | (1) | 2,925 | 2,993 |
| 56 | 47 | 7 | 22 | – | – | – | – | 649 | 640 |
| 174 | 163 | 368 | 372 | – | – | (2) | (1) | 3,574 | 3,633 |
| 92 | 73 | 17 | 23 | – | – | – | – | 1,406 | 1,478 |
| 110 | 5 | 1,319 | 1,300 | – | – | – | – | 9,486 | 11,781 |
| 202 | 78 | 1,336 | 1,323 | – | – | – | – | 10,892 | 13,259 |
| 29 | 39 | 87 | 62 | – | – | – | (1) | 641 | 716 |
| 1,196 | 968 | 4,269 | 3,873 | 1 | – | (3) | (3) | 27,918 | 31,461 |
| | | | | | | | | | |
| 286 | 301 | 1,088 | 926 | – | – | – | – | 9,259 | 11,130 |
| 229 | 116 | 1,326 | 1,332 | – | – | – | – | 12,095 | 14,067 |
| 15 | 8 | – | – | – | – | – | – | 171 | 304 |
| 163 | 140 | 1,072 | 912 | – | – | – | – | 2,489 | 2,155 |
| 310 | 276 | 210 | 317 | – | – | – | (1) | 1,959 | 2,203 |
| 40 | 41 | 11 | 8 | – | – | – | – | 315 | 307 |
| 6 | 4 | (4) | (124) | – | – | – | – | (104) | (221) |
| 1,049 | 885 | 3,703 | 3,372 | – | – | – | (1) | 26,185 | 29,945 |
| **147** | **83** | **566** | **501** | **1** | **–** | **(2)** | **(1)** | **1,733** | **1,516** |
| 2 | 2 | 3 | 5 | – | – | – | – | 15 | 21 |
| 13 | 7 | 14 | 18 | – | – | – | – | 161 | 100 |
| 2 | 2 | – | – | – | – | (2) | (1) | 9 | 10 |
| 129 | 73 | 549 | 477 | 1 | – | – | – | 1,548 | 1,385 |
| (3) | (3) | 253 | 228 | – | – | – | – | 289 | 255 |
| **132** | **76** | **296** | **249** | **1** | **–** | **–** | **–** | **1,258** | **1,130** |

# Consolidated financial statements (continued)

## Business operating profit by business

Table 27.3

in USD millions, for the years ended December 31

| | Property & Casualty | | Life | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Revenues** | | | | |
| Direct written premiums | 31,681 | 31,770 | 11,857 | 12,642 |
| Assumed written premiums | 1,343 | 1,352 | 177 | 208 |
| Gross Written Premiums | 33,024 | 33,122 | 12,034 | 12,851 |
| Policy fees | – | – | 2,036 | 1,806 |
| Gross written premiums and policy fees | 33,024 | 33,122 | 14,070 | 14,657 |
| Less premiums ceded to reinsurers | (6,492) | (7,014) | (1,128) | (684) |
| Net written premiums and policy fees | 26,532 | 26,108 | 12,942 | 13,973 |
| Net change in reserves for unearned premiums | (499) | (6) | (132) | (119) |
| Net earned premiums and policy fees | 26,033 | 26,102 | 12,810 | 13,854 |
| Farmers management fees and other related revenues | – | – | – | – |
| Net investment income on Group investments | 1,847 | 1,891 | 2,925 | 2,993 |
| Net capital gains/(losses) and impairments on Group investments | 191 | 67 | 649 | 640 |
| Net investment result on Group investments | 2,038 | 1,958 | 3,574 | 3,633 |
| Net investment result on unit-linked investments | – | – | 10,892 | 13,259 |
| Other income | 751 | 708 | 641 | 716 |
| Total BOP revenues | 28,822 | 28,768 | 27,918 | 31,461 |
| of which: Inter-segment revenues | (241) | (285) | (215) | (263) |
| **Benefits, losses and expenses** | | | | |
| Losses and loss adjustment expenses, net | 17,716 | 17,627 | – | – |
| Life insurance death and other benefits, net | (1) | (2) | 9,258 | 11,130 |
| Insurance benefits and losses, net | 17,715 | 17,625 | 9,259 | 11,130 |
| Policyholder dividends and participation in profits, net | 7 | 7 | 12,095 | 14,067 |
| Income tax expense/(benefit) attributable to policyholders | – | – | 171 | 304 |
| Underwriting and policy acquisition costs, net | 5,970 | 5,765 | 2,489 | 2,155 |
| Administrative and other operating expense (excl. depreciation/amortization) | 2,727 | 2,878 | 1,959 | 2,203 |
| Interest credited to policyholders and other interest | 218 | 153 | 315 | 307 |
| Restructuring provisions and other items not included in BOP | (185) | (304) | (104) | (221) |
| Total BOP benefits, losses and expenses (before interest, depreciation and amortization) | 26,453 | 26,125 | 26,185 | 29,945 |
| **Business operating profit (before interest, depreciation and amortization)** | **2,369** | **2,643** | **1,733** | **1,516** |
| Depreciation and impairments of property and equipment | 89 | 109 | 15 | 21 |
| Amortization and impairments of intangible assets | 228 | 148 | 161 | 100 |
| Interest expense on debt | 100 | 97 | 9 | 10 |
| Business operating profit before non-controlling interests | 1,951 | 2,289 | 1,548 | 1,385 |
| Non-controlling interests | 124 | 133 | 289 | 255 |
| **Business operating profit** | **1,827** | **2,157** | **1,258** | **1,130** |

Life includes approximately USD 2.2 billion and USD 4 billion of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the ZIC Group's Spanish operations for the years ended December 31, 2017 and 2016, respectively (see note 3).

| | Farmers | | Group Functions and Operations | | Non-Core Businesses | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | | | | | | | | | | |
| | 566 | 552 | – | – | 41 | 59 | – | – | 44,145 | 45,024 |
| | 995 | 1,597 | 48 | 48 | 79 | 80 | (102) | (101) | 2,539 | 3,184 |
| | 1,561 | 2,149 | 48 | 48 | 120 | 139 | (102) | (101) | 46,685 | 48,208 |
| | 310 | 311 | – | – | 83 | 290 | – | – | 2,429 | 2,407 |
| | 1,871 | 2,459 | 48 | 48 | 202 | 429 | (102) | (101) | 49,114 | 50,615 |
| | (195) | (189) | (42) | (43) | (222) | (13) | 102 | 101 | (7,977) | (7,843) |
| | 1,676 | 2,270 | 6 | 6 | (19) | 416 | – | – | 41,136 | 42,772 |
| | 546 | (65) | – | – | 5 | 40 | – | – | (79) | (150) |
| | 2,223 | 2,205 | 6 | 6 | (14) | 456 | – | – | 41,057 | 42,622 |
| | 2,892 | 2,867 | – | – | – | – | – | – | 2,892 | 2,867 |
| | 215 | 262 | 170 | 228 | 232 | 280 | (177) | (177) | 5,212 | 5,477 |
| | 1 | – | – | – | (8) | (11) | – | – | 833 | 697 |
| | 216 | 262 | 170 | 228 | 224 | 270 | (177) | (177) | 6,045 | 6,174 |
| | 136 | 39 | – | – | 636 | 315 | – | – | 11,664 | 13,613 |
| | 153 | 177 | 238 | 1,133 | 40 | 52 | (643) | (1,593) | 1,181 | 1,193 |
| | 5,619 | 5,550 | 414 | 1,367 | 886 | 1,093 | (820) | (1,770) | 62,839 | 66,469 |
| | (37) | (29) | (314) | (1,188) | (14) | (4) | 820 | 1,770 | – | – |
| | | | | | | | | | | |
| | 1,044 | 1,085 | – | – | 18 | 87 | – | – | 18,779 | 18,799 |
| | 389 | 380 | – | – | (97) | 448 | – | – | 9,548 | 11,957 |
| | 1,434 | 1,465 | – | – | (79) | 535 | – | – | 28,328 | 30,756 |
| | 144 | 47 | – | – | 737 | 398 | – | – | 12,984 | 14,519 |
| | – | – | – | – | – | – | – | – | 171 | 304 |
| | 582 | 614 | 1 | – | 4 | 11 | (7) | (7) | 9,039 | 8,538 |
| | 1,521 | 1,408 | 295 | 1,330 | 85 | 109 | (124) | (1,067) | 6,464 | 6,860 |
| | 109 | 148 | 119 | 120 | 54 | 76 | (269) | (281) | 546 | 523 |
| | (22) | (8) | (66) | (100) | (2) | (1) | – | – | (378) | (633) |
| | 3,769 | 3,674 | 348 | 1,351 | 799 | 1,129 | (400) | (1,355) | 57,154 | 60,868 |
| | **1,850** | **1,876** | **65** | **17** | **87** | **(36)** | **(420)** | **(415)** | **5,685** | **5,602** |
| | 34 | 35 | 12 | 9 | – | – | – | – | 152 | 174 |
| | 125 | 119 | 55 | 49 | – | – | – | – | 570 | 416 |
| | – | – | 710 | 722 | 13 | 10 | (420) | (415) | 412 | 425 |
| | 1,691 | 1,722 | (712) | (763) | 74 | (47) | – | – | 4,552 | 4,587 |
| | 75 | 78 | (1) | (5) | – | (1) | – | – | 487 | 459 |
| | **1,616** | **1,645** | **(711)** | **(758)** | **74** | **(46)** | **–** | **–** | **4,065** | **4,127** |

# Consolidated financial statements (continued)

## Reconciliation of BOP to net income after income taxes

Table 27.4

in USD millions, for the year ended December 31

| | Property & Casualty | | Life | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Business operating profit** | **1,827** | **2,157** | **1,258** | **1,130** |
| Revenues/(expenses) not included in BOP: | | | | |
| Net capital gains/(losses) on investments and impairments, net of policyholder allocation | 972 | 499 | 238 | 155 |
| Net gains/(losses) on divestment of businesses[1] | (96) | (134) | 7 | 47 |
| Restructuring costs | (182) | (251) | (86) | (76) |
| Other adjustments[2] | (3) | (53) | (18) | (145) |
| Add back: | | | | |
| Business operating profit attributable to non-controlling interests | 124 | 133 | 289 | 255 |
| Net income before shareholders' taxes | 2,642 | 2,350 | 1,689 | 1,366 |
| Income tax expense/(benefit) attributable to policyholders | – | – | 171 | 304 |
| **Net income before income taxes** | **2,642** | **2,350** | **1,861** | **1,670** |
| Income tax (expense)/benefit | | | | |
| attributable to policyholders | | | | |
| attributable to shareholders | | | | |
| **Net income after taxes** | | | | |
| attributable to non-controlling interests | | | | |
| attributable to shareholders | | | | |

[1] In 2017, Property & Casualty includes losses of USD 97 million for re-measurements of assets held for sale based on agreements to sell businesses in the UK (see note 5). In 2016, USD 134 million of losses in Property & Casualty include USD (137) million related to the sale of businesses in South Africa and Morocco and the re-measurements of assets held for sale and USD 47 million of gains in Life relate to a forward sale agreement of a UK based distributor (see note 5).
[2] Other adjustments include USD 23 million and USD 256 million of non-operating charges for the years ended December 31, 2017 and 2016, respectively.

| | Farmers | | Group Functions and Operations | | Non-Core Businesses | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | **1,616** | **1,645** | **(711)** | **(758)** | **74** | **(46)** | **4,065** | **4,127** |
| | | | | | | | | |
| | 35 | 19 | (53) | 26 | 10 | 164 | 1,203 | 863 |
| | – | – | 5 | (2) | – | – | (84) | (89) |
| | (19) | (8) | (67) | (41) | (2) | (1) | (356) | (377) |
| | (3) | – | 2 | (58) | – | – | (23) | (256) |
| | | | | | | | | |
| | 75 | 78 | (1) | (5) | – | (1) | 487 | 459 |
| | 1,705 | 1,734 | (827) | (839) | 83 | 117 | 5,292 | 4,727 |
| | – | – | – | – | – | – | 171 | 304 |
| | **1,705** | **1,734** | **(827)** | **(839)** | **83** | **117** | **5,463** | **5,031** |
| | | | | | | | (1,831) | (1,802) |
| | | | | | | | (171) | (304) |
| | | | | | | | (1,660) | (1,498) |
| | | | | | | | **3,632** | **3,229** |
| | | | | | | | 375 | 319 |
| | | | | | | | 3,257 | 2,911 |

# Consolidated financial statements (continued)

## Assets and liabilities by business

Table 27.5

in USD millions, as of December 31

| | Property & Casualty | | Life | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Assets** | | | | |
| Cash and cash equivalents | 9,724 | 10,766 | 3,664 | 3,097 |
| Total Group Investments | 74,590 | 70,505 | 106,905 | 95,568 |
| Equity securities | 9,434 | 8,406 | 7,558 | 6,758 |
| Debt securities | 55,582 | 53,634 | 78,537 | 70,233 |
| Investment property | 4,501 | 4,016 | 7,481 | 6,295 |
| Mortgage loans | 1,293 | 1,285 | 5,175 | 4,920 |
| Other loans | 3,777 | 3,159 | 8,137 | 7,350 |
| Investments in associates and joint ventures | 2 | 5 | 15 | 13 |
| Investments for unit-linked contracts[1] | – | – | 115,659 | 114,362 |
| Total investments | 74,590 | 70,505 | 222,564 | 209,930 |
| Reinsurers' share of liabilities for insurance contracts | 13,414 | 11,852 | 1,858 | 2,749 |
| Deposits made under assumed reinsurance contracts | 158 | 142 | 70 | 82 |
| Deferred policy acquisition costs | 5,289 | 4,830 | 11,624 | 11,117 |
| Deferred origination costs | – | – | 460 | 426 |
| Goodwill | 1,350 | 808 | 183 | 168 |
| Other intangible assets | 1,483 | 1,461 | 2,766 | 2,759 |
| Other assets[2] | 15,152 | 14,999 | 35,493 | 6,438 |
| **Total assets (after cons. of investments in subsidiaries)** | **121,160** | **115,362** | **278,682** | **236,766** |
| **Liabilities** | | | | |
| Liabilities for investment contracts | – | – | 55,227 | 68,715 |
| Liabilities for insurance contracts, gross | 77,831 | 72,968 | 161,256 | 137,072 |
| Reserves for losses and loss adjustment expenses, gross | 60,080 | 56,355 | – | – |
| Reserves for unearned premiums, gross | 16,976 | 15,781 | – | – |
| Future life policyholder benefits, gross | 36 | 33 | 71,828 | 66,440 |
| Policyholder contract deposits and other funds, gross | 23 | 22 | 18,880 | 16,649 |
| Reserves for unit-linked contracts, gross[1] | – | – | 70,371 | 53,983 |
| Other insurance liabilities, gross | 716 | 777 | 178 | – |
| Senior debt | 703 | 415 | – | – |
| Subordinated debt | 973 | 905 | 649 | 593 |
| Other liabilities[2] | 19,207 | 20,674 | 44,529 | 14,884 |
| **Total liabilities** | **98,714** | **94,963** | **261,661** | **221,264** |
| **Equity** | | | | |
| Shareholders' equity | | | | |
| Non-controlling interests | | | | |
| Total equity | | | | |
| **Total liabilities and equity** | | | | |
| **Supplementary information** | | | | |
| Additions and capital improvements to property, equipment and intangible assets | 264 | 406 | 185 | 123 |

[1] In 2017, the ZIC Group transferred a portfolio of stable value products (SVP) marketed with life insurance policies (Bank Owned Life Insurance, BOLI) from Non-Core Businesses to Life. The change resulted in a transfer of USD 8.3 billion of investments for unit-linked contracts and of reserves for unit-linked contracts.

[2] In 2017, the ZIC Group reclassified assets and liabilities of USD 29 billion respectively, to held for sale based on agreements to sell businesses in the UK (see note 5).

| Farmers | | Group Functions and Operations | | Non-Core Businesses | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | | | | | | | | | |
| 1,103 | 1,754 | 12,268 | 10,604 | 1,532 | 1,619 | (19,828) | (20,711) | 8,464 | 7,129 |
| 5,939 | 6,759 | 10,819 | 11,074 | 6,642 | 7,470 | (10,460) | (8,433) | 194,435 | 182,943 |
| 31 | 144 | 941 | 817 | 174 | 115 | – | – | 18,138 | 16,240 |
| 3,246 | 4,994 | 6,701 | 6,562 | 5,389 | 5,901 | (1,196) | (1,142) | 148,261 | 140,181 |
| 169 | 21 | 10 | 10 | 78 | 220 | – | – | 12,238 | 10,562 |
| 579 | 589 | – | – | – | – | – | – | 7,047 | 6,794 |
| 1,914 | 1,011 | 3,168 | 3,685 | 998 | 1,232 | (9,265) | (7,291) | 8,730 | 9,146 |
| – | – | – | – | 3 | 2 | – | – | 21 | 20 |
| 807 | 677 | – | – | 4,233 | 10,868 | – | – | 120,699 | 125,907 |
| 6,746 | 7,436 | 10,819 | 11,074 | 10,875 | 18,338 | (10,460) | (8,433) | 315,134 | 308,850 |
| 2,319 | 698 | – | – | 3,389 | 3,113 | (61) | (64) | 20,918 | 18,347 |
| 771 | 1,476 | – | – | 271 | 65 | – | – | 1,269 | 1,764 |
| 1,730 | 1,833 | – | – | 15 | 15 | 5 | 1 | 18,663 | 17,796 |
| – | – | – | – | – | – | – | – | 460 | 426 |
| 819 | 819 | – | – | – | – | – | – | 2,353 | 1,795 |
| 443 | 475 | 70 | 99 | – | – | – | – | 4,762 | 4,795 |
| 1,623 | 1,697 | 843 | 981 | 1,768 | 1,676 | (4,258) | (4,056) | 50,621 | 21,734 |
| **15,554** | **16,187** | **24,000** | **22,758** | **17,851** | **24,827** | **(34,602)** | **(33,263)** | **422,645** | **382,636** |
| | | | | | | | | | |
| 204 | 189 | – | – | 197 | 209 | – | – | 55,627 | 69,113 |
| 7,682 | 8,138 | 27 | 28 | 14,600 | 21,542 | (61) | (64) | 261,335 | 239,684 |
| 809 | 918 | 22 | 22 | 4,508 | 4,234 | (50) | (59) | 65,368 | 61,470 |
| 79 | 625 | 3 | 3 | 8 | 12 | (5) | (4) | 17,060 | 16,416 |
| 2,073 | 1,988 | 2 | 2 | 3,596 | 3,978 | (6) | – | 77,529 | 72,440 |
| 3,915 | 3,930 | – | – | 2,126 | 2,183 | – | – | 24,944 | 22,785 |
| 807 | 677 | – | – | 4,235 | 10,870 | – | – | 75,413 | 65,530 |
| – | – | 1 | 2 | 127 | 265 | – | – | 1,021 | 1,043 |
| – | – | 10,581 | 9,054 | 288 | 300 | (7,622) | (5,531) | 3,950 | 4,239 |
| – | – | 7,752 | 7,741 | – | – | (2,436) | (2,189) | 6,938 | 7,050 |
| 1,777 | 2,153 | 16,213 | 15,653 | 3,212 | 3,007 | (24,482) | (25,478) | 60,456 | 30,894 |
| **9,663** | **10,479** | **34,573** | **32,477** | **18,297** | **25,058** | **(34,601)** | **(33,261)** | **388,306** | **350,981** |
| | | | | | | | | | |
| | | | | | | | | 31,969 | 29,363 |
| | | | | | | | | 2,370 | 2,292 |
| | | | | | | | | 34,338 | 31,656 |
| | | | | | | | | **422,645** | **382,636** |
| | | | | | | | | | |
| 174 | 155 | 30 | 31 | – | – | – | – | 653 | 715 |

# Consolidated financial statements (continued)

## Property & Casualty – Commercial and Retail Insurance overview[1]

Table 27.6

| in USD millions, for the year ended December 31 | Commercial Insurance | | Retail and Other Insurance | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Gross written premiums and policy fees | 15,852 | 15,873 | 18,441 | 18,606 |
| Net earned premiums and policy fees | 11,007 | 11,739 | 15,159 | 14,587 |
| Insurance benefits and losses, net | 9,080 | 8,560 | 8,893 | 8,972 |
| Policyholder dividends and participation in profits, net | 8 | 7 | – | – |
| Total net technical expenses | 3,038 | 3,215 | 5,270 | 5,025 |
| Net underwriting result | (1,119) | (42) | 996 | 590 |
| Net investment income | 1,122 | 1,135 | 710 | 740 |
| Net capital gains/(losses) and impairments on investments | 149 | 51 | 42 | 16 |
| Net non-technical result (excl. items not included in BOP) | (45) | 67 | (59) | 22 |
| Business operating profit before non-controlling interests | 107 | 1,211 | 1,689 | 1,367 |
| Non-controlling interest | 20 | 29 | 104 | 104 |
| Business operating profit | 87 | 1,182 | 1,585 | 1,263 |

[1] Commercial and Retail Insurance overview exclude Group Reinsurance

## Property & Casualty – Revenues and non-current assets by region

Table 27.7

| in USD millions | Gross written premiums and policy fees from external customers | | | | | | Property, equipment and intangible assets | |
|---|---|---|---|---|---|---|---|---|
| | Total | | of which Commercial Insurance | | of which Retail and Other Insurance | | | |
| | for the years ended December 31 | | for the years ended December 31 | | for the years ended December 31 | | as of December 31 | |
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Europe** | | | | | | | | |
| Austria | 554 | 532 | | | | | 32 | 25 |
| France | 309 | 321 | | | | | 1 | 1 |
| Germany | 2,656 | 2,696 | | | | | 134 | 139 |
| Italy | 1,414 | 1,405 | | | | | 38 | 35 |
| Ireland | 375 | 353 | | | | | 51 | 45 |
| Portugal | 267 | 250 | | | | | 18 | 17 |
| Spain | 1,133 | 1,157 | | | | | 335 | 317 |
| Switzerland | 3,043 | 2,990 | | | | | 481 | 456 |
| United Kingdom | 2,830 | 3,020 | | | | | 114 | 261 |
| Rest of Europe | 643 | 703 | | | | | 112 | 123 |
| **Middle East & Africa** | | | | | | | | |
| Middle East | 87 | 122 | | | | | – | – |
| Morocco | – | 92 | | | | | – | – |
| South Africa | – | 208 | | | | | – | – |
| Europe, Middle East & Africa | 13,311 | 13,850 | 4,898 | 4,844 | 8,413 | 9,006 | 1,316 | 1,418 |
| **North America** | | | | | | | | |
| Canada | 458 | 559 | | | | | 9 | 11 |
| United States | 14,299 | 14,166 | | | | | 760 | 763 |
| North America | 14,756 | 14,725 | 8,078 | 8,174 | 6,678 | 6,551 | 769 | 774 |
| **Asia-Pacific** | | | | | | | | |
| Australia | 725 | 581 | | | | | 789 | 42 |
| Hong Kong | 302 | 307 | | | | | 27 | 29 |
| Japan | 778 | 769 | | | | | 17 | 19 |
| Malaysia | 219 | 171 | | | | | 40 | 35 |
| Taiwan | – | 109 | | | | | – | – |
| Rest of Asia-Pacific | 315 | 265 | | | | | 3 | 4 |
| Asia-Pacific | 2,339 | 2,202 | 970 | 949 | 1,369 | 1,253 | 876 | 128 |
| **Latin America** | | | | | | | | |
| Argentina | 419 | 422 | | | | | 4 | 6 |
| Brazil | 1,203 | 958 | | | | | 335 | 386 |
| Chile | 313 | 301 | | | | | 22 | 21 |
| Mexico | 650 | 574 | | | | | 147 | 145 |
| Venezuela | 19 | 57 | | | | | – | 1 |
| Rest of Latin America | 24 | 7 | | | | | 4 | 5 |
| Latin America | 2,628 | 2,319 | 662 | 680 | 1,966 | 1,639 | 512 | 564 |
| **Group Reinsurance** | | | | | | | | |
| Group Reinsurance | (13) | 19 | – | 4 | (13) | 15 | 9 | 13 |
| **Total** | **33,020** | **33,115** | **14,608** | **14,651** | **18,412** | **18,465** | **3,483** | **2,896** |

# Consolidated financial statements (continued)

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

Table 27.8

| in USD millions | Gross written premiums and policy fees from external customers for the years ended December 31 | | Life insurance deposits for the years ended December 31 | | Property, equipment and intangible assets as of December 31 | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Europe, Middle East & Africa** | | | | | | |
| Austria | 183 | 134 | 49 | 51 | 27 | 24 |
| Germany | 1,762 | 2,018 | 1,885 | 1,895 | 284 | 231 |
| Italy | 822 | 452 | 1,121 | 1,524 | 55 | 49 |
| Ireland[1] | 611 | 534 | 3,043 | 2,432 | 8 | 11 |
| Portugal | 27 | 24 | 179 | 170 | 1 | – |
| Spain | 3,148 | 5,008 | 31 | 34 | 1,342 | 1,261 |
| Switzerland | 1,246 | 1,255 | 181 | 166 | 3 | 70 |
| United Kingdom | 1,560 | 1,409 | 7,171 | 4,636 | 148 | 204 |
| Zurich International Life[2] | 405 | 498 | 1,447 | 1,310 | 20 | 24 |
| Rest of Europe, Middle East & Africa | 145 | 63 | – | – | 4 | – |
| Europe, Middle East & Africa | 9,909 | 11,395 | 15,107 | 12,218 | 1,891 | 1,874 |
| **North America** | | | | | | |
| United States | 323 | 151 | 1,735 | 238 | 6 | 7 |
| North America | 323 | 151 | 1,735 | 238 | 6 | 7 |
| **Asia Pacific** | | | | | | |
| Australia | 521 | 363 | 39 | 37 | 218 | 205 |
| Hong Kong | 54 | 62 | 26 | 30 | – | – |
| Indonesia | 33 | 20 | – | – | 2 | 1 |
| Japan | 246 | 191 | – | – | 15 | 17 |
| Malaysia | 194 | 171 | 36 | 46 | 82 | 77 |
| Asia Pacific | 1,048 | 807 | 102 | 114 | 317 | 300 |
| **Latin America** | | | | | | |
| Argentina | 134 | 141 | 81 | 61 | 18 | 23 |
| Brazil | 1,455 | 1,177 | 2,038 | 1,915 | 450 | 499 |
| Chile | 765 | 561 | 109 | 91 | 260 | 254 |
| Mexico | 369 | 367 | – | 29 | 119 | 119 |
| Urugay | 15 | 9 | – | – | – | – |
| Venezuela | 1 | 3 | – | – | – | – |
| Latin America | 2,739 | 2,259 | 2,228 | 2,097 | 848 | 895 |
| **Total** | **14,019** | **14,612** | **19,172** | **14,666** | **3,061** | **3,077** |

[1] Includes business written under freedom of services and freedom of establishment in Europe, and the related assets.
[2] Includes business written through licenses, mainly into Asia Pacific and Middle East, and the related assets.

# 28. Interest in subsidiaries

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

**Significant subsidiaries – non-listed**

**Table 28.1**

| as of December 31, 2017 | Registered office | Voting rights % | Ownership interest % | | Nominal value of share capital (in local currency millions) |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Cover-More Group Limited | Sydney | 100 | 100 | AUD | 939.2 |
| Zurich Australia Limited | Sydney | 100 | 100 | AUD | 426.5 |
| Zurich Australian Insurance Limited | Sydney | 100 | 100 | AUD | 6.6 |
| Zurich Financial Services Australia Limited | Sydney | 100 | 100 | AUD | 1,348.8 |
| **Austria** | | | | | |
| Zürich Versicherungs-Aktiengesellschaft | Vienna | 99.98 | 99.98 | EUR | 12.0 |
| **Brazil** | | | | | |
| Zurich Santander Brasil Seguros e Previdência S.A. | Sao Paulo | 51 | 51 | BRL | 1,659.2 |
| Zurich Minas Brasil Seguros S.A. | Belo Horizonte | 100 | 100 | BRL | 3,109.6 |
| Zurich Resseguradora Brasil S.A. | Sao Paulo | 100 | 100 | BRL | 204.0 |
| **Chile** | | | | | |
| Chilena Consolidada Seguros de Vida S.A. | Santiago | 98.99 | 98.99 | CLP | 44,718.8 |
| Zurich Santander Seguros de Vida Chile S.A. | Santiago | 51 | 51 | CLP | 24,252.9 |
| **Germany** | | | | | |
| Deutscher Herold Aktiengesellschaft | Bonn | 100 | 100 | EUR | 18.4 |
| Zürich Beteiligungs-Aktiengesellschaft (Deutschland) | Frankfurt | 100 | 100 | EUR | 152.9 |
| Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft | Bonn | 100 | 100 | EUR | 68.5 |
| **Ireland** | | | | | |
| Zurich Life Assurance plc | Dublin | 100 | 100 | EUR | 17.5 |
| Zurich Holding Ireland Limited | Dublin | 100 | 100 | EUR | 0.1 |
| Zurich Insurance plc | Dublin | 100 | 100 | EUR | 8.2 |
| **Italy** | | | | | |
| Zurich Investments Life S.p.A. | Milan | 100 | 100 | EUR | 164.0 |
| **Luxembourg** | | | | | |
| Zurich Eurolife S.A. | Leudelange | 100 | 100 | EUR | 39.0 |
| REX-ZDHL S.C.S. SICAV-SIF | Leudelange | 100 | 100 | EUR | 849.5 |
| **Malaysia** | | | | | |
| Zurich Insurance Malaysia Berhad | Kuala Lumpur | 100 | 100 | MYR | 579.0 |
| **Mexico** | | | | | |
| Zurich Santander Seguros México, S.A.[1] | Mexico City | 99.99 | 99.99 | MXN | 190.0 |

# Consolidated financial statements (continued)

## Significant subsidiaries – non-listed (continued)

Table 28.1

as of December 31, 2017

| | Registered office | Voting rights % | Ownership interest % | | Nominal value of share capital (in local currency millions) |
|---|---|---|---|---|---|
| **Spain** | | | | | |
| Bansabadell Pensiones, E.G.F.P, S.A.[2] | Barcelona | 50 | 50 | EUR | 7.8 |
| Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros[2] | Barcelona | 50 | 50 | EUR | 10.0 |
| Bansabadell Vida S.A. de Seguros y Reaseguros[2] | Barcelona | 50 | 50 | EUR | 43.9 |
| Zurich Latin America Holding S.L. - Sociedad Unipersonal | Barcelona | 100 | 100 | EUR | 43.0 |
| Zurich Santander Holding (Spain), S.L. | Boadilla del Monte | 51 | 51 | EUR | 94.3 |
| Zurich Santander Holding Dos (Spain), S.L. | Madrid | 51 | 51 | EUR | 40.0 |
| Zurich Santander Insurance America, S.L. | Madrid | 51 | 51 | EUR | 177.0 |
| Zurich Vida, Compañía de Seguros y Reaseguros, S.A. - Sociedad Unipersonal | Madrid | 100 | 100 | EUR | 56.4 |
| **Switzerland** | | | | | |
| Genevoise Real Estate Company Ltd | Geneva | 100 | 100 | CHF | 20.4 |
| Zurich Finance Company AG | Zurich | 100 | 100 | CHF | 0.2 |
| Zurich Investment Management AG | Zurich | 90.32 | 96.30 | CHF | 10.0 |
| Zurich Life Insurance Company Ltd | Zurich | 100 | 100 | CHF | 60.0 |
| Zürich Rückversicherungs-Gesellschaft AG | Zurich | 100 | 100 | CHF | 11.7 |
| **Turkey** | | | | | |
| Zurich Sigorta A.S. | Istanbul | 100 | 100 | TRY | 168.9 |
| **United Kingdom** | | | | | |
| Allied Zurich Holdings Limited | St. Hélier | 100 | 100 | GBP | 90.7 |
| Zurich Assurance Ltd | Cheltenham, England | 100 | 100 | GBP | 236.1 |
| Zurich Employment Services Limited | Cheltenham, England | 100 | 100 | GBP | 182.4 |
| Zurich Financial Services (UKISA) Limited | Cheltenham, England | 100 | 100 | GBP | 1,652.1 |
| Zurich Holdings (UK) Limited | Fareham, England | 100 | 100 | GBP | 147.8 |
| Zurich International Life Limited | Douglas, Isle of Man | 100 | 100 | GBP | 123.4 |
| Zurich UK General Services Limited | Fareham, England | 100 | 100 | GBP | 258.2 |
| Zurich Finance (UK) plc | Cheltenham, England | 100 | 100 | GBP | 0.1 |

## Significant subsidiaries – non-listed (continued)

**Table 28.1**

as of December 31, 2017

| | Registered office | Voting rights % | Ownership interest % | | Nominal value of share capital (in local currency millions) |
|---|---|---|---|---|---|
| **United States of America** | | | | | |
| Farmers Group, Inc.[3] | Reno, NV | 87.90 | 95.38 | USD | 0.001 |
| Farmers Reinsurance Company[3] | Woodland Hills | 87.90 | 95.38 | USD | 58.8 |
| Farmers New World Life Insurance Company[3] | Mercer Island, WA | 87.90 | 95.38 | USD | 6.6 |
| Zurich American Corporation | Wilmington, DE | 100 | 100 | USD | 0.00001 |
| Zurich American Insurance Company (and subsidiaries) | New York, NY | 100 | 100 | USD | 5.0 |
| Rural Community Insurance Company | Anoka, MN | 100 | 100 | USD | 3.0 |
| Zurich American Life Insurance Company | Schaumburg, IL | 100 | 100 | USD | 2.5 |
| Zurich Holding Company of America, Inc.[4] | Wilmington, DE | 100 | 100 | USD | – |
| ZCM Matched Funding Corp. | George Town, Cayman Islands | 100 | 100 | USD | 0.00001 |
| Centre Group Holdings (U.S.) Limited | New York, NY | 100 | 100 | USD | 0.000001 |
| ZCM (U.S.) Limited | Wilmington, DE | 100 | 100 | USD | 0.00001 |
| Zurich Capital Markets Inc. | Wilmington, DE | 100 | 100 | USD | 0.00001 |
| Zurich Structured Finance, Inc. | Wilmington, DE | 100 | 100 | USD | 0.012 |

1 The controlling shareholder of this subsidiary is Zurich Santander Holding Dos (Spain), S.L.
2 Relates to Bansabadell insurance entities which are controlled by the ZIC Group.
3 The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of ZIC Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
4 Shares have no nominal value in accordance with the company's articles of incorporation and local legislation.

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

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

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

Table 28.2 shows the summarized financial information for each subsidiary that has non-controlling interests that are material to the ZIC Group. Farmers Group, Inc. and its subsidiaries are owned 95.38 percent by the ZIC Group and in total a 100 percent by the Zurich Insurance Group. Therefore, they are not separately disclosed.

**Table 28.2**

**Non-controlling interests**

| in USD millions, as of December 31 | Zurich Santander Insurance America, S.L. and its subsidiaries | | Bansabadell insurance entities | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Non-controlling interests percentage | 49% | 49% | 50% | 50% |
| | | | | |
| Total Investments | 14,224 | 12,780 | 10,368 | 8,680 |
| Other assets | 3,390 | 3,260 | 1,927 | 2,757 |
| Insurance and investment contract liabilities[1] | 14,736 | 13,207 | 10,434 | 9,335 |
| Other liabilities | 1,194 | 1,204 | 370 | 498 |
| **Net assets** | **1,684** | **1,631** | **1,491** | **1,603** |
| **Non-controlling interests in net assets** | **825** | **799** | **745** | **802** |
| | | | | |
| Total revenues | 3,447 | 3,342 | 3,022 | 5,144 |
| Net income after taxes | 417 | 369 | 89 | 61 |
| Other comprehensive income | 71 | 101 | 238 | (53) |
| **Total comprehensive income** | **488** | **470** | **327** | **7** |
| **Non-controlling interests in total comprehensive income** | **239** | **230** | **163** | **4** |
| | | | | |
| Dividends paid to non-controlling interests | 205 | 124 | 120 | – |

[1] Includes reserves for premium refunds, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees and liabilities for insurance contracts.

## 29. Events after the balance sheet date

On February 25, 2018, the ZIC Group announced it has entered into an agreement to acquire the operations of Australian insurer QBE Insurance Group Limited (QBE) in Latin America for a total aggregate price of USD 409 million, subject to closing adjustments and to regulatory approvals.

On February 14, 2018, the ZIC Group announced the successful placement of USD 500 million of dated subordinated notes that will mature in October 2048 and are first callable in October 2028.

On January 18, 2018, the ZIC Group did an early redemption of USD 500 million perpetual capital notes, issued in 2012 by Zurich Insurance Company Ltd.

# Report of the statutory auditor

## Report of the statutory auditor

**To the General Meeting of Zurich Insurance Company Ltd, Zurich**

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

**Opinion**
We have audited the consolidated financial statements of Zurich Insurance Company Ltd and its subsidiaries (the ZIC Group), which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 3 to 107 and the risk review on pages 3 to 22) give a true and fair view of the consolidated financial position of the ZIC Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

We are independent of the ZIC Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Our audit approach

**Overview**


Overall ZIC Group audit materiality: USD 200 million

We concluded full scope audit work at 19 business units in 9 countries. The full scope audit work addressed 68% and 79% of the ZIC Group's gross written premiums and policy fees (GWP) and total assets, respectively. In addition, specific procedures were performed on a further 17 business units in 8 countries representing a further 8% and 2% of the ZIC Group's GWP and total assets, respectively.

The following are the key audit matters we have identified:

- Valuation of actuarially determined life insurance assets and liabilities
- Valuation of property and casualty reserves
- Recoverability of goodwill, distribution agreements and attorney-in-fact contracts

**Audit scope**

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

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

The ZIC Group's business units vary significantly in size and we identified 19 which, in our view, required an audit of their complete financial information, due to their size or risk characteristics. Audits of these business units were performed using materiality levels lower than the materiality level for the ZIC Group as a whole, ranging from USD 20 million to USD 130 million, and established by reference to the size of, and risks associated with, the business concerned. Specific audit procedures on certain balances and transactions were performed at a further 17 business units. Together the full scope audits and specific audit procedures accounted for 76% and 81% of ZIC Group GWP and total assets, respectively.

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

**Audit materiality**

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

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

| Overall group audit materiality | Overall ZIC Group audit materiality: USD 200 million |
|---|---|
| How we determined it | We determined our materiality for the audit of the consolidated financial statements using quantitative and qualitative factors. Based on these factors we have selected a combined 3 year average of net income before income taxes (NIBIT) and business operating profit (BOP) as appropriate benchmarks for measuring audit materiality. We applied a 5% rule of thumb which resulted in an overall audit materiality of USD 200 million. |
| Rationale for the materiality benchmark applied | We chose NIBIT as a benchmark because, in our view, it is the benchmark against which the ZIC Group's performance is most commonly measured, and is a generally accepted benchmark. We also consider BOP as a benchmark because, in our view, BOP is a key indicator for analysts and external parties. |

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

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

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| The ZIC Group's valuation of the actuarially determined life insurance assets (including deferred policy acquisition costs, deferred origination costs, and present value of future profits) and liabilities (reserves for insurance contracts and deferred front-end fees) is based on complex actuarial methodologies and models and involves comprehensive assumption setting processes with regards to future events. Actuarial assumptions selected by the ZIC Group with respect to interest rates, investment returns, mortality, morbidity, longevity, persistency, expenses, stock market volatility and future policyholder behavior and the underlying methodologies and assumptions used may result in material impacts on the valuation of actuarially determined life insurance assets and liabilities.<br><br>Specifically, the continued low interest rate environment results in reduced investment returns creating a risk of accelerated amortization of deferred policy acquisition costs and a strain on the sufficiency of reserves for traditional life insurance contracts and also influences policyholders' behaviors.<br><br>Refer to Notes 4 and 8 to the consolidated financial statements. | We assessed and tested the design and operating effectiveness of selected key controls over actuarial methodology, integrity of data used in the actuarial valuation, and the assumptions setting processes used by management related to the valuation of actuarially determined life insurance assets and liabilities.<br><br>In relation to the particular matters set out opposite, our substantive testing procedures included the following:<br>– Tested the completeness and accuracy of underlying data to source documentation.<br>– Involved our life insurance actuarial specialists to independently test management's methodology and the assumptions used, with particular consideration of industry studies, the ZIC Group's experience and management's liability adequacy testing procedures.<br>– Assessed the consistency of the life actuarial methods used across the ZIC Group's business units.<br>– Challenged the ZIC Group's methodology and assumptions, focusing on changes to life actuarial methodology and assumptions during the year, by applying our industry knowledge and experience to compare whether the methodologies are in compliance with recognized actuarial practices as well as regulatory and reporting requirements.<br><br>Based on the work performed we determined the methodologies and assumptions used in the valuation of actuarially determined life insurance assets and liabilities are reasonable and in line with financial reporting requirements and industry accepted practice. |

### Valuation of property and casualty reserves

#### Key audit matter

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

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

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

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

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

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

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

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

# Report of the statutory auditor (continued)

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

### Key audit matter

As detailed in Notes 3, 4 and 14 of the consolidated financial statements, the ZIC Group's goodwill is allocated to cash generating units (CGUs) that are identified generally at a segment level. The valuation and recoverability of significant goodwill, distribution agreements and attorney-in-fact contracts involves complex judgments and estimates, including projections of future income, terminal growth rate assumptions, and discount rates. These assumptions and estimates can have a material impact on the valuations and impairment decisions reflected in the consolidated financial statements of the ZIC Group.

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

### How our audit addressed the key audit matter

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

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

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

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

**Other information in the annual report**
The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of Zurich Insurance Company Ltd, the risk review on pages 3 to 22 and our auditor's reports thereon. Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

PricewaterhouseCoopers AG

Mark Humphreys
Audit expert
Auditor in charge

Stephen O'Hearn
Global relationship partner

Zurich, March 7, 2018

# Financial statements – statutory accounts

## Board of Directors and auditors, as of December 31, 2017

### Board of Directors and auditors

| | Residence | Expiration of current term of office |
|---|---|---|
| **Board of Directors** | | |
| Tom de Swaan, Chairman | Amsterdam, Netherlands | 2018 |
| Fred Kindle, Vice Chairman | Vaduz, Liechtenstein | 2018 |
| Susan Bies | Landrum, SC, USA | 2018 |
| Alison Carnwath | Devon, United Kingdom | 2018 |
| Monica Mächler | Pfäffikon, SZ, Switzerland | 2018 |
| Christoph Franz | Zürich, Switzerland | 2018 |
| Joan Amble | Darien, CT, USA | 2018 |
| Kishore Mahbubani | Singapore, Singapore | 2018 |
| David Nish | Kilmacolm, United Kingdom | 2018 |
| Jeffrey Hayman | Moorestown, NJ, USA | 2018 |
| Catherine Bessant | Charlotte, NC, USA | 2018 |
| | | |
| Adrian Peyer, Corporate Secretary | | |
| | | |
| **Auditors** | | |
| PricewaterhouseCoopers AG | | |

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

## Management report

Zurich Insurance Company Ltd (ZIC or the Company) is a public limited company domiciled in Zurich, Switzerland, and was incorporated on November 1, 1872. The Company is the principal operating insurance company of the Zurich Insurance Group (ZIG or the Group). As well as being an insurance company, it also acts as the holding company for all subsidiaries and other affiliates of the Group except for the Group's property loans and banking activities.

The results of ZIC include the direct Property & Casualty insurance business in Switzerland with its largest branches located in Canada, Japan and Hong Kong as well as assumed reinsurance business from its subsidiaries and the Farmers Exchanges.[1]

ZIC reported a net income after taxes of CHF 1,344 million in 2017, a 57 percent decrease compared to 2016. This decrease is mainly driven by lower net investment result of CHF 809 million, by lower net other financial income and expense of CHF 388 million and by higher net insurance benefits and losses of CHF 349 million.

Total gross written premiums and policy fees decreased by CHF 215 million or 1 percent to CHF 18,748 million for the year ended December 31, 2017. In local currency, gross written premiums and policy fees decreased by 1 percent or CHF 185 million. Direct gross written premiums and policy fees decreased by CHF 152 million to CHF 4,075 million mainly due to decreasing business in Switzerland and Canada. Assumed reinsurance gross written premiums and policy fees decreased by CHF 63 million to CHF 14,673 million following a focused re-underwriting of certain books of business in line with Group strategy as well as the non-renewal of the All Lines Quota Share reinsurance agreement with Farmers Exchanges as of December 31, 2017, partially offset by the increasing crop business in the U.S. due to a reinsurance agreement with another Group company.

The net insurance reserves increased by CHF 204 million compared with the year ended December 31, 2016, reflecting the impacts of catastrophe and weather related events beyond historically normal average levels, in particular the hurricanes impacting the U.S. in the third quarter, Harvey, Irma and Maria (HIM) of USD 480 million (CHF 468 million). This was partially offset by the non-renewal of the All Lines Quota Share reinsurance agreement with Farmers Exchanges.

The net investment result decreased by CHF 809 million to CHF 3,225 million, mainly due to a reduction in income from investments in subsidiaries and associates of CHF 847 million and an increase in write-downs on investments in subsidiaries and associates of CHF 344 million. This decrease was partially offset by higher net investments results on equity securities following the overall improvement in the equity securities markets during 2017.

Shareholder's equity decreased by CHF 956 million to CHF 21,616 million for the year ended December 31, 2017, from CHF 22,572 million for the year ended December 31, 2016. This decrease reflects the net result of the net income after taxes of CHF 1,344 million and the dividend payment to ZIG of CHF 2,300 million in 2017, which was approved at the Annual General Meeting on March 29, 2017.

ZIC is fully integrated into the Group-wide risk assessment process of the Zurich Insurance Group. This risk process also addresses the nature and scope of business activities and the specific risks of ZIC. For more information, see the Risk review on page 3 to 22 of this Annual Report.

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

Throughout 2017, the Company has strengthened its customer focus through key acquisitions. On December 11, 2017, the Group announced it has entered into an agreement to acquire 100 percent of the Australian life insurance and consumer credit businesses (OnePath Life) of Australia and New Zealand Banking Group Limited (ANZ) for AUD 2.85 billion (CHF 2.2 billion). Both parties expect the transaction, which is subject to regulatory approvals, to be completed by the end of 2018. On April 13, 2017, ZIC completed the acquisition of all the shares in Cover-More Group Limited (Cover-More), a travel insurance and assistance solutions provider listed on the Australian Securities Exchange, with its main operations in Australia, India and the U.S. In conjunction with this acquisition, the Group also acquired Halo Insurance Services Limited (Halo), a distributor of vehicle-hire insurance in the UK. The acquisition is represented in ZIC's balance sheet under a new direct subsidiary, Zurich Travel Solutions Pty Limited which fully owns Cover-More. The acquisition was financed with three senior loans totaling AUD 940 million.

Additionally, the Company has progressed well against savings targets and expects to continue to see these benefits in the results.

Following the introduction of the U.S. Tax Cuts and Jobs Act in December 2017, the Company is reviewing certain of the internal reinsurance arrangements assumed by the Company from its subsidiaries and is evaluating alternative and equivalent structures with other affiliates. This may potentially result in a further decrease in the Company's gross written premiums and policy fees and operating results for the assumed business.

# Income statements

## Income statements

| in CHF millions, for the years ended December 31 | Notes | 2017 | 2016 |
|---|---|---|---|
| Gross written premiums and policy fees | | 18,748 | 18,964 |
| Premiums ceded to reinsurers | | (3,181) | (2,928) |
| Net written premiums and policy fees | | 15,568 | 16,036 |
| Change in reserves for unearned premiums, gross | | 536 | 161 |
| Change in reserves for unearned premiums, ceded | | 66 | 37 |
| Net earned premiums and policy fees | | 16,170 | 16,233 |
| Other income | | 1,258 | 1,410 |
| **Total technical income** | | **17,427** | **17,643** |
| Claims paid, annuities and loss adjustment expenses, gross | | (12,440) | (12,668) |
| Claims paid, annuities and loss adjustment expenses, ceded | | 1,629 | 1,538 |
| Change in insurance reserves, gross | 14 | (1,407) | 107 |
| Change in insurance reserves, ceded | 14 | 612 | (234) |
| Insurance benefits and losses, net of reinsurance | | (11,606) | (11,257) |
| Underwriting & policy acquisition costs, gross | | (4,716) | (4,611) |
| Underwriting & policy acquisition costs, ceded | | 436 | 415 |
| Underwriting & policy acquisition costs, net of reinsurance | | (4,280) | (4,197) |
| Administrative and other expense | 4 | (2,640) | (2,520) |
| **Total technical expense** | | **(18,526)** | **(17,973)** |
| Investment income | 5 | 4,176 | 4,658 |
| Investment expenses | 6 | (951) | (623) |
| Net investment result | | 3,225 | 4,035 |
| Other financial income | | 274 | 628 |
| Other financial expense | | (382) | (349) |
| **Operating result** | | **2,018** | **3,983** |
| Interest expense on debt and other interest expense | | (544) | (724) |
| **Net income before taxes** | | **1,474** | **3,259** |
| Direct tax expenses | | (130) | (124) |
| **Net income after taxes** | | **1,344** | **3,135** |

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

Financial statements – statutory accounts (continued)

## Balance sheets

### Assets

| in CHF millions, as of December 31 | Notes | 2017 | 2016 |
|---|---|---|---|
| **Investments** | | | |
| Real estate | | 1,471 | 1,350 |
| Investments in subsidiaries and associates | 7 | 29,755 | 29,854 |
| Debt securities | | 22,542 | 23,600 |
| Other loans | | 5,465 | 4,802 |
| Mortgage loans | | 1,197 | 1,248 |
| Equity securities | | 4,728 | 4,355 |
| Other investments | 8 | 8,993 | 8,422 |
| **Total investments** | | **74,151** | **73,632** |
| **Other assets** | | | |
| Derivative assets | | 475 | 505 |
| Deposits made under assumed reinsurance contracts | | 3,226 | 3,472 |
| Cash and cash equivalents | | 5,340 | 4,323 |
| Insurance reserves, ceded | 13 | 5,975 | 5,217 |
| Fixed assets | 9 | 106 | 121 |
| Deferred acquisition costs, net | 10 | 1,226 | 1,247 |
| Intangible assets | 11 | 174 | 219 |
| Receivables from insurance and reinsurance business | 12 | 1,565 | 1,831 |
| Other receivables | | 598 | 758 |
| Other assets | | 22 | 23 |
| Accrued assets | | 686 | 602 |
| **Total other assets** | | **19,393** | **18,318** |
| **Total assets** | | **93,544** | **91,949** |

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

## Liabilities and shareholder's equity

| in CHF millions, as of December 31 | Notes | 2017 | 2016 |
|---|---|---|---|
| **Liabilities** | | | |
| Insurance reserves, gross | 13 | 42,744 | 41,782 |
| Provisions | 16 | 916 | 890 |
| Senior and other debt | 17 | 13,409 | 11,771 |
| Derivative liabilities | | 75 | 220 |
| Deposits received under ceded reinsurance contracts | | 123 | 94 |
| Liabilities from insurance and reinsurance business | 18 | 911 | 1,026 |
| Other liabilities | | 1,336 | 1,148 |
| Accrued liabilities | | 1,383 | 1,512 |
| Subordinated debt | 17 | 11,032 | 10,934 |
| **Total liabilities** | | **71,928** | **69,378** |
| **Shareholder's equity (before appropriation of available earnings)** | | | |
| Share capital | 19 | 825 | 825 |
| Profit sharing certificates | | – | p.m.[1] |
| Capital contribution reserve | | 5,570 | 5,570 |
| Legal reserve | | 485 | 485 |
| General free reserve | | 4,272 | 4,272 |
| Retained earnings: | | | |
| *Beginning of year* | | *11,420* | *9,685* |
| *Dividend paid* | | *(2,300)* | *(1,400)* |
| *Net income after taxes* | | *1,344* | *3,135* |
| Retained earnings, end of year | | 10,464 | 11,420 |
| **Total shareholder's equity (before appropriation of available earnings)** | | **21,616** | **22,572** |
| **Total liabilities and shareholder's equity** | | **93,544** | **91,949** |

[1] pro memoria

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

# Notes to the financial statements

## 1. Basis of presentation

The Company's financial statements are presented in accordance with the Swiss Code of Obligations and relevant insurance supervisory law, including the FINMA Insurance Supervision Ordinance (ISO-FINMA), revised December 15, 2015.

All amounts in the financial statements, unless otherwise stated, are shown in CHF, rounded to the nearest million with the consequence that the rounded amounts may not add up to the total in all cases. All variances are calculated using the actual figures rather than the rounded amounts.

## 2. Summary of significant accounting policies

### Investments

**Real estate** held for investment and for own use held in Switzerland is carried at the acquisition cost less required or permissible impairment, and is valued on a single valuation basis. Real estate held for investment and for own use held by branches located outside Switzerland is carried at the local statutory value valid in the country where the real estate is located, valued on a single valuation basis.

**Investments in subsidiaries and associates** are held at acquisition cost less necessary impairments. The method to determine the necessary impairments is considering the similarity of the underlying investments in subsidiaries and associates such as the fungibility of capital or the pooling of reinsurance as well as the potential dependency with other investments in subsidiaries and associates. Investments in subsidiaries and associates in both Property and Casualty (P&C) and Life are assessed on a regional basis (Europe, Middle East and Africa, North America, Asia Pacific, Latin America and Group Reinsurance), further Farmers, Group Functions and Operations and Non-Core Businesses are considered as similar assets. For these regional sub-groups, the book value of the sub-group is compared to its market value. If needed, the carrying value of the investments in subsidiaries and associates is impaired accordingly.

**Debt securities** are carried at amortized cost using the effective interest rate method. The valuation of debt securities held in the single investor funds in Switzerland is the same as for directly held securities.

**Mortgage and other loans** are valued at their nominal value less any necessary impairments.

**Equity securities** which are quoted on a stock exchange are carried at the stock exchange price as of December 31. Unquoted equity securities are carried at the acquisition cost with a deduction for necessary impairments. The valuation of equity securities held in single investor funds in Switzerland is the same as for directly held securities.

**Other investments** consists of asset-backed securities, which are valued at amortized cost using the effective interest rate method.

### Other assets

**Derivative financial instruments**

Derivative financial instruments held for purposes of economic hedging are carried at fair value.

**Deposits made under assumed reinsurance contracts**

Reinsurance deposits consist of funds deposited with ceding insurers to guarantee contractual liabilities for assumed reinsurance.

**Deferred acquisition costs, net**

Acquisition costs related to reinsurance business are deferred. For P&C business the deferred costs are subsequently amortized over the period in which the related assumed premiums are earned. For the life business the deferred costs are amortized over the life of the contract based on expected premiums or the estimated gross margin expected to be realized over the life of the contract, depending on the type of underlying contracts.

**Accrued assets**
This amount relates primarily to interest income accruals, other prepaid expenses and other accrued income. Accrued investment income within the single investor funds in Switzerland is recorded as a write-up on investments.

### Insurance reserves

**Reserves for unearned premiums** represent the portion of the premiums written relating to the unexpired term of insurance coverage as of the balance sheet date. In many insurance contracts, the insurance period for which the insurance company assumes a risk against a premium paid does not correspond to the Company's financial year. Thus, an amount equivalent to the unearned portion of the premium is set up as a reserve at the end of the financial year.

**Reserves for losses and loss adjustment expenses** represent reserves for reported claims and reserves for losses incurred but not yet reported (IBNR). In addition, equalization reserves are included where these are accepted or required by the regulator in the country where such reserves are held. The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates are reflected in the income statements in the period in which estimates are changed.

**Future life policyholders' benefits** represent the estimated future benefit liability for life insurance policies and include the value of accumulated declared bonuses or dividends that have vested to policyholders. These liabilities relate to assumed reinsurance contracts. The liabilities are primarily measured using current financial and non-financial assumptions. Certain pension and annuity liabilities are calculated using a net level premium valuation method based on actuarial assumptions including mortality, expenses and investment return adjusted for a margin for adverse deviations.

### Other income and administrative and other expense

Other income includes interest income on deposits received under ceded reinsurance contracts as well as other technical and other non-technical income. Administrative and other expense represent primarily technical expense in connection with the operation of the insurance business.

### Investment income and expense

**Realized capital gains/losses on investments** occur when the sales price or redemption value is higher or lower than the carrying value at the time of sale. The gain/loss is the difference between carrying value and the sales price.

**Write-downs and write-ups on investments** include losses arising from a decrease in the fair value below cost or the carrying value at the previous year end on equity securities and necessary impairments of debt securities and investments in subsidiaries and associates. Write-ups of quoted equity securities are gains resulting from the difference between the lower book value at the beginning of the year or at the later purchase date and the higher book value as of the end of December. Write-ups also include gains as a result of the reversal of impairments on unquoted equity securities up to the acquisition cost value. Write-downs and write-ups further include the change in valuation of the single investor funds, which also include the investment income of the investments within these funds.

### Other financial income and expense

Other financial income includes interest income on cash and cash equivalents as well as gains on derivatives. Other financial expenses includes losses on derivatives.

### Direct tax expenses

Direct tax expenses include both Swiss and foreign income tax expense and capital tax expense in Switzerland as well as foreign withholding tax expense on investment income.

## 3. Exchange rates

The presentation currency for ZIC and its branches is the Swiss franc. Several ZIC branches operate outside Switzerland with different functional currencies. A functional currency is the currency of the primary economic environment in which the branch operates. Assets and liabilities of those branches with functional currencies other than the Swiss franc are translated into the presentation currency at end-of-period exchange rates, except for investments in subsidiaries and associates where historical exchange rates are used. Revenues and expenses are translated using the average exchange rate of the year. The resulting exchange differences are recorded in the income statements.

The table below summarizes the principal exchange rates that have been used for translation purposes.

**Principal exchange rates**

| CHF per foreign currency unit | Balance sheets | | Income statements | |
|---|---|---|---|---|
| | **12/31/2017** | 12/31/2016 | **2017** | 2016 |
| Canadian dollar | 0.78 | 0.76 | 0.76 | 0.74 |
| Euro | 1.17 | 1.07 | 1.11 | 1.09 |
| British pound | 1.32 | 1.25 | 1.27 | 1.33 |
| U.S. dollar | 0.97 | 1.02 | 0.98 | 0.98 |

## 4. Administrative and other expense

**Administrative and other expense**

| in CHF millions, for the years ended December 31 | **2017** | 2016 |
|---|---|---|
| Administration and other general expenses | (1,020) | (1,149) |
| Personnel expenses | (1,049) | (1,040) |
| Foreign currency transaction gains and losses | (834) | 170 |
| Gains and losses on foreign currency derivatives | 398 | (393) |
| Amortization and impairments of software and equipment | (135) | (108) |
| **Total administrative and other expense** | **(2,640)** | **(2,520)** |

## 5. Investment income

**Investment income**

| in CHF millions, for the years ended December 31 | Current income | | Write-ups | | Realized capital gains | | Totals | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Real estate | 96 | 99 | 2 | 4 | 11 | 2 | 108 | 105 |
| Investments in subsidiaries and associates | 1,881 | 2,728 | – | – | 145 | 379 | 2,026 | 3,106 |
| Debt securities | 359 | 344 | 382 | 66 | 77 | 152 | 819 | 562 |
| Other loans | 130 | 95 | – | – | 5 | 19 | 136 | 115 |
| Mortgage loans | 24 | 25 | – | – | – | – | 24 | 25 |
| Equity securities | 82 | 89 | 368 | 246 | 343 | 124 | 793 | 460 |
| Other investments | 222 | 220 | – | – | 48 | 65 | 271 | 285 |
| **Total investment income** | **2,794** | **3,599** | **752** | **317** | **629** | **741** | **4,176** | **4,658** |

Total investment income decreased by CHF 482 million or 10 percent to CHF 4,176 million in 2017. Dividend income from subsidiaries and associates decreased by CHF 847 million or 31 percent to CHF 1,881 million in 2017, mainly due to the absence of a dividend from Zurich Life Insurance Company Ltd (2016: CHF 785 million) and to lower dividend income from Farmers Group, Inc., partially offset by higher dividend income from Zurich Holding Ireland Limited, Zürich Beteiligungs-Aktiengesellschaft (Deutschland) and Zurich Reinsurance Company Ltd. The realized capital gains on subsidiaries and associates decreased by CHF 234 million to CHF 145 million. In 2017, the Company realized a capital gain of CHF 145 million on the sale of Zurich Insurance (Taiwan) Ltd. to Hotai Motor Co., whereas in 2016, CHF 379 million realized capital gains on subsidiaries and associates resulted from the sale of the Company's insurance business in Morocco to Allianz Group and in South Africa to Fairfax Financial Holdings Limited. The increase in write-ups on debt securities and equity securities is mainly driven by a rise in the value of the single investor funds as well as the overall improvement in equity securities markets compared to 2016.

## 6. Investment expenses

**Investment expenses**

| in CHF millions, for the years ended December 31 | Write-downs | | Realized capital losses | | Totals | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Real estate | (15) | (17) | (2) | (1) | (17) | (17) |
| Investments in subsidiaries and associates | (607) | (264) | (2) | (3) | (609) | (266) |
| Debt securities | (6) | (6) | (71) | (42) | (77) | (49) |
| Other loans | – | – | (40) | (36) | (40) | (36) |
| Mortgage loans | – | – | – | – | – | – |
| Equity securities | (59) | (63) | (22) | (50) | (82) | (114) |
| Other investments | – | – | (44) | (70) | (44) | (70) |
| **Sub-total investment expenses** | **(688)** | **(350)** | **(181)** | **(202)** | **(869)** | **(552)** |
| Investment general expenses | n.a. | n.a. | n.a. | n.a. | (82) | (71) |
| **Total investment expenses** | | | | | **(951)** | **(623)** |

Total investment expenses increased by CHF 328 million or 53 percent to CHF 951 million in 2017, mainly due to higher write-downs on investments in subsidiaries and associates of CHF 607 million in 2017 compared to CHF 264 million 2016, which includes impairments of a subsidiary in Bermuda and of Zurich Minas Brasil Seguros S.A. both in 2017 and 2016.

### 7. Investments in subsidiaries and associates

The table below shows the significant subsidiaries of ZIC with a carrying value of at least CHF 500 million and/or net income exceeding CHF 100 million. The carrying value of the listed subsidiaries and associates represents 91 percent of the total investments in subsidiaries and associates of CHF 29,755 million.

**Significant subsidiaries**

| as of December 31, 2017 | Registered office | Voting rights % | Ownership interest % | | Nominal value of common stock (in local currency millions) |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Zurich Financial Services Australia Limited[1,2] | Sydney | 100 | 100 | AUD | 1,348.8 |
| **Brazil** | | | | | |
| Zurich Minas Brasil Seguros S.A.[1] | Belo Horizonte | 100 | 100 | BRL | 3,109.6 |
| **Germany** | | | | | |
| Zürich Beteiligungs-Aktiengesellschaft (Deutschland) | Frankfurt | 100 | 100 | EUR | 152.9 |
| **Ireland** | | | | | |
| Zurich Holding Ireland Limited | Dublin | 100 | 100 | EUR | 0.1 |
| Zurich Insurance plc[1] | Dublin | 4.5 | 4.5 | EUR | 8.2 |
| **Italy** | | | | | |
| Zurich Investments Life S.p.A. | Milan | 100 | 100 | EUR | 164.0 |
| **Switzerland** | | | | | |
| Zurich Life Insurance Company Ltd[1] | Zurich | 100 | 100 | CHF | 60.0 |
| Zurich Finance Company AG | Zurich | 100 | 100 | CHF | 0.2 |
| Zurich Reinsurance Company Ltd[1] | Zurich | 100 | 100 | CHF | 11.7 |
| **United Kingdom** | | | | | |
| Allied Zurich Holdings Limited | St. Hélier | 100 | 100 | GBP | 90.7 |
| Zurich International Life Limited[1] | Douglas, Isle of Man | 100 | 100 | GBP | 123.4 |
| **United States of America** | | | | | |
| Farmers Group, Inc.[3,4] | Reno, NV | 87.9 | 95.4 | USD | 0.0 |
| Zurich Holding Company of America, Inc. | Wilmington, DE | 99.2 | 99.2 | USD | 0.0 |

1 Regulated insurance companies.
2 Zurich Finance Services Australia Limited has been added to the list of significant subsidiaries.
3 The ownership percentages in Farmers Group, Inc., and its fully owned subsidiaries have been calculated based on the participation rights of ZIC in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
4 The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Zurich Insurance Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

The table below shows the most significant indirectly held subsidiaries of ZIC with a net asset value exceeding USD 1,000 million (based on IFRS values) and ownership interest of more than 10 percent.

## Significant indirect subsidiaries

| as of December 31, 2017 | Registered office | Parent company | Voting rights % | Ownership interest % |
|---|---|---|---|---|
| **Germany** | | | | |
| Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft | Bonn | Zürich Beteiligungs-Aktiengesellschaft (Deutschland)[1] | 32.5 | 32.5 |
| | | Deutscher Herold Aktiengesellschaft | 67.5 | 67.5 |
| **Luxembourg** | | | | |
| REX-ZDHL S.C.S SICAV-SIF[2] | Leudelange | Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft | 100.0 | 100.0 |
| **Spain** | | | | |
| Bansabadell Vida S.A. de Seguros y Reaseguros | Barcelona | Zurich Vida, Compañía de Seguros y Reaseguros, S.A. - Sociedad Unipersonal | 50.0 | 50.0 |
| Zurich Santander Holding (Spain), S.L. | Madrid | Zurich Santander Insurance America, S.L. | 51.0 | 51.0 |
| Zurich Latin America Holding S.L. - Sociedad Unipersonal | Barcelona | Zurich Life Insurance Company Ltd[1] | 100.0 | 100.0 |
| Zurich Vida, Compañía de Seguros y Reaseguros, S.A. - Sociedad Unipersonal[2] | Madrid | Zurich Life Insurance Company Ltd[1] | 100.0 | 100.0 |
| **United Kingdom** | | | | |
| Zurich Assurance Ltd | Cheltenham, England | Eagle Star Holdings Limited | 100.0 | 100.0 |
| **United States of America** | | | | |
| Farmers New World Life Insurance Company | Mercer Island, WA | Farmers Group, Inc.[1] | 100.0 | 100.0 |
| Zurich American Corporation | Wilmington, DE | Zurich Holding Company of America, Inc.[1] | 100.0 | 100.0 |
| Zurich American Insurance Company | New York, NY | Zurich Holding Company of America, Inc.[1] | 100.0 | 100.0 |

[1] Direct subsidiary of the Company.
[2] REX-ZDHL S.C.S SICAV-SIF and Zurich Vida, Compañía de Seguros y Reaseguros, S.A. - Sociedad Unipersonal, have been added to list of significant indirect subsidiaries.

# Financial statements – statutory accounts (continued)

## 8. Other investments

**Other investments**

| in CHF millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| Asset-backed securities | 8,993 | 8,422 |
| **Total other investments** | **8,993** | **8,422** |

## 9. Fixed assets

**Fixed assets**

| in CHF millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| Furniture and equipment | 361 | 361 |
| Accumulated amortization | (255) | (240) |
| **Total fixed assets** | **106** | **121** |

## 10. Deferred acquisition costs

**Deferred acquisition costs, net**

| in CHF millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| Deferred acquisition costs, assumed reinsurance | 1,292 | 1,301 |
| Deferred acquisition costs, retroceded reinsurance | (66) | (54) |
| **Total deferred acquisition costs, net** | **1,226** | **1,247** |

## 11. Intangible assets

**Intangible assets**

| in CHF millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| Software | 174 | 219 |
| **Total intangible assets** | **174** | **219** |

## 12. Receivables from insurance and reinsurance business

**Receivables from insurance and reinsurance business**

| in CHF millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| Receivables from policyholders | 95 | 91 |
| Receivables from agents and intermediaries | 175 | 173 |
| Receivables from insurance and reinsurance companies | 1,295 | 1,567 |
| **Total receivables from insurance and reinsurance business** | **1,565** | **1,831** |

## 13. Insurance reserves, net

**Insurance reserves, net**

| in CHF millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| **Gross** | | |
| Reserves for unearned premiums | 4,257 | 4,645 |
| Reserves for losses and loss adjustment expenses | 33,197 | 31,953 |
| Other technical reserves | 831 | 806 |
| Future life policyholders' benefits | 4,441 | 4,375 |
| Reserves for policyholders' dividends | 19 | 4 |
| **Total insurance reserves, gross** | **42,744** | **41,782** |
| **Ceded** | | |
| Reserves for unearned premiums | (1,126) | (1,049) |
| Reserves for losses and loss adjustment expenses | (4,500) | (3,912) |
| Future life policyholders' benefits | (348) | (257) |
| Reserves for policyholders' dividends | (1) | – |
| **Total insurance reserves, ceded** | **(5,975)** | **(5,217)** |
| **Net** | | |
| Reserves for unearned premiums | 3,132 | 3,596 |
| Reserves for losses and loss adjustment expenses | 28,697 | 28,042 |
| Other technical reserves | 831 | 806 |
| Future life policyholders' benefits | 4,093 | 4,118 |
| Reserves for policyholders' dividends | 17 | 3 |
| **Total insurance reserves, net of reinsurance** | **36,769** | **36,566** |

Total net insurance reserves increased by CHF 204 million or 1 percent to CHF 36,769 million. In local currency, the insurance reserves increased by CHF 297 million. The net reserves for losses and loss adjustment expenses increased by CHF 655 million. This increase is reflecting the impacts of catastrophe and weather related events beyond historically normal average levels, in particular the hurricanes impacting the U.S. in the third quarter 2017, HIM of USD 480 million (CHF 468 million). The net reserves for unearned premiums decreased by CHF 465 million mainly because the All Lines Quota Share reinsurance agreement with Farmers Exchanges has not been renewed as of December 31, 2017.

## 14. Change in insurance reserves, net

**Change in insurance reserves, net**

| in CHF millions, for the years ended December 31 | 2017 | 2016 |
|---|---|---|
| **Gross** | | |
| Change in reserves for losses and loss adjustment expenses | (1,078) | 191 |
| Change in other technical reserves | (20) | 25 |
| Change in reserves for future life policyholders' benefits | (161) | (29) |
| Change in reserves for policyholders' dividends | (147) | (80) |
| **Total change in insurance reserves, gross** | **(1,407)** | **107** |
| **Ceded** | | |
| Change in reserves for losses and loss adjustment expenses | 512 | (231) |
| Change in reserves for future life policyholders' benefits | 100 | (2) |
| Change in reserves for policyholders' dividends | – | – |
| **Total change in insurance reserves, ceded** | **612** | **(234)** |
| **Net** | | |
| Change in reserves for losses and loss adjustment expenses | (566) | (40) |
| Change in other technical reserves | (20) | 25 |
| Change in reserves for future life policyholders' benefits | (61) | (32) |
| Change in reserves for policyholders' dividends | (147) | (79) |
| **Total change in insurance reserves, net of reinsurance** | **(795)** | **(127)** |

The higher change in net insurance reserves is reflecting the impacts of catastrophe and weather related events beyond historically normal average levels, in particular the hurricanes impacting the U.S. in the third quarter 2017, HIM of USD 945 million (CHF 930 million) on a gross and USD 480 million (CHF 472 million) on a net basis.

## 15. Direct and assumed business

**Direct and assumed business**

| in CHF millions, for the years ended December 31 | 2017 | 2016 |
|---|---|---|
| Gross written premiums and policy fees, direct business | 4,075 | 4,227 |
| Gross written premiums and policy fees, assumed business | 14,673 | 14,736 |
| Premiums ceded to reinsurers | (3,181) | (2,928) |
| **Net written premiums and policy fees** | **15,568** | **16,036** |
| Change in reserves for unearned premiums, direct business | 62 | 32 |
| Change in reserves for unearned premiums, assumed business | 474 | 129 |
| Change in reserves for unearned premiums, ceded | 66 | 37 |
| **Change in reserves for unearned premiums, net of reinsurance** | **602** | **198** |
| Claims paid, annuities and loss adjustment expenses, direct business | (2,604) | (2,773) |
| Claims paid, annuities and loss adjustment expenses, assumed business | (9,836) | (9,895) |
| Claims paid, annuities and loss adjustment expenses, ceded | 1,629 | 1,538 |
| **Claims paid, annuities and loss adjustment expenses, net of reinsurance** | **(10,811)** | **(11,130)** |
| Change in insurance reserves, direct business | 161 | 363 |
| Change in insurance reserves, assumed business | (1,568) | (257) |
| Change in insurance reserves, ceded | 612 | (234) |
| **Change in insurance reserves, net of reinsurance** | **(795)** | **(127)** |
| Underwriting & policy acquisition costs, direct business | (824) | (882) |
| Underwriting & policy acquisition costs, assumed business | (3,892) | (3,730) |
| Underwriting & policy acquisition costs, ceded | 436 | 415 |
| **Underwriting & policy acquisition costs, net of reinsurance** | **(4,280)** | **(4,197)** |

## 16. Provisions

The provisions were established in anticipation of expected, estimated or perceived expenditures or exposures and increased by CHF 25 million in 2017, mainly due to an increase of the provisions to cover obligations relating to administrative and sales staff. Additionally the provision for restructuring costs increased by CHF 2 million and amounted to CHF 58 million.

## 17. Debt

### a) Senior and other debt

**Senior and other debt**

| in CHF millions, as of December 31 | | 2017 | 2016 |
|---|---|---|---|
| Issuances to capital markets under Euro Medium Term Note Programme | 2.25% CHF 500 million, due July 2017 | – | 500 |
| | 2.375% CHF 525 million, due November 2018 | 525 | 525 |
| | 1.5% CHF 400 million, due June 2019 | 400 | 400 |
| | 1.125% CHF 400 million, due September 2019 | 400 | 400 |
| | 0.625% CHF 250 million, due July 2020 | 250 | 250 |
| | 2.875% CHF 250 million, due July 2021 | 250 | 250 |
| | 3.375% EUR 500 million, due June 2022 | 585 | 536 |
| | 1.875% CHF 100 million, due September 2023 | 100 | 100 |
| | 1.75% EUR 500 million, due September 2024 | 585 | 536 |
| | 1.5% CHF 150 million, due July 2026 | 150 | 150 |
| Zurich Insurance Group | various | 10,144 | 8,093 |
| Other debt | various | 19 | 31 |
| **Total senior and other debt** | | **13,409** | **11,771** |
| | *thereof due in one to five years* | *1,885* | *1,825* |
| | *thereof due in more than five years* | *835* | *1,322* |

### b) Subordinated debt

**Subordinated debt**

| in CHF millions, as of December 31 | | 2017 | 2016 |
|---|---|---|---|
| Zurich Insurance Group Ltd | 6.30% CHF 4,832 million perpetual loan | 4,832 | 4,832 |
| Issuances to capital markets under Euro Medium Term Note Programme | 8.25% USD 500 million perpetual capital notes, first callable on January 18, 2018 | 487 | 508 |
| | 4.625% CHF 500 million perpetual notes, first callable on May 16, 2018 | 500 | 500 |
| | 7.5% EUR 425 million notes, first callable on July 24, 2019, due July 2039 | 497 | 456 |
| | 2.75% CHF 225 million perpetual capital notes, callable on June 2, 2021 | 225 | 225 |
| | 2.75% CHF 200 million perpetual capital notes, first callable on September 30, 2021 | 200 | 200 |
| | 4.75% USD 1 billion perpetual notes, first callable on January 20, 2022 | 975 | 1,016 |
| | 4.25% EUR 1 billion notes, first callable on October 2, 2023, due October 2043 | 1,170 | 1,072 |
| | 4.25% USD 300 million subordinated notes, first callable on October 1, 2025, due October 2045 | 292 | 305 |
| | 5.625% USD 1 billion subordinated notes, first callable on June 24, 2026, due June 2046 | 975 | 1,016 |
| | 3.5% EUR 750 million subordinated notes, first callable on October 1, 2026, due October 2046 | 878 | 804 |
| **Total subordinated debt** | | **11,032** | **10,934** |
| | *thereof due in one to five years* | *1,897* | *1,889* |
| | *thereof due in more than five years* | *8,147* | *9,045* |

# Financial statements – statutory accounts (continued)

## 18. Liabilities from insurance and reinsurance business

**Liabilities from insurance and reinsurance business**

| in CHF millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| Amounts due to policyholders | 32 | 73 |
| Amounts due to agents and intermediaries | 18 | 14 |
| Amounts due to insurance and reinsurance companies | 861 | 939 |
| **Total liabilities from insurance and reinsurance business** | **911** | **1,026** |

## 19. Share capital

**Share capital and profit sharing certificates**

| number of shares, as of December 31 | 2017 | 2016 |
|---|---|---|
| Contingent share capital, CHF 10 par value[1] | – | 3,500,000 |
| Issued share capital, CHF 10 par value | 82,500,000 | 82,500,000 |
| Profit sharing certificates (Genussscheine)[1, 2] | – | 2 |

[1] In 2017, the contingent share capital has been cancelled and the profit sharing certificates have been revoked.
[2] These profit sharing certificates conferred on their holder the right to receive a dividend if and to the extent the Annual General Meeting decides. However, they did not confer on their holder any voting rights or rights associated thereto, any rights to subscribe for new shares, or any rights to liquidations proceeds.

### a) Issued share capital

As of December 31, 2017 and 2016, ZIC had issued share capital of CHF 825,000,000, consisting of 82,500,000 issued and fully paid registered shares of CHF 10 par value each.

### b) Contingent share capital

At the Annual General Meeting on June 11, 1997, contingent share capital of CHF 35,000,000 or 3,500,000 shares with a par value of CHF 10 each, was created, of which 2,500,000 shares can be issued in connection with the granting of conversion and/or option rights, and 1,000,000 shares can be issued under employees' share ownership plans. In 2017, the contingent share capital has been cancelled.

### c) Profit sharing certificates

The profit sharing certificates have been revoked in 2017. As of December 31, 2016, ZIC had issued two profit sharing certificates with no par value.

### d) Shareholders

As of December 31, 2017 and 2016, 100 percent of the registered shares of the Company were owned by Zurich Insurance Group Ltd.

**Shareholder's equity**

| in CHF millions, as of December 31 | 2017 | 2016 | changes |
|---|---|---|---|
| Shareholder's equity | | | |
| Share capital | 825 | 825 | – |
| Profit sharing certificates | – | p.m.[1] | n.a. |
| Capital contribution reserve | 5,570 | 5,570 | – |
| Legal reserve | 485 | 485 | – |
| General free reserve | 4,272 | 4,272 | – |
| Retained earnings: | | | |
| *Beginning of year* | *11,420* | *9,685* | *1,735* |
| *Dividend paid* | *(2,300)* | *(1,400)* | *(900)* |
| *Net income after taxes* | *1,344* | *3,135* | *(1,791)* |
| Retained earnings, end of year | 10,464 | 11,420 | (956) |
| **Total shareholder's equity** | **21,616** | **22,572** | **(956)** |

[1] pro memoria.

## 20. Assets and liabilities relating to companies within the Zurich Insurance Group

**Assets and liabilities relating to direct and indirect subsidiaries**

| in CHF millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Investments in subsidiaries and associates | 29,755 | 29,854 |
| Debt securities | 13 | 13 |
| Other loans | 5,061 | 3,746 |
| Derivative assets | 207 | 182 |
| Deposits made under assumed reinsurance contracts | 2,330 | 1,895 |
| Cash and cash equivalents | 1,017 | 1,193 |
| Insurance reserves, ceded | 1,508 | 1,518 |
| Deferred acquisition costs, net | 1,236 | 1,076 |
| Receivables from insurance and reinsurance business | 644 | 847 |
| Other receivables | 291 | 439 |
| Accrued assets | 327 | 273 |
| **Total assets** | **42,388** | **41,036** |
| **Liabilities** | | |
| Insurance reserves, gross | 30,750 | 29,061 |
| Provisions | 191 | 180 |
| Senior and other debt | 9,358 | 7,756 |
| Derivative liabilities | 16 | 83 |
| Deposits received under ceded reinsurance contracts | 4 | 6 |
| Liabilities from insurance and reinsurance business | 660 | 717 |
| Other liabilities | 123 | 72 |
| Accrued liabilities | 183 | 142 |
| **Total liabilities** | **41,285** | **38,016** |

**Assets and liabilities relating to ZIG Ltd**

| in CHF millions, as of December 31 | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Equity securities | 335 | 330 |
| Derivative assets | – | 2 |
| Cash and cash equivalent | 252 | – |
| **Total assets** | **587** | **332** |
| **Liabilities** | | |
| Senior and other debt | 786 | 337 |
| Derivative liabilities | – | 1 |
| Accrued liabilities | – | 207 |
| Subordinated debt | 4,832 | 4,832 |
| **Total liabilities** | **5,619** | **5,378** |

## 21. Supplementary information

**Supplementary information**

| in CHF millions, as of December 31 | **2017** | 2016 |
|---|---|---|
| Limited guarantees, indemnity liabilities and pledges in favor of third parties | 13,886 | 12,802 |
| Pledged assets in respect of securities lending agreements (at book value) | – | 1,622 |
| Leasing obligations not recorded on the balance sheet | 267 | 324 |
| Security deposits | 13,516 | 14,146 |
| Number of employees – Average full time equivalents | 5,405 | 5,772 |
| Audit fees | (14) | (14) |
| Other service fees | (2) | – |

Limited guarantees, indemnity liabilities and pledges in favor of third parties include a guarantee of USD 3,000 million both in 2017 (CHF 2,924 million) and in 2016 (CHF 3,047 million), in favor of subsidiaries to provide funds under certain circumstances. The total maximum exposure under this guarantee amounted to USD 478 million (CHF 466 million) as of December 31, 2017, and USD 424 million (CHF 431 million) as of December 31, 2016. In 2017, an agreement related to the acquisition of Australia and New Zealand Banking Group Limited's life insurance business is included.

In addition to the guarantees listed above, the Company has provided unlimited guarantees in support of various subsidiaries belonging to the Zurich Insurance Group.

According to regulatory requirements, CHF 13 billion were attributed to tied assets, as of December 31, 2017 and 2016, respectively.

To secure the insurance reserves of the assumed reinsurance business, investments with a value of CHF 13,516 million and CHF 14,146 million as of December 31, 2017 and 2016, respectively, were deposited in favor of ceding companies.

## 22. Net release of hidden reserves

In 2017 and in 2016, there was no material release of hidden reserves.

## 23. Subsequent events

On February 25, 2018, the Company announced it has entered into an agreement to acquire the operations of Australian insurer QBE Insurance Group Limited (QBE) in Latin America for a total aggregate price of USD 409 million, subject to closing adjustments and to regulatory approvals.

On February 14, 2018, the Company announced the successful placement of USD 500 million of dated subordinated notes. The subordinated notes are first callable in October 2028. The notes will be issued by the Company's 'Euro Medium Term Note Programme.' The coupon of 4.875 percent per annum is fixed until October 2028. The transaction has been conducted for general corporate purposes.

On January 18, 2018, the Company performed an early redemption of USD 500 million perpetual capital notes issued in 2012.

As a result of changes to the U.S. tax code announced in December 2017, Zurich American Insurance Company, which is an indirect subsidiary of the Company, terminated its Whole Account Quota Share reinsurance treaty with the Company effective January 1, 2018. This will impact the Company's gross written premiums and policy fees and operating result for the internal assumed business. The Company will continue to evaluate alternative and equivalent reinsurance structures with other affiliates.

## Appropriation of available earnings as proposed by the Board of Directors

| number of shares, as of December 31 | **2017** | 2016 |
|---|---|---|
| **Dividend-paying registered shares** | | |
| Dividend-paying shares | 82,500,000 | 82,500,000 |

| in CHF, as of December 31 | **2017 (Proposed)** | 2016 (Approved) |
|---|---|---|
| **Appropriation of available earnings as proposed by the Board of Directors** | | |
| Balance brought forward | 9,119,682,444 | 8,284,786,585 |
| Net income after taxes | 1,343,895,654 | 3,134,895,859 |
| **Available earnings** | **10,463,578,098** | **11,419,682,444** |
| Dividend | – | (2,300,000,000) |
| **Balance carried forward** | **10,463,578,098** | **9,119,682,444** |

The Board of Directors proposes to its shareholder at the Annual General Meeting on April 4, 2018, to carry forward available earnings of CHF 10,463,578,098 as shown in the above table.

On behalf of the Board of Directors of Zurich Insurance Company Ltd

Tom de Swaan

Chairman

Zurich, March 7, 2018

# Report of the statutory auditor

## Report of the statutory auditor

**To the General Meeting of Zurich Insurance Company Ltd, Zurich**

**Report on the audit of the financial statements**

**Opinion**
We have audited the financial statements of Zurich Insurance Company Ltd (the Company), which comprise the income statement for the year ended December 31, 2017, balance sheet as at December 31, 2017 and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements as at December 31, 2017 comply with Swiss law and the Company's articles of association.

**Basis for opinion**
We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Our audit approach

**Overview**


Overall audit materiality: CHF 240 million

We concluded full scope audit work at the holding company and 3 business units in 1 country.
The full scope audit work addressed 55% and 76% of the Company's gross written premiums and policy fees (GWP) and total assets, respectively.
In addition, specified procedures were performed on a further 7 business units in 3 countries representing a further 29% and 14% of the Company's GWP and total assets, respectively.

As key audit matters the following areas of focus have been identified:

- Valuation of property and casualty reserves
- Valuation of life insurance reserves
- Valuation of investments in subsidiaries

**Audit scope**

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

The structure of the Company consists of a holding company and 57 business units. In establishing the overall approach to the audit, we determined the type of work that needed to be performed at the business units by us, as the Group engagement team, or by component auditors from PwC network firms operating under our instruction. The most significant component teams are located in Switzerland, the United States, and Bermuda. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those business units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements of the Company as a whole.

The Company's business units vary significantly in size and we identified four which, in our view, required an audit of their complete financial information, due to their size or risk characteristics. Audits of these business units were performed using materiality levels lower than the materiality level for the Company as a whole, ranging from CHF 80 million to CHF 220 million, and established by reference to the size of, and risks associated with, the business concerned. Specified audit procedures on certain balances and transactions were performed at a further seven business units. Together full scope audits and the specified audit procedures accounted for 84% and 90% of Company reported GWP and total assets, respectively.

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

**Audit materiality**

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

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

| Overall audit materiality | CHF 240 million |
| --- | --- |
| How we determined it | We determined our materiality for the audit of the financial statements using quantitative and qualitative factors. Based on these factors we have selected the Company's total revenue (premium income and investment income) as appropriate benchmark for measuring materiality. We applied a 1% rule of thumb which resulted in an overall audit materiality of CHF 240 million. |
| Rationale for the materiality benchmark applied | We chose total revenues as a benchmark because, in our view, it is the benchmark which is the most relevant for the Company, as it is a large insurance company with stable premium and investment income, and is a generally accepted benchmark. Total revenues are an important KPI. It reflects the capability of insurer to write new business and to renew the contracts. |

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

**Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority**
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of property and casualty reserves

#### Key audit matter

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

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

Refer to Note 13 ("Insurance reserves, net") to the 2017 financial statements.

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

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

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

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

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

## Valuation of life insurance reserves

### Key audit matter

The Company acts as a reinsurance company for life business written by affiliated companies, including 100% of certain US and UK business.

The Company's valuation of the life insurance liabilities (reserves for insurance contracts) is based on complex actuarial methodologies and models and involves comprehensive assumption setting processes with regards to future events. Actuarial assumptions selected by the Company with respect to interest rates, investment returns, mortality, morbidity, longevity, persistency, expenses, stock market volatility and future policyholder behavior and the underlying methodologies and assumptions used may result in material impacts on the valuation of actuarially determined life insurance liabilities.

Specifically, the continued low interest rate environment results in reduced investment returns creating a strain on the sufficiency of reserves for traditional life insurance contracts and also influences policyholders' behaviors.

Refer to Note 13 ("Insurance reserves, net") to the 2017 financial statements.

### How our audit addressed the key audit matter

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

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

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

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

# Report of the statutory auditor (continued)

## Valuation of investments in subsidiaries

### Key audit matter

We consider the investments in subsidiaries to be a key audit matter not only due to the judgment involved but also based on the magnitude of CHF 29.8 billion, which makes up 32% of the Company's total assets.

The determination whether an investment in subsidiary needs to be impaired includes assumptions about the profitability of the underlying business and growth, which involves management's judgment.

Investments in subsidiaries are carried at cost less necessary impairments and valued on an individual basis.

Management assesses whether there are any impairments in the carrying value of the investments in subsidiaries. As a first step the Company compares the carrying value to the IFRS net asset value of the subsidiary as at December 31. If the net asset value is below the carrying value, then the Company may perform a valuation of the subsidiary by using a discounted cash flow analysis. If the valuations still indicate a need for an impairment, the Company reduces the carrying value of the investment in subsidiary accordingly.

We refer to Note 2 ("Summary of significant accounting policies") and Note 7 ("Investments in subsidiaries and associates") to the 2017 financial statements.

### How our audit addressed the key audit matter

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

- Assessed the appropriateness of the Company's impairment testing methodology.
- Obtained an understanding of management's process and controls, and assessed and tested the design and operating effectiveness of selected key controls over the valuation of investments in subsidiaries.
- Tested the mathematical accuracy of management's calculation.
- Re-performed management's impairment test on the carrying value of all investments in subsidiaries, and challenged the impairment decisions taken.
- Assessed the reasonableness of the methodology and assumptions used including growth projections on future income (including forecast to actual results), terminal growth rate assumptions, discount rates and sensitivity analyses to determine the impact of those assumptions.
- Tested the required disclosures in the notes to the financial statements.

We determined that the carrying value of investments in subsidiaries and the decisions made in connection with potential impairments thereof are reasonable and supportable. The methodology used by management serves as an adequate and sufficient basis for their decisions.

**Responsibilities of the Board of Directors for the financial statements**
The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the Company's articles of association, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of association. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

| | |
|---|---|
| Mark Humphreys<br>Audit expert<br>Auditor in charge | Ray Kunz<br>Audit expert |

Zurich, March 7, 2018

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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.

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