Zurich Insurance Group
Annual Report 2017

Our customers: at the center of everything we do

Contents

Our cover

Protecting customers when and where it matters. All in a day's work at Zurich. For more information, see page 15.

About us

Zurich Insurance Group (Zurich) 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, where it was founded in 1872.

Highlights

USD 3.8 bn
Business operating profit[1]

USD 4.8 bn
Underlying business operating profit[1,2]

9.2%
Business operating profit after tax return on equity[3]

12.1%
Underlying business operating profit after tax return on equity[2,3]

USD 64.0 bn
Total revenues

Z-ECM 132%
Zurich Economic Capital Model (Z-ECM) ratio estimated as of December 31, 2017[4]

[1] Business operating profit (BOP) indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables.

[2] Adjusted for the impact of the hurricanes Harvey, Irma and Maria, measures related to the Group's restructuring, and the impact of changes to UK capital gains tax indexation relief.

"Our industry is undergoing a profound change. We, too, must change if we are to meet our customers' evolving needs. After restoring our ability to generate consistent returns, we are now well positioned to look to the future with confidence."

Mario Greco
Group Chief Executive Officer

USD 3.0 bn
Net income attributable to shareholders (NIAS)

USD 3.7 bn
Cash remittances

USD 207 bn
Investment portfolio

AA-/stable
Standard & Poor's financial strength rating of Zurich Insurance Company Ltd as of December 31, 2017

[3] Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains or losses on available-for-sale investments and cash flow hedges.
[4] The Z-ECM is an internal measure of capital adequacy and reflects midpoint estimates with an error margin of +/– 5 pts.

USD 2.8 bn
Total amount of impact investments[5]

over 550,000
Number of customers interviewed through Zurich's NPS program[6]

2.1 tons
CO_2e emissions per employee (tons per FTE)[7]

21.0%
Female participation in Leadership Team

Moving toward integrated reporting
This report represents a further step in Zurich's journey toward integrated reporting. It aims to show how we create value for our stakeholders and brings together information about our operations, strategy, governance, performance, prospects and external environment. It is intended to reflect the varied interests and perspectives of all Zurich's stakeholders, offering a holistic view of our performance.

[5] Impact investments in 2017 consisted of: green bonds (USD 2.41 billion), investments committed to private equity funds (USD 116 million, thereof 38 percent drawn down) and other investments (USD 303 million).
[6] In 2017, Zurich interviewed over 550,000 customers (including Zurich Santander) in over 20 countries through its NPS (Net Promoter Score) program.
[7] Number shown as of 2016; 2017 data will be available in Q2 2018.

Message from our Chairman

Executing our strategy to deliver for customers

"We remain on course to meet our strategic targets and deliver sustainably. I am fully confident that Zurich will continue to succeed and thrive in the future."

Tom de Swaan
Chairman of the Board of Directors

For Zurich, 2017 was a year of action. Our strategy – to drive simplification and innovation to better serve our customers – has now taken hold and we are beginning to see the results.

USD 33.1 bn
Shareholders' equity

CHF 18.00
Proposed dividend per share

From planning to execution

The strength of our determination to focus on customers is now different from anything I have seen previously at Zurich. One example is the work of our outstanding Group Strategy Task Force. Building on its contribution to Zurich's Strategy, in 2017 the Task Force worked with our Executive Committee to develop Zurich's purpose and values. These let customers know, in a clear and simple way, why we are relevant to their lives and how we deliver on that relevance.

2017 also saw Zurich complete a number of acquisitions. These will expand our service offering across an even broader range of segments. They include the planned purchase of ANZ's Australian life insurance arm OnePath Life, pending regulatory approval. This will see Zurich become the largest retail life insurer in Australia, protecting 1.5 million Australians, while retaining our focus on capital-light protection and unit-linked business. It includes a 20-year distribution agreement with ANZ in Australia to distribute life insurance products through its bank channels.

We also purchased leading travel insurance services and assistance provider Cover-More. This makes Zurich the third-largest global travel insurance provider. Cover-More's clear customer focus makes it an ideal addition. Just as one example, they were the only travel insurance provider to send a team and aircraft to Nepal to help rescue earthquake survivors in 2015.

And as digitalization transforms our value chain and customer expectations, Zurich is responding to the challenge. This includes acquisitions such as Bright Box, a global telematics solutions provider. We are also establishing a new business that will focus on developing state-of-the-art mobile insurance solutions across our Group.

Our actions come alongside strong financial performance and we remain on course to meet strategic targets. There has been progress in the Property & Casualty, Life and Farmers businesses coming alongside resilience to the natural catastrophes witnessed in the third quarter. Reflecting the Group's strong performance in 2017, and with expectations of further improvement in 2018, the Board is proposing to increase the dividend to 18 CHF per share. In addition, in line with our policy on anti-dilution, we intend buy back shares in the amount of about USD 1 billion.

Delivering sustainably

Our customers expect us to deliver sustainably. Zurich's continued corporate responsibility focus ensures we meet these expectations. We have committed to further actions on our flood resilience program, divestment, disengagement and dialogue around thermal coal and reduction of our own carbon footprint. We have also recommitted to our responsible investment program, where we will be increasing our impact investments to USD 5 billion. And in 2017, Zurich was extremely proud to be one of only six companies worldwide to achieve a prestigious EDGE 'Move' certification – both in Switzerland and Austria – for gender equality.

Farewell and the future

My 12 years at this fantastic organization – of which five years were as Chairman – draw to a close. I am fully confident that Zurich will succeed and thrive in the future. The ever-stronger emphasis on the customer combined with an entrepreneurial culture will be the main ingredients for this success. The company is showing the necessary adaptive attitude to evolve in the fast changing environment in which it operates.

The Board will propose to shareholders at the Annual General Meeting to elect Michel Liès as my successor. I am very pleased with the choice of Michel and am convinced he would be an excellent chairman.

I would like to thank all stakeholders for the support they have extended to me over the last 12 years. A special word of thanks to all of our approximately 53,000 employees worldwide for their relentless commitment to Zurich.

It was an honor to serve you all.

Tom de Swaan
Chairman of the Board of Directors

Our business segments

Property & Casualty

Property and casualty insurance and services, risk insights.

Pages 166 to 167

USD 1.5 bn
Business operating profit

USD 33.0 bn
Gross written premiums and policy fees

Life

Protection, savings and investment solutions.

Pages 168 to 170

USD 1.3 bn
Business operating profit

USD 33.2 bn
Gross written premiums, policy fees and insurance deposits

Farmers

Management services related to property and casualty insurance.

Pages 171 to 172

USD 1.7 bn
Business operating profit

USD 2.9 bn
Management fees and other related revenues

Message from our Group CEO

Embracing a customer-led transformation

"We are in the midst of a revolution affecting every aspect of our business. We must adapt. We are fortunate to enter this period of change in a strong, competitive position."

Mario Greco
Group Chief Executive Officer

Our industry is facing unprecedented changes. How we operate, the value we provide – and above all – our customers' expectations are undergoing a profound transformation. To succeed, we must ensure we can continue to meet the challenges of the future.

We are in the midst of a revolution affecting every aspect of our business. New competitors are entering the market, digital technology is reshaping how we do even the simplest tasks, and technological advances hold potential for innovative new service offerings.

The forces driving change in our industry are diverse. For us, the transformative power that they give to customers is key. This is, above all, a customer-led revolution. Customers today can easily compare insurance products and providers, consult peers and ultimately determine how they protect themselves against risk. Customers may even bypass conventional insurance all together.

Positioned for the future

We are fortunate to be in a strong, competitive position, as our performance in 2017 demonstrated. Despite historic weather-related events our focus and discipline delivered improved underwriting, reduced costs and an expanded premium base, creating immense opportunities for 2018 and beyond.

Underlying our confident outlook are our clear strengths: our unique business mix balanced across products and geographies; a talent base with a heritage of innovative customer focus; a strong balance sheet; and a highly regarded brand. Our focus is now on using all of our skills, knowledge, expertise and resources to ensure we continue to meet customers' needs and deliver the best possible experience.

In anticipation of this journey, Zurich has been proactively repositioning itself to capture these opportunities. We have divested non-core businesses, targeted growth to further diversify our portfolio, and focused on a strategy that gives us a clear mandate. We have simplified our structure and unified our business to give us a clearer line of sight to our customers. And we have systematically built on our core capabilities by expanding our service offerings, distribution reach and customer engagement platforms.

Recognizing that change demands leadership, we have also made senior appointments that will help to drive our transformation. Starting in 2018, Kathleen Savio, who has been responsible for a very significant part of Zurich North America's business, has taken over as CEO of Zurich North America.

We also named Alison Martin to the post of Group Chief Risk Officer. With her background in life and health insurance, she has good knowledge of what customers need and how to bring our business priorities into line with the changes we face.

Clearly we still have work to do. We will continue to reduce our cost base and improve our technical underwriting performance, and will implement changes that allow us to devote more time and resources to interacting with customers.

Learning from our customers

No business today can afford to take customer relationships for granted. To anticipate and respond to customers' needs, we start by listening to them. One way we are doing this is by using the Net Promoter Score (NPS), which allows us to measure customer satisfaction. The NPS approach has already been effective in helping the Farmers Exchanges[1] to share customer feedback and make improvements. We will now use NPS metrics across Zurich to become more consistent about monitoring, targeting and managing customer satisfaction.

A more personalized approach

We are using targeted acquisitions to gain knowledge and expertise. In 2017, Zurich solidified its position as a leading global travel services provider by completing the acquisition of Cover-More, whose sophisticated online platform and digital reach allow it to provide tailored services to millions of customers on a real-time basis. Similarly, we acquired Bright Box HK Limited, which provides telematics solutions linking vehicles, drivers, dealers and manufacturers. Both acquisitions deepen our understanding of future customer needs, and both provide Zurich with critical new tools to expand our ability to meet their needs.

With a growing service offering, we are also looking for ways to reach customers across different channels, which is why we continue to expand our distribution arrangements with banks, retailers and other sectors. Banks are especially suited to distributing life insurance, and customers benefit from the flexibility and personalized services banks offer.

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

Timeline of events

February 2017
Zurich reports BOP increase of 55 percent to USD 4.5 billion for 2016.

March 2017
Shareholders approve CHF 17 dividend, elect Catherine Bessant to Board.

April 2017
Zurich acquires Cover-More to become a top-three global travel insurance provider, while gaining sophisticated platform to serve customers.

June 2017
Zurich sets new targets to reduce emissions and energy use after meeting and exceeding previous targets.

July 2017
Michel Liès proposed to succeed Tom de Swaan as Chairman in 2018, pending shareholder approval.

August 2017
Zurich's green bond investments top USD 2 billion.

September 2017
Alison Martin to be new Group Chief Risk Officer, Kathleen Savio new CEO Zurich North America. Both appointments effective January 1, 2018.

October 2017
Zurich estimates USD 700 million net claims related to hurricanes Harvey, Irma and Maria.

November 2017
Zurich raises commitment to impact investment portfolio to USD 5 billion and sets clear impact targets.

December 2017
Zurich enters agreement to acquire ANZ's life insurance businesses in Australia.

Message from our Group CEO (continued)

Augmenting the over 70 agreements we already have in place worldwide to distribute our products through banks, in December 2017 we announced plans to acquire the life insurance business of Australia and New Zealand Banking Group (ANZ) in Australia. The agreement, subject to regulatory approval, will make us the leading retail life insurer in that country. The ANZ deal includes a 20-year agreement in Australia to distribute life insurance products through the bank's network, giving us access to ANZ's six million customers.

In addition, in 2017 we agreed with Porsche to insure amateur racetrack drivers who want to test their skills on Germany's Nürburgring for a day. And we have put agreements in place with Europe's largest frequent flyer program, Miles & More, and with Payback in Italy, a customer loyalty program with 110 million customers worldwide.

Building on our travel offerings, we have also begun offering travel insurance solutions to customers of easyJet, which served more than 80 million passengers in 2017. There are many other areas to explore and we believe there is a great deal of untapped potential here.

The importance of our people

An organization can only succeed if it is able to attract and retain talented, skilled and motivated individuals. I am grateful to all our employees for their contributions, ideas and hard work. To make sure we continue to have the right people in the right roles, and to help them to further develop, we are constantly looking at ways to support them. You can read more about how we are doing this on page 24.

Changing our culture

Our strategy calls for us to focus on customers, simplify our business, and take an innovative approach. To make a difference to our customers means to completely rethink the way we do business. This will include adopting the right mindset to succeed. We must get even better at putting customers first. To ensure we are able to do this, we are transforming our culture. By introducing a clearer approach to our purpose and values (see next page), we can broaden our understanding of our relevance to customers and all our stakeholders.

Our strategy, culture, and the strengths of our business put us in an enviable position, helping us to generate cash for shareholders, while making us better at serving those who depend on us, year for year, to secure their lives, livelihoods and futures.

Based on our performance in 2017, we can look ahead with great confidence that we have the right approach, mindset and culture to compete in this exciting, customer-centric world.

Mario Greco

Mario Greco
Group Chief Executive Officer

A clear sense of purpose in an era of change

"We have introduced a new, simplified approach to how we articulate our purpose and values."

Mario Greco
Group Chief Executive Officer

We have an important responsibility to our millions of customers around the world, particularly as we enter a new era of digital empowerment. That is why it is critical that we be clear about our identity, what we stand for and the fundamental value we provide our customers. Only by understanding our core beliefs will we truly understand the role that we can play in improving our customers' lives.

In December 2017, Zurich introduced a new, simplified approach to the way we articulate our purpose and values. These will serve as a constant reminder of what we stand for, no matter where these transitional forces shaping our industry take us.

But we also understand that our obligations go beyond our daily business; we have a valuable role to play in society. To deliver on this responsibility, we make sure that we stand behind the purpose and values that define our business and our role in the world.

An example of the many ways we contribute to communities is through Zurich's award-winning flood resilience program, which works to mitigate flood risks at the community level by applying an innovative approach to risk that improves decision-making.

Another is through the many skills and training initiatives we sponsor across our markets, including our innovative apprenticeship program which has been long-running in Switzerland that we are now piloting in the U.S. And yet another is the leading role we play in developing a market for green bonds and other eco-sensitive financial instruments.

At our core, we live our values to the benefit of all our stakeholders, helping society achieve its full potential. Learn more about the 'Why, How, What' that will allow us to harness our capabilities to serve all our stakeholders on page 12.

To learn more about our corporate responsibility: www.zurich.com/corporate-responsibility

Our business model

Creating sustainable value

We aim to create sustainable value for all our stakeholders: our customers, employees, shareholders and the communities in which we live and work.

The resources we use

Financial

Our shareholders and bondholders provide the financial capital that sustains our business. We maintain a strong balance sheet. Standard & Poor's financial strength rating of Zurich Insurance Company Ltd was AA- as of December 31, 2017.

Intellectual

Zurich's competitive advantage rests on our knowledge, skills and expertise. This includes critical components of our business model, such as customer service and claims, underwriting, risk engineering and investment management.

Human

Our approximately 53,000 employees include some of the most talented people in the insurance industry. A merit-based approach, and diversity and inclusion, are key to ensuring we have the right mix of talent to succeed.

Social

Our business relies on the relationships we have built with our stakeholders. These include our customers and suppliers; the agents, banks, brokers and others that make up our distribution network; as well as financial markets, regulators, government agencies and civil society organizations.

Natural

We recognize the risk that issues such as climate change pose to all our stakeholders, as well as our business performance. Zurich's policy is to manage environmental risks and opportunities through the progressive integration of environmental considerations into our core business processes, investment decisions and operations.

What we do

The role of insurance

Zurich provides property and casualty insurance, life insurance products and savings and investment solutions in more than 210 countries and territories.

We help our personal and business customers to protect themselves from risks. Freed from these risks, individuals and families can flourish and businesses can grow and prosper. Our customers transfer risks to us, and in return pay us premiums, policy fees and deposits. We are also increasingly generating revenue from activities and services that aim to mitigate customers' risks.

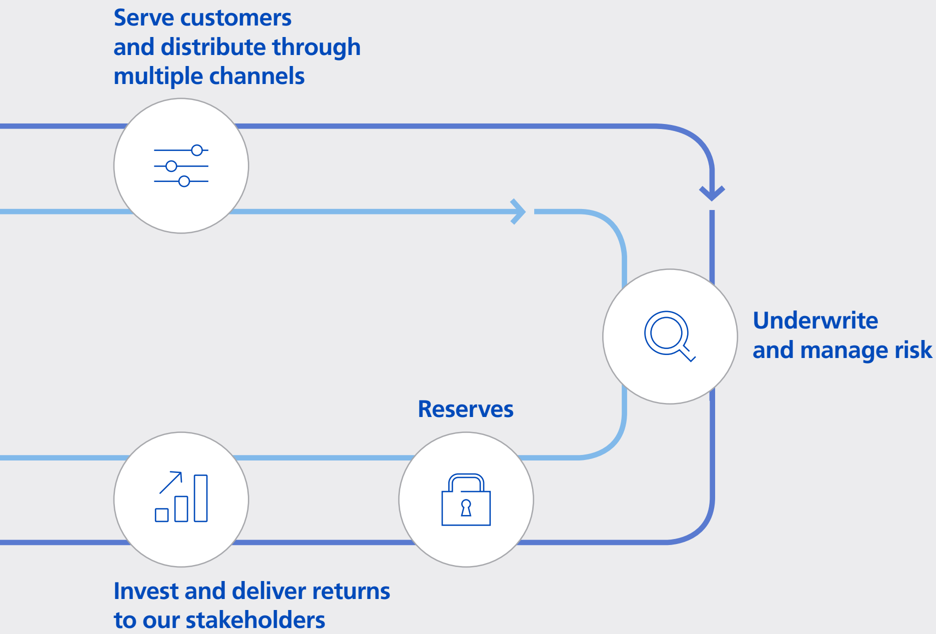
We invest their payments in high-quality assets so that we can pay claims and financial returns on savings and investment plans. We also provide risk advice, particularly to our commercial customers, to help them anticipate risks and take action to protect themselves.

Serve customers and distribute through multiple channels

We access our customers through a wide range of channels, both directly and through distribution partners such as agents, banks, brokers, independent financial advisers, retailers, automobile dealers and employee benefit consultants. We have seen steadily increasing demand for digital distribution – a channel that is set to transform our industry. We focus our efforts on delivering great customer service, whatever the channel.

Underwrite and manage risk

Our core competencies are insuring and managing risk. With investment returns at an historic low, the core skill underwriting is an ever more important part of our business model. Our ability to understand, measure and model risk enables us to price risk fairly and accurately, resulting in competitive premiums that represent value for our customers.



Reserves

Zurich bases the calculation of its insurance liabilities on the 'Zurich Way of Reserving,' a group-wide policy with well-defined and prudent standards applied by the Group's actuaries in all regions. The reserving process is supported by strong governance including extensive peer reviews and regular external reviews.

Invest and deliver returns to our stakeholders

We invest premiums, policy fees and deposits received from customers in a range of high-quality assets, including government and corporate bonds, equities and real estate assets. We manage our assets relative to liabilities, thereby securing our obligations to policyholders. We then focus on delivering consistent and sustainable excess returns to our policyholders and shareholders.

Manage claims

At Zurich, we believe that sales, service and claims – the key touch points at which we meet our customers – are our greatest opportunity to differentiate ourselves from our competitors. For us, the most valuable form of innovation is finding new and better ways to serve our customers at these 'moments of truth.'

How our stakeholders benefit

We create value for our customers

by helping them understand and protect themselves from risk.

Pages 14 to 23

We create value for our people

by investing in their skills and expertise so that each may fulfill his or her potential.

Pages 24 to 25

We create value for communities and society

both through our core insurance business, which supports economic growth and has a positive social impact, and by acting responsibly in everything we do.

Pages 26 to 27

We create value for our investors

by paying an attractive and sustainable dividend, and seeking to increase the value of the company by carrying out our strategy.

Pages 28 to 29

Throughout our business review we have highlighted how we are creating value for our stakeholders.

Our business environment

An evolving, customer-centric world

Insurers face numerous challenges, ranging from those that encompass our business risks, markets and economies to new types of hazards with systemic implications. New technologies have opened the market to new competitors. However, the biggest changes taking place are those affecting how customers approach us, how we interact with them, and what they expect from our industry.

Geopolitics and macroeconomics

An increasing number of geopolitical 'hot spots' poses significant challenges with respect to business decisions.

At the same time, interest rates, a key component of our investment income, remain at or near historic lows in major markets. See box at right for further commentary on the macroeconomic outlook.

Regulation and governments

Enhanced and at times fractured supervision and new consumer protection legislation is underscoring the importance of keeping a focus on customers. It is also influencing how insurers interact with agents, brokers and customers.

Governments may demand more direct oversight and seek to promote domestic industries. Insurers need to be alert to these developments, which can affect where and how we develop our business.

Technology and analytics

Vast pools of data are changing the way insurers analyze risk, while the internet of things poses potential new opportunities and risks. These developments are having an impact on the type of products insurers provide – even more so on how customers understand and mitigate risks.

Motor telematics and automated cars are examples of the many developments changing our business. Vehicles will be more connected to their environment, increasing safety for the driver and other cars, providing data that will also deepen our understanding of mobility risks.

Economic overview

Global economic conditions improved in 2017. Unemployment generally declined, while excess production capacity continued to be slowly absorbed. The U.S. and to a lesser extent Eurozone countries were already quite far along in the growth cycle, while some key emerging markets such as Brazil and Russia entered the early stages of growth. This has helped to extend the global expansion and keep inflation in check, allowing monetary policy to remain accommodative. Economic conditions should remain favorable even if growth plateaus. While inflation is expected to rise, it will likely do so at a modest pace. With private and public sector debt high, central banks will need a deft touch to maintain growth while curbing excesses.

The increasingly robust economic recovery pushed many global equity indices to record levels in 2017, with extremely low levels of volatility. Even though credit markets began to lag equities in the final six months of the year, spreads fell to cycle lows.

And while the U.S. Federal Reserve began to normalize policy, government bonds continued to benefit from the benign inflationary environment and central banks' asset purchase programs.

The U.S. Treasury yield curve has flattened appreciably as yields of shorter maturities moved higher relative to longer-dated yields. The global macroeconomic backdrop is expected to remain supportive, but is likely to increasingly favor equity returns over those of credit and government bonds as the cycle advances.

Guy Miller
Chief Market Strategist and
Head of Macroeconomics

Environment and emerging risks

Cyber crime has been described as the new fire insurance; despite its huge potential, this is still a nascent business. Cyber breaches and financial loss are bad in and of themselves. Even more insidious is the embedded, often systemic nature of such risks.

Interconnectivity increases customers' vulnerability. A fire could shut down a single power station. A cyber attack on a power grid could paralyze businesses and entire communities.

Insurance market dynamics

A growing number of new entrants into insurance and innovative business models are having a profound impact on the insurance industry.

Technological advances and abundant capital, together with changes in how customers interact and perceive insurers, how they choose products and providers, are driving a transformation in our industry. Broker consolidation, and new capabilities among large global brokers like data analytics, are reshaping traditional roles.

Demographics and customer behaviors

Insurers and their customers must take into account the fact that people are living longer, and working longer, and their need for protection is changing accordingly.

Our business customers must adapt to meet the needs of an aging workforce with adequate retirement and benefits programs. At the same time, customers' expectations today include hyper convenience: insurers need to adjust their business models to succeed.

Our strategy

Strategic overview

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

"We have introduced a new, simplified approach to articulating why we are relevant and how we deliver on that, no matter where the transformational forces shaping our industry will take us."

Mario Greco
Group Chief Executive Officer

Our purpose, values and strategy

Our purpose Why	**To protect you**	**To inspire confidence**	**To help you reach your full potential**
Our values How	We are one team and value the diversity and potential of every individual.	We embrace new ideas to exceed our customers' expectations.	We deliver on our promises and stand up for what is right.
Our strategy What	**Focus on customers** Improve service quality and customer experience.	**Simplify** More agile and responsive organization.	**Innovate** Better products, services and customer care.

Financial targets

Long term

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

2017–2019

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

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

Our strengths

Our unique footprint

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

Our solid financial position

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

Our balanced portfolio

Our portfolio is healthy and balanced between Property & Casualty, and Life. Both are sustainable and profitable businesses. Farmers is performing well, providing stable income in line with expectations.

Our trusted brand

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

Our talented people

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

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

Business review 2017

Meeting changing customer needs

A revolution is affecting our business. Customers expect more, and their needs are changing. In this section we provide a few of the many examples that set us apart in our industry and show how we are adapting to thrive in this challenging new environment.

An early mover in insuring electric cars

Zurich was one of the first companies to introduce electric vehicle insurance in Europe, offering what we believe to be the world's first customized 'EV' insurance proposition in Ireland in 2011. We were also a first-mover in providing specialist EV insurance in Germany, Spain and Austria, and an early mover in Switzerland. Zurich was also the first insurer to develop a global EV insurance initiative.

"Insuring electric vehicles helps the environment and also makes perfect business sense."

Mark O'Leary
Zurich's Sustainable Mobility Manager

Covering a customer's 'e-motional' needs

E-vehicles are changing the way we think about cars. High performance and low emissions need no longer be mutually exclusive. Stephan Schwarz, (pictured right), president of the Swiss Tesla Owners Club trusts Zurich to insure his Tesla Roadster and his Tesla Model S. As an insurer, we want to make sure that electric vehicle owners like Stephan are able to stay on the move, no matter where they drive.

Watch video about how we are supporting drivers of e-vehicles: www.zurich.com/e-motional-driving

A global presence

Zurich takes a lead role in insuring and protecting major building and infrastructure projects for some of the biggest construction companies and project owners around the world. We helped to insure over 600 such projects in 2017, supported by our underwriters in major cities. Our unified approach allows us to provide coverage for construction projects, and helps companies to have financial protection in place to ensure projects are completed and potential damages are covered.

High-level insights for Zurich customers

Walking a 64-meter long jib 75 meters off the ground is all in a day's work for a Zurich engineer surveyor. Just ask Trevor Shaw, shown here examining a crane erected to assist in construction of a building by customer Balfour Beatty. His job includes doing a thorough close-up examination, and then making sure the customer gets the report on time.

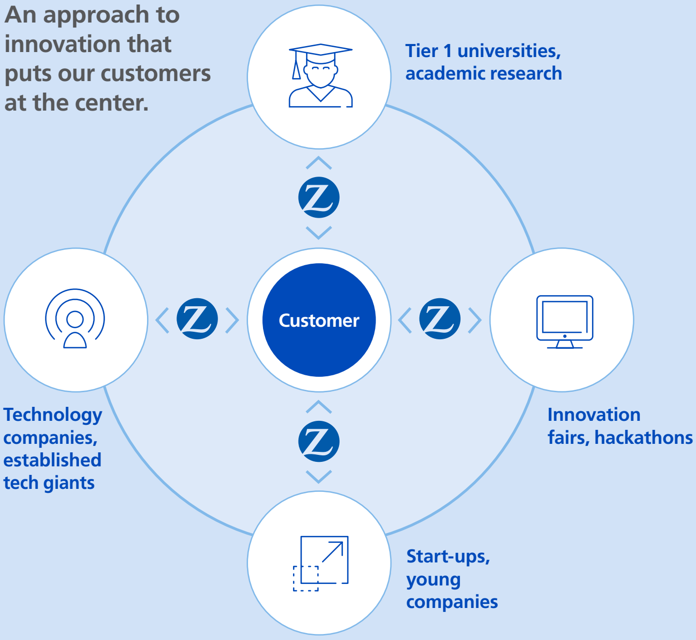
"Working at height doesn't bother me as long as the risks are controlled. I love doing what I do, and helping our customers."

Trevor Shaw
Zurich Engineer Surveyor

Business review 2017 (continued)
Meeting changing customer needs: Smarter personalized solutions

Innovating with customers in mind

A revolution led by technology is affecting everything we do, and changing what our customers expect from us. Mindful of that, we are looking beyond risk transfer to satisfying customers' expectations and needs in many ways. Digital technology is helping to make the difference.

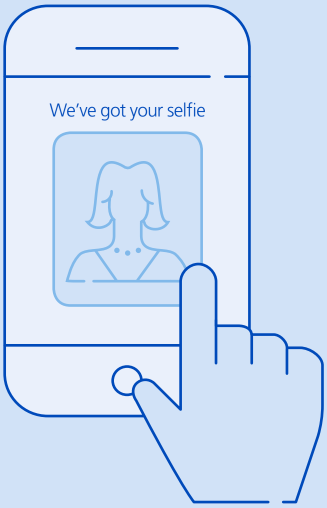


Got a smartphone? Get a life insurance quote.

One of the most common reasons people don't buy life and income protection insurance is that they overestimate the price. A smartphone application Zurich introduced in the UK in 2017, 'FaceQuote', estimates the user's age based on a photo and calculates a premium for life or income protection insurance. Apart from getting customers thinking about protection, they might also find that the cost is lower than they assumed.

"The selfie app allows us to approach serious issues in a fun and engaging way."

Chris Atkinson
Head of Consumer Distribution in the UK



Faster, better claims response

We are working with technology companies to make our claims handling faster and more accurate. For example, by using artificial intelligence we can better understand and process claims, helping us to become faster and more efficient. In the UK we were able to speed up the responses to medical injury claims – in some cases from over an hour to just seconds – reducing repetitive paperwork to let us focus on customers' needs. In the U.S., we improved how we evaluate claims to serve customers more effectively and efficiently.

Watch video about how we are working with young tech start-ups to make the world safer for everyone: www.zurich.com/safer-lives

From coding to saving lives

We are committed to addressing the skills gap in our industry, while focusing on new ways to access digital talent. One way we are doing this is through our cooperation with CoderDojo to help youngsters learn computer programming languages, which it believes is an essential tool that should be accessible to anyone, anywhere in the modern world. We are also active at 'hackathons.' At these weekend events, the world's best coders compete to develop technology to address specific problems. HackZurich held in September 2017 brought together 550 talented coders and software developers from 55 countries. Grand-prize winner 'HoloBrigade' (below) developed a solution for rescuers to 'see' hazards and people in dangerous situations, based on a challenge provided by Zurich. In Germany, Zurich sponsored a similar event, InsurHack.

"We are keen to find and support ways to develop and encourage new digital talent."

Giovanni Giuliani
Group Chief Strategy, Innovation and Business Development Officer

Business review 2017 (continued)
Meeting changing customer needs: Wherever we can help, we're there

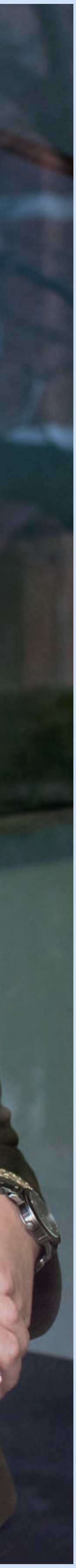
Many channels to reach customers

By cooperating with different providers and businesses, we gain access to over 100 million potential customers through collaboration agreements, for example via retailers, the travel industry and banks.

Did you know that Zurich has over 70 agreements worldwide to distribute our products through banks? Banks typically have a strong relationship with customers. They can provide products and services – including insurance – through secure digital platforms. Our most significant relationships include joint ventures with Banco Santander S.A. in Latin America and Banco Sabadell S.A. in Spain, as well as a strategic cooperation with Deutsche Bank in Germany, Italy and Spain. These three major agreements contributed more than USD 500 million to Zurich's business operating profit in 2017 across Life and Property & Casualty. In December 2017 we announced we will purchase ANZ's life insurance business in Australia, pending regulatory approval. This agreement includes a long-term distribution arrangement that will give Zurich access to ANZ's six million customers.

Customers through a bank adviser's eyes

In some countries including Spain, banks are a major retail insurance channel. Our partner in Spain, Banco Sabadell S.A., is going beyond traditional service. In 2017 it introduced a system that helps to ensure its customers have the right insurance, and the right amount. Cristina García Villamor (shown right), an adviser in the Cerdanyola del Vallès branch of Banco Sabadell S.A., says customer response has been enthusiastic. After she helped one bank customer he was so impressed that he soon returned with his wife to make sure that she, too, had adequate coverage.



Closer to travelers

Zurich is one of the world's three top travel insurance providers. We acquired Cover-More Group in 2017, underscoring our determination to focus on customer service. Based in Australia, Cover-More provides specialist travel insurance services and medical assistance and has operations in 14 countries, including market-leading positions in Australia, India, and in the U.S. In 2017 it assisted in providing cover for more than seven million travelers and ensured many thousands got help and support when needed. Cover-More does more than collect premiums and pay claims. It finds solutions.

Around the world, around the clock

With over 1,500 employees worldwide, Cover-More can contact and assist people almost anywhere. Its geo-location technology allows it to contact customers within minutes, including those who might be in danger. When customers are directly involved, Cover-More can mobilize care, including by arranging hospitalization for injured and flying in family members and relatives. Cover-More's Chief Medical Officer, Dr. Stephen Rashford (shown below), a specialist emergency physician with over 25 years' experience in trauma treatment, oversees all critical care cases.

What Cover-More calls its 'customer value proposition' is really about being there when it matters.

For a real customer story visit:
www.youtube.com/watch?v=gGN5xhQABPo

Business review 2017 (continued)
Meeting changing customer needs: Experience, trust, know-how

The risk spotters

As a global insurer with a strong presence on the ground, Zurich wants to ensure customers reduce risk before an event, including by working with our risk engineers, claims specialists and others who help customers identify vulnerabilities and develop emergency plans.

"We are constantly evaluating and putting into practice what we have learned from previous events to improve our processes and ultimately enhance the customer experience."

John Parvin
Global Head of Catastrophe Claims, Zurich

Significant events in 2017 included a powerful earthquake in central Mexico and wildfires in California. But it was also a year of major storms. Cyclone Debbie hit Australia's northeast coast in March 2017. There were devastating storms and typhoons in South East Asia, major storms in Mexico and Latin America, and in Europe. In the Atlantic Basin there were an above-average 16 named storms including hurricanes.

When it matters, we're there

In 2017, Zurich North America received approximately 4,000 business claims related to hurricanes Harvey, Irma and Maria. One of those who knows first-hand about the destruction storms can cause is Steve Sherin (shown below), an executive general adjuster for Zurich North America. He helps businesses to recover from storms, floods and other events. He may spend many days with customers, logging thousands of miles per year. Some of Steve's tips for businesses? Shut down elevators and bring them to top floors before a flood; remember that floodwater can be contaminated and may conceal live electrical wires, snakes, even alligators; and check roads before sending employees to the office. Thinking with our customers to help reduce risk – all in a day's work for an expert like Steve.

"I am very proud to be part of Zurich. How we support customers reflects on Zurich's reputation, and the personal reputations of me and my fellow adjusters."

Steve Sherin
General Adjuster, Zurich North America

To learn more:
www.zurichna.com

Business review 2017 (continued)
Meeting changing customer needs: Protecting earnings

Insuring workers' futures

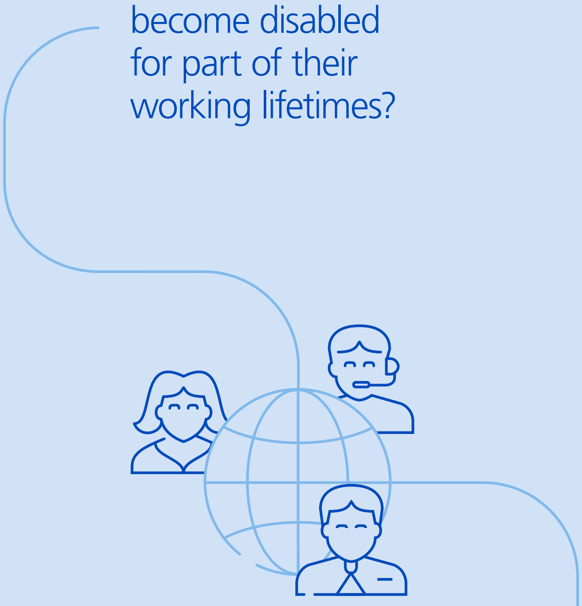
Zurich's employee benefits solutions cover over four million people worldwide. Our Corporate Life & Pensions (CLP) team helps multinationals and domestic companies cover their employees with benefits packages that include group risk and group savings solutions. We also take an active role in making sure employers and policymakers address the risks of 'income protection gaps' – when money available in the event of disability or illness falls short of what is needed. As people live longer and social safety nets come under pressure, income protection gaps are truly an issue that affects every member of society.

Important for customers and their employees

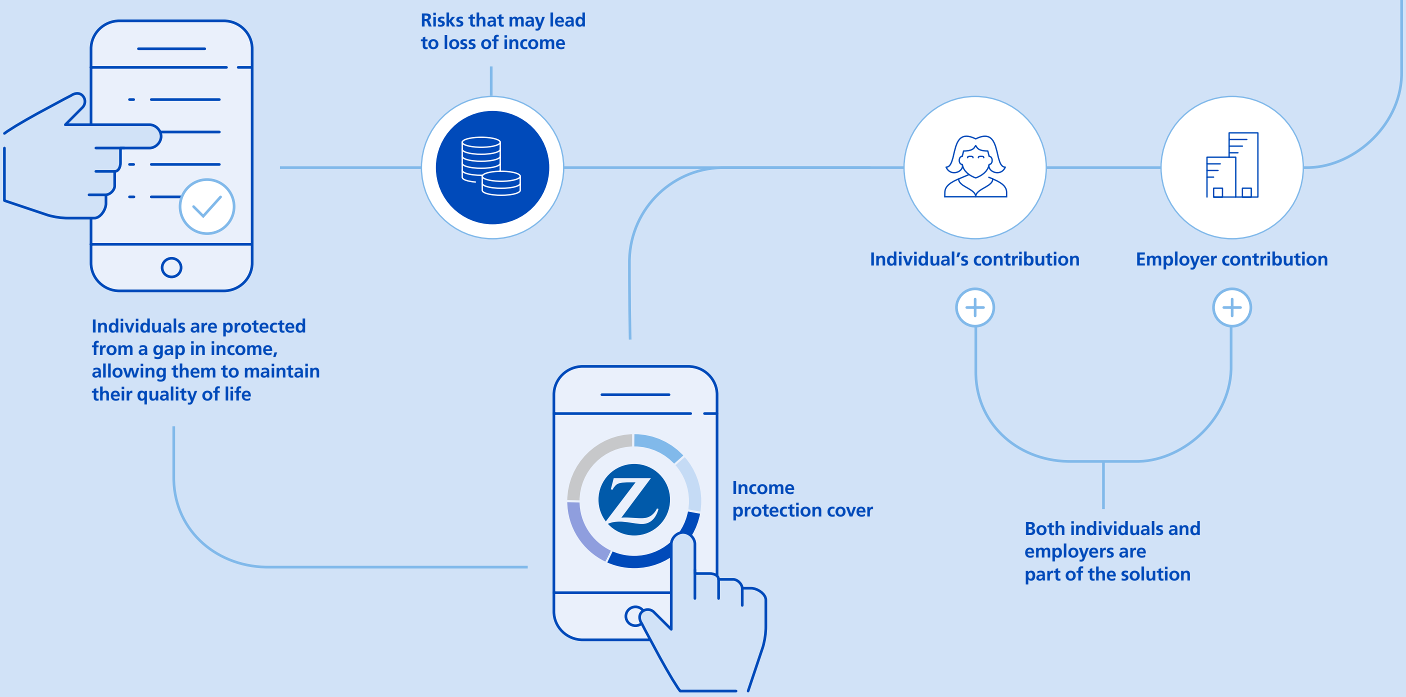
Our customers include L'Oréal, which provides benefits to employees in over 60 countries. A range of benefits offered through L'Oréal's 'Share & Care' program is an important way to attract and keep talent, including young adults ('millennials'), according to Sonia Rossi, Social Relations Specialist at L'Oréal.

To learn more about how Zurich is helping L'Oréal visit: www.zurich.com/ipg-prevention

Did you know that 1 out of 10 employees become disabled for part of their working lifetimes?



Zurich works with employers and others to increase awareness about income protection gaps



Farmers Exchanges: putting customers first since 1928

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

Directly or through their subsidiaries, the Farmers Exchanges offer home and car insurance, commercial insurance and financial services throughout the U.S. They insure small businesses as well as individuals. Established in 1928, today the Farmers Exchanges are proud to serve more than 10 million households with more than 19 million individual policies across all 50 U.S. states.

Farmers Exchanges encourages safer driving

A new mobile application introduced by the Farmers Exchanges in 2017 is helping customers keep an eye on the road. It aims to address concerns about safety by reducing driving distractions. The new app, Signal, monitors distracted driving by providing ongoing feedback to drivers, allowing them to see when and where they get distracted. Signal was introduced in five states in 2017. The Farmers Exchanges are the first insurer to include mobile phone use as part of an overall driving 'score' that can affect a discount drivers might receive on their insurance. Thus, it can link safe driving habits to a reward. Equipping drivers with knowledge of their driving habits allows them to make smarter choices about their behavior behind the wheel.

Business review 2017 (continued)

Helping employees reach their full potential

An organization is only as strong and as good as its people. We continue to focus on identifying the right people for the right roles at the right time, helping them to unleash their full potential through targeted development. This benefits our employees and our customers.

Attracting and retaining talent

Keeping talent is critical to ensuring continuity that helps to keep customers safe and their businesses running. Maintaining long-term ties to customers also gives us better insights into what customers want and need.

Retaining talent is especially important in what we call 'technical functions' – underwriting, claims and risk engineering. We are very proud that employee retention improved in 2017 as the table on this page shows, including in these key roles.

We are working to improve retention. As part of our efforts, we have adopted an integrated view on talent management and simplified how we identify and promote high performers, and ensure all our professional talent get access to the right development in support of their career objectives. We have also introduced strategic talent reviews to help talented individuals meet their goals. And we have built the architecture of critical roles and development roles to develop and deploy talent.

We have also expanded our development efforts through focused planning, such as the 'country CEO accleration centers' that actively provide assessment and development to this critical pipeline of talent. Designed as a global program, it was piloted in Latin America and North America in 2017. Another example is the 'leadership discovery program' that equips senior leaders with the skills and experience to implement our strategy, offered in all regions in 2017.

These efforts are helping us to support and motivate talent, including the many individuals who help us to succeed. For example, Michael Richards; introduced here, who shows how interesting and rewarding working in insurance can be.

careers.zurich.com

KPIs

Our people – operational KPIs

	2017	2016	Change
Total number of employees – headcount	**53,146**	53,894	(1.4%)
Employees – full-time equivalents (FTE)	**51,633**	52,473	(1.6%)
Employee turnover rate (%)[1]	**14.7%**	16.5%	(1.7 pts)
Average tenure (years)	**9.8**	9.9	(1.0%)

Talent retention KPIs

	2017	2016	Change
Group voluntary turnover (%)	**7.5%**	8.2%	(0.7 pts)
Technical function voluntary turnover rate (%)[2]	**7.1%**	8.7%	(1.5 pts)

Notes: Farmers Exchanges and Bolivia are not in scope for all the above KPIs
[1] Chile sales force agents excluded.
[2] Technical functions include claims, underwriting and risk engineering.

A job for a detective: the motivated insurance sleuth

Insurance fraud is a serious crime costing businesses, customers, society millions, and even endangering lives. Michael Richards (shown below) is one of Zurich's counter-fraud experts. He credits his education including a law degree from the University of Birmingham, and training and mentoring he received at Zurich, for his success. In 2017 he won the UK Insurance Post's prestigious 'Young Investigator of the Year' award. Congratulations, Michael!

"The best part of my job is being able to showcase Zurich's zero-tolerance approach and capabilities in detecting fraud."

Michael Richards
Senior Claims Handler

Business review 2017 (continued)

Creating value for communities and society

Our corporate responsibility strategy aims to create value for our company and for society as a whole. We use our core skills, risk and investment management expertise (see table) to address issues and, where possible, measure outcomes for the benefit of our customers, our business and society.

Shaping a more resilient tomorrow

Our annual targets

As leaders in sustainability, we aim to double our impact investments to

USD 5 billion

…to help avoid CO2 emissions of

5 million tons

…and benefit

5 million people

Lowering emissions and energy consumption faster than planned

Committed to minimizing our global environmental footprint, we achieved a 53-percent reduction in carbon emissions per employee and a 43-percent reduction in energy consumption per employee in 2016 (based on a 2007 baseline), ahead of our targeted schedule. In 2017, we defined new reduction targets to achieve and maintain an at least 20-percent reduction in energy and carbon, based on a new 2015 baseline, until 2025.

Increasing our commitment to impact investments, setting targets

Zurich believes it is the first private-sector investor to introduce impact targets for its investment portfolio. After achieving a multi-year goal of investing USD 2 billion in green bonds, we will target USD 5 billion for our entire portfolio of impact investments. And we will establish a measurement framework to track the impact of these investments, aiming to avoid five million tons of CO2 equivalent emissions annually and improve the lives of five million people per year.

Tackling mental health issues in Ireland

Everyone has feelings, even tough rugby players. Yet there is a stigma around talking about mental health. Through the ‘Tackle your Feelings’ campaign in Ireland, a country with one of the highest youth suicide rates in Europe, Zurich is helping people to open up about mental health issues. Zurich Ireland has paired up with the Rugby Players Ireland in a three-year, one million euro campaign aimed at changing attitudes and breaking down the stigma attached to mental health issues. The Z Zurich Foundation provides support and funds, helping Zurich offices work with local community organizations to promote this project.

Shifting to a low-carbon world

As a leading commercial insurer, we believe we have a role to play in shifting to a low-carbon economy. In 2017, Zurich decided to apply enhanced risk screening criteria for investments in thermal coal companies and apply our existing environmental, social and governance (ESG) risks in business transactions process to that sector.

Zurich will engage in dialogue (not to exceed 24 months) with existing customers that derive more than half their revenues from mining thermal coal, or, in the case of utility companies, generate more than half of their energy from this type of coal, with the aim to facilitate a transition to another insurer or explore if an underwriting exception should be granted, based on the customer’s strategy and position on climate risk. We will also divest from equity holdings in companies that get more than half of their revenues from mining thermal coal, or utility companies that generate more than half of their energy from it.

To learn more:
www.zurich.com/low-carbon

Learn more about our corporate responsibility initiatives in the Corporate responsibility highlights 2017 report:
www.zurich.com/corporate-responsibility

Continued strong performance indices, ratings

In the 2017 Dow Jones Sustainability Indices review, Zurich achieved a score of 83 and outperformed 98 percent of the other companies in the insurance industry group. In addition, through CDP, each year we provide information on our greenhouse gas emissions, energy use and the risks and opportunities from climate change. In our annual CDP Climate Change response Zurich improved its score to 'A-' Leadership level in 2017 from 'B' Management level in 2016. In October 2017, Zurich also became a signatory of the United Nations Environment Programme Finance Initiative's 'Principles for Sustainable Insurance.'

KPIs

Responsible investment KPIs

	2017	2016	Change
External asset managers who are signatories to PRI (%)[1]	**71.0%**	74.1%	(3.1 pts)
Group assets managed by PRI signatories (%)[2]	**97.2%**	97.7%	(0.5 pts)
Total amount of impact investments (USD millions)[3]	**2,830**	1,704	66%
Investment portfolio (USD millions)[4]	**207,261**	195,852	6%

[1] The United Nations supported Principles for Responsible Investment (PRI).
[2] Including assets managed by Zurich.
[3] Impact investments in 2017 consisted of: green bonds (USD 2.41 billion), investments committed to private equity funds (USD 116 million, thereof 38 percent drawn down) and other investments (USD 303 million).
[4] Starting in 2017, the investment portfolio is calculated on a market basis, and is different from the total Group investments reported in the consolidated financial statements, which is calculated on an accounting basis and doesn't include cash and cash equivalents.

Dream savers

As an insurer, our commitment includes helping communities reduce flood risks. Working with our flood resilience alliance, we can secure lives and livelihoods so people's hopes, ambitions and futures remain intact, despite floods.

Mitigation mindset for floods

In 2017 we continued to work within the Zurich flood resilience alliance to help communities. One example is work we are doing with alliance member Practical Action in Peru's Rimac river basin on flood early warning systems to monitor risks of 'huaycos' – dangerous mudflows. In this photo, Michael Szoenyi, Zurich's flood resilience program lead, tends to a warning system camera while Miguel Arestegui of Practical Action, who developed the simple, cost-effective technology, checks the camera image on his cellphone.

Business review 2017 (continued)

Creating value for our investors

Zurich has a highly cash-generative business model and is focused on paying an attractive and growing dividend while managing capital in a disciplined way.

A balanced and diverse global business

Zurich is a large and diversified global insurer. It is a leading cross-border insurer to multinational corporations, and has significant market share in North America and Europe and a growing presence in emerging markets. Zurich also benefits from the predictable fee income generated by Farmers Management Services for services provided to the Farmers Exchanges.[1]

The balanced business profile of Zurich is also supported by best practice corporate governance. Its Board is independent and remarkably diverse in terms of gender and skills. Its remuneration principles align pay to performance and are an important element of the Group's risk management framework.

Zurich pro-actively addresses environmental, social and governance (ESG) factors as part of day-to-day business activity. This includes responsible investment, corporate responsibility in business transactions, minimizing its carbon footprint and helping the communities in which it operates. Zurich's excellent ESG track record is illustrated by a 'AA' rating from MSCI and our Silver Class distinction in the Dow Jones Sustainability Indices (DJSI). Zurich also improved its score in the annual CDP Climate Change rankings to 'Leadership' level.

www.zurich.com/CR-external-commitments

Industry-leading capital levels

Zurich is 'AA' range rated by three internationally-recognized rating agencies. The estimated Zurich Economic Capital Model (Z-ECM) ratio[2] stands at a very strong 132 percent (calibrated to AA). Zurich's financial flexibility is strong, with a conservative 'Aa'-level leverage as defined by Moody's.

Stable, consistent and conservatively-managed balance sheet based on disciplined risk management and producing stable cash flows. A key element of the Group's capital management strategy is to minimize the risk of limited capital fungibility by pooling risk, capital and liquidity centrally as much as possible. Zurich's investment portfolio is generally conservative with an asset allocation comprising mainly fixed income (79 percent) and a small amount of equity (5 percent).

Opportunities to grow and enhance returns through capital allocation

The Group intends to maintain its current attractive dividend policy and proposes a target payout ratio of around 75 percent of net income attributable to shareholders, subject to a minimum of CHF 17, with dividend increases subject to sustainable earnings growth.

On track to achieve financial targets

During the Investor Day in November 2017, we provided a number of examples of how we are delivering on our plans. For details, please refer to the financial review section of the Annual Report, and the Investor Day 2017 presentation available at the link below:

www.zurich.com/IR-presentations

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

[2] Reflects midpoint estimates as of December 31, 2017 with an error margin of +/– 5 pts.

Proposed gross dividend per share for 2017

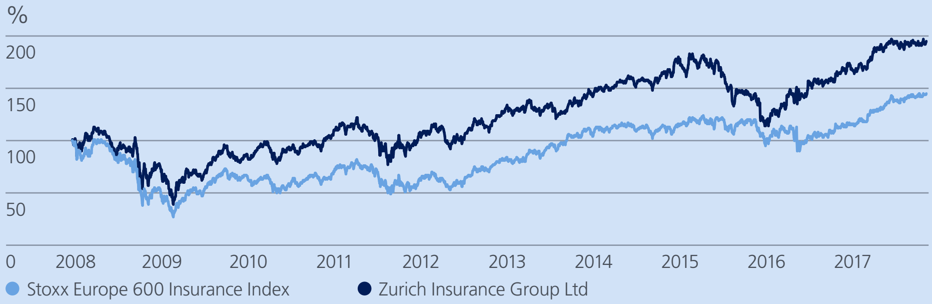
CHF 18.00 (CHF 17.00 for 2016).

Please refer to our website for additional information and the dividend history.

www.zurich.com/en/investor-relations/our-shares/dividends

Dividend a key part of total shareholder return (TSR)

Total shareholder return in U.S. dollars



Source: Thomson Reuters Datastream

Dialogue with investors

Zurich engages regularly with its shareholders and proxy advisers to understand investors' perspectives, exchange views about the Group's strategy, financial performance, corporate governance and compensation and other matters of importance to the Group or its shareholders. Investor Relations is responsible for overseeing this communication.

Zurich's annual financial results are published in printed and electronic form. Detailed information is published for the half and full year. For first and third quarters, the Group provides highlights for the quarter and qualitative comments on trading and market trends, capital, and notable exceptional items. Zurich's management hosts an analysts' call each quarter. Quarterly updates and current publication dates can also be found online.

www.zurich.com/en/investor-relations

Financial calendar

Annual General Meeting 2018
April 4, 2018

Ex-dividend date
April 6, 2018

Dividend payable as from
April 10, 2018

Update for the three months ended March 31, 2018
May 9, 2018

Half year results 2018
August 9, 2018

Update for the nine months ended September 30, 2018
November 8, 2018

Annual results 2018
February 7, 2019

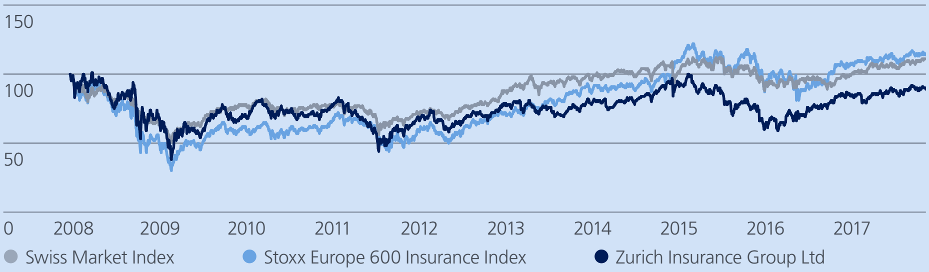
Zurich's shares

The shares are listed on the SIX Swiss Exchange and traded on the SIX Swiss Exchange Blue Chip Segment; ticker symbol: ZURN; the Swiss security number (Valorennummer) is 1107539. Trading in Zurich Insurance Group Ltd shares on the blue chip segment is conducted in Swiss francs. Zurich has a level 1 American Depositary Receipt (ZURVY) program, which is traded over-the-counter on OTCQX. For further information on shareholders or capital structure, see corporate governance report or

www.zurich.com/en/investor-relations/our-shares/registered-share-data

Zurich share performance (indexed) over the last 10 years

%



Source: Thomson Reuters Datastream

Share data (CHF) (as of December 31)

Zurich Insurance Group Ltd

	2017	2016
Dividend per share	**18.00**[1]	17.00
Share price at end of period	**296.60**	280.40
Price period high	**306.00**	281.50
Price period low	**262.20**	196.00
Market capitalization (CHF millions)	**44,670**	42,000

[1] Proposed gross dividend, subject to approval by shareholders at the Annual General Meeting; expected payment date as from April 10, 2018.

Ratings (as of December 31, 2017)

Zurich Insurance Company Ltd

Rating Agency	Financial Strength Rating	Senior Debt Rating	Subordinated Debt Rating
Standard & Poor's	AA–	A+	A
Moody's	Aa3	A1	A2
A.M. Best	A+	–	–

Governance

Message from our Chairman on corporate governance

Creating long-term value for our stakeholders

"A diverse Board and management team is key to understanding and serving our current and future customers in the best possible way."

Tom de Swaan
Chairman of the Board of Directors

Good corporate governance enables Zurich to create sustainable value for its shareholders, customers, employees and other stakeholders The corporate governance report describes the work of Zurich's Board of Directors (the Board) and management and its committees.

Dear Shareholder

Good corporate decision-making is key to our organization. We continued to strengthen Zurich and our governance structure in 2017 by enhancing internal processes and policies and adapting them to the new operational Group structure.

We also reviewed our remuneration structure. You can find more information about this in the remuneration report in this Annual Report.

Corporate responsibility

At Zurich, doing business responsibly is at the core of our culture and an integral part of our Group strategy. Corporate responsibility creates sustainable value for all our stakeholders. We seek ways to address environmental, social and governance issues in our day-to-day activities. Zurich also promotes and ensures implementation of diversity and inclusion in the workplace, aiming to attract, develop and retain talented people whose diversity reflects our global customers. The Executive Committee (ExCo) and the Board take an active role in the oversight and implementation of our approach to corporate responsibility. For a comprehensive view on Zurich's engagement in the area of Corporate responsibility see under www.zurich.com/en/corporate-responsibility.

In 2017, Zurich achieved our multi-year goal of investing USD 2 billion in green bonds, part of its impact investing portfolio. Going forward we will target USD 5 billion for the entire portfolio of impact investments. We will also establish a measurement framework to track the impact of these investments, with the goals of avoiding five million tons of CO2 equivalent emissions annually and improving the lives of five million people per year.

To actively support the transition to a low-carbon economy, Zurich has decided to apply enhanced ESG risk screening criteria for investments and apply its existing ESG risks in business transactions process to the thermal coal sector. We will divest from equity holdings in companies that derive more than half their revenues from mining thermal coal, and utility companies that generate more than half their energy from coal.

Zurich also achieved its carbon emission and energy consumption reduction targets ahead of schedule (for further details see page 26).

In the 2017 Dow Jones Sustainability Indices review, Zurich achieved a score of 83 and outperformed 98 percent of other companies in the insurance industry group.

Changes to Board and Executive Committee

At the Annual General Meeting (AGM) on March 29, 2017, you elected Catherine Bessant as new member of the Board of Directors. As already communicated, I will not stand for re-election at the AGM on April 4, 2018. As announced July 6, 2017, the Board will propose that shareholders elect Michel M. Liès as Chairman at the next AGM. Fred Kindle, due to reaching maximum tenure of office of 12 years, will not stand for re-election. In addition, Susan Bies, after 10 years on our Board, will not stand for re-election.

The Board proposes to the shareholders that they re-elect all other current members of the Board at the AGM.

On October 1, 2017, Alison Martin and Kathleen Savio took up the roles of Group Chief Risk Officer-Designate and CEO-Designate North America, respectively and became members of the Executive Committee (ExCo). Cecilia Reyes, Group Chief Risk Officer, and Mike Foley, CEO North America, decided to step down from their roles as of January 1, 2018. To ensure a smooth transition, Cecilia Reyes and Mike Foley will retire from the ExCo as of March 1, 2018.

We have a diverse Board and Executive Committee

I am proud of the diverse composition of our Board and executive team.

Diversity in all its aspects is a key success factor in today's fast-changing global environment. Zurich's Board and ExCo consist of individuals with wide-ranging backgrounds, experience, skills and knowledge. This favorable balance enables them to conduct their tasks and responsibilities while taking into account business needs. Our Board and ExCo are truly diverse with regard to tenure, gender, professional background, experience and geographic origin, reflecting our customer base.

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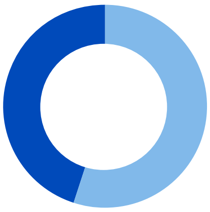
Board by gender
%, as of December 31, 2017

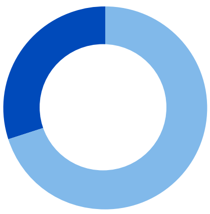


Male	55
Female	45

Board by geographic origin
%, as of December 31, 2017

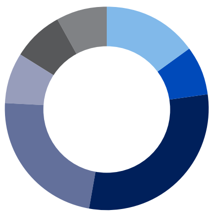
Switzerland	18
Netherlands	9
U.S.	37
UK	18
Germany	9
Singapore	9

Executive Committee by gender
%, as of December 31, 2017



Male	70
Female	30

Executive Committee by geographic origin
%, as of December 31, 2017



Switzerland	15
Italy	8
U.S.	30
UK	23
Philippines	8
Canada	8
Belgium	8

Zurich stakeholders

It is important for Zurich to engage in a dialogue with all our stakeholders. I'd like to thank you for your continued support and engagement.

Tom de Swaan
Chairman of the Board of Directors

Corporate governance report

Contents

Introduction

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

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

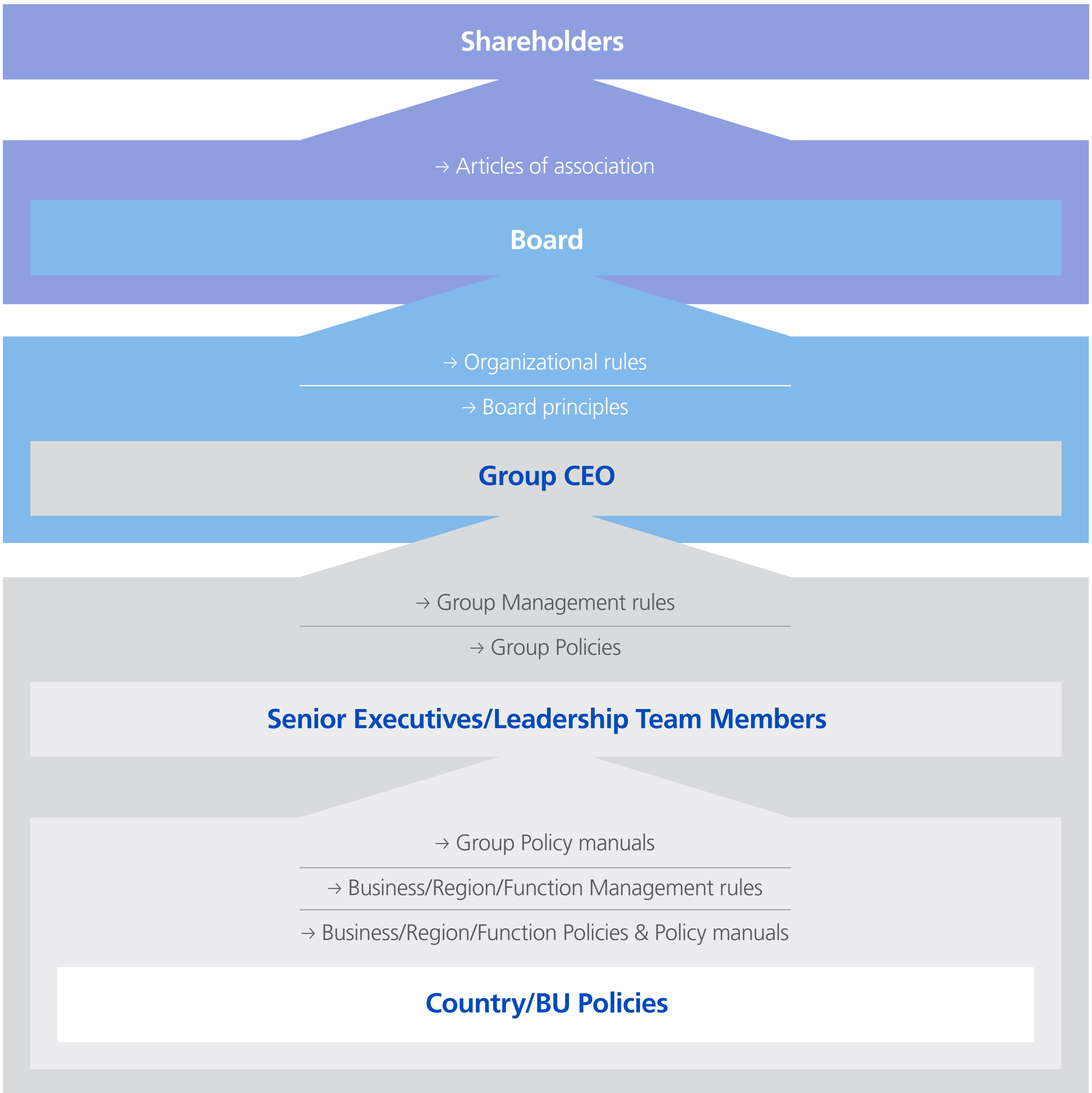
- → Directive on Information Relating to Corporate Governance of SIX Exchange Regulation (as of December 13, 2016).
- → Swiss Code of Best Practice for Corporate Governance (Swiss Code of Best Practice), issued in 2002 by economiesuisse, as amended in October 2007 and in August 2014.

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

Zurich is subject to insurance group supervision by the Swiss Financial Market Supervisory Authority FINMA ('FINMA'). The Joint Committee of the European Supervisory Authorities has also designated the Group as an insurance group and not as an insurance conglomerate because of the small size of its non-insurance activities. The Swiss Insurance Supervision Act (ISA) requires Swiss insurance companies and groups to establish and maintain strong governance and risk management systems as well as effective internal control systems that are appropriate to their business activities. It prescribes the calculation of a risk-based solvency margin on a Group-wide basis and at legal entity level pursuant to the Swiss Solvency Test (SST) and, to the extent this is required by state treaties between Switzerland and other countries, also a Solvency I margin. All material intra-group transactions must be reported to FINMA. In addition to the group supervision exercised by FINMA and its insurance supervision of the legal entities Zurich Insurance Company Ltd, Zurich Life Insurance Company Ltd, Zurich Reinsurance Company Ltd and Orion Rechtsschutz-Versicherung AG, the insurance subsidiaries and remaining financial services entities of the Group are supervised by the respective local supervisory authorities.

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

Governance document structure



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

This report essentially follows the recommended structure outlined in the Directive on Information Relating to Corporate Governance of the SIX Exchange Regulation. The information on compensation, shareholdings and loans to Board members and members of the ExCo is contained in a separate report, the remuneration report (see pages 80 to 116), which supplements this corporate governance report and also includes the information as required by the Circular 2010/1 on remuneration schemes (minimum standards for remuneration schemes of financial institutions) issued by FINMA on October 21, 2009 as amended on June 1, 2012, December 3, 2015 and September 22, 2016, as well as the Ordinance against Excessive Compensation (Ordinance AEC) as of November 20, 2013.

Key governance developments in 2017 – at a glance

as of December 31, 2017

Board of Directors

Election

→ Catherine Bessant, elected as a new member (as of March 29, 2017)

Executive Committee

New appointments

→ Alison Martin, Group Chief Risk Officer-Designate (as of October 1, 2017)

→ Kathleen Savio, CEO-Designate North America (as of October 1, 2017)

Resignations

→ Mike Foley, CEO North America (effective March 1, 2018)

→ Cecilia Reyes, Group Chief Risk Officer (effective March 1, 2018)

Group structure and shareholders

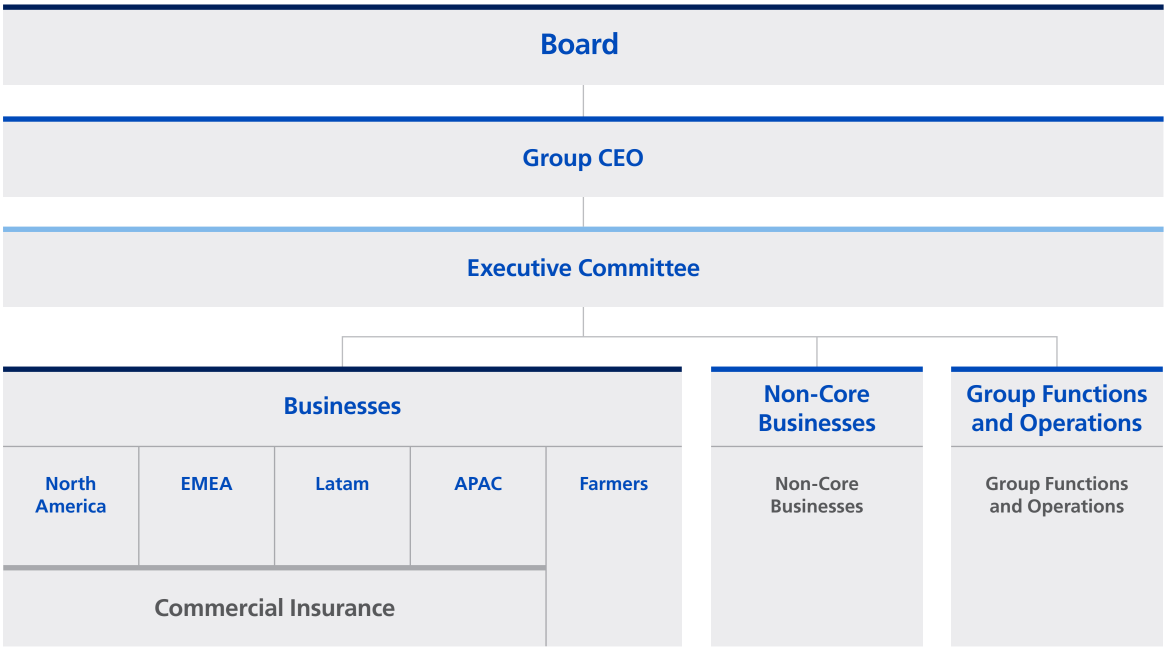
Operational Group structure

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

The following chart shows the operational group structure in effect as of December 31, 2017.

Operational Group structure

as of December 31, 2017



The Group pursues a customer-centric strategy and is managed by regions with the addition of the Farmers and Commercial Insurance businesses. The ExCo is headed by the Group CEO. Six members of the ExCo represent the Group's businesses: the CEOs of the regions (CEO North America, CEO Europe, Middle East & Africa (EMEA), CEO Latin America, CEO Asia Pacific), the CEO of Farmers and the CEO of Commercial Insurance. Four members of the ExCo represent Group functions: the Group Chief Financial Officer (Group CFO), the Group Chief Investment Officer (Group CIO), the Group Chief Risk Officer (Group CRO) and the Group Chief Operating Officer (Group COO). The Group COO has responsibility for operations and technology as well as underwriting, claims, and pricing, creating a unified sense of purpose and responsibility for technical excellence, efficiency and business transformation across all parts of the business. The Group CFO is responsible for Group Reinsurance. For further information on the ExCo see pages 62 to 72.

During 2016 a new structure was created by combining the life and non-life insurance businesses under common leadership structures, thereby providing a unified go-to-market approach. The Group also combined its mid-sized commercial and large corporate businesses into Commercial Insurance, bringing global corporate and commercial insurance expertise together under a single umbrella.

The Group's operating structure reflects the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. The operational group structure became fully effective in the financial year 2017. The Group's reportable segments for 2017 are as follows:

- **Regions (EMEA, North America, Latam and APAC):** segments through which the Group provides a variety of property and casualty and life products to retail and commercial customers as well as reinsurance propositions. **Commercial Insurance** brings together corporate and commercial insurance expertise worldwide under a single umbrella.
  - Property and casualty is the business through which the Group provides a variety of motor, home and commercial products and services for individuals, as well as small, mid-sized and large businesses.
  - The life business pursues a strategy with market-leading propositions in unit-linked and protection products as well as fee-based solutions managed through three global pillars (Bank Distribution, Corporate Life & Pensions and Other Retail) to develop leading positions in its target markets.
- **Farmers** provides, through Farmers Group, Inc. (FGI) and its subsidiaries, non-claims related, administrative and management services to the Farmers Exchanges as attorney-in-fact. FGI receives fee income for the provision of services to the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc. a wholly owned subsidiary of the Group. This segment also includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S.
- **Group Functions and Operations** comprise the Group's Holding and Financing and Headquarters activities. Certain alternative investment positions not allocated to business operating segments are included within Holding and Financing. 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 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.

A detailed review of the results of the business segments as reported for 2017 can be found in the Operating and Financial review starting on page 158. Furthermore, an overview of the Group's business activities is contained in the Annual Review, available on Zurich's website www.zurich.com (www.zurich.com/en/investor-relations/results-and-reports).

A list of the Group's significant subsidiaries can be found on pages 275 to 278. For further information on the share listing of Zurich Insurance Group Ltd, see the investor section on pages 28 to 29.

Significant shareholders

According to the rules regarding the disclosure of significant shareholdings of Swiss companies listed in Switzerland, disclosure has to be made if certain thresholds starting at 3 percent are reached or if the shareholding subsequently falls below those thresholds. Options and other financial instruments are added to any share position, even if they allow for cash settlement only. Disclosure must be made separately for purchase positions (including shares, long call options and short put options) and sale positions (including long put options and short call options). The percentage thresholds are calculated on the basis of the total amount of voting rights according to the number of shares issued as disclosed in the commercial register.

Zurich Insurance Group Ltd is obliged to announce shareholdings by third parties in its shares when notification is received from a third party that a threshold has been reached. During 2017, the Group received several new notifications.

As of December 31, 2017, Zurich Insurance Group Ltd was not aware of any person or institution, other than BlackRock, Inc., New York (> 5 percent) and The Capital Group Companies, Inc., Los Angeles (> 3 percent), which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd exceeding the relevant thresholds prescribed by law.

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

Zurich Insurance Group Ltd is not aware of any person or institution which, as of December 31, 2017, directly or indirectly, alone or with others, exercised or was a party to any arrangements to exercise control over Zurich Insurance Group Ltd.

Overview on shareholder structure

Number of shares held

as of December 31, 2017	Number of registered shareholders	% of registered share capital
1–500	117,263	14.0
501–1,000	5,311	4.3
1,001–10,000	4,135	11.1
10,001–100,000	406	12.2
100,001+	69	58.4
Total registered shares[1]	**127,184**	**100.0**

[1] of registered shareholders.

Registered shareholders by type

as of December 31, 2017	Registered shareholders in %	Registered shares in %[1]
Individual shareholders	96.0	27.3
Legal entities	3.9	27.9
Nominees, fiduciaries	0.1	44.8
Total	**100.0**	**100.0**

[1] of registered shareholders.

Registered shareholders by geography

as of December 31, 2017	Registered shareholders in %	Registered shares in %[1]
Switzerland	94.0	48.2
UK	0.5	27.9
North America	0.7	10.6
Asia	0.2	0.8
Latin America	0.1	0.0
Rest of the World	4.5	12.5

[1] of registered shareholders.

Cross-shareholdings

Zurich Insurance Group Ltd has no interest in any other company exceeding 5 percent of the voting rights of that other company, where such other company has an interest in Zurich Insurance Group Ltd exceeding five percent of the voting rights in Zurich Insurance Group Ltd.

Capital structure

Share capital

As of December 31, 2017, the ordinary share capital of Zurich Insurance Group Ltd amounted to CHF 15,133,985.10 divided into 151,339,851 fully paid registered shares with a nominal value of CHF 0.10 each. The Board will propose to the shareholders at the Annual General Meeting on April 4, 2018 a dividend of CHF 18 per share. It is planned that the dividend will be paid out of the available earnings with a deduction of 35 percent Swiss withholding tax.

Authorized and contingent share capital as of December 31, 2017

At the Annual General Meeting of March 29, 2017, shareholders approved to increase the authorized and contingent share capital as specified in Article 5bis and 5ter of the Articles of Association.

Up to and including March 29, 2019, the Board of Zurich Insurance Group Ltd is authorized to increase the authorized share capital (Art. 5bis) by an amount not exceeding CHF 4,500,000 by issuing up to 45,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. This authorized share capital equates to about 30 percent of the current total registered shares issued. Share issuances out of authorized share capital where the shareholders' subscription rights are restricted or excluded are limited to 15,000,000 shares (i.e., less than 10 percent of the current total registered shares issued).

The contingent share capital of Zurich Insurance Group Ltd (Art. 5ter 1a) may be increased by an amount not exceeding CHF 3,000,000 by issuing of up to 30,000,000 fully paid registered shares with a nominal value of CHF 0.10 each by the voluntary or mandatory exercise of conversion and/or option rights, which are granted in connection with the issuance of loans, bonds, similar debt instruments, equity-linked instruments or other financial market instruments (collectively, the 'financial instruments') by Zurich Insurance Group Ltd or one of its Group companies, or by mandatory conversion of financial instruments issued by Zurich Insurance Group Ltd or one of its Group companies, that allow for contingent mandatory conversion into shares of Zurich Insurance Group Ltd, or by exercising option rights which are granted to the shareholders. This contingent share capital equates to about 20 percent of the current total registered shares issued.

Up to and including March 29, 2019, the total number of new shares which could be issued from (i) authorized share capital under Art. 5bis where the subscription rights are restricted or excluded and (ii) contingent share capital in connection with financial instruments under Art. 5ter 1a where the advance subscription rights are restricted or excluded is limited to 30,000,000 shares (i.e., less than 20 percent of the current total registered shares issued).

Moreover, there is an additional contingent share capital (Art. 5ter 2a) of CHF 495,540.80, representing 4,955,408 fully paid registered shares with a nominal value of CHF 0.10 each, which may be issued to employees of Zurich Insurance Group Ltd or one of its Group companies. For further information on the capital structure and the authorized and contingent share capital, see the audited consolidated financial statements, note 19 on pages 232 to 234. This contingent share capital equates to about 3.3 percent of the current total registered shares issued.

For further information please see Article 5bis and 5ter of the Articles of Association, as published under the following link: www.zurich.com/IR-articles-of-association.

Changes to share capital during 2017

During 2017, a total of 732,445 shares were issued to employees out of contingent share capital. As a result, on December 31, 2017, the share capital amounted to CHF 15,133,985.10 (151,339,851 shares). The authorized share capital (Art. 5bis 1) amounted to CHF 4,500,000 (45,000,000 shares). The contingent share capital for Financial Instruments (Art. 5ter 1a) amounted to CHF 3,000,000 (30,000,000 shares) and the contingent share capital for employees (Art. 5ter 2a) amounted to CHF 495,540.80 (4,955,408 shares).

Changes to share capital during 2016

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

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

	Share capital in CHF	Number of shares	Nominal value in CHF
As of December 31, 2015	15,040,496.40	150,404,964	0.10
Newly issued shares from contingent capital	20,244.20	202,442	0.10
As of December 31, 2016	15,060,740.60	150,607,406	0.10
Newly issued shares from contingent capital	73,244.50	732,445	0.10
As of December 31, 2017	15,133,985.10	151,339,851	0.10

For information on changes of share capital during 2015, see the Annual Report 2016 of Zurich Insurance Group, page 35, pages 174 to 175 and pages 224 to 225 (www.zurich.com/en/investor-relations/results-and-reports).

Shares and participation certificates

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

Some interests in shares are held by investors in the form of American Depositary Receipts (ADRs)[1]. As of December 31, 2017, investors held 24,351,380 ADRs (representing 2,435,138 Zurich Insurance Group Ltd shares).

Profit-sharing certificates

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

Limitations on transferability and nominee registrations

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

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

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

Convertible bonds and options

Zurich Insurance Group Ltd had no public convertibles or options outstanding as of December 31, 2017. For information on employee share plans, see the audited consolidated financial statements, note 21 on pages 243 to 244.

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

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Board of Directors

A diverse and effective Board

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

Tom de Swaan
Chairman

Nationality: Dutch
Born: 1946

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

Other directorships within the Group:
Zurich Insurance Company Ltd

Page 48

Fred Kindle
Vice-Chairman

Nationality: Swiss
Born: 1959

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

Other directorships within the Group:
Zurich Insurance Company Ltd

Page 48

Joan Amble
Member of the Board of Directors

Nationality: U.S.
Born: 1953

Committee membership:
Audit Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Page 48

Catherine Bessant
Member of the Board of Directors

Nationality: U.S.
Born: 1960

Committee membership:
Audit Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Page 49

Susan Bies
Member of the Board of Directors

Nationality: U.S.
Born: 1947

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

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

Page 49

Dame Alison Carnwath
Member of the Board of Directors

Nationality: British
Born: 1953

Committee membership:
Audit Committee (chairman), Governance, Nominations and Corporate Responsibility Committee, Risk and Investment Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Page 49

Christoph Franz
Member of the Board of Directors

Nationality: Swiss and German
Born: 1960

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

Other directorships within the Group:
Zurich Insurance Company Ltd

Page 50

Jeffrey Hayman
Member of the Board of Directors

Nationality: U.S.
Born: 1960

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

Other directorships within the Group:
Zurich Insurance Company Ltd

Page 50

Monica Mächler
Member of the Board of Directors

Nationality: Swiss
Born: 1956

Committee membership:
Audit Committee, Risk and Investment Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Page 50

Kishore Mahbubani
Member of the Board of Directors

Nationality: Singapore
Born: 1948

Committee membership:
Remuneration Committee,
Risk and Investment Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Page 51

David Nish
Member of the Board of Directors

Nationality: British
Born: 1960

Committee membership:
Audit Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

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Board of Directors

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

Board of Directors and its Committees

as of December 31, 2017

Board of Directors

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

Governance, Nominations & Corporate Responsibility Committee	Remuneration Committee	Audit Committee	Risk and Investment Committee
Tom de Swaan* Dame Alison Carnwath Christoph Franz Jeffrey Hayman Fred Kindle	Christoph Franz* Tom de Swaan Fred Kindle Kishore Mahbubani	Dame Alison Carnwath* Joan Amble Catherine Bessant Susan Bies Monica Mächler David Nish	Susan Bies* Dame Alison Carnwath Jeffrey Hayman Monica Mächler Kishore Mahbubani

* Chairman of Board or Board Committee, respectively.

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

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

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

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

Board Composition

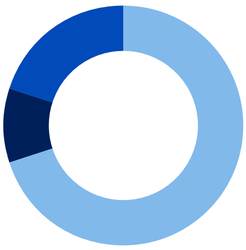
Diversity is a key factor for success in today's fast-changing global environment. Zurich's Board consists of a variety of individuals with different backgrounds, experience, knowledge and skills. The Board can draw on this diverse, balanced group of individuals to carry out its responsibilities and tasks, while taking into account the full range of contemporary business needs.

As of December 31, 2017, the Board included members of six nationalities. Board members' business experience covers a broad range of jurisdictions, giving the Board profound collective knowledge of international business practices. The Board also benefits from the broad cultural, educational and professional backgrounds of its members, which include financial services, manufacturing, engineering, and legal and regulatory experience.

The composition as of December 31, 2017 in terms of length of tenure, gender, background, experience, knowledge and skills, as well as geographic origin was as follows:

Board by length of tenure

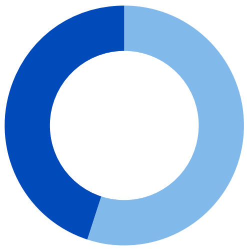
%, as of December 31, 2017



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

Board by gender

%, as of December 31, 2017



Male	55
Female	45

Board by background, experience, skills and knowledge

%, as of December 31, 2017

Insurance	27
Banking	73
Regulatory/Governance	27
Sustainability	36
Consulting	45
Risk Management	27
CEO	27

Board by geographic origin

%, as of December 31, 2017

Switzerland	18
Netherlands	9
U.S.	37
UK	18
Germany	9
Singapore	9

Corporate governance report (continued)

Biographies

Tom de Swaan
Chairman

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

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

Other directorships within the Group
Zurich Insurance Company Ltd

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

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

Fred Kindle
Vice-Chairman

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

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

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
In his capacity as a partner of Clayton, Dubilier & Rice, Mr. Kindle served from 2008 until 2015 as chairman of the board of Exova plc, UK, and as a member of Exova's board until June 2017. Mr. Kindle has been a member of the board of VZ Holding Ltd, Zurich since 2002, and was elected chairman in April 2014. He has served on the board of privately-held Stadler Rail AG since 2008 and has been a member of the board of Schneider Electric since 2016.

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

Joan Amble
Member of the Board of Directors

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

Committee membership
Audit Committee

Other directorships within the Group
Zurich Insurance Company Ltd

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

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

Catherine Bessant

Member of the Board of Directors

Skills and experience
Catherine Bessant is chief operations and technology officer at Bank of America and a member of the Bank of America's executive management team. Since joining Bank of America in 1982 as a corporate banker, she has held numerous senior leadership positions within that company: president of Global Product Solutions and Global Treasury Services; chief marketing officer; president of Consumer Real Estate and Community Development Banking; national Small Business Segment executive; and market president of Bank of America, Florida. Prior to being appointed to her current position, Ms. Bessant served as president of Global Corporate Banking. Ms. Bessant has led Bank of America's Global Technology and Operations since 2010. In that role she is responsible for end-to-end technology and operating services across the company, overseeing nearly 95,000 employees and contractors in more than 35 countries. She became a member of the Board of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd in March 2017.

Committee membership
Audit Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Ms. Bessant is a director for Florida Blue, formerly Blue Cross and Blue Shield of Florida and she sits on the advisory board for the Ross School of Business at the University of Michigan.

Educational background
Ms. Bessant holds a Bachelor of Business Administration from the University of Michigan Ross School of Business.

Susan Bies

Member of the Board of Directors

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

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

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

External appointments
Ms. Bies has served as a member of the board of directors of The Bank of America Corporation since June 2009. She joined the board of directors of Merrill Lynch International, London, a subsidiary of Bank of America Corporation, in 2013 and was appointed its chairman in 2014.

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

Dame Alison Carnwath

Member of the Board of Directors

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

Committee membership
Audit Committee (chairman), Governance, Nominations and Corporate Responsibility Committee, Risk and Investment Committee

Other directorships within the Group
Zurich Insurance Company Ltd

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

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

Corporate governance report (continued)

Biographies (continued)

Christoph Franz
Member of the Board of Directors

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

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

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. Franz was elected chairman of the board of Roche Holding Ltd in March 2014. He is also a member of the board of directors of Stadler Rail. Mr. Franz serves as a member of the board of trustees of the Ernst-Goehner-Foundation, of Avenir Suisse and of the Lucerne Festival and is a member of the advisory board of the University of St. Gallen (HSG). He was named as an honorary professor of business administration at the University of St. Gallen in May 2017. In September 2017, the International Committee of the Red Cross (ICRC) appointed Mr. Franz as a member of its Assembly, the organization's top governing body.

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

Jeffrey Hayman
Member of the Board of Directors

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

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

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
None

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

Monica Mächler
Member of the Board of Directors

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

Committee membership
Audit Committee, Risk and Investment Committee

Other directorships within the Group
Zurich Insurance Company Ltd

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

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

Kishore Mahbubani
Member of the Board of Directors

Skills and experience
Kishore Mahbubani began his career in 1971 as a diplomat with the Singapore Foreign Service, in which he served until 2004, with postings in Cambodia, Malaysia, Washington D.C. and New York. He served two postings as Singapore's ambassador to the UN and as President of the UN Security Council in January 2001 and May 2002. Mr. Mahbubani was permanent secretary of the Singapore Foreign Ministry from 1993 to 1998. He served as dean at the Lee Kuan Yew School of Public Policy of the National University of Singapore (NUS) from its founding in 2004 until end of 2017. He continues to be a professor in the practice of public policy at the NUS.
He has spoken and has published extensively on geopolitical and economic issues. In 2013 the Financial Times chose one of his books, 'The Great Convergence: Asia, the West and the Logic of One World,' as one of the best books about economics in that year. His latest book, 'The ASEAN Miracle,' was published in March 2017.
He has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2015.

Committee membership
Remuneration Committee, Risk and Investment Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
In September 2017 he was appointed non-executive chairman of the board of Aggregate Asset Management. Since January 2016 he has also been an independent director of the board of Wilmar International Limited, Singapore. In addition, he serves on boards and councils of several institutions in Singapore, Europe and North America, including Yale's President's Council on International Activities (PCIA), the University of Bocconi International Advisory Committee, the World Economic Forum's Global Agenda Council on Geo-economics, and as chairman of the Lee Kuan Yew World City Prize Nominating Committee.

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

David Nish
Member of the Board of Directors

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

Committee membership
Audit Committee

Other directorships within the Group
Zurich Insurance Company Ltd

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

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

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

Independence of the members of the Board of Directors

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

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

The Governance, Nominations and Corporate Responsibility Committee reviews the Board members' independent status annually and reports its findings to the Board for final determination. Board members are also subject to rules and regulations to avoid conflicts of interest and prevent any misuse of insider information.

External mandates

In line with the Ordinance AEC, art. 33 of Zurich's Articles of Association, has rules on the number of mandates members of the Board and of the ExCo are permitted to hold, as shown in the table below.

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

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

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

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

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

Size of Board and tenure

The Articles of Association require that the Board shall consist of not less than seven and not more than thirteen members. According to the Group's internal guidelines, in general, the maximum tenure of Board members may not exceed 12 years and no individual of 72 years of age or older shall be nominated or stay in office as a Director, although exceptions may be made under special circumstances.

Elections

As required by Swiss law, directors are elected annually. Directors are elected by an absolute majority of the votes represented.

At the AGM on March 29, 2017, all Board members were re-elected for another one-year term. Ms. Catherine Bessant was newly elected. The shareholders re-elected Mr. Tom de Swaan as Chairman. As members of the Remuneration Committee, they elected Mr. Christoph Franz, Mr. Tom de Swaan, Mr. Fred Kindle and Mr. Kishore Mahbubani. As independent voting rights representative, the shareholders elected Mr. lic. iur. Andreas G. Keller, attorney at law.

Mr. Tom de Swaan, Mr. Fred Kindle and Ms. Susan Bies have decided to retire from the Board as of AGM 2018 and will not stand for re-election.

The Board proposes to shareholders that they re-elect all other current members of the Board at the AGM, which will take place on April 4, 2018, and that they elect Michel M. Liès as new member and as Chairman of the Board.

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

- as members: Mr. Michel M. Liès, Ms. Joan Amble, Ms. Catherine Bessant, Dame Alison Carnwath, Mr. Christoph Franz, Mr. Jeffrey Hayman, Ms. Monica Mächler, Mr. Kishore Mahbubani and Mr. David Nish
- as Chairman: Mr. Michel M. Liès
- as members of the Remuneration Committee: Ms. Catherine Bessant, Mr. Christoph Franz, Mr. Michel M. Liès and Mr. Kishore Mahbubani
- as independent voting rights representative: Mr. lic. iur. Andreas G. Keller, attorney at law

Internal organizational structure and responsibilities

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

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

The Board is required to meet at least six times each year. During 2017 it held 12 meetings (of which six were partly attended by tele-/videoconference and six were held over two days). One meeting was fully dedicated to the discussion of strategy. Six meetings lasted four or more hours during the course of a day, two meetings took about three hours on average and four meetings lasted less than three hours. In addition, the Board approved six circular resolutions.

In 2017, average attendance at Board meetings was 95 percent. In fulfillment of their duties, the members of the Board spent additional time participating in Board Committee meetings and preparing for meetings.

Overview of meeting attendance

Overview of meeting attendance

as of December 31, 2017	Board of Directors	Governance, Nominations and Corporate Responsibility Committee	Remuneration Committee	Risk and Investment Committee	Audit Committee
No. of meetings held	12	4	5	9	8
No. of members[1,2]	11	5	4	5	6
Meeting attendance, in %	95	90	95	100	96

Meeting attendance individualised

Joan Amble	11/12	–	–	4/4[5]	8/8
Susan Bies	12/12	–	–	9/9	8/8
Catherine Bessant[3]	10/10	–	–	–	7/7[4]
Alison Carnwath	11/12	3/4	–	9/9	4/4[5]
Tom de Swaan	12/12	4/4	5/5	–	–
Christoph Franz	12/12	4/4	5/5	–	–
Jeffrey Hayman	12/12	3/3[4]	–	9/9	–
Fred Kindle	10/12	3/4	4/5		
Monica Mächler	11/12	–	–	9/9	8/8
Kishore Mahbubani	12/12	–	5/5	9/9	
David Nish	10/12	–	–	–	6/8

[1] Until March 29, 2017, the Board had 10, the Governance, Nominations & Corporate Responsibility Committee 4, the Audit Committee 4, the Remuneration Committee 4 and the Risk & Investment Committee 6 members.
[2] Between March 29 and June 26, 2017 the Audit Committee had 5 and the Risk & Investment Committee 6 members.
[3] Elected at AGM March 29, 2017.
[4] Joined Committee on March 29, 2017.
[5] Joined or left Committee as of June 26, 2017.

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

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

Activities 2017: In 2017, the Board specifically focused on the following:

- succession of the Chairman of the Board
- ExCo succession
- strategy implementation
- customer trends, structural industry changes and disruptive technologies
- merger and acquisition transactions
- Board self-assessment and resulting recommendations
- exercise of certain scenarios of the recovery plan
- review of the annual update on sustainability risk as part of the Own Risk and Solvency Assessment (ORSA) process

The Board may establish committees for specific topics, terms of reference and rules with respect to delegated tasks, responsibilities and reporting to the Board. Except for the Remuneration Committee, the Board constitutes such committees from among its members at its own discretion. The members of the Remuneration Committee are elected by the shareholders' meeting. The committees assist the Board in performing its duties. They discuss and propose matters to the Board in order that it may take appropriate actions and pass resolutions unless they are authorized to take resolutions in specific areas on their own. In 2017, committee meetings lasted over an hour and a half on average.

Self assessment

The full Board and its committees conduct a self assessment once a year. In 2017 it considered the following key aspects of the effectiveness of the Board and its committees: a) the Board and committee environment (size, culture and composition, skill set and qualification); b) the work of the Board and its committees (strategy, governance, competition and peer comparison and performance management); and c) the use of time and process (planning quality and allocation). A report identifying key strengths and challenges was produced for, and considered by the Board. An action plan is currently being implemented by the Board that takes these aspects into account.

Committees of the Board of Directors

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

Governance, Nominations & Corporate Responsibility Committee

Composition and membership: The Governance, Nominations & Corporate Responsibility Committee consists of at least four Board members. Currently, the committee comprises Tom de Swaan (Chairman), Dame Alison Carnwath, Christoph Franz, Jeffrey Hayman and Fred Kindle.

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

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

Activities 2017: During 2017, the following topics were discussed in particular:

- Chairman of the Board succession
- Board committee composition and succession
- ExCo succession
- developments affecting corporate governance, including changes to Swiss and international laws and regulations
- adapting corporate governance documents to a new organizational structure and reviewing Board members' independence
- corporate responsibility strategy and related initiatives
- biannual updates on Zurich's corporate responsibility efforts and, at its most recent meeting, discussed Zurich's new sustainable business approach, including climate change as a focus area thereof

The Governance, Nominations & Corporate Responsibility Committee meets at least twice per year. In 2017 it met four times.

Remuneration Committee

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

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

- regularly evaluates the Group's remuneration architecture and Zurich's remuneration rules and proposes amendments to the Board, which is responsible for the design, implementation and monitoring of the Group's remuneration framework (further details of the Group's remuneration framework, including the remuneration philosophy and the remuneration governance are set out in the remuneration report on pages 82 to 116)
- reviews and proposes to the Board annually the terms of remuneration of the members of the Board
- based on Zurich's remuneration rules, reviews and proposes to the Board the terms and conditions of employment of the Group CEO and reviews those of other members of the ExCo, as proposed by the Group CEO, before submitting them to the Board for approval
- liaises with the Group CEO on other important matters related to employment, salary and benefit
- reviews and proposes to the Board the total variable remuneration pool, reviews the performance related to short-term and long-term incentive plans (STIP and LTIP), and also makes a qualitative assessment of the performance; reviews and makes proposals to the Board for submission to the AGM on the approval of the Board's and ExCo's remuneration
- and prepares the remuneration report annually in accordance with applicable laws and regulations

Activities 2017: During 2017, the following topics were discussed in particular:

- performance of the Group, the countries and the ExCo, as well as the approval of the STIP award level and the LTIP vesting level for the period ending December 31, 2016
- approval of the total variable remuneration pool for 2016
- the regulatory environment regarding remuneration, as well as external developments and the implications for Zurich
- the Ordinance AEC, including the maximum amounts of total remuneration for the Board and the ExCo for the shareholder vote at the AGM on March 29, 2017, as well as the results of the vote
- in the annual joint meeting with the Risk and Investment Committee, risk management aspects of the Group's remuneration architecture, as well as key activities with respect to identified key risk taker (KRT) positions, e.g. risk-based assessment of KRTs
- the remuneration report and the Board of Directors report on the approval of the remuneration for the Board of Directors and the ExCo
- Zurich's remuneration rules and the Committee Charter were reviewed and approved by the Board of Directors;
- discussion about the annual Corporate Governance Roadshow
- compensation of the Board and the ExCo
- activities of the Group Pensions Committee
- implementation of the new STIP architecture in 2017 and review of the incentive architecture for 2018

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

The Remuneration Committee meets at least twice per year. In 2017 it met five times.

Audit Committee

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

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

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

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

For more information on the supervision and control of the external audit process, see page 76.

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

- → serves as a focal point for communication and oversight regarding financial accounting and reporting, internal control, actuarial practice, and financial and regulatory compliance
- → reviews the Group's auditing process (including establishing the basic principles relating to and making proposals for the audit of Zurich Insurance Group Ltd and the Group)
- → at least annually, reviews the standards of internal control, including activities, plans, organization and quality of Group Audit and Group Compliance
- → reviews annual and half year consolidated financial statements of the Group as well as the three months and nine months interim management statements

Activities 2017: During 2017, the following topics were discussed in particular:

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

The Audit Committee meets at least four times per year. In 2017 it met eight times.

Risk and Investment Committee

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

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

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

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

Activities 2017: From an enterprise risk management perspective, during 2017 the Risk and Investment Committee particularly discussed the following topics:

- the effectiveness of the enterprise risk management (ERM) approach, including the annual revision of the Group risk appetite
- progress made in implementing the Group Risk Management strategy
- results of the Group Total Risk Profiling™ (TRP) assessment including risk ownership and mitigation actions
- the Group's Own Risk and Solvency Assessment 2017
- the Group's Recovery Plan 2017, which included a recovery exercise under conditions of stress
- the Group's risk profile and economic and regulatory capital, including development of the internal capital model and risk-based capital limits
- revision of the Zurich Risk Policy (ZRP)
- Swiss Solvency Test (SST) internal model approval program
- Operational Risk Framework
- regulatory risk
- risk management aspects of the Group's remuneration architecture, discussed during the annual joint meeting with the Remuneration Committee
- macroeconomic developments; investment and asset/liability management, market and credit risks and controls including reports on derivatives; and performance of asset managers
- Zurich's approach on model risk management
- climate change-related risks
- For further information on risk governance, see the risk review on pages 120 to 155

The Risk and Investment Committee meets at least four times per year. In 2017 it met nine times.

Areas of responsibility of the Board and management

The Board decides on the strategy of the Group, supervises senior management and addresses key matters in the area of strategy, finance, and organization. In particular, the Board approves the Group's strategic plan and the annual financial plans developed by management and reviews and approves the annual and half-year financial statements of the Group and the annual financial statements of Zurich Insurance Group Ltd as well as the three months and nine months interim management statements. For more details with regard to the responsibilities of the Board see pages 54 to 55.

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

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

The Board supervises management and monitors its performance through reporting and controlling processes. The Group CEO and other executives provide information and updates through regular reports to the Board. These include reports on key performance indicators and other Group-relevant financial data, existing and emerging risks, and updates on developments in important markets and on industry peers and other significant events. During 2017, the Chairman of the Board regularly met with the Group CEO. He meets from time to time with other ExCo members and management outside regular Board meetings. The other members of the Board do so as well, meeting with the Group CFO and the Group CRO in particular.

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

The Group has adopted and implemented a coordinated, formalized and consistent approach to risk management and control. Information concerning the Group's risk management and internal control processes is included in the risk review starting on page 120. The internal audit function, the external auditors and the compliance function also assist the Board in exercising its controlling and supervisory duties. Information on these functions' major areas of activity is set out on pages 75 to 78.

Executive Committee

A focused and customer-oriented Executive Committee

We have restored our position as a leading global underwriter for property and casualty and life business and will continue to focus on profitability, while enhancing capabilities.

Mario Greco
Group Chief Executive Officer

Nationality: Italian
Born: 1959

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Urban Angehrn
Group Chief Investment Officer

Nationality: Swiss
Born: 1965

Page 67

Jeff Dailey
CEO of Farmers Group, Inc.

Nationality: U.S.
Born: 1957

Page 67

Claudia Dill
CEO Latin America

Nationality: Swiss
Born: 1966

Page 68

Mike Foley
CEO North America[1]

Nationality: U.S.
Born: 1962

Page 68

Jack Howell
CEO Asia Pacific

Nationality: U.S.
Born: 1970

Page 68

Alison Martin
Group Chief Risk Officer-Designate[2]

Nationality: British
Born: 1974

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George Quinn
Group Chief Financial Officer

Nationality: British
Born: 1966

Page 69

Cecilia Reyes
Group Chief Risk Officer[3]

Nationality: Swiss and Philippine
Born: 1959

Page 69

Kathleen Savio
CEO-Designate North America[4]

Nationality: U.S.
Born: 1965

Page 70

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

Nationality: British
Born: 1966

Page 70

James Shea
CEO Commercial Insurance

Nationality: Canadian
Born: 1965

Page 70

Kristof Terryn
Group Chief Operating Officer

Nationality: Belgian
Born: 1967

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[1] Mike Foley assumed the role of Senior Adviser as of January 1, 2018, and will continue in that position until February 28, 2018.
[2] Alison Martin assumed the role as Group Chief Risk Officer as of January 1, 2018.
[3] Cecilia Reyes assumed the role of Senior Adviser as of January 1, 2018, and will continue in that position until February 28, 2018.
[4] Kathleen Savio assumed the role of CEO North America as of January 1, 2018.

Group Management

Executive Committee

Group Management
as of December 31, 2017

Board of Zurich Insurance Group Ltd

Group CEO

Executive Committee

Management Committees

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

Technical Committees

Asset/Liability Management Investment Committee	Group Pensions Committee	Disclosure Committee
Chair: Group Chief Investment Officer	Chair: Chief Executive Officer EMEA	Chair: Head of Group FAR

To the extent not reserved to the Board, management is delegated to the Group CEO. The Group CEO has overall responsibility and accountability for the Group's management and the performance. The ExCo serves the Group CEO as the core management team in matters of Group-wide strategic, financial and business-policy relevance, including consolidated performance, capital allocation and mergers and acquisitions.

The ExCo is chaired by the Group CEO. As of December 31, 2017, to reflect both lines of business and geography, members of the ExCo included the CEO EMEA (Europe, Middle East & Africa), the CEO North America, the CEO-Designate North America, the CEO Latin America, the CEO Asia Pacific, the CEO of Farmers Group Inc. and the CEO Commercial Insurance. The Group CFO, the Group CIO, the Group COO, the Group CRO and the Group CRO-Designate were also members of the ExCo as of December 31, 2017.

Changes to the ExCo

On October 1, 2017, Alison Martin and Kathleen Savio were appointed Group Chief Risk Officer-Designate and CEO-Designate North America respectively and became members of the ExCo. Cecilia Reyes, Group CRO, and Mike Foley, CEO North America, decided to step down from their roles as of January 1, 2018. In order to ensure a smooth transition in connection with 2017 reporting, Cecilia Reyes and Mike Foley will retire from the ExCo as of March 1, 2018.

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

Management committees

Group Balance Sheet Committee (GBSC)

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

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

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

The Group Risk Committee (GRC)

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

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

The GRC reviews and recommends topics such as:

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

Technical committees

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

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

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

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

Panels

To enhance its understanding and assessment of the challenges and risks Zurich may face, the Group continues to seek external expertise and perspectives. As of December 31, 2017, the Group had access to one panel of leading academics and experts from business and industry which provided feedback and insights. Panels are not corporate bodies of the Group and have no decision-making powers. They provide expertise and advice to senior management or certain functions of the Group. The Advisory Council for Catastrophes (formerly Natural Catastrophe Advisory Council) provides insights into the patterns of occurrence, predictability and destructiveness of catastrophes and gives feedback about Zurich's approach to such catastrophes to help improve the effectiveness of its underwriting and reinsurance purchasing.

Biographies

Mario Greco
Group Chief Executive Officer

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

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

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

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

Urban Angehrn
Group Chief Investment Officer

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

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

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

Jeff Dailey
CEO of Farmers Group, Inc.

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

External appointments
Mr. Dailey is a member of The Institutes Board of Trustees and serves on the advisory board of Team Rubicon, a disaster relief organization that brings together military veterans, first responders, medical professionals and technology experts.

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

Corporate governance report (continued)

Biographies (continued)

Claudia Dill
CEO Latin America

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

External appointments
None.

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

Mike Foley
CEO North America

Skills and experience
Mike Foley joined the financial management training program of Armtek Corporation in 1984. After graduating from J.L. Kellogg Graduate School of Management in 1989, Mr. Foley joined the Deerpath Group in Lake Forest, Illinois. He later became vice president responsible for managing a portfolio of equity investments in various acquired businesses. In 1993 he joined Electrocal, Inc. in Connecticut as president. In 1996, Mr. Foley joined McKinsey & Company, where he later became a principal and led its North American property and casualty insurance practice. He joined Zurich in 2006 as Chief Operating Officer of its North America Commercial business division. In January 2008 he became CEO of that division, a role he held until the end of 2017, and a member of the Executive Committee. In January 2018 he assumed the role of Senior Adviser, and will continue in that position until February 28, 2018. Mr. Foley was Chairman of the Board of Zurich Holding Company of America, Inc. until end of 2017.

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

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

Jack Howell
CEO Asia Pacific

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

External appointments
None.

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

Alison Martin
Group Chief Risk Officer-Designate

Skills and experience
Alison Martin has extensive management, financial and commercial experience within the insurance sector. In October 2017, she joined Zurich as Group Chief Risk Officer-Designate and became a member of the Executive Committee. She assumed the role of Group Chief Risk Officer in January 2018. A qualified accountant, Ms. Martin began her career at PwC, where from 1995 to 2003 she worked with insurance clients in audit and advisory roles. She then served in leading executive positions at Swiss Re, starting in 2003 as Finance Director, Life & Health. She was appointed Chief Financial Officer (CFO) of Swiss Re's UK Life & Health business unit in 2005. From 2006 to 2010 she was responsible for Swiss Re's Global Life & Health Risk Transformation team. Starting in January 2011 she served as Group Managing Director of Swiss Re's Life & Health Products Division. She was appointed Swiss Re's Head of Life & Health Business Management in 2013, a position she held until joining Zurich in 2017.

External appointments
None.

Educational background
Ms. Martin earned a Bachelor's Degree in law, with honors, from the University of Birmingham in 1995. In 1998 she qualified with the Institute of Chartered Accountants in England and Wales as an associate member, and in 2010 she completed the Chartered Financial Analyst investment management certificate.

George Quinn
Group Chief Financial Officer

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

External appointments
Mr. Quinn is a member of the finance chapter of the Swiss-American Chamber of Commerce.

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

Cecilia Reyes
Group Chief Risk Officer

Skills and experience
Cecilia Reyes has over 20 years' experience in international financial markets. Ms. Reyes worked from 1990 until 1995 for Credit Suisse in Zurich in various roles in asset management, global treasury and securities trading. In 1995, she started working with ING Barings in London and in 1997 she became a director and head of quantitative risk analysis. She moved to Amsterdam in 2000 as the head of risk analytics for ING Asset Management to develop risk management methods for the asset management operation. Ms. Reyes joined Zurich in 2001 as Head of Group Investments for North America and became Head of Group Investments for Europe/International Businesses in 2004. From March 2006 until March 2010 she was Head of Investment Strategy Implementation. Ms. Reyes was appointed Chief Investment Officer and member of the Executive Committee effective April 2010. In July 2015 she assumed the role of Group Chief Risk Officer, which she held until the end of 2017. In January 2018 she assumed the role of Senior Adviser, and will continue in that position until February 28, 2018.

External appointments
Ms. Reyes has been a member of the advisory board of the Department of Banking and Finance at the University of Zurich since 2011. In 2014 she became a member of the Board of Governors of the Asian Institute of Management. In March 2017 she was accepted as a member of the Board of Trustees of the Global Association of Risk Professionals.

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

Corporate governance report (continued)

Biographies (continued)

Kathleen Savio

CEO-Designate North America

Skills and experience
Kathleen Savio has more than 25 years of experience working across several disciplines at Zurich. She became a member of the Executive Committee in October 2017 upon her appointment to the position of Chief Executive Officer-Designate for Zurich North America. Ms. Savio assumed the role of Chief Executive Officer for that business in January 2018. From 2012 through 2017, she served as the Head of Alternative Markets for Zurich North America, which delivers products and services to customers through multiple distribution channels, including direct, program administrators, crop agents, captive consultants and brokers. Prior to that appointment she held the position of Chief Administrative Officer for North America Commercial. Before assuming that role, she led Corporate and Marketing Communications for North America Commercial, as well as Strategic Initiatives for Marketing and Distribution. She also has held roles in product underwriting and corporate marketing and within key business units. She joined Zurich in 1991.

External appointments
Ms. Savio is a member of The Chicago Network, an organization of Chicago's leading professional women.

Educational background
Ms. Savio earned a master's degree in communication and a bachelor's degree in speech communication from Illinois State University. She is also a graduate of the Harvard Business School Advanced Management Program and has participated in executive management programs at Northwestern University's Kellogg School.

Gary Shaughnessy

CEO EMEA (Europe, Middle East & Africa)

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

External appointments
In June 2017 Mr. Shaughnessy was appointed councilor of the British-Swiss Chamber of Commerce.

Educational background
Mr. Shaughnessy studied Sports Science at Liverpool John Moores University in the UK.

James Shea

CEO Commercial Insurance

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

External appointments
None.

Educational background
Mr. Shea holds a bachelor's degree in political science from McGill University, Canada.

Kristof Terryn

Group Chief Operating Officer

Skills and experience

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

External appointments

None.

Educational background

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

Changes to the ExCo since January 1, 2018

Cecilia Reyes, former Group Chief Risk Officer, and Mike Foley, former CEO North America, have retired from the ExCo effective March 1, 2018.

Management contracts

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

Shareholders' participation rights

Voting rights restrictions and representation

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

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

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

Zurich Insurance Group Ltd may under certain circumstances authorize the beneficial owners of shares that are held by professional persons as nominees (such as a trust company, bank, professional asset manager, clearing organization, investment fund or another entity recognized by Zurich Insurance Group Ltd) to attend shareholders' meetings and exercise votes as proxy of the relevant nominee. For further details, see page 42 of this report.

In accordance with Swiss law and practice, Zurich Insurance Group Ltd informs all shareholders at the beginning of the shareholders' meeting of the aggregate number of shares represented by shareholders and the number of shares represented by the independent voting rights representative. Zurich Insurance Group Ltd provided electronic voting devices to its shareholders for all the resolutions taken at the AGM on March 29, 2017.

Statutory quora

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

Convening of shareholders' meetings

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

Agenda

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

Registrations in the share register

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

Information Policy

As of December 31, 2017, Zurich Insurance Group Ltd had 127,184 shareholders registered in its share register, ranging from private individuals to large institutional investors. Each registered shareholder receives an invitation to a shareholders' meeting. A Letter to Shareholders provides an overview of the Group's activities as the year progresses and outlines its financial performance. A more comprehensive Annual Review, the Annual Report and half-year reports are available on Zurich's website (www.zurich.com/en/investor-relations) and the Annual Review and the Annual Report are also available in printed form on request. Information on the three months and nine months interim Management Statements is also available on Zurich's website (www.zurich.com/en/investor-relations/results-and-reports). News Releases are distributed in accordance with the Directive on Ad hoc Publicity and available on Zurich's website www.zurich.com (www.zurich.com/en/media).

Zurich Insurance Group Ltd will hold its Annual General Meeting on April 4, 2018. The meeting will be conducted in the Hallenstadion in Zurich-Oerlikon. An invitation setting out the agenda for this meeting and an explanation of the proposed resolutions is issued to shareholders at least 20 days before the meeting.

For addresses see information on page 304 and further upcoming important dates, see investor section starting on page 28 (financial calendar on page 29).

Employees

The Group is committed to providing equal opportunities when recruiting and promoting people, whereby ability, experience, skills, knowledge, integrity and diversity are guiding principles. The Group actively encourages employee involvement in its activities through printed and online publications, team briefings and regular meetings with employees' representatives. Further, the Group is party to an agreement with employee representatives of the Group's companies in Europe. For further information on the Group's people management activities, see page 24 of the Annual Report.

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

Changes of control and defense measures

Duty to make an offer

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

Clauses on changes of control

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

Corporate governance report (continued)

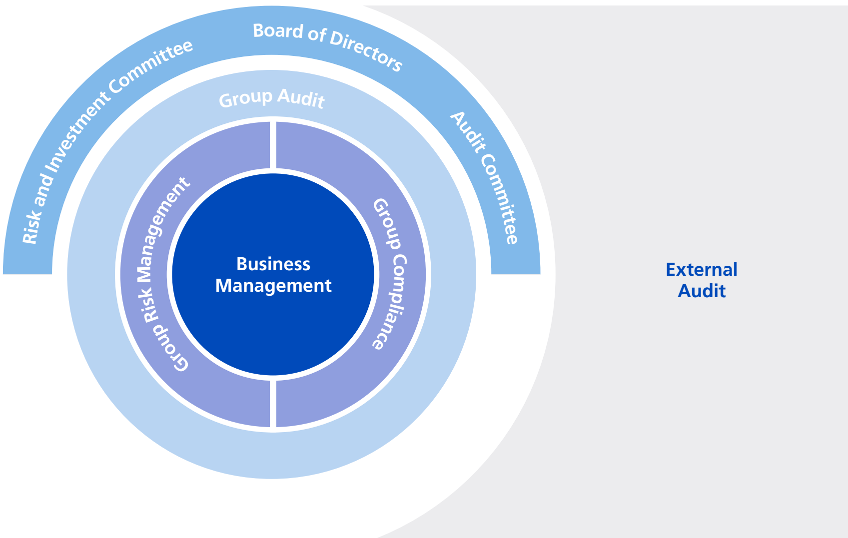
The Group's share-based compensation programs include regulations regarding the impact of a change of control. These regulations provide that in the case of a change of control, the Plan Administrator (the Remuneration Committee or the Group CEO, as applicable) has the right to roll over the existing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

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

Governance, controls and assurance at Zurich Insurance Group

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

Three lines of defense at Zurich Insurance Group
as of December 31, 2017



Zurich uses the three- lines-of-defense model in its approach to governance and enterprise risk management. Zurich's three-lines-of-defense approach runs through Zurich's governance structure, so that risks are clearly identified, assessed, owned, managed and monitored.

- **1st line: Business Management**
  The first line of defense consists of business management and all functions except Group Risk Management, Group Compliance and Group Audit. The first line takes risks and is responsible for day-to-day risk management (i.e. risks are identified and monitored, mitigation actions are implemented and internal controls are in place and operating effectively).
- **2nd line: Group Risk Management and Group Compliance**
  The second line of defense consists of the two control functions, Group Risk Management and Group Compliance.

  Group Risk Management is responsible for Zurich's enterprise risk management framework. The Group Chief Risk Officer regularly reports risk matters to the Group CEO, senior management committees and the Risk and Investment Committee of the Board.

  Group Compliance is responsible for providing assurance to management that compliance risks within its mandate are appropriately identified and managed. The Group Chief Compliance Officer regularly provides reports to the Audit Committee and has an additional reporting line to the Chairman of the Audit Committee and appropriate access to the Chairman of the Board.
- **3rd line: Group Audit**
  The third line of defense consists of the assurance function Group Audit.

  Group Audit is responsible for auditing risk management, control and governance processes. The Head of Group Audit reports functionally to the Chairman of the Audit Committee and administratively to the Group CEO, and meets regularly with the Chairman of the Board and the Chairman of the Audit Committee and attends each meeting of the Audit Committee.
- **Board – Audit Committee and Risk and Investment Committee**
  The Board is ultimately responsible for the supervision of the control and assurance activities. Its Audit and Risk and Investment committees receive regular updates from Group Risk Management, Group Compliance, Group Audit and external audit throughout the year.
- **External audit**
  External audit is responsible for auditing the Group's financial statements and for auditing Zurich's compliance with specific regulatory requirements. The Audit Committee regularly meets with the external auditors.

External auditors

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

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

PwC assumes all auditing functions which are required by law and by the Articles of Association of Zurich Insurance Group Ltd. The external auditors are appointed by the shareholders of Zurich Insurance Group Ltd annually. At the Annual General Meeting on March 29, 2017, PwC was re-elected by the shareholders of Zurich Insurance Group Ltd. The Board proposes that PwC be re-elected at the Annual General Meeting on April 4, 2018 as external auditors for the business year 2018. PwC fulfills all necessary requirements under the Swiss Federal Act on the Admission and Oversight of Auditors and has been admitted as a registered auditing company by the Federal Audit Oversight Authority.

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

Mark Humphreys of PwC is the lead auditor and auditor in charge for the statutory audit work since the business year 2014. Stephen O'Hearn, the Global Relationship Partner, co-signs the auditors' report for 2017. Ray Kunz is the auditor in charge for the regulatory audit work starting in 2017.

Zurich policy has been a 5-year required rotation of the Global Relationship Partner and Lead Audit Partner, whereas Swiss law is a 7-year required rotation. In 2015 Zurich approved an exception to the Group policy extending the tenure of the Global Relationship Partner to 7 years as allowed under Swiss law. Stephen O'Hearn, current PwC Global Relationship Partner, began in 2012 and will rotate in 2018. Alex Finn will take over as the Global Relationship Partner, lead auditor, and auditor in charge for the statutory audit work for 2018 through 2020.

The Group will rotate its external auditor in 2021. The tender process for the rotation will occur in 2018 to allow the greatest amount of flexibility and time for a smooth transition to the selected audit firm. The Group will run a competitive, transparent and fair tender process and will actively engage with the Audit Committee throughout.

Audit fees

Total audit fees (including expenses and value added taxes) charged by PwC in the year 2017 amounted to USD 46.3 million (USD 48.8 million in 2016).

External audit fees are reviewed with the Group's Audit Committee annually. Once the fees are agreed, they are further allocated to the countries and reporting units via a global allocation process with the allocations communicated to local CFOs and FAR Controllers. As the year comes to a close, actual fees charged are reviewed and agreed with the local CFOs. At all levels – Group and local – there is a clear understanding of the basis for the current year fee including the impacts of changes in scope or other factors. Unplanned overruns are reviewed and agreed with the business (responsible CFO or audit contact).

Non-audit fees

Total fees (including expenses and value added taxes) in the year 2017 for additional services, such as tax advice and internal control services or special audits required by local law or regulatory bodies performed by PwC and parties associated with them for Zurich Insurance Group Ltd or a Group company amounted to USD 8.9 million (USD 9.3 million in 2016).

The Group has a comprehensive policy covering non audit services. The Group's policy specifies definitions of allowable and non-allowable non audit services as well as approval limits for non-audit service mandates at the local and Group level. The Group's external auditor tracks non audit services and reports semi-annually to the Head of Group FAR and the Audit Committee the extent of non-audit services provided world-wide. The amount of non-audit services is also disclosed in the annual report.

Non-audit fees were as follows:

Audit and non-audit fee amounts

in USD millions, as of December 31	2017	2016
Total audit fees	**46.3**	**48.8**
Total non-audit fees	**8.9**	**9.3**
– Tax advice	0.9	1.7
– Audit-related, including MCEV	7.0	6.9
– Other	1.0	0.7

Supervision and control over the external audit process

The Audit Committee regularly meets with the external auditors at least four times a year. During 2017, the Audit Committee met with the external auditors eight times. The external auditors regularly have private sessions with the Audit Committee without management present. Based on written reports, the Audit Committee and the external auditors discuss the quality of the Group's financial and accounting function and any recommendations that the external auditors may have. Topics considered during such discussions include strengthening of internal financial controls, applicable accounting principles and management reporting systems. In connection with the audit, the Audit Committee obtains from the external auditors a timely report relating to the audited financial statements of Zurich Insurance Group Ltd and the Group.

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

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

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

Group Audit

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

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

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

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

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

Group Compliance

The Group is committed to complying with applicable legal, regulatory and internal requirements, professional and industry standards. Accordingly, the Group's core values are founded on the principle that it acts lawfully and seeks to do what is right. The Compliance function is a control function responsible for:

- delivering compliance solutions by providing expertise regarding the management and maintenance of policies, practical guidance, training, and controls and processes relating to compliance risks
- providing assurance, as part of the second line of defense, to management that compliance risks within the scope of the function are appropriately identified and managed
- assisting management to promote the ethics-based foundation of Zurich's corporate culture

This operationalization of the compliance framework relies on regular global compliance risk and assurance assessments which support the compliance function's risk-based strategic and annual planning conducted in consultation with business partners as well as its monitoring activities. The risk and assurance assessment is presented annually to the Audit Committee. Through a comprehensive program, the compliance function implements, embeds and monitors internal compliance policies and guidelines. As part of that program, compliance officers introduce new employees to applicable rules and are involved in the integration of newly-acquired companies. To help employees understand their responsibilities under Zurich's code of conduct and internal compliance policies, all employees receive yearly ethical and compliance training. In addition, each year all Zurich employees confirm their understanding of, and compliance with Zurich's code of conduct and internal policies.

Zurich encourages its employees to speak up and report improper conduct that they believe is illegal, unethical, or violates Zurich's code of conduct or our Group's policies. Employees are free to report their concerns to management, Human Resources, the Group's legal department, its compliance function, or through the Zurich Ethics Line (or similar service provided locally), a phone and web-based service run by an external specialist provider. Zurich does not tolerate retaliation against any employee who reports such concerns in good faith.

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

Risk Management and Internal Control Statement

For information regarding the Group's risk management and internal control framework, see the Risk review of this Annual Report 2017 on pages 120 to 155. The Group no longer separately describes risk management and internal control information in this governance report.

Going concern

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

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Message from our Chairman of the Remuneration Committee

Rewarding employees for delivering on our strategy

"We continue to evolve our remuneration architecture to support the execution of our strategy, with a focus on financial targets, customers and people."

Christoph Franz
Chairman of the Remuneration Committee

Zurich operates a balanced and effectively managed remuneration system.
The remuneration report provides details on this, as well as the link between business performance and variable pay decisions for 2017.

Dear Shareholder

Thank you for your support at the Annual General Meeting (AGM) held in 2017 where we outlined proposed changes, predominantly focusing on our short-term incentive plan (STIP) architecture, to align to the strategic direction communicated in 2016. During the past year we implemented these changes, resulting in a simpler STIP architecture, with funding predominantly based on the business operating profit (BOP) across the Group. We continue to review Zurich's remuneration approach and appreciate your input and support.

Performance 2017

In a year of historic weather events, our focus and discipline delivered strong performance. We improved underwriting, achieved USD 700 million in cost savings, expanded our service offerings, while growing premiums and improving our customer retention levels. 2017 showed strong underlying performance, with BOP up 6 percent versus the prior year after adjusting for the impact of the hurricanes Harvey, Irma and Maria, the impact of charges related to the Group's restructuring taken through business operating profits, and the impact of the change to the UK capital gains tax indexation relief announced in the 2017 budget.

In determining the funding of the STIP, the Committee assessed the overall performance in light of the positive business achievements and the financial position of the Group. The assessment led to an average award under the Group STIP of 106 percent of target relative to an average award of 109 percent of target for the performance in 2016.

Under the Group long-term incentive plan (LTIP), the overall vesting level is 83 percent of target, reflecting the actual achievements for total shareholder return (TSR), net income attributable to shareholders return on common shareholders' equity (NIAS ROE) and cash remittance over the performance period 2015 to 2017. As in 2016, the Committee did not apply any discretion in determining this vesting level. The comparable LTIP vesting level was 121 percent of target for the previous performance period 2014 to 2016.

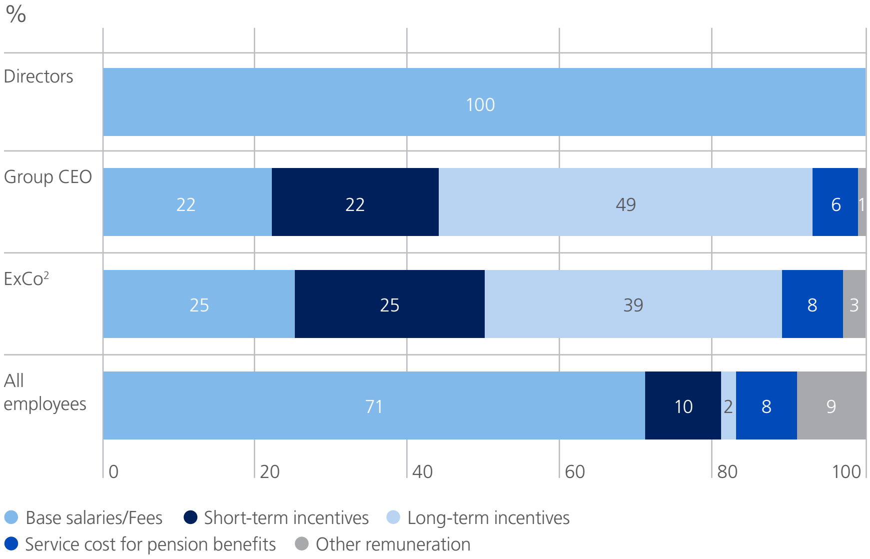
Details on the payments under STIP and the LTIP vesting level are set out in this remuneration report.

The aggregate amount of variable remuneration for 2017 for the entire Group is determined based on the Group's long-term economic performance and resulted in USD 669 million (compared to USD 691 million in 2016).

Remuneration Structure

Zurich's remuneration architecture puts a greater emphasis on variable remuneration elements, with a higher weighting on average towards the long term, for our most senior employees. The variable remuneration is largely determined by the achievements against predefined measures which are aligned with the Group's strategy and financial targets.

2017 remuneration structure and weighting of elements[1]



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

Achievements in 2017

During 2017 we implemented the changes to align the STIP architecture with the organizational structure and ensure consistency in the funding metrics of the STIP pools. In addition, the cash remittance performance metric for LTIP vesting was recalibrated to align with the Group's financial targets. We continued to refine our approach in terms of supporting Zurich's strategic goals and are proposing additional enhancements to STIP. These are covered in more detail in the outlook section of the remuneration report.

AGM 2018

Finally, I would like to thank shareholders and other stakeholders for their input and engagement, especially at the Corporate Governance Roadshows held during 2017. I welcome all shareholders' feedback on this report.

Details on the binding remuneration votes of the Board of Directors (Board) and of the Executive Committee (ExCo) are included in the 2018 Board of Directors Report of Zurich Insurance Group Ltd (Board of Directors Report), which accompanies the invitation to the AGM 2018 (www.zurich.com/en/investor-relations/shareholder-area/annual-general-meeting).

Christoph Franz
Chairman of the Remuneration Committee

Remuneration report

Contents

2017 remuneration summary

This summary provides an overview of the 2017 remuneration of Zurich Insurance Group Ltd and its affiliates (Group or Zurich), including details regarding the link between business performance and variable pay decisions for 2017.

Zurich's remuneration

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

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

2017 remuneration in light of business results

Expenditure on remuneration is considered in the context of Zurich's overall revenues, capital base and profitability. As can be seen from the metrics in the following table, relative to Zurich's overall revenues and shareholders' equity, expenditure on variable remuneration remains relatively small, also in relation to the amount of dividends payable to shareholders. The key financial figures reflect data for 2017 and 2016, and show that the total variable remuneration pool in 2017 is slightly lower compared to 2016.

Key financial figures

in USD millions, for the years ended December 31	**2017**	2016
Gross written premiums and fees[1]	52,005	53,482
Underlying business operating profit[2]	4,762	4,530
Business operating profit (BOP)	3,803	4,530
Net income attributable to shareholders (NIAS)	3,004	3,211
Shareholders' equity	33,062	30,660
Return on common shareholders' equity (ROE)	10.9%	11.8%
Dividends paid to shareholders[3]	2,639	2,643
Total variable remuneration pool for all employees gross before tax	669	691
– as a percentage of gross written premiums and fees	1%	1%
– as a percentage of shareholders' equity	2%	2%
– as a percentage of dividends paid to shareholders	25%	26%

[1] Consists of USD 49,114 million gross written premiums and policy fees as well as USD 2,892 million Farmers management fees and other related revenues in 2017. Farmers Group, Inc., a wholly owned subsidiary of Zurich Insurance Group, provides certain non-claims administrative and management services to the Farmers Exchanges as attorney-in-fact and receives fees for its services. The Farmers Exchanges are owned by their policyholders.
[2] Adjusted for the impact of the hurricanes Harvey, Irma and Maria, measures related to the Group's restructuring, and the impact of changes to UK capital gains tax indexation relief.
[3] Dividend at transaction day exchange rate in 2017 and 2016, respectively.

Remuneration report (continued)

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

Remuneration in light of business performance

Short-term incentive	Average award as a percentage of target 2017	2016[1]
Context		
The key factors driving individual awards for 2017 are primarily: → Group BOP for members of the Leadership Team, control functions and Group and regional employees. → The relevant BOP metrics for countries, business units and Commercial Insurance. → Investment results for Investment Management. → Specific growth, profitability and customer-related measures for Farmers. The average award for plan participants across the Group (more than 37,150 employees) is slightly lower compared to 2016.	106%	109%

Long-term incentive	Vesting level as a percentage of target in 2018	2017
Context		
The key factors driving the vesting level in 2018 are: → The Group's relative TSR against an international peer group of insurance companies → NIAS ROE → Cash remittance Each performance criteria has an equal weighting. Based on the achievements under the three predefined performance criteria over the three-year period 2015 to 2017, the calculated vesting level in 2018 is 83 percent, compared to 121 percent vesting last year. No discretionary adjustment has been made to the calculated vesting level.	83%	121%

Total variable remuneration pool	Aggregate amount is USD million of variable remuneration for the entire Group 2017	2016
Context		
In determining the amount of the total variable remuneration pool for all employees, the Board considers the long-term economic performance of the Group as well as other relevant factors. The average economic profit is calculated by subtracting the required return on economic capital, based on the weighted average cost of capital, from the adjusted BOP[2] after tax. In this respect, the Group has continued to generate economic profit over the long-term which exceeds the actual expenditure on variable pay.	669	691

[1] The key factors driving individual awards for 2016 were the Group's NIAS for members of the Leadership Team, the control functions, Investment Management, support functions and Group Operations; the overall BOP results for General Insurance and Global Life respectively; specific growth and profitability measures for Farmers.
[2] The adjusted BOP is the amount before interest and variable remuneration.

The total variable remuneration pool includes the following elements:

- The total expenditure on cash incentives to be paid for the performance year comprising the amount of the aggregated funding pools under the STIP, and the amounts to be paid under local short-term incentive plans.
- The value of the target share allocations made in 2017 on the assumption that the allocations will vest at 100 percent of the target level in 2020 for performance over the three years 2017, 2018 and 2019.
- The total amount of sign-on payments[1] committed in 2017, regardless of when the payments are due, for people taking up their employment in 2017.
- The total amount of severance payments[2] committed in 2017, regardless of when the payments are due.
- Commission payments made to employed sales agents are not included in the variable remuneration pool.

For 2017, the remuneration amounts were as follows:

Remuneration amounts

in USD millions, for the years ended December 31	Base salary/ Fees[1]	Short-term incentives[2]	Long-term incentives[3]	Other remuneration[4]	Total remuneration 2017[5]	Total remuneration 2016[5]
Directors	4.9	–	–	–	4.9	4.7
ExCo	11.3	14.4	16.7	4.7	47.1	44.9
All employees[6]	3,740	526	129	892	5,287	5,490

[1] Includes the portion paid in sales-restricted shares to Directors.
[2] The cash incentives earned for the year for all employees.
[3] Represents the value of the target share allocations made in 2017, which assumes vesting levels in 2020 at 100 percent of target.
[4] Can include employee benefits such as perquisites and benefits-in-kind, international assignment allowances, service costs for pension benefits and any other payments due under employment contracts.
[5] Actual, gross and for cash amounts based on the accrual principle.
[6] Includes the remuneration for members of the ExCo. The 'other remuneration' of all employees also includes Sign-on and Severance Payments committed in cash and/or in shares for comparison reasons.

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

Outlook summary for 2018

- **Remuneration framework:** Further refinements to STIP to support strategy execution.
  Following implementation of the changes outlined in the remuneration report 2016 (alignment of STIP architecture and STIP funding metrics, and recalibration of the cash remittance metric for LTIP vesting), the overall remuneration framework continues to be refined to reinforce the remuneration principles and support achievement of the strategic goals. Key changes effective January 1, 2018, include incorporating quantitative customer metrics into the assessment of business performance to determine STIP funding in selected markets and at the Group level. This is outlined in more detail in the outlook section of the remuneration report.

  + Page 115

- **Board:** No changes are proposed to the fee structure of the Board for the period AGM 2018 – AGM 2019.
  A benchmarking analysis was carried out; however it was decided not to implement any changes to the fee structure of the Board at this time.

  + Pages 101 to 104

- **ExCo:** No changes are proposed to the remuneration structure of the ExCo in 2018.
  A benchmarking analysis was carried out and given the review of best practices, market data, internal relativities and alignment with the strategy, minor changes to variable remuneration targets have been implemented.

  + Pages 105 to 113

- **Key risk takers:** Continued review of the process and criteria for identifying key risk takers.
  The number of key risk taker roles remained fairly stable in 2017. The process and criteria for identifying key risk taker roles will continue to be reviewed. A risk-based assessment of performance for this population will be carried out again for 2018 and remuneration of the key risk takers continues to be monitored with a greater emphasis toward long-term, therefore deferred, remuneration.

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Remuneration framework

Legal and regulatory requirements

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

- Chapter 5 of the Directive on Information Relating to Corporate Governance of the SIX Exchange Regulation (as of December 13, 2016).
- Swiss Code of Best Practice for Corporate Governance (Swiss Code of Best Practice), issued in 2002 by economiesuisse, as amended in October 2007 and in August 2014.
- Articles 14–16 of the Ordinance Against Excessive Compensation (AEC) (replacing the information in the notes to the consolidated financial statements according to Article 663bbis of the Swiss Code of Obligations).
- Information as required by Article 663c para 3 of the Swiss Code of Obligations.
- Requirements of the Circular 2010/1 on minimum standards for remuneration schemes of financial institutions, issued by the Swiss Financial Market Supervisory Authority (FINMA) on October 21, 2009 as amended on June 1, 2012, December 3, 2015 and September 22, 2016, as well as further guidance issued on January 19, 2011 (FINMA Circular on Remuneration Schemes).

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

The Ordinance AEC came into effect on January 1, 2014 with a two-year transition period. During this time Zurich has amended its Articles of Association as approved by shareholders at the AGM in 2014. Since the AGM in 2015, shareholders are authorized to vote and approve the maximum total amount of remuneration for the Board for the one-year period from AGM to AGM and the maximum total amount of remuneration for the ExCo for the subsequent financial year (Article 18 para 1 Articles of Association: www.zurich.com/en/investor-relations/our-shares/articles-of-association). Details of the votes can be found in the Board of Directors Report accompanying the invitation to the AGM 2018 (www.zurich.com/en/investor-relations/shareholder-area/annual-general-meeting).

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

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

Remuneration philosophy

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

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

In addition, Zurich has a clearly defined global performance management process which supports the achievement of the overall business strategy and operating plans, and links individual pay with business and individual performance. Actions of Zurich employees continue to be guided by Zurich's values. Performance management objectives are therefore assessed not only in terms of what has been achieved, but also in terms of how they have been achieved according to the behaviors underlying Zurich's values.

Guiding principles of the remuneration philosophy

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

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

Governance framework

Remuneration governance framework

The Board is responsible for the design and implementation of Zurich's remuneration principles and remuneration rules (together Zurich's Remuneration Rules). To support the Board in performing these duties, the Board has established a Remuneration Committee. Under the Ordinance AEC and as reflected in the Articles of Association, the members of the Remuneration Committee are elected individually at the AGM. Their term of office ends with the conclusion of the next AGM with re-election being possible. The Remuneration Committee consists of at least three members of the Board, all of whom are experienced in the area of remuneration. As of the AGM in 2017 there continued to be four members in the Committee. The Remuneration Committee evaluates the remuneration architecture and Zurich's Remuneration Rules on an annual basis, and if appropriate, proposes amendments to the Board.

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

The remuneration approval framework is set out as follows:

Approval framework

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

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

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

At Remuneration Committee and Board meetings where decisions are made on the individual remuneration of the Chairman, the Chairman is not present. In making decisions on the individual remuneration of the Group CEO, the Group CEO is not present. Where decisions are made on the individual remuneration of other members of the ExCo, those members are also not present at the meetings. See page 57 in the corporate governance report for further details on the Remuneration Committee's responsibilities.

Remuneration and risk

The Remuneration and Risk and Investment Committees meet jointly once a year to discuss a risk review of the remuneration architecture and the remuneration governance framework. Group Risk Management evaluated the remuneration architecture in 2017 and reported that the remuneration architecture is consistent with effective risk management and does not encourage inappropriate risk-taking that exceeds the Group's level of tolerated risk.

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

Group Risk Management reviews the processes and criteria for identifying the key risk taker roles annually. The criteria are based on factors that materially affect risk-taking within the Group, such as overall governance, capital consumption for each risk type as determined by the internal model, strategy and reputation. The criteria are then applied to those who take, and those who control, the specific risks at the level of the Group where the risks are most material. When applying the criteria in 2017, the number of key risk taker roles remained similar to the previous year.

Group Risk Management, together with other control and assurance functions, provide risk and compliance information about each key risk taker as part of the annual individual performance assessment. The remuneration for key risk taker positions includes STIP and LTIP with a greater emphasis toward long-term, and therefore deferred remuneration.

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

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

Share ownership guidelines

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

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

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

As of December 31, 2017, Directors held 47,012 shares and members of the ExCo held 114,495 vested shares. At the end of 2017, all Directors and all members of the ExCo, who have served at least five years on the Board or the ExCo respectively, met the required share ownership level.

Share dilution

The impact on share dilution resulting from Zurich's LTIP is considered moderate and is in line with market practice. Zurich is taking measures against share dilution however, by cancelling repurchased shares to reverse dilution from the vesting of shares in recent years as part of the LTIP, and intends to purchase shares on the market instead of issuing new shares for the LTIP in future years.

Share dilution as of December 31

		2017	2016
Share dilution	Registered shares as of December 31	151,339,851	150,607,406
	Shares issued during the year	732,445	202,442
	– as percentage of share capital based on the registered shares	0.48%	0.13%
LTIP	Total number of unvested target shares[1]	1,506,385	1,614,185
	– as percentage of share capital based on the registered shares	0.99%	1.07%
	Total number of vested but unexercised options[2]	n.a.	172,978
	– as percentage of share capital based on the registered shares	n.a.	0.11%

[1] Given the vesting level of 83 percent for the share allocations vesting in 2018 and assuming 100 percent vesting in 2019 and 2020. For 2016 the figure represents vesting of 121 percent in 2017 and assumed 100 percent vesting in 2018 and 2019.
[2] These expired in 2017, so there are no further outstanding shares under option as of December 31, 2017.

Remuneration report (continued)

Remuneration elements

Total remuneration

Target total remuneration is set around the relevant market median[3] and includes the following elements:

Remuneration elements

	Fixed remuneration	Variable remuneration		Fixed benefits
	Base salary	Short-term incentives	Long-term incentives	Pensions and employee benefits
Description	Fixed pay for the role performed to attract and retain employees. It is reviewed annually.	Discretionary incentive awards to reward achievement of key financial and individual objectives during the year.	Annual performance-based target share allocations, subject to vesting in accordance with predefined performance criteria. Designed to support Zurich's longer term goals, encourage participants to operate the business in a sustainable manner and align the Group's long-term interests with those of shareholders.	Employee benefits are provided to attract and retain employees, in line with market practices and positioned toward the market median. Pension plans are designed and managed in line with the Group guidelines.
Drivers and/or performance metrics	Scope and complexity of the role, level of responsibility and geographic location.	Award is driven by: – Group and/or country and/or business unit profitability achievements. – Individual performance on personal objectives and behavior in line with Zurich's values as assessed through the performance management process.	Vesting is determined based on (i) the position of the TSR compared with an international peer group of insurance companies derived from the Dow Jones Insurance Titans 30 Index, (ii) the NIAS ROE and (iii) cash remittance.	Market practice and Group guidelines.
Duration	n.a.	1 year.	3–6 years (target shares subject to three-year cliff vesting and one-half of the vested shares are sales-restricted for an additional three years).	n.a.
Range of opportunity	Generally paid within an 80–120 percent range around the relevant market median.	Award of 0 to 200 percent of an individual's target amount.	Vesting level of 0–200 percent of the individual target shares allocated.	n.a.
Eligibility	All employees.	Country specific (more than 37,150 plan participants in 2017).	Members of the ExCo and a defined group of the most senior positions, including key risk takers.	Country-specific.
Delivery	Fixed cash.	Performance-based cash.	Performance-based shares.	Country-specific fixed benefits.
Clawback, malus and hedging	n.a.	Clawback framework established for members of the ExCo to allow for recovery, forfeiture and/or clawback, subject to specific conditions. Malus conditions to reduce or eliminate awards applicable to all STIP participants.	Clawback framework established for members of the ExCo to allow for recovery, forfeiture and/or clawback, subject to specific conditions. Malus conditions to reduce or eliminate awards applicable to all LTIP participants. Individual hedging of share-based remuneration prohibited.	n.a.

[3] To assist decisions regarding remuneration structures and amounts, a review of internal relativities is carried out, along with benchmarking analyses within the relevant market, with a view to position toward the market median. The relevant market is dependent on the nature of an individual's role and considers, amongst other factors, geographical location and scope, and peer companies based on industry and size.

Base salary

See the remuneration elements table for information regarding base salaries.

Variable remuneration

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

Changes to Zurich's short-term and long-term incentives effective January 1, 2017:

In 2016, it was communicated that Zurich was moving to a simpler, more customer-oriented structure, reducing complexity, creating greater accountability and empowering teams to deliver products and services in a unique and differentiated way. Combining life and non-life insurance under one leadership team, taking a comprehensive customer view and applying a unified go-to-market approach, help to achieve this.

Zurich took the opportunity to make changes to the incentive plans to align with the new organizational structure and accountabilities, and the strategic direction. The key changes as outlined in the remuneration report 2016 and effective from January 1, 2017, were:

- Alignment of the STIP architecture to the new organizational structure whereby segment STIP pools have been replaced by a number of Group, country and business unit STIP pools.
- Financial criteria for determining the funding of each pool is now focused primarily on the achievement of BOP goals.
- Recalibration of cash remittance goals for the LTIP vesting in line with the targets set out at the Investor Day held in November 2016 for the performance period 2017–2019.

Further information on the STIP and LTIP are set out below.

Short-term incentives

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

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

Financial performance

Key financial measures per STIP pool

Primarily based on Group, country or business unit BOP

The key driver for determining the STIP award levels per STIP pool is the relevant financial performance during the year, including a qualitative assessment of the results.

STIP award levels

Financial performance, together with a qualitative assessment, determines the funding and the range of STIP awards for each level of individual performance.

Individual performance

Objectives and key achievements

1 Individual objective	2 Individual objective	Etc.

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

STIP award

The individual STIP award, as determined by the relevant financial performance, resulting STIP award levels and individual performance, is paid in cash and capped at 200 percent of the individual STIP target.

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

Vehicle and target award
STIP awards are paid in cash. Each participant has a STIP target established for the performance year at a maximum of 100 percent of the base salary at the end of the performance year (unless otherwise approved by the Board). The participant is allocated to one of the STIP pools within the overall STIP pool architecture for 2017:

- → Group pools: covering the Leadership Team, control functions, Group and regional employees.
- → Investment Management pool.
- → Commercial Insurance pool.
- → Country pools.
- → Farmers: including a pool for Farmers New World Life.
- → Joint venture pools.

The STIP pool architecture is reviewed and approved by the Board annually and is aligned with the organizational structure of Zurich.

Financial performance
The financial measures to fund the pools typically include:

- → Group BOP for members of the Leadership Team, control functions and Group and regional employees.
- → The relevant BOP metrics for countries, business units and Commercial Insurance.
- → Investment results for Investment Management.
- → Specific growth, profitability and customer-related measures for Farmers.

At year-end the key financial figures are evaluated in relation to the business plan which was approved by the Board in the December prior to the relevant performance year. A qualitative assessment of the financial performance also takes place to ensure a holistic evaluation of performance, including the remuneration review carried out by the Group CRO. Depending on the outcome of this assessment, the funding of the STIP pools can vary between 0 percent and 175 percent of target, however typically, the funding varies in the range of 80 percent to 120 percent of target.

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

STIP award levels
The financial performance defines the funding available for each STIP pool and also the resulting range of potential STIP awards for varying levels of individual performance. For example, if the financial performance meets expectations then the award for an individual that successfully achieves his or her individual objectives, will be in line with their STIP target . If the financial performance only partially meets expectations however, then the STIP award for an individual who successfully achieves his or her individual objectives will be lower than target and can potentially be 0 percent of their STIP target. Similarly, if financial performance is above expectations, than an award for an individual can also be above target, but is capped at 200 percent of an individual's STIP target.

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

STIP award

The financial performance and the resulting STIP award levels, together with the individual performance assessment, determine the final individual STIP award for the year which can vary between 0 percent and 200 percent of the individual's STIP target. In this way, STIP awards are differentiated based on financial and individual performance.

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

Long-term incentives

Long-term (three- to six-year) incentives are performance-driven based on the following design:

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

In alignment with the Group's risk profile and business strategy and taking into account best practice principles among insurance companies, views from proxy advisers and shareholders, long-term incentives are provided with a deferral element that takes into account material risks and their time horizon. Such deferred remuneration is structured to promote the risk awareness of participants and to encourage participants to operate the business in a sustainable manner. An illustrative example of the LTIP for the performance period 2017 to 2019 is set out below.

Financial performance

Vesting Grid

Performance criteria	0% vesting	50% vesting	100% vesting	150% vesting	200% vesting
Relative TSR position	13th – 18th	10th – 12th	7th – 9th	4th – 6th	1st – 3rd
NIAS ROE	< 9.75% p.a.	9.75% p.a.	12.00% p.a.	13.125% p.a.	≥ 14.25% p.a.
Cash remittance	< USD 8.5 bn	USD 8.5 bn	USD 9.5 bn	USD 10.0 bn	≥ USD 10.5 bn

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

Vesting level

The vesting level is calculated according to an assessment of the performance criteria in the vesting grid during the three-year performance period. For the NIAS ROE and cash remittance metrics, linear interpolation is used. Each performance criteria has an equal weighting. The vesting level is applied to all LTIP participants and defines the percentage of target shares that will vest.

LTIP award

Allocations are made in the form of target shares. Target shares vest according to the calculated vesting level three years after they were allocated. Half of the vested shares are sales-restricted for an additional three-year period after the date of vesting. The final LTIP award for an individual is capped at 200 percent of the aggregate number of target shares and dividend equivalent shares.

Remuneration report (continued)

A detailed description of the LTIP is set out below:

Vehicle and target amount
Allocations are made in the form of target shares on the third working day in April. Each participant has an annual target amount established for the year of allocation which is determined as a percentage of the annual base salary. The number of target shares is calculated by dividing the target amount by the closing share price on the day prior to the allocation.

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

The performance criteria for the period 2017 to 2019 comprise:

(i) The position of the TSR compared with an international peer group of insurance companies derived from the Dow Jones Insurance Titans 30 Index. The Remuneration Committee reviews the peer companies to be included in the relative TSR assessment regularly to ensure that the peer group exhibits a strong TSR correlation and reflects the Group's business profile and geographic spread. The resulting industry peer group includes the following companies: AIG, Allianz, Allstate, Aviva, AXA, Chubb, Generali, Legal & General, Manulife Financial Corp., MetLife, Munich Re, Progressive Ohio, Prudential Plc, QBE, Swiss Re, The Hartford and Travelers Cos. Inc.

(ii) NIAS ROE (average annual rate over three years) and

(iii) Cash remittance (cumulative over the three-year period).

The cash remittance goals were recalibrated with an increase of USD 0.5 billion as shown in the vesting grid on the previous page. This is relevant for the performance period 2017 to 2019, vesting in 2020. For the vesting decisions in 2018 and 2019 from previous plan allocations, the vesting grid outlined in the remuneration report for 2015 and 2016 is relevant.

The performance criteria for the LTIP have been approved by the Board to support the key strategic targets and foster long-term value generation. The NIAS ROE is a key measure for shareholders and supports the alignment of LTIP participants with shareholder interests. The NIAS ROE goals for the LTIP are also aligned to the targets in the financial plan. Ensuring Zurich generates sufficient cash is another key component of Zurich's financial targets and demonstrates the commitment to creating liquidity for the business and shareholder requirements, hence the inclusion of the cash remittance measure in the LTIP. Finally, the relative TSR measure ensures that an external market industry view is taken by considering Zurich's performance in comparison to its peers.

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

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

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

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

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

LTIP award
The LTIP award is distributed to participants on April 3, three years after the target shares were allocated to the participant. In no circumstances can the LTIP award for an individual be more than 200 percent of the aggregate number of target shares and dividend equivalent target shares noted below.

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

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

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

Vesting levels for LTIP

		Vesting level as percentage of target in						
		2013	**2014**	**2015**	**2016**	**2017**	**2018**	**Average**
Year of LTIP allocation	2012[1]	97%	50%	139%				95%
	2013[1]		50%	139%	0%			63%
	2014[2]			n.a.	0%	121%		81%
	2015				n.a.	n.a.	83%	83%
	2016[3]					n.a.	n.a.	n.a.
	2017[3]						n.a.	n.a.

[1] Prior to 2014, the LTIP allocation vested in three equal tranches across three years following the year of allocation.
[2] With effect from January 1, 2014, the Board approved the transition to three-year cliff vesting. To transition to three-year cliff vesting, the 2014 LTIP allocation vested one-third after two years (2016), and two-thirds after three years (2017). Accordingly, the calculated average for the allocation made in 2014 is based on a weighted average of the vesting levels in 2016 and 2017, at one-third and two-thirds respectively.
[3] For the 2016 and 2017 allocations, the vesting level will be known in 2019 and 2020 respectively.

Remuneration report (continued)

Pensions

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

Other remuneration including employee benefits

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

Audited

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

2017 remuneration and shareholdings

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

Directors

Directors' fees

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

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

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

Fee structure for members of the Board[1]

	Fee elements in cash (CHF 000)	**Fee elements in sales-restricted shares (CHF 000)**	**Total fees in 2017 (CHF 000)**	Total fees in 2016 (CHF 000)
Basic fee for the Chairman of the Board[2]	750	750	1,500	1,500
Basic fee for the Vice-Chairman of the Board[2]	200	200	400	400
Basic fee for a Member of the Board	120	120	240	240
Committee fee[3]	60	–	60	60
Chair fee for the Audit Committee	80	–	80	80
Chair fee for the Remuneration Committee	60	–	60	60
Chair fee for the Risk and Investment Committee	60	–	60	60
Chair fee for the Governance, Nominations and Corporate Responsibility Committee[4]	60	–	60	60

[1] Table excludes other fees for board memberships of subsidiary boards of Zurich (AGM to AGM).
[2] Neither the Chairman nor the Vice-Chairman receive any additional fees for their committee work on the Board of Zurich.
[3] Amount remains the same irrespective of the number of committees on which a member of the Board serves.
[4] For 2017 and 2016 no such fees were paid as the Chairman of the Board has been chairing the Governance, Nominations and Corporate Responsibility Committee.

Remuneration report (continued)

The committees on which the Directors serve are set out in the corporate governance report on page 46. In 2017, the Board consisted entirely of non-executive Directors independent from management.

Where a Director is also a member of one or more subsidiary boards of Zurich, the Director is entitled to an additional fee of CHF 50,000 in 2017 (CHF 50,000 in 2016) per annum plus CHF 10,000 in 2017 (CHF 10,000 in 2016) per annum if he or she also chairs an audit committee of such a board. The fee structure for subsidiary boards can be modified if certain circumstances, for example, the additional time commitment to discharge the duties of a board member, warrant it.

The total aggregate fees allocated to the Directors of Zurich and Zurich Insurance Company Ltd for the calendar year ended December 31, 2017, amounted to CHF 4,832,000. This included CHF 2,802,000 in cash and a value at the allocation date of CHF 2,030,000 in five-year sales-restricted shares. The share price at the allocation date was CHF 285.90. The corresponding amount for 2016 was CHF 4,607,500, which comprised CHF 2,697,500 in cash and a value at the allocation date of CHF 1,910,000 in five-year sales-restricted shares. The share price at the allocation date in 2016 was CHF 222.90. The Directors' fees are not pensionable.

The following tables set out the actual fees paid to the Directors for 2017 and 2016 in Swiss francs. In 2017, ten members served for the full year and one member served for part of the year. In 2016, eight members served for the full year and five members served for part of the year.

Audited

Directors' fees 2017

in CHF	2017[1]						
	Fee elements in cash					Total sales-	
	Basic fee	Committee fee[2]	Chair fee[3]	Other fees[4]	Total cash	restricted shares[5,6]	Total fees
T. de Swaan, Chairman[7]	750,000	n/a	n/a	27,000	777,000	750,000	1,527,000
F. Kindle, Vice-Chairman[7]	200,000	n/a	n/a	–	200,000	200,000	400,000
J. Amble, Member[8]	120,000	60,000	40,000	–	220,000	120,000	340,000
C. Bessant, Member[9]	90,000	45,000	–	–	135,000	120,000	255,000
S. Bies, Member	120,000	60,000	60,000	50,000	290,000	120,000	410,000
A. Carnwath, Member[8]	120,000	60,000	40,000	–	220,000	120,000	340,000
C. Franz, Member	120,000	60,000	60,000	–	240,000	120,000	360,000
J. Hayman, Member	120,000	60,000	–	–	180,000	120,000	300,000
M. Mächler, Member	120,000	60,000	–	–	180,000	120,000	300,000
K. Mahbubani, Member	120,000	60,000	–	–	180,000	120,000	300,000
D. Nish, Member	120,000	60,000	–	–	180,000	120,000	300,000
Total in CHF[10]	**2,000,000**	**525,000**	**200,000**	**77,000**	**2,802,000**	**2,030,000**	**4,832,000**

Audited

Directors' fees 2016

in CHF	2016[1]						
	Fee elements in cash						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fees[4]	Total cash	Total sales-restricted shares[5,11]	Total fees
T. de Swaan, Chairman[7,12]	750,000	n/a	n/a	–	750,000	750,000	1,500,000
F. Kindle, Vice-Chairman[7,13]	200,000	n/a	n/a	–	200,000	200,000	400,000
J. Amble, Member	120,000	60,000	60,000	–	240,000	120,000	360,000
S. Bies, Member	120,000	60,000	60,000	50,000	290,000	120,000	410,000
A. Carnwath, Member	120,000	60,000	–	–	180,000	120,000	300,000
R. del Pino, Member[13]	30,000	15,000	–	–	45,000	–	45,000
T. Escher, Member[13]	30,000	15,000	15,000	–	60,000	–	60,000
C. Franz, Member	120,000	60,000	45,000	–	225,000	120,000	345,000
J. Hayman, Member[13]	90,000	45,000	–	–	135,000	120,000	255,000
M. Mächler, Member	120,000	60,000	–	–	180,000	120,000	300,000
K. Mahbubani, Member[13]	120,000	60,000	–	–	180,000	120,000	300,000
D. Nicolaisen, Member[13]	30,000	15,000	20,000	12,500	77,500	–	77,500
D. Nish, Member[13]	90,000	45,000	–	–	135,000	120,000	255,000
Total in CHF[10]	**1,940,000**	**495,000**	**200,000**	**62,500**	**2,697,500**	**1,910,000**	**4,607,500**

[1] The remuneration shown in the tables is gross, based on the accrual principle and does not include any business-related expenses incurred in the performance of the Directors' services.
[2] Members of a committee receive a cash fee of CHF 60,000 (CHF 60,000 in 2016) for all committees on which they serve, irrespective of the number. The committees on which the Directors serve are set out in the corporate governance report.
[3] Committee chairs receive an annual fee of CHF 60,000 (CHF 60,000 in 2016) and the chair of the Audit Committee receives an additional CHF 20,000 (CHF 20,000 in 2016). The committees on which the Directors serve and the chairs are set out in the corporate governance report.
[4] In addition to the fees received as Directors of Zurich Insurance Group Ltd, Susan Bies in 2016 and 2017, and Don Nicolaisen in 2016, earned fees for their board memberships of the subsidiary board Zurich American Insurance Company. Recognizing the Chairman's long service and outstanding contribution to Zurich, Tom de Swaan received a farewell present worth CHF 27,000. The resulting Swiss tax obligations were met by the company.
[5] The shares allocated to the Directors are not dependent on the achievement of performance criteria and are sales-restricted for five years.
[6] As of June 16, 2017 Tom de Swaan was allocated 2,623 shares, Fred Kindle was allocated 700 shares, and the other members of the Board were allocated 420 shares. The share price (CHF 285.90) as of June 15, 2017 was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash.
[7] Neither the Chairman nor the Vice-Chairman receive any additional fees for their committee work on the Board of Zurich.
[8] Joan Amble stood down from her role as Chair of the Audit Committee as of June 26, 2017. Alison Carnwath took on the role from this date.
[9] At the AGM on March 29, 2017, Catherine Bessant was elected to the Board.
[10] In line with applicable laws, Zurich paid the company-related portion of contributions to social security systems, which amounted to CHF 177,366 in 2017. The corresponding contributions amounted to CHF 293,471 in 2016. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above. Swiss-based Directors are eligible for selected employee benefits.
[11] As of June 16, 2016, Tom de Swaan was allocated 3,364 shares, Fred Kindle was allocated 897 shares, and the other members of the Board were allocated 538 shares each. The share price as of June 15, 2016 (CHF 222.90) was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash.
[12] Tom de Swaan was appointed Chief Executive Officer a. i. effective December 1, 2015. In 2015 no payments were made to Tom de Swaan for this role nor as a member of the ExCo. In 2016, the Board decided that additional remuneration will be paid to Tom de Swaan to recognize the period where he held the position of Chief Executive Officer a. i. This remuneration was disclosed as compensation for management and included in the maximum total amount of remuneration approved for the ExCo by shareholders at the AGM in 2015 or in accordance with Article 18 para. 4 of the Articles of Association. Further details can be found in the section Executive Committee – Remuneration of the ExCo, for 2016.
[13] At the AGM on March 30, 2016, Jeffrey Hayman and David Nish were elected to the Board, and Rafael del Pino, Thomas Escher and Don Nicolaisen retired from the Board. Fred Kindle and Kishore Mahbubani were newly elected as members of the Remuneration Committee.

Remuneration report (continued)

Audited

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

At the AGM on March 29, 2017, Catherine Bessant was elected as a new member of the Board. No Replacement Payments or other benefits were provided. No member of the Board stood down.

As disclosed in the Directors' fees 2017 table, Tom de Swaan received a farewell present to the value of CHF 27,000 recognizing the Chairman's service and outstanding contribution to Zurich. None of the Directors received any additional honoraria or any remuneration or benefits-in-kind from the Group or from any of the Group's companies other than what is set out above.

Remuneration and personal loans for former Directors

No benefits (or waiver of claims) or loans have been provided to former Directors during the year 2017 at conditions which are not at arm's length, nor were any provided during the year 2016.

Related parties to the Directors or to former Directors

No benefits (or waiver of claims) have been provided to related parties of the Directors or related parties of former members of the Board during the years 2017 and 2016, nor had any related party of the Directors or of former members of the Board any outstanding loans, advances or credits as of December 31, 2017 and 2016.

Share plans and shareholdings of Directors

The shareholdings of the Directors who held office at the end of 2017, in shares of Zurich Insurance Group Ltd are shown in the following table. All interests shown include the portion of shares allocated to the Directors as part of their fee, shares acquired in the market by the Directors and shares held by parties related to the Directors.

Directors' shareholdings

Number of Zurich Insurance Group Ltd shares[1] as of December 31	Ownership of shares	
	2017	2016
T. de Swaan, Chairman	12,452	9,829
F. Kindle, Vice-Chairman	20,010	19,310
J. Amble, Member	1,375	955
C. Bessant, Member	420	n/a
S. Bies, Member	3,640	3,220
A. Carnwath, Member	2,300	1,880
C. Franz, Member	1,601	1,181
J. Hayman, Member	958	538
M. Mächler, Member	1,923	1,503
K. Mahbubani, Member	1,375	955
D. Nish, Member	958	538
Total	**47,012**	**39,909**

[1] None of the Directors together with parties related to them held more than 0.5 percent of the voting rights of Zurich Insurance Group Ltd shares as of December 31, 2017 or 2016, respectively.

Executive Committee

Remuneration of the ExCo

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

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

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

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

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

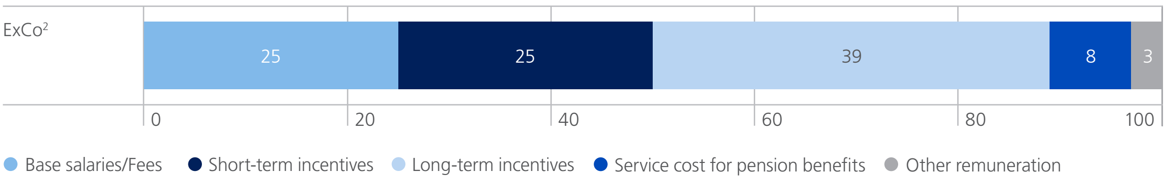
The remuneration structure and the mix of the individual remuneration elements for members of the ExCo are determined by taking into account relevant market practices within the peer groups outlined above and internal relativities.

The total remuneration of the members of the ExCo for 2017 comprised the value of base salaries, short-term cash incentives, the target share allocations made under the LTIP in 2017, pensions and other remuneration including employee benefits.

The distribution of the individual elements making up the total remuneration of the ExCo in 2017, is set out in the following chart and is based on the target values for the performance-related remuneration.

2017 remuneration structure and weighting of elements[1]

%



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

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

Remuneration report (continued)

Elements and amounts of remuneration for the ExCo

The individual remuneration elements and the corresponding amounts are described in more detail below (the amounts for the highest-paid executive and comparative figures for 2016 are also included).

Elements and amounts of remuneration for the ExCo

	Description	Amount
Base salaries paid during the year	See remuneration elements, page 92.	The total amount of base salaries for all members of the ExCo paid in 2017 was USD 11.3 million compared to USD 10.0 million in 2016.
Cash incentive awards earned for the year (under STIP)	For members of the ExCo the STIP target percentages for 2017 vary between 90 and 100 percent of the base salary. The maximum STIP award for all members of the ExCo is 200 percent of the individual target amount. Further information regarding STIP is set out on the next page.	The total amount of annual cash incentive awards to be paid in 2018 for the 2017 performance year for all members of the ExCo is USD 14.4 million compared to USD 12.8 million for 2016. The annual cash incentive awards are determined individually and are performance-based.
Value of target share allocations made during the year (under LTIP)	In 2017, each member of the ExCo received an annual allocation of target shares under the LTIP for the three-year performance cycle 2017–2019. For members of the ExCo the LTIP target percentages in 2017 varied between 90 percent and 225 percent of base salary. As in previous years, the allocations of target shares for 2017 were based on the closing share price from the second working day in April, i.e. on April 4, 2017. The value of target share allocations does not include dividend equivalent target shares. The maximum vesting level, to be assessed in 2020, is 200 percent of the target number of shares allocated.	The total number of target shares allocated in 2017 to members of the ExCo was 63,341 which reflects a value of USD 16.7 million on the second working day in April. This is based on the assumption of 100 percent vesting in 2020, a share price of CHF 263.80 (2016: CHF 203.20) and an exchange rate of CHF 1 = USD 0.99815. This compares with 81,146 target shares allocated in 2016 and a respective value of USD 17.2 million for the allocations made in 2016.
Service costs for pension benefits during the year	Members of the ExCo participate in the pension plan arrangements of the entities where they are employed. The Group's philosophy is to provide pension benefits through cash balance and/or defined contribution plans where funds are accumulated throughout a career to provide retirement benefits. The majority of members of the ExCo participate in such plans and over time, all future members of the ExCo will participate in such plans. The remaining members of the ExCo participate in defined benefit plans that provide retirement benefits based on final pensionable earnings and the number of years of service. Normal retirement ages vary from 60 to 65.	The total value of pension benefits accruing to members of the ExCo during 2017, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles, was USD 3.2 million (compared to USD 3.5 million in 2016). Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans take the amount of the company contribution paid during the year.
Value of other remuneration including employee benefits during the year	Members of the ExCo received other remuneration in 2017 in relation to employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under each member's employment contract.	The total value of other remuneration in 2017 was USD 1.5 million (compared to USD 1.4 million in 2016). Benefits-in-kind have been valued using market rates.

ExCo STIP performance assessment

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

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

With regard to objective setting, each member of the ExCo receives a target card for their area of responsibility at the beginning of the year. The target cards include objectives related to the execution of the strategy in particular in the area of financial measures, customers and relevant strategic projects, with a significant weighting on financial measures.

With regard to assessing performance, reviews are conducted during and at the end of the year. At year-end, each member of the ExCo conducts a self-assessment of their performance achievements in relation to the targets set for the year. Group Risk Management, together with other control and assurance functions, provide risk and compliance information to be considered as part of the ExCo members' individual performance assessment. A year-end discussion is subsequently conducted between each member of the ExCo and the Group CEO. In a rigorous process, the Group CEO and the Remuneration Committee review the individual performance achievements of each member of the ExCo in relation to the targets set for the year, taking into account behavior and risk aspects.

In a similar way, the Remuneration Committee and the Board review the performance achievements of the Group CEO.

For the ExCo, including the Group CEO, the key financial metric for determining the award structure in 2017 is the Group's BOP performance during the year. In evaluating the Group BOP performance, a qualitative assessment of the overall achievement is carried out. The underlying BOP was USD 4.8 billion reflecting a 6 percent increase compared with 2016. There was an improvement in underwriting, cost savings of USD 700 million were achieved and service offerings expanded, while growing premiums and improving customer retention levels. For 2016, the Group's NIAS result was used as the key financial metric to determine the funding level for the members of the ExCo.

As a result of the funding, and of the assessment of the performance achievements by the Remuneration Committee and the Group CEO, individual STIP awards for each member of the ExCo are determined and approved by the Board.

Replacement Payments for members of the ExCo appointed in 2017

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

Replacement Payments were made to the new members of the ExCo who took up their employment with the Group during 2017. The overall value of Replacement Payments for 2017 is USD 3.8 million at the relevant exchange rates throughout the year and at the year-end rate for payments in 2018 and later. They comprise payments in cash over a four-year period from 2018 to 2021 and restricted share allocations that vest over a three-year period from 2018 to 2020. In 2016 the overall value of Replacement Payments made was USD 8.1 million.

Summary of total remuneration (excluding Replacement Payments) in 2017

The following table shows that the total remuneration of the members of the ExCo, comprising base salaries, cash incentive awards earned for the year, the value of target share allocations in 2017 (to be assessed for vesting in 2020), pensions, and the value of other remuneration including employee benefits, amounted to USD 47.1 million. The amount of total remuneration increased compared to USD 44.9 million in 2016, due largely to the higher number of ExCo members in 2017. Below the total amounts, the values of any one-time remuneration awards and the amounts of contractually agreed remuneration after stepping down from the ExCo and during the notice period are disclosed.

Remuneration report (continued)

Audited

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

in USD millions, for the years ended December 31	2017[1, 2]	2016[1, 3]
Base salaries	11.3	10.0
Cash incentive awards earned for the year	14.4	12.8
Value of target performance share allocations	16.7	17.2
Service costs for pension benefits	3.2	3.5
Value of other remuneration[4]	1.5	1.4
Total in USD[5]	**47.1**	**44.9**
Total in CHF[5,6]	**46.4**	**44.2**

in USD million, for the years ended December 31	2017[1, 2]	2016[1, 3]
Other payments and share allocations[7]	3.8	10.1
Contractually agreed remuneration after stepping down and during notice period in the respective year[8]	1.1	3.7

[1] The remuneration shown in the table is gross, based on the accrual principle, for the time employees are members of the ExCo during the year and does not include any business-related expenses incurred in the performance of the members' services.
[2] On the basis of 14 members and former members of the ExCo, of whom 11 served during the full year in 2017.
[3] On the basis of 15 (including Tom de Swaan in his position as CEO a.i.) members and former members of the ExCo, of whom 7 served during the full year in 2016.
[4] Includes remuneration of Tom de Swaan in 2016 for his time in the position of Chief Executive Officer a. i. which amounted to USD 304,602 or CHF 300,000 applying the respective foreign exchange rate.
[5] In line with applicable laws where the executives are employed, Zurich paid the company-related portion of contributions to social security systems, which amounted to USD 2.1 million in 2017 and USD 1.2 million in 2016. Since the contributions are based on full earnings, whereas benefits are capped, there is no direct correlation between the costs paid to the social security system and the benefits received by the executives.
[6] The amounts have been translated from USD to CHF at the relevant exchange rates throughout the year and the cash incentive to be paid in 2018 has been translated at the year-end rate in 2017.
[7] Other payments and share allocations are extraordinary and include payments and share allocations to compensate incentive plan forfeitures with previous employers. The amount for 2017 has been translated into USD at the relevant exchange rates throughout the year and at the year-end rate for payments in 2018 and later.
[8] The amount relates to contractually agreed remuneration for the period of employment in 2017 after stepping down from the ExCo and during the notice period. Such remuneration includes pro-rated base salaries, cash incentives and LTIP target allocations for the financial year 2017.

Based on these figures, the value of the total remuneration for all members of the ExCo comprises 34 percent (33 percent in 2016) in fixed remuneration (comprising base salaries, service costs for pension benefits and other remuneration including employee benefits) and 66 percent (67 percent in 2016) in performance-related elements (comprising the cash incentive awards under the STIP and the value of the target share allocations under the LTIP). The emphasis within variable remuneration lies on the deferred part, with 54 percent represented by target performance shares under the LTIP and 46 percent as cash incentive awards under the STIP.

The amount of LTIP included in the total of USD 47.1 million above, is the value of target share allocations of USD 16.7 million allocated in 2017 and assumed to vest at 100 percent of target in 2020. As mentioned above, the vesting level for the allocations from previous years vesting in 2018 is 83 percent (compared to 121 percent last year), reflecting the performance levels for the three performance metrics over the three-year performance period. The value of the shares vesting in 2018 from the regular LTIP allocations made in prior years to all members of the ExCo who served in full or for part of the year is USD 7.8 million. As a result, the actual earned total remuneration for the period ending December 31, 2017 was USD 38.2 million compared to the total remuneration of USD 47.1 million shown above.

Member of the ExCo with the highest remuneration

The highest-paid individual in 2017 was Mario Greco, Group CEO, with his total remuneration of CHF 8.6 million representing the base salary, cash incentive awards earned for the year, the value of target shares allocated in 2017 under the LTIP, the value of pension benefits and other remuneration including employee benefits. The remuneration for Mario Greco is disclosed for the full year in 2017, compared to pro rata for 2016 reflecting his start date with Zurich in the position of Group CEO on March 7, 2016. There were no changes to his compensation structure in 2017.

Audited

Highest paid executive, Mario Greco for full-year in 2017 and pro rata in 2016 (started on March 7, 2016)

in CHF millions, for the years ended December 31	**2017**[1]	2016[1]
Base salary	1.6	1.3
Cash incentive awards earned for the year	2.8	2.6
Value of target share allocations	3.6	3.4
Service costs for pension benefits	0.5	0.4
Value of other remuneration	0.1	0.1
Total in CHF	**8.6**	**7.8**
Total in USD[2]	**8.7**	**7.9**
in CHF millions, for the years ended December 31	**2017**	2016
Other payments and share allocations[3]	0.0	4.2

[1] The remuneration shown in the table is gross, based on the accrual principle and does not include any business-related expenses incurred in the performance of the Group CEO's services.
[2] The remuneration is paid in Swiss francs. The amounts have been translated from Swiss francs to U.S. dollars at the relevant exchange rates throughout the year. The cash incentive to be paid in 2018 has been translated at the year-end rate in 2017.
[3] Other payments and share allocations are extraordinary and were made in 2016 to compensate incentive plan forfeitures with previous employer. Included in the amount of CHF 4.2 million is a value of CHF 4.0 million which was allocated as additional target performance shares in the 2016–2018 LTIP, to be assessed for vesting in 2019.

The amount of LTIP included in the total of CHF 8.6 million above is the value of the target share allocation of CHF 3.6 million allocated in 2017 and assumed to vest at 100 percent of target in 2020. There are no shares vesting in 2018 from prior allocations and therefore the actual earned total remuneration for the period ending December 31, 2017 was CHF 5.0 million compared to the total remuneration of CHF 8.6 million shown above.

Audited

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

During 2017, there was one new member appointed to the ExCo as an internal appointment, and one new member as an external appointment. No one relinquished their responsibilities as a member of the ExCo in 2017.

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

None of the members of the ExCo received any remuneration from the Group or from any of the Group's companies in 2017 and 2016 other than as set out in the tables above.

As of December 31, 2017 and 2016, there were no loans, advances or credits outstanding for members of the ExCo.

Audited

Remuneration and personal loans for former members of the ExCo

Former members of the ExCo are eligible to continue their mortgage loans following retirement on similar terms to those when they were employed, in line with the terms available to employees in Switzerland. As of December 31, 2017 and 2016, no former member of the ExCo had any outstanding loans, advances or credits.

No former member of the ExCo received remuneration in 2017, other than disclosed in the remuneration report 2017.

Related parties to members or former members of the ExCo

No benefits (or waiver of claims) have been provided to related parties of members of the ExCo or related parties of former members of the ExCo during the years 2017 and 2016. No party related to members of the ExCo or former members of the ExCo had outstanding loans, advances or credits as of December 31, 2017 and 2016.

Share and share option holdings of the members of the ExCo

This section provides a summary of total outstanding share commitments under the LTIP, transition arrangements following the change to cliff vesting in the LTIP from 2014, restricted share allocations and the total outstanding share options for members of the ExCo as of December 31, 2017.

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

As of December 31, 2017, the total number of unvested target share allocations under LTIP was 202,749 (148,322 as of December 31, 2016). Further, the total number of unvested target share allocations under the LTIP transition arrangement was 2,547 (9,627 in 2016) and the number of unvested restricted shares was 15,719 in 2017 (20,103 in 2016).

A summary of the unvested target share allocations as at December 31, 2017 under the LTIP, the transition arrangement and restricted shares is set out in the following table:

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

	Year of allocation	Year of vesting 2018	2019	2020	Total
LTIP[1]	2015	31,731	–	–	31,731
	2016	–	104,524	–	104,524
	2017	–	–	66,494	66,494
LTIP transition[2]	2015	2,547	–	–	2,547
Restricted shares[3]	2016	4,499	2,294	1,935	8,728
	2017	3,495	1,748	1,748	6,991

[1] Dividend equivalent target shares are credited within the regular LTIP. At the vesting date, the original number of target shares allocated, plus the dividend equivalent target shares, will be assessed for vesting in aggregate based on the performance achievements against the vesting grid. No dividends will accrue on the dividend equivalent target shares.
[2] With effect from January 1, 2014, the Board approved a transition to three-year cliff vesting in the LTIP. To maintain target earning opportunities during the transition period, an allocation of supplementary target shares was made to all current LTIP participants in 2014 of which the final tranche vested in 2017. To ensure members of the ExCo further align their long-term interests with those of shareholders, the transition allocation was provided in two installments for the ExCo, with the final installment in 2015, assessed for vesting in 2016, 2017 and 2018.
[3] No performance conditions are applicable for vesting.

Within the context of the regular LTIP allocations made in 2017, these performance based share allocations will be considered for vesting in 2020 with one-half of the resulting vested shares being sales-restricted for a further three-year period.

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

Audited

Share option allocations

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

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

Under the share option program, the total number of shares under option for members of the ExCo as at December 31, 2016 is set out in the following table. These expired in 2017 and there are no further outstanding shares under option as at December 31, 2017.

Summary of unexercised options, 2016

as of December 31, 2016

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

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

Remuneration report (continued)

Audited

Share and share option holdings of members of the ExCo

The following table sets out the actual share and share option holdings of each member of the ExCo as of December 31, 2017 and 2016. In addition to any shares acquired in the market, the numbers include vested shares, whether sales-restricted or not, and vested share options received under the LTIP. The table does not however, include the share interests of the members of the ExCo that are currently unvested target shares or unvested restricted shares.

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

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

Number of shares and vested share options, as of December 31	**2017**		2016	
	Shares	**Vested options[2]**	Shares	Vested options[2]
M. Greco, Group CEO[4]	2,000	n.a.	–	–
U. Angehrn, Group Chief Investment Officer	6,117	n.a.	3,811	6,272
J. Dailey, CEO of Farmers Group, Inc.	10,211	n.a.	7,216	9,231
C. Dill, CEO Latin America[4]	12,509	n.a.	10,258	–
M. Foley, CEO North America	14,824	n.a.	12,188	23,601
J. Howell, CEO Asia Pacific[4]	2,316	n.a.	–	–
A. Martin, Group Chief Risk Officer-Designate[3]	–	n.a.	n.a.	n.a.
G. Quinn, Group Chief Financial Officer	24,598	n.a.	12,855	–
C. Reyes, Group Chief Risk Officer	11,182	n.a.	15,421	–
K. Savio, CEO North America-Designate[3]	4,028	n.a.	n.a.	n.a.
G. Shaughnessy, CEO EMEA[4]	9,540	n.a.	8,259	–
J. Shea, CEO Commercial Insurance[4]	–	n.a.	–	–
K. Terryn, Group Chief Operating Officer[4]	17,170	n.a.	8,778	8,781
Total	**114,495**	**n.a.**	**78,786**	**47,885**

[1] None of the members of the ExCo, together with parties related to them, held more than 0.5 percent of the voting rights as at December 31, 2017 or 2016, either directly or through share options.
[2] The distribution of vested options according to the allocations identified in the table Summary of unexercised options. There are no further outstanding shares under option as of December 31, 2017.
[3] Alison Martin was appointed Group Chief Risk Officer-Designate as an external appointment effective October 1, 2017. Kathleen Savio was appointed CEO North America-Designate as an internal appointment effective October 1, 2017.
[4] Mario Greco was appointed Group CEO effective March 7, 2016. Claudia Dill, CEO Latin America, Jack Howell, CEO Asia Pacific, and James Shea, CEO Commercial Insurance, became members of the ExCo effective October 1, 2016. Gary Shaughnessy became a member of the ExCo effective January 1, 2016 and was appointed CEO EMEA effective July 1, 2016. Kristof Terryn was appointed Group Chief Operating Officer effective July 1, 2016.

Trading plans

To facilitate the sale of shares and the exercise of options for members of the ExCo, the Board approved the implementation of trading plans under a predefined transaction program effective as of 2008. The terms and conditions of the transactions have to be defined and they cannot be changed. All trading plans require the approval of the Chairman of the Board. The establishment of a trading plan by an ExCo member is reported to the SIX Swiss Exchange according to the rules on disclosure of management transactions. As of December 31, 2017, there were no trading plans in place. Further, no trading plans were entered into in 2017 or 2016.

All employees

Remuneration of all employees

Please refer to the remuneration framework section on page 87 for the key elements of remuneration and the benchmarking approach for all employees. Note that the benchmarking analysis is mainly carried out and approved at the local level. The Group had 51,633 full-time equivalent employees as of December 31, 2017 (52,473 in 2016).

The following section includes information regarding the total remuneration earned by employees for the financial year 2017 and 2016 across the Group, including remuneration for members of the ExCo.

Total remuneration for all employees

in USD millions, for the years ended December 31		2017	2016
Fixed compensation	Base salaries	3,740	3,722
	Value of other remuneration including employee benefits[1]	476	601
	Service costs for pension benefits[2]	401	477
Variable remuneration	Cash incentive awards earned for the year[3]	533	542
	Value of target share allocations made in the year[4]	136	148
Total remuneration		**5,286**	**5,490**

[1] Includes employee benefits like health and dental insurance and other fringe benefits.
[2] This represents the present value of the defined benefits from pension and post-retirement benefits plans, plus employers' contributions to defined contribution plans, arising from employee service over the accounting period. The amount included in this figure for defined benefit plans is calculated using actuarial factors and can vary year on year as economic conditions change. These numbers are explained in greater detail in note 20 of the consolidated financial statements.
[3] Includes Sign-on and Severance Payments in cash.
[4] Includes Sign-on Payments in shares.

Value of outstanding deferred remuneration

The Group's remuneration system includes instruments for the deferral of remuneration. The following table provides an overview of the overall value of outstanding deferred remuneration as of December 31, 2017 and 2016:

Value of outstanding deferred remuneration for all employees

in USD millions, for the years ended December 31	2017	2016
Unvested target share allocations[1]	408	380
Unvested restricted share allocations	18	17
Vested but sales-restricted allocations	138	117
Value of overall outstanding deferred remuneration	**564**	**514**

[1] This excludes the value of target share allocations from transition arrangements made in the past.

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

Remuneration report (continued)

Impact on net income in 2017 and 2016 from remuneration made in prior years

Under the LTIP, the vesting level is used to determine the actual number of shares to be awarded to participants relative to the target shares initially allocated. Differences in value between the target shares allocated and the actual shares vesting is reflected in the consolidated income statement in the year of vesting in line with the accounting principles. For the 2015 and 2016 plans with shares vesting in 2018 and 2019 respectively, there was a reduction of USD 20 million in the expense recognized in the 2017 income statement to reflect actual performance compared to original estimates. In 2016, there was no adjustment to the expense recognized in the income statement to reflect the actual amounts.

Key risk takers

The following definition and principles for Sign-on and Severance Payments apply.

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

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

The following table discloses Sign-on and Severance Payments committed to key risk takers. For key risk taker roles where the incumbent is a member of the ExCo, no Payments in Advance and/or Severance payments have been made. Replacement Payments for the ExCo in 2017 and 2016 are included.

Sign-on and Severance Payments for key risk takers

in USD millions, for the years ended December 31	**2017**		2016	
	Amount (USD m)	**Number of beneficiaries**	Amount (USD m)	Number of beneficiaries
Sign-on Payments/number of beneficiaries	7.0	6	11.2	6
Severance Payments/number of beneficiaries	–	–	0.4	1

2018 outlook

Zurich's remuneration architecture is reviewed regularly to ensure compliance with legal and regulatory requirements, to support the achievement of strategic objectives and to align with risk considerations. To further support the customer-led transformation, specifically the approach of listening to and learning from customers by using the Net Promoter Score (NPS), refinements are proposed to the remuneration architecture for 2018. The key aspects are set out below:

- STIP pool funding metrics: Inclusion of quantitative customer metrics in selected major markets to assess the overall business performance and to determine the resulting STIP pool funding and award levels in those markets. Customer metrics using the Transactional Net Promoter Score (TNPS), will be assessed in addition to the existing financial measures and the overall qualitative assessment of the results, to determine the STIP pool funding in these selected markets and also at the Group level.
- Senior executive target card framework: The target card framework for the ExCo and the Leadership Team in 2018 has been revised and focuses on three objective categories covering financials, customers and people. In these three objective categories, quantitative measures and relevant strategic projects are incorporated. Achievement against the predefined targets will be taken into account to evaluate overall individual performance. In addition to operational excellence activities and other projects, the objective categories are also relevant for all employees across the Group.
- Performance management: The way performance is managed at Zurich has been refreshed for 2018 taking employee feedback into account. Employee performance and development have been brought together into one integrated process with more regular feedback conversations and objective categories in line with Zurich's purpose, values and strategic direction.

As in 2017, shareholders will receive the Board of Directors Report 2018 (www.zurich.com/en/investor-relations/shareholder-area/annual-general-meeting). This includes information regarding the two remuneration votes on the total maximum amounts of remuneration for the Board and for the ExCo, which will take place at the AGM on April 4, 2018. The votes allow shareholders to have a say on the prospective remuneration for the Board and remuneration for the ExCo arising from Zurich's remuneration policies. Shareholders will also be given the opportunity to express their opinion on the remuneration report 2017, through a consultative, non-binding vote at the AGM.

The Remuneration Committee will continue to seek dialogue with investors and proxy advisers in 2018. Further, the Committee will ensure that the remuneration framework is aligned with the strategy, is embedded in the risk framework and complies with legal and regulatory requirements. As in previous years, the Committee enforces the governance framework and carefully monitors the link between key performance factors and variable remuneration awards.

Report of the statutory auditor

To the General Meeting of Zurich Insurance Group Ltd on the remuneration report 2017

We have audited the sections on pages 102 to 104 and pages 108 to 112 of the accompanying remuneration report of Zurich Insurance Group Ltd for the year ended December 31, 2017.

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

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

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

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

Opinion
In our opinion, the remuneration report of Zurich Insurance Group Ltd for the year ended December 31, 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Mark Humphreys Audit expert Auditor in charge	Nicolas Juillerat Audit expert

Zurich, February 7, 2018

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Risk review

Message from our Group Chief Risk Officer

Sound risk management in a changing world

As an insurer, we help our customers manage their risks and are accountable for managing our own. By effectively managing our risks, we make sure we are there when our customers need us.

Introduction

I became Zurich's Group Chief Risk Officer January 1, 2018, and so it is my great pleasure to introduce the 2017 risk review, which presents Zurich's major risks and describes how we manage them.

I have inherited strong risk management practices, as evidenced by our strong capitalization and Standard and Poor's very strong rating for Enterprise Risk Management. We have a solid and proven foundation of quantitative and qualitative risk assessments, policies, and risk governance.

I am pleased to have joined Zurich for many reasons. One is the Group's commitment to sustainability, including managing the risks posed by climate change. In this regard I am proud that we are committed to the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) and provide in this report our initial disclosure on the risks we face from climate change.

Also, I have a strong belief in our new purpose and values, which align with our customer-focused strategy to deliver on our promises, to all our stakeholders. In my role as Group Chief Risk Officer I want to be sure we manage our risks so that we can all thrive in this era of change.

External and internal challenges

Our risk landscape is as complex and varied as ever, and we know that risks emerge and develop over time. The Group uses our Total Risk Profiling™ process to evaluate internal and external risks, both those that are market-wide and those idiosyncratic to Zurich. In deciding how to respond, we take into account the time horizon for risks to potentially materialize, as well as what we can control and what we cannot.

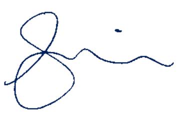
Of the near-to mid-term risks we have identified, I highlight two risks that have strong technology elements and that reflect the rapidly changing environment in which we operate in. The first is the external risk posed by changes in customer expectations, and the corollary internal risk to our ability to engage and provide service to our customers at the desired level. The second is information security and cyber risk.

Financial condition tested under stressed perspective

We use sensitivity and scenario analyses to assess the potential impact of conditions under stress.

The Group identifies plausible threat scenarios and quantifies their potential impact on financial resources, or capital required, or both. Depending on the outcome, we develop, implement and monitor appropriate actions.

In this report, we present Zurich Economic Capital Model (Z-ECM) ratio sensitivity analysis to seven market- and credit-risk scenarios, and three natural catastrophe scenarios. The Z-ECM ratio remains within the 'AA' range for one scenario, and above for the rest. These stress scenarios demonstrate the Group's capital strength and resilience.



Alison Martin
Group Chief Risk Officer

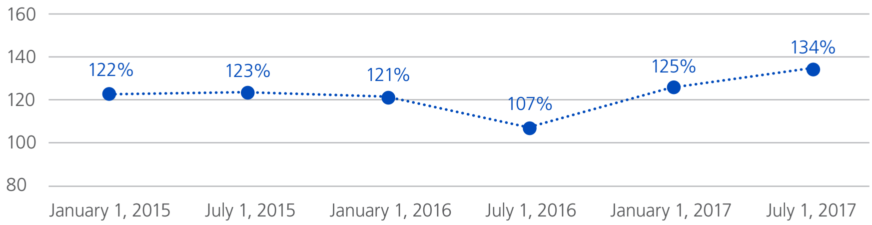
Economic risk profile

The Group's Z-ECM ratio has increased from 125 percent as of January 1, 2017 to 134 percent as of July 1, 2017. Year-end 2017 estimate is 132 percent (with an error margin of +/–5 percentage points). The increase was driven mainly by positive financial market performance and economic profit generation.

Pages 127 to 130

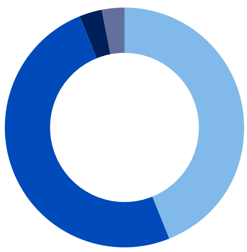
Z-ECM ratio

%



Total Z-ECM capital required: USD 30.5 billion

%, as of July 1, 2017



Insurance risk	44%
Market risk, including investment credit risk	50%
Other credit risk	3%
Operational risk	3%

Highlights by risk type

Insurance risk

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

Pages 133 to 140

Market risk

Market risk remained broadly stable during 2017 following a period of active de-risking in the second half of 2016.

Pages 141 to 147

Other credit risk

The overall credit quality of the reinsurance assets portfolio remains high and stable.

Pages 148 to 150

Operational risk

The Group uses a scenario-based approach to quantify the capital required for operational risk. The top three risk-scenario clusters relate to regulatory compliance, business conduct and M&A transactions.

Pages 151 to 153

Risk review

Contents

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

Audited

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

Audited

Risk management

Objectives of risk management

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

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

- → Support achievement of the Group strategy and protect capital, liquidity, earnings and reputation by monitoring that risks are taken within the Group's risk tolerance
- → Enhance value creation by embedding disciplined risk taking in the company culture and 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's reputation and brand by promoting a sound culture of risk awareness, and disciplined and informed risk taking

Risk management framework

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

The Zurich Risk Policy is the Group's main risk governance document; it sets standards for effective risk management throughout the Group. The policy describes the Group's risk management framework, identifies Zurich's principal risk types and defines the 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 Group regularly reports on its risk profile at local and Group levels. The Group has procedures to refer risk issues to senior management and the Board of Directors in a timely way. To foster transparency about risk, the Board receives quarterly risk reports and risk updates. In 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 Zurich of such topical issues as the Brexit negotiations and geopolitical developments in Asia and Latin America.

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

Risk review (continued)

Audited

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

Group's Z-ECM overall risk appetite and tolerance

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

Z-ECM ratio

Risk-based remuneration

Based on the 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 Group Chief Risk Officer (Group CRO) consults with the other assurance, control and governance functions to provide the CEO with a review of risk factors to consider in the annual variable-compensation process. In consultation with these functions, the Group CRO also provides an individual assessment of Group key risk takers as part of their annual individual performance assessment. For more information on Zurich's remuneration system, see the 'remuneration report.'

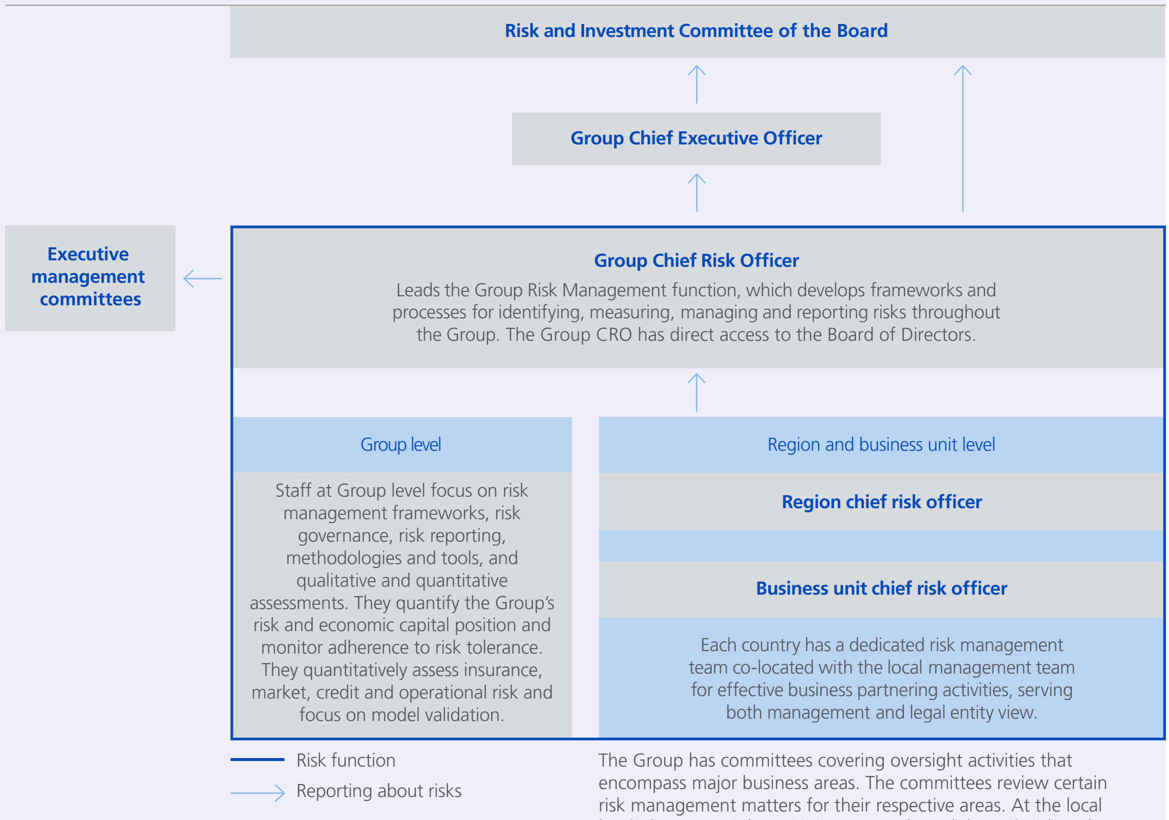
Audited

Risk governance and risk management organization

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

Risk management organization

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



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

The risk function is independent of the business by being a vertically integrated function where all risk employees globally directly report into the Group 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.

Audited

Capital management

Objectives of capital management

The Group manages its capital to maximize long-term shareholder value while maintaining financial strength within its 'AA' target range, and meeting regulatory, solvency and rating agency requirements. In particular, the Group endeavors to manage its shareholders' equity under IFRS to balance maximization of shareholder value and constraints imposed by its economic framework, rating agencies and regulators. As of December 31, 2017, 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 Group's economic framework. Further adjustments usually include such items as intangible assets, deferred tax assets and liabilities, or allowing for discounting of liabilities and the value of in-force business. For more information, see 'analysis of the Group's Z-ECM available financial resources (unaudited).

Zurich strives to simplify the Group's legal entity structure to reduce complexity and increase fungibility of capital.

Capital management framework

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

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

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

Capital management program

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

The Group seeks to maintain a balance between higher returns for shareholders on equity held, and the security a sound capital position provides. Dividends, share buy-backs, and issuances and redemption of debt have a significant influence on capital levels. In 2017, the 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 Group 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 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.

Audited

Risk and solvency assessment

Economic capital adequacy

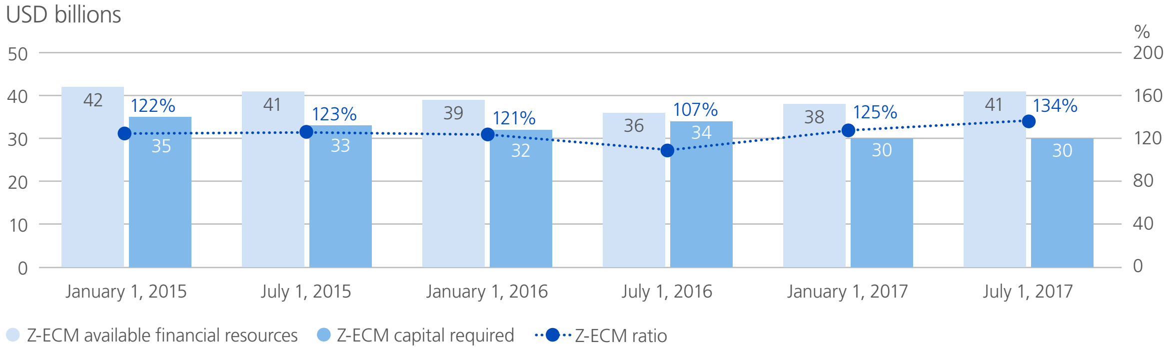
Internally, the Group uses its Zurich Economic Capital Model (Z-ECM), which also forms the basis of the Swiss Solvency Test (SST) model. Z-ECM targets a total capital level that is calibrated to an 'AA' financial strength. Zurich defines the Z-ECM capital required as being the capital required to protect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

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

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

The chart below shows the development of the Group's Z-ECM AFR, Z-ECM capital required and Z-ECM ratio over time. As of December 31, 2017, the Z-ECM ratio was estimated at 132%, with an error margin of +/–5 percentage points.

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

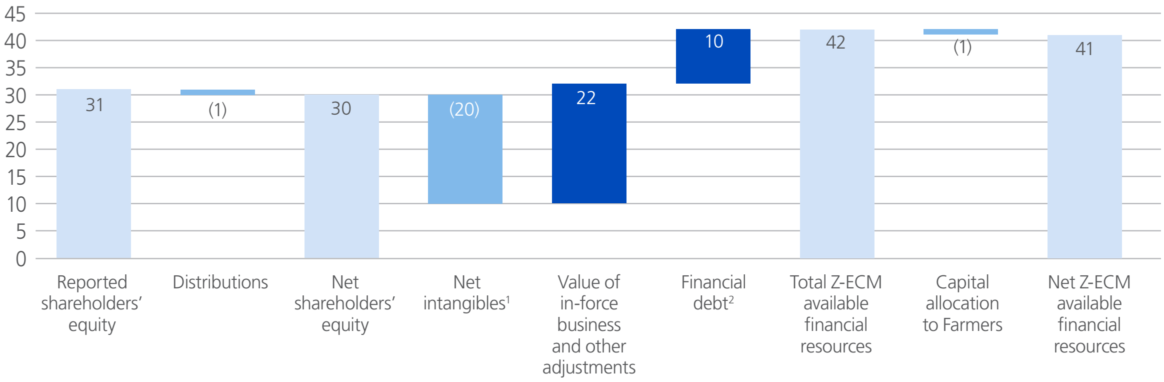


Risk review (continued)

The chart below shows an analysis of the composition of the Group's Z-ECM available financial resources as of July 1, 2017.

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

USD billions, as of July 1, 2017

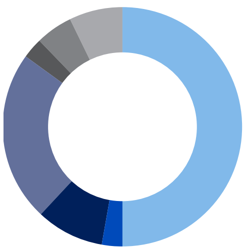


[1] Shareholders' intangible assets including deferred tax assets less deferred front-end fees and deferred tax liabilities
[2] All debt issues (senior and subordinated) excluding those classified as operational debt or maturing within one year

The chart below shows the Z-ECM capital required, split by risk type as of July 1, 2017 and as of January 1, 2017. As of July 1, 2017, the largest proportion of Z-ECM capital required arose from market risk which comprised 50 percent of the total. Capital required for premium and reserve risk was the second-largest, comprising 23 percent.

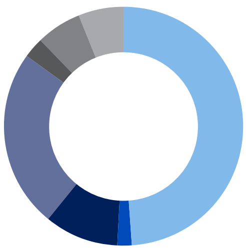
Z-ECM capital required, split by risk type

July 1, 2017
Total Z-ECM capital required: USD 30.5 billion



Market risk	**50%**
Operational risk	**3%**
Business risk	**9%**
Premium & reserve risk	**23%**
Reinsurance credit risk	**3%**
Life insurance risk	**5%**
Natural catastrophe risk	**7%**

January 1, 2017
Total Z-ECM capital required: USD 30.2 billion

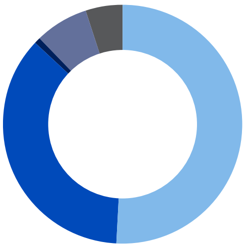


Market risk	**49%**
Operational risk	**2%**
Business risk	**10%**
Premium & reserve risk	**24%**
Reinsurance credit risk	**3%**
Life insurance risk	**6%**
Natural catastrophe risk	**6%**

The total allocated capital as of July 1, 2017 equaled USD 30.5 billion Z-ECM capital required plus USD 0.8 billion allocated to Farmers. As of July 1, 2017 the largest proportions of Z-ECM capital required were allocated to Property & Casualty with 51 percent and Life with 36 percent of the total. The following chart shows the Z-ECM capital required allocated to the businesses as of July 1, 2017 and January 1, 2017.

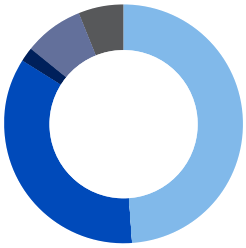
Total capital allocated, by business

July 1, 2017
Total capital allocated: USD 31.3 billion



Property and Casualty	**51%**
Life	**36%**
Group Functions	**1%**
Farmers	**7%**
Non-Core Businesses	**5%**

January 1, 2017
Total capital allocated: USD 31.1 billion



Property and Casualty	**49%**
Life	**35%**
Group Functions	**2%**
Farmers	**8%**
Non-Core Businesses	**6%**

Sensitivity and scenario analysis

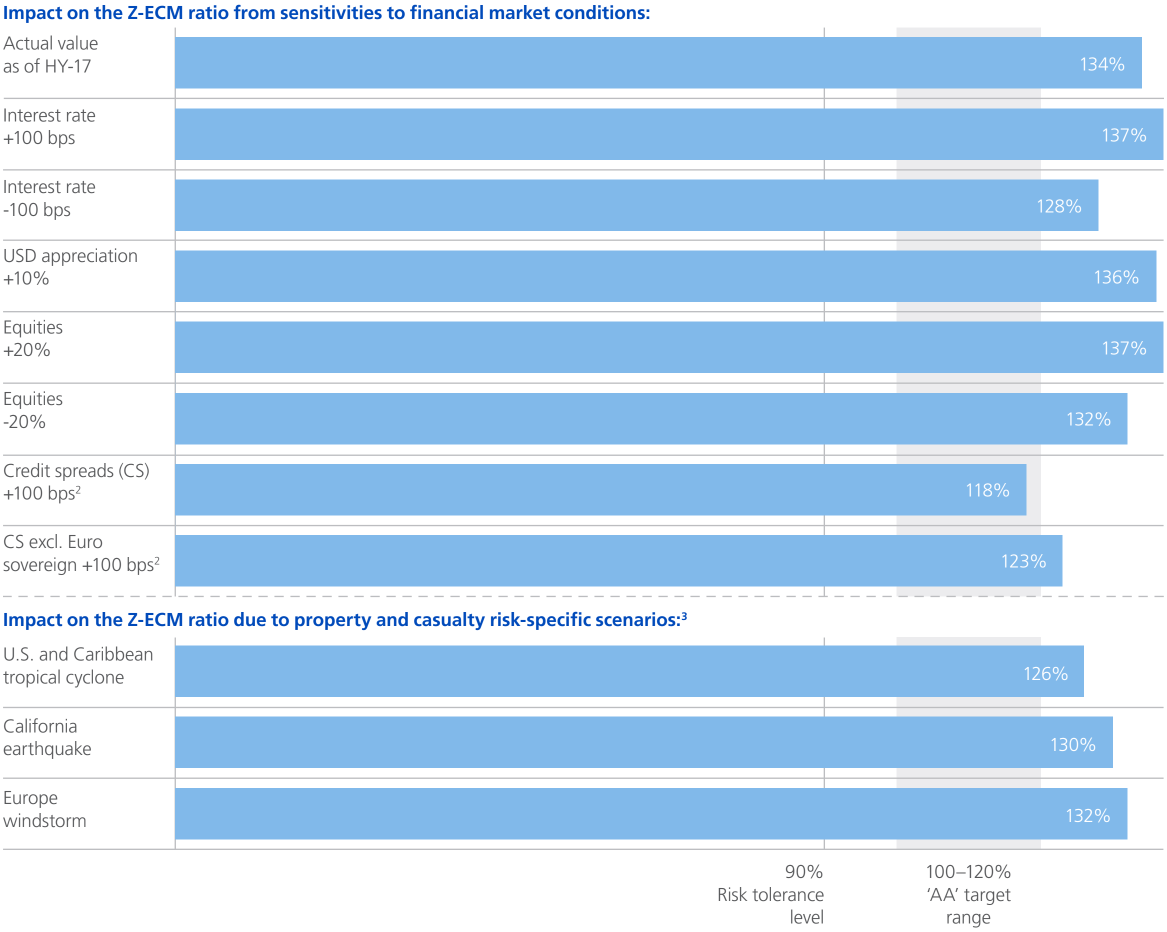
The Group evaluates sensitivities to, and stress scenarios on, the Z-ECM ratio, and presents results relative to Zurich's risk tolerance and appetite. The sensitivities and stress scenarios in the following chart capture two key risks to the Group: market risk and insurance risk. For insurance risk,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

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

Scenarios are defined as events that have a very small probability of occurring but that could, if realized, negatively affect the Group's Z-ECM AFR. The impact of insurance-specific scenarios on the required capital is not taken into account.

Risk review (continued)

Z-ECM sensitivities and scenarios[1]
as of July 1, 2017



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

Audited

Insurance financial strength rating

The 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 Group's main operating entity is an important element of Zurich's competitive position. The Group's credit ratings derived from the financial strength ratings also affect the cost of capital.

The Group maintained its strong rating level in 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 Group 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 Group's Property & Casualty (P&C) operations." This change is also based on the recognition of the 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'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 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 Group endeavors to manage its capital so that all of its regulated entities meet local regulatory capital requirements at all times.

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

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). Zurich filed with FINMA an SST ratio of 227% (unaudited) as of January 1, 2017.

In 2017, Zurich enhanced its internal model and submitted it to FINMA for approval. Enhancements include changes that were necessary to meet evolving FINMA requirements. The changes are expected to reduce the Group's SST ratio by 10 to 25 percentage points (unaudited).

Audited

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

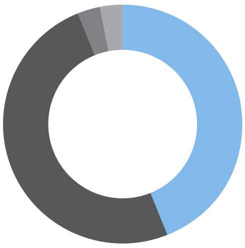
Every country has a capital standard for insurance companies. Several jurisdictions (e.g., Chile, Brazil, Mexico and Japan) have taken approaches similar to Solvency II.

Analysis by risk type

Insurance risk

Section highlights

Total Z-ECM capital required: USD 30.5 billion
%, as of July 1, 2017



Insurance risk	44%
Market risk, including investment credit risk	50%
Other credit risk	3%
Operational risk	3%

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

	Q2 2015	Q2 2016	Q2 2017
Business risk	2.6	3.4	2.8
Life liability risk	1.6	1.9	1.6
Premium & reserve risk	7.6	7.2	7.1
Natural catastrophe risk	3.5	1.5	2.0

Audited

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance cashflows. The profitability of insurance business is also susceptible to business risk in the form of unexpected changes in expenses, policyholders' behavior, and fluctuations in new business volumes. The exposure is transferred to Zurich through the underwriting process. Zurich actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. Zurich manages the customer risks it assumes, and minimizes unintended underwriting risks, through such means as:

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

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 and casualty predominantly relates to unexpected increases in the expenses relating to claims handling, underwriting, and administration. The following provides an overview of the Group's main lines of business:

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

Audited

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

Underwriting discipline is a fundamental part of managing insurance risk. The Group sets limits on underwriting capacity, and delegates authority to individuals based on their specific expertise. The Group sets appropriate underwriting and pricing guidelines, which are monitored regularly. Technical reviews confirm whether underwriters perform within authorities and adhere to underwriting philosophies and policies. The Group has governance procedures to review and approve potential new products, 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 Group levels.

To arrive at their reserve estimates, the actuaries take into consideration, among other things, the latest available facts, historical trends and patterns of loss payments, exposure growth, court decisions, economic conditions, inflation, and public attitudes that may affect the ultimate cost of claim settlement. Inflation is monitored on a country basis; the monitoring process relies on both Zurich’s economic view on inflation and specific claims activity, and feeds into actuarial models and Zurich’s underwriting processes and pricing. To ensure a common understanding of business insights and new trends for reserve analysis, financial plans, underwriting and pricing decisions, the 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 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 Group monitors potential new emerging risk exposures. Zurich has an Emerging Risk Group, with cross-functional expertise from core insurance functions such as underwriting, claims and risk management to identify, assess and recommend actions for such risks.

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

Audited

Tables 1.a and 1.b show the 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 & Casualty risks

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

Table 2.a

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

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	(79)	(70)	(13)	(13)	1	(174)

Table 2.b

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

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	(89)	(69)	(13)	(11)	2	(181)

Audited

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

Unit-linked products are designed to reduce much of the market and credit risk associated with the Group's traditional business. Risks that are inherent in these products are largely passed on to the policyholder, although a portion of the Group's management fees 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 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.

Audited

The 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 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 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 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 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 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.

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 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.

Audited

Analysis of sensitivities for life insurance risk

The Group uses market-consistent embedded value reporting principles, which allow Zurich to increase its understanding of, and report on, the risk profile of its life products, and how these risks would change under different market conditions. Embedded value is a measure that markets use to value life businesses. For more information, see the 'embedded value report 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 Group uses adjusted third-party models to manage its underwriting and accumulations to stay within intended exposure limits and to guide how much reinsurance Zurich buys.

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

The Group models potential losses from property policies in hazard-prone areas with material exposure and from workers' compensation policies covering earthquakes in 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, hail storms, and geologically induced perils such as earthquakes.

The Group constantly seeks to improve its modeling, fill in gaps in models with additional assessments, and increase the granularity of data collection. It uses internal and external knowledge in modeling accumulations. One such source of external knowledge is the 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 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's experience in monitoring potential exposures to natural catastrophes is also applicable to threats posed by man-made catastrophes.

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

Audited

Reinsurance for Property & Casualty and Life

The Group's objective in purchasing reinsurance is to provide market-leading capacity for customers while protecting the balance sheet, supporting earnings volatility management, and achieving capital efficiency. The Group follows a centralized reinsurance purchasing strategy for both Property & Casualty (P&C) and Life, and bundles programs, where appropriate, to benefit from diversification and economies of scale. In support of the Group's empowerment-based management model and to align risk-bearing capacities between the 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 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 Group structures and aligns its external reinsurance protection to its capital position to achieve an optimum risk-return ratio. This includes a participation in the underlying risks through self-retentions. The Group manages its central reinsurance purchasing according to these principles. The cession rate for 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 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 Group against man-made and natural catastrophe scenarios, Zurich arranges per event and annual aggregate global covers as illustrated on the graph on the next page.

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

Major changes in 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.

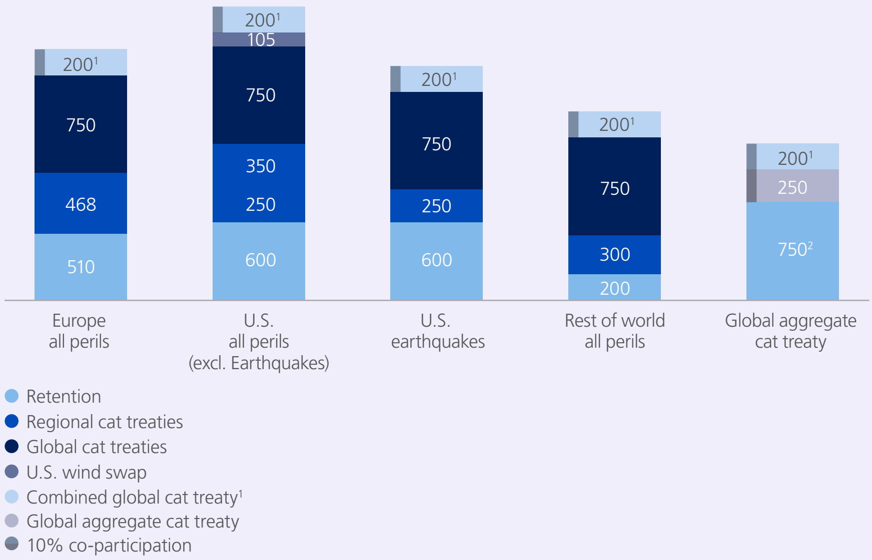
To complement existing treaties, the Group purchases catastrophe reinsurance specific to life insurance for its exposure to natural and man-made catastrophes.

Risk review (continued)

Audited

2017 Group catastrophe reinsurance protection

USD millions, as of December 31, 2017



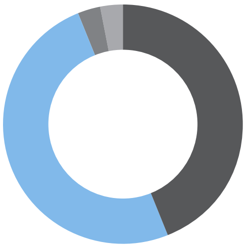
[1] This cover can be used only once, either for aggregated losses or for an individual occurrence or event.
[2] Franchise deductible of USD 25 million, i.e. losses greater than USD 25 million count toward the erosion of the retention (annual aggregate deductible).

Market risk, including investment credit risk

Section highlights

Total Z-ECM capital required: USD 30.5 billion

%, as of July 1, 2017



Insurance risk	44%
Market risk, including investment credit risk	50%
Other credit risk	3%
Operational risk	3%

Key risk and capital indicators

Z-ECM, in USD billions

	Q2 2015	Q2 2016	Q2 2017
Market risk, including investment credit risk	16.3	18.7	15.2

Audited

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

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

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

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

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

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

Audited

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

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

Risk from equity securities and real estate

The Group is exposed to risks from price fluctuations on equity securities and real estate. These could affect the Group's liquidity, reported income, economic surplus and regulatory capital position. Equity risk exposure includes common stocks, including equity unit trusts, private equity, common stock portfolios backing participating-with-profit policyholder contracts, and equities held for employee benefit plans. Exposure to 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 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 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 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 Group has the capability and processes in place to change the exposure to the key equity markets within a short time frame through the use of derivatives.

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

Risk from interest rates and credit spreads

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

The 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 Group is exposed to fluctuations in interest rates and credit spreads in so far as they affect the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

Audited

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

Group investments sensitivities

The economic market risk sensitivities for the fair value for 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, 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 Group investment sensitivities. 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 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 Group's view of expected future market changes.

In addition to the sensitivities, management uses stress scenarios to assess the impact of more severe market movements on the Group's financial condition. For more information on stress scenarios, see 'Group economic net asset sensitivities '(unaudited), below.

Group economic net asset sensitivities

Basis of presentation – Property & Casualty, Life, and rest of the business

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

The basis of presentation for the Life business to financial market movements uses replicating portfolios. The replicating portfolios are portfolios of assets that replicate the cash flows or present values of the life insurance liabilities under stochastic scenarios from the embedded value models. They are calibrated to match dependencies of life insurance liabilities on developments in the financial markets, in respect of interest rates, equity and property. The options and guarantees of the underlying life insurance liabilities are captured through the inclusion of options in the replicating portfolios The methodology for embedded value models was enhanced during 2017 to allow for negative interest rates. This caused a change in interest rate sensitivities for the Life business; see table 4.

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

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

Sensitivities for the rest of the business include Farmers, Group Finance and Operations, and Non-Core Businesses.

The sensitivities for 2016 reflect the new basis of presentation (net impact before tax) and include the latest liability information available for that time.

Risk review (continued)

Analysis of economic sensitivities for interest-rate risk

Table 4 shows the estimated impacts of a 100 basis point increase/decrease in yield curves after consideration of hedges in place, as of December 31, 2017 and 2016.

* Economic interest rate sensitivities

Table 4

In USD millions, as of December 31	**2017**	2016
100 basis point increase in the interest rate yield curves		
Property & Casualty		
Net impact before tax	(278)	(323)
Life[1]		
Net impact before tax	244	(414)
Rest of the business		
Net impact before tax	(275)	(150)
100 basis point decrease in the interest rate yield curves		
Property & Casualty		
Net impact before tax	100	204
Life[1]		
Net impact before tax	(1,127)	(553)
Rest of the business		
Net impact before tax	236	166

[1] Modeling enhancements introduced in 2017 for the Life business reflect model revisions to allow for the introduction of negative interest rates. 2016 sensitivities presented are based on replicating portfolios calibrated to embedded value models using floored interest rate models.

Analysis of economic sensitivities for equity risk

Table 5 shows the estimated impacts from a 10 percent decline in stock markets, after consideration of hedges in place, as of December 31, 2017 and 2016.

* Economic equity price sensitivities

Table 5

In USD millions, as of December 31	**2017**	2016
10% decline in stock markets		
Property & Casualty		
Net impact before tax	(642)	(558)
Life		
Net impact before tax	(422)	(283)
Rest of the business		
Net impact before tax	(74)	(50)

Analysis of economic sensitivities for credit spread risk

Table 6 shows the estimated impacts from a 100 basis points increase in corporate credit spreads, as of December 31, 2017 and 2016. The sensitivities apply to all fixed income instruments, excluding government, supranational and similar debt securities. For Life business the loss absorbing capacity of liabilities for losses on credit spreads are not included as they are not modelled in the replicating portfolios.

* Economic credit spread sensitivities

Table 6

In USD millions, as of December 31	**2017**	2016
100 basis point increase in credit spreads		
Property & Casualty		
Net impact before tax	(1,694)	(1,642)
Life		
Net impact before tax	(3,095)	(3,197)
Rest of the business		
Net impact before tax	(564)	(384)

* Limitations of the economic sensitivities: same limitations apply as for Group investments sensitivities except that the above sensitivities are based on economic net assets including liability representation see 'basis of representation.'

Audited

Risks from defaults of counterparties

Debt securities

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

Table 7

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%**

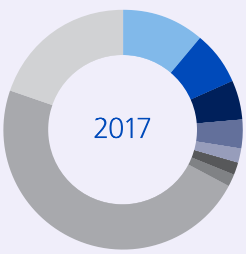
Table 7 shows the credit risk exposure of debt securities, by issuer credit rating. As of December 31, 2017, 95.4 percent of the Group's debt securities was investment grade and 25.2 percent was rated 'AAA'. As of December 31, 2016, 95.5 percent of debt securities was investment grade and 20.3 percent 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 Group identifies investments expected to trigger limit breaches, appropriate actions are implemented.

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

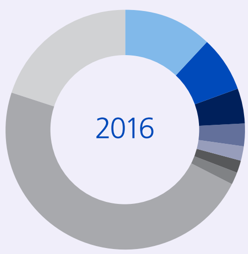
Debt securities – credit risk concentration by industry

%, as of December 31



USD 148bn

MBS/ABS	11.2%
Manufacturing	7.4%
Others	5.2%
Utilities	3.9%
Telecom	1.9%
Oil & gas	1.8%
Chemicals & pharmaceuticals	1.6%
Government, supranationals & similar	47.6%
Financial institutions & similar	19.6%



USD 140bn

MBS/ABS	12.2%
Manufacturing	7.4%
Others	4.7%
Utilities	3.1%
Telecom	1.8%
Oil & gas	1.9%
Chemicals & pharmaceuticals	1.6%
Government, supranationals & similar	47.5%
Financial institutions & similar	19.8%

As of December 31, 2017, the largest concentration in the 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 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.

Risk review (continued)

Audited

The Group's debt exposure to eurozone governments and supranationals and similar

Table 8

in USD millions, as of December 31	**2017**	2016
Germany	4,352	3,269
France	6,689	6,159
Austria	2,344	1,934
Belgium	2,506	2,267
Netherlands	1,303	1,273
Greece	–	–
Ireland	629	521
Italy	9,756	9,128
Portugal	773	551
Spain	7,989	6,804
Rest of eurozone	680	742
Eurozone supranationals and similar	1,639	1,388
Total	**38,658**	**34,037**

In addition to debt exposure, the 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 'mortgage loans and other loans section.

The second-largest concentration in the 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 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 Group limits the amount of cash that can be deposited with a single counterparty. The Group also maintains an authorized list of acceptable cash counterparties.

Cash and cash equivalents amounted to USD 8.2 billion as of December 31, 2017 and USD 7.2 billion as of December 31, 2016. The risk-weighted average rating of the overall cash portfolio is 'A–' as of December 31, 2017 and December 31, 2016. 74 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 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 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. Reported loans to governments, supranationals and similar represent 59.6 percent, 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.

Audited

Derivatives

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

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

Risk from currency exchange rates

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

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

Table 9 shows the total IFRS equity's sensitivity to changes in exchange rates for the main functional currencies to which the Group is exposed. Positive values represent an increase in the value of the Group's total equity. See notes 1, 3 and 7 of the consolidated financial statements for additional information on foreign currency translation and transactions.

Table 9

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

in USD millions, as of December 31	**2017**	2016
10% increase in		
EUR/USD rate	467	515
GBP/USD rate	245	208
CHF/USD rate	447	457
BRL/USD rate	147	139
Other currencies/USD rates	645	546

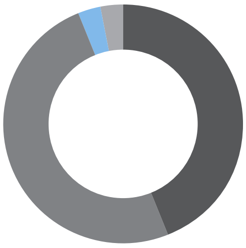
The sensitivities show the effects of a change of the exchange rates only, while other assumptions remain unchanged. The sensitivity analysis does not take into account management actions that might be taken to mitigate such changes. The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent Zurich'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.

Risk review (continued)

Other credit risk

Section highlights

Total Z-ECM capital required: USD 30.5 billion
%, as of July 1, 2017



Insurance risk	**44%**
Market risk, including investment credit risk	**50%**
Other credit risk	**3%**
Operational risk	**3%**

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

	Q2 2015	Q2 2016	Q2 2017
Reinsurance credit risk	1.0	0.6	0.9

Audited

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

- Reinsurance assets
- Receivables

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

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

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

Credit risk concentration

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

Audited

Credit risk related to reinsurance assets

The Group's Corporate Reinsurance Security Committee manages the credit quality of cessions and reinsurance assets. The Group typically cedes new business to authorized reinsurers with a minimum rating of 'A–.' As of December 31, 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 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 10 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 10 shows reinsurance assets and unsecured reinsurance assets split by rating.

Table 10

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.

Audited

Credit risk related to receivables

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

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

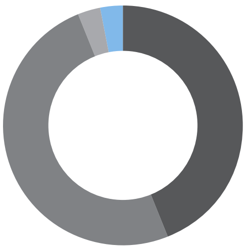
Receivables from ceded reinsurance are part of reinsurance assets and are managed accordingly. See notes 15 and 24 of the consolidated financial statements for additional information on receivables.

Operational risk

Section highlights

Total Z-ECM capital required: USD 30.5 billion

%, as of July 1, 2017



Insurance risk	44%
Market risk, including investment credit risk	50%
Other credit risk	3%
Operational risk	3%

Key risk and capital indicators

Z-ECM, in USD billions

	Q2 2015	Q2 2016	Q2 2017
Operational risk	0.9	0.6	0.9

Audited

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

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

- Uses a scenario-based approach to assess, model and quantify the capital required for operational risk for business units under extreme circumstances. This approach allows information to be compared across the Group and highlights the main scenarios contributing to the Z-ECM capital required. See chart 'Z-ECM capital required for operational risk split by risk scenarios (unaudited)' for more information.
- Documents and reviews loss events exceeding a threshold determined 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 Group uses such sources of information as the Total Risk Profiling™ process, internal control assessments, and audit findings, as well as scenario modeling and loss event data.

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

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

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

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

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

Z-ECM capital required for operational risk, split by risk scenario clusters
as of July 1, 2017

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

Regulatory and tax compliance: This risk cluster relates to possible non-compliance with applicable laws and regulations, leading to a range of consequences. It includes fines and penalties, litigation, compensation to policyholders, increased regulatory scrutiny, financial losses and increased cost of compliance, as well as consequences from a possible failure to comply with tax requirements.	**17.8%**
Market abuse, mis-selling and conduct of business: This risk cluster relates to the possibility that staff, processes or systems may operate in ways that lead to inappropriate conduct of business in relation to the customer. It includes the possibility of investigations, sanctions and fines imposed on Zurich as a company or any member of staff as a result of market abuse, mis-selling practices leading to regulatory breach or increased compensation.	**12.5%**
M&A – due diligence and integration: This risk cluster relates to poor execution of both the due diligence and the post-M&A integration processes. It includes the understatement of liabilities and required investments, operational or legal risks in the acquired business, inadequate transaction decisions, loss of key staff, inability to realize synergies or deliver benefits.	**11.9%**
Other scenarios, e.g., project management, employment malpractice, record retention, licensing, outsourcing	**57.8%**

Risk management and internal controls

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

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

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

In 2017, the Group further enhanced specific areas of the internal control framework, focusing on significant financial reporting controls as well as controls to ensure the integrity of our regulatory and internal capital calculations. Significant controls are assessed for their design and operating effectiveness. Significant control issues or issues affecting more than one business unit may be categorized as having Group-level significance. The Risk and Investment Committee of the Board and the Audit Committee of the Board monitor resolution of such issues.

The Group's Disclosure Committee, chaired by the Head of Group Financial Accounting and Reporting, assesses the content, accuracy and integrity of the disclosures and the effectiveness of the internal controls over financial reporting. The conclusions result in a recommendation to the Group Chief Financial Officer to release the financial disclosures to the Audit Committee of the Board, which may challenge further. The Board reviews and approves results announcements and the annual report. This ensures that both the Board and management have sufficient opportunity to review and challenge the Group's financial statements and other significant disclosures before they are made public.

The Risk and Investment Committee of the Board has reviewed the effectiveness of the Group's risk management system, including the Group's risk tolerance and enterprise-wide risk governance framework, and the Audit Committee of the Board has reviewed the effectiveness of the system of control over financial reporting for the calendar year 2017 and has reported to the Board accordingly. Issues identified have been communicated to the Board and have been or are being addressed by the Group.

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

Audited

Liquidity risk

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

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

The Group 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 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 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 Group's ongoing liquidity monitoring includes regular reporting to the executive management and quarterly reporting to the Risk and Investment Committee of the Board, covering aspects such as the Group's actual and forecast liquidity, possible adverse scenarios that could affect the Group's liquidity and possible liquidity needs from the Group's main subsidiaries, including under conditions of stress.

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

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis. See note 22 of the consolidated financial statements.

Audited

Strategic risk and risks to the Group’s reputation

Strategic risk

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

Strategic risks can arise from:

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

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

The Group works to reduce unintended risks of strategic business decisions through its risk assessment processes and tools, including the Total Risk Profiling™ (TRP) process. As part of the regular TRP process, in 2017 the Executive Committee (ExCo) assessed the key strategic risk scenarios, looking at 2018 and beyond. The 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’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’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 Group evaluates the risks of M&A transactions both from a quantitative and a qualitative perspective. The Group conducts risk assessments of M&A transactions to evaluate risks specifically related to integrating acquired businesses.

Risks to the Group’s reputation

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

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

Climate-change risk

Climate change is perhaps the most complex risk facing society today: it is inter-generational, international and interdependent. As a global insurer, Zurich faces risks from climate change. In 2017, Zurich conducted its first Group-wide analysis of climate change-related risks and identified a set of actions to address them.

Zurich uses the framework of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) to distinguish between two types of climate-related risks:

- Transition risk – risks associated with the transition to a low-carbon economy
- Physical risks – risks associated with physical manifestations of excessive warming

Zurich based its analysis on two scenarios to represent an archetypical transition pathway and a physical risk pathway, and applied a scorecard approach to assess the relative likelihood of the two scenarios, and their progression along pathways over time. The two scenarios are not mutually exclusive as transition risks and physical risks coexist, but Zurich's initial assessment shows that a physical risk pathway currently is significantly more likely than a transition pathway.

Overall the Group considers its near-term (less than five years) climate change-related risks to be manageable and foreseeable, whereas long-term (more than 10–15 years) risks to be elevated and highly uncertain.

The Group analyzed the effect of climate-change risk on its major risk types:

- Underwriting risks:
  - Physical risks: Generally, annual policy renewals provide a degree of insulation against increasing physical risks for short-tail business. Initial analysis suggests that property, motor and crop lines of business are potentially most at risk from climate change, with rainfall, cyclone and hail as the driving perils. While standard industry natural catastrophe models are regularly updated and designed to reflect today's risk, including climate change, potential gaps are addressed as part of Zurich's model validation process and the 'Zurich View' approach, leveraging both internal and external expertise. For long-tail business, legal liability represents the most significant potential risk from climate change. However, based on Zurich's current assessment, this and related risks are not material at this time, although climate change-related legal action could become more frequent going forward.
  - Transition risks: Specific lines of business may be at risk from transition effects. Initial assessment suggests that this risk is contained. Zurich has considerable expertise in providing insurance solutions for green assets but not all types of 'green' assets represent, to date, profitable business opportunities.
- Investment risks: Zurich analyzed physical and transition risks for selected parts of its investment portfolio. While Zurich is exposed to both near-term transition and long-term physical risk, initial analysis suggests that very significant impairments would be required for the Zurich portfolio to be materially impacted. The Group does not consider such impairments currently likely, and exposure is expected to be further mitigated with ongoing implementation of Zurich's responsible investment and climate change investment strategies.
- Operational risks: Given the low-carbon nature of Zurich's business, continuous progress on energy and carbon reduction targets, Zurich's voluntary carbon offsetting scheme, and strong local disaster and recovery planning in place for all facilities, Zurich does not consider operational risks related to climate change to be material.

Efforts are underway to further assess climate chang-related risk exposures for underwriting and investment portfolios. Among its follow-up actions, the Group plans to further analyze its underwriting portfolio for transition risk, amend its governance requirements to reflect climate risk in catastrophe modeling, and monitor and assess opportunities in green assets.

In addition, the Group is integrating climate and sustainability risk assessments into its standard enterprise risk management framework and tools to consistently identify risks and create mitigating actions over time. For more information about Zurich's assessment of climate risk, see www.zurich.com/en/knowledge/articles/2017/11/me-topic-navigating-climate-change. For more information about TCFD disclosures, including Zurich's governance, strategy, and metrics, see www.zurich.com/en/corporate-responsibility/climate-change/tcfd.

Financial review

Message from our Group Chief Financial Officer

Building momentum

“Overall, the results show strong progress across all areas of the business and, together with improved efficiency, position the Group well to deliver further earnings growth and to take advantage of an improved market environment.”

George Quinn
Group Chief Financial Officer

For Zurich, 2017 was another year of progress, with the Group growing operating earnings[1] while continuing to improve its focus. Reflecting this performance, and management’s expectations of further improvement in 2018, the Board will propose a CHF 18 per share dividend for 2017.

Executing on key strategic priorities

2017 showed a strong underlying performance, with BOP up 6 percent versus the prior year after adjusting for the impact of the hurricanes Harvey, Irma and Maria, the impact of charges related to the Group’s restructuring taken through business operating profits and the impact of the change to the UK capital gains tax indexation relief announced in the 2017 budget.

The Group further reduced expenses, with overall savings of USD 700 million achieved to date since the start of the program, and with further savings expected to be delivered in 2018. This represents good progress toward the goal to reduce expenses by USD 1.5 billion versus the 2015 baseline, a further proof of execution against the Group targets.

A strong capital position

During the year, management continued to improve the Group’s focus and optimize how we use capital. Zurich has made considerable progress in refocusing on its core business, exiting under-performing or non-strategic units while building capabilities in select growth markets through targeted acquisitions totaling USD 2.7 billion in 2017.

The company underpinned its position as one of the top three global providers of travel services with the acquisitions of Cover-More Group Limited and Halo Insurance Limited.

On track to meet our 2017–2019 financial targets

This strong capital position is reflected in a Z-ECM ratio estimated at 132 percent as of December 31, 2017, with an error margin of +/–5 percentage points, which is above the 100–120 percent target range. The Group also delivered USD 3.7 billion of net cash remittances in 2017, consistent with our target of more than USD 9.5 billion for the 2017–2019 period.

Business operating profit after tax return on equity (BOPAT ROE) was 12.1 percent[1,2] for the year, in line with the targeted 12 percent and growing over the 2017–2019 period.

The Group continued to execute against its expense targets, with cumulative net savings of USD 700 million achieved to date, on track to deliver USD 1.5 billion of savings by 2019.

Progress made across all businesses

P&C results show management actions taking hold. Top-line growth has stabilized over the year, with a return to growth in the second half, while the accident year combined ratio excluding catastrophes reduced by around one percentage point, driven by an improved underwriting performance and reduced expenses. The Group expects to deliver further improvement in the underwriting results, as the focus on technical performance and the reshaping of the portfolio continues to have a positive effect, in particular in the commercial insurance business.

The Life business continued to build on its unit-linked and protection strategy. The combination of portfolio growth, improved product mix and cost improvements has led to strong growth in BOP of 22 percent,[1] as well as 28 percent growth in new business value.

The Farmers Exchanges[3] have continued to show steady growth, while also improving their underwriting performance and key customer metrics. Growth in the Farmers Exchanges has also continued to drive top-line growth in Farmers Management Services, while Farmers Life has reflected the broader positive trends within the Group's life businesses with solid earnings growth combined with expanding margins for new business.

George Quinn
Group Chief Financial Officer

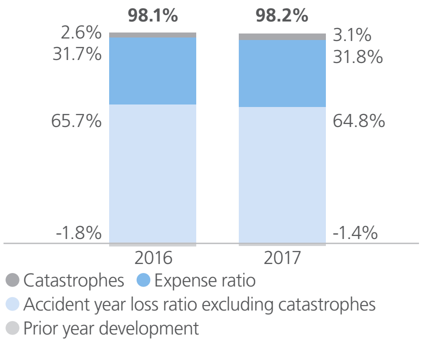
2017–2019 financial targets

Target: >12.0%	Target range: 100–120%	Target: >USD 9.5bn	Target: USD 1.5bn
BOPAT ROE[1,2]	**Estimated Z-ECM ratio**	**Cumulative cash remittances**	**Cumulative net expense savings**
12.1%	132%	USD 3.7bn	USD 700m
FY 2017	FY 2017	FY 2017	as of FY 2017

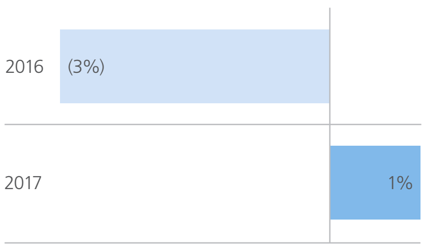
Continued delivery across all businesses

Property & Casualty (P&C)

Combined ratio[1] (%)

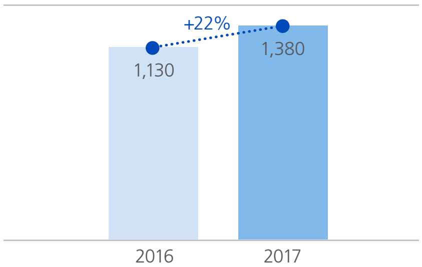


Like-for-like GWP growth (%)

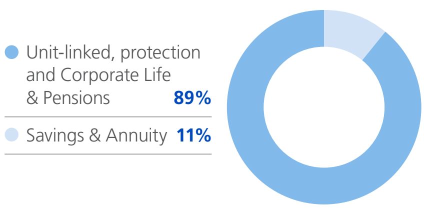


Life

BOP growth[1] (USDm)

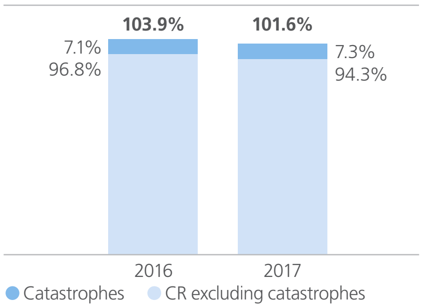


2017 APE share of non-traditional products (%)

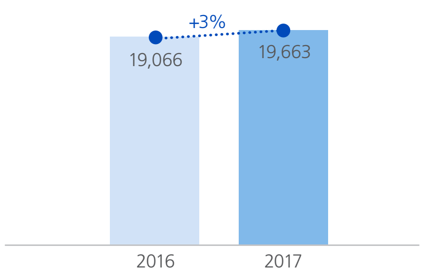


Farmers Exchanges[3]

Combined ratio (CR) (%)



Continued GWP growth (USDm)



1 Full-year 2017 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 the Group's restructuring.
2 Excluding unrealized gains and losses.
3 Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services.

Financial overview

Contents

The information contained within the operating and financial review is unaudited and is based on the consolidated results of the Group for the years ended December 31, 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 Group and, in particular, with its consolidated financial statements and embedded value report for the year ended December 31, 2017.

In addition to the figures stated in accordance with International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business metrics 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.

Financial highlights

in USD millions, for the years ended December 31, unless otherwise stated	2017	2016	Change[1]
Business operating profit	**3,803**	4,495	(15%)
Net income attributable to shareholders	**3,004**	3,211	(6%)
P&C business operating profit	**1,546**	2,437	(37%)
P&C gross written premiums and policy fees	**33,024**	33,122	–
P&C combined ratio	**100.9%**	98.1%	(2.7 pts)
Life business operating profit	**1,258**	1,130	11%
Life gross written premiums, policy fees and insurance deposit	**33,242**	29,323	13%
Life new business annual premium equivalent (APE)[2]	**4,868**	4,686	4%
Life new business margin, after tax (as % of APE)[2]	**23.3%**	19.4%	3.9 pts
Life new business value, after tax[2]	**999**	782	28%
Farmers business operating profit	**1,691**	1,722	(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 new business annual premium equivalent (APE)[2]	**91**	94	(3%)
Average Group investments[3]	**189,723**	184,003	3%
Net investment result on Group investments	**7,249**	7,034	3%
Net investment return on Group investments[4]	**3.8%**	3.8%	–
Total return on Group investments[4]	**4.1%**	4.4%	(0.4 pts)
Shareholders' equity[5]	**33,062**	30,660	8%
Z-ECM[6]	**132%**	125%	7.0 pts
Return on common shareholders' equity (ROE)[7]	**10.9%**	11.8%	(0.9 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[7]	**9.2%**	11.5%	(2.2 pts)

[1] Parentheses around numbers represent an adverse variance.
[2] Details of the principles for calculating new business are included in the embedded value report in the annual results 2017. New business value and new business margin are calculated after the effect of non-controlling interests, whereas APE is presented before non-controlling interests.
[3] Including investment cash.
[4] Calculated on average Group investments.
[5] As of December 31, 2017 and December 31, 2016, respectively.
[6] Ratios as of December 31, 2017 and December 31, 2016, respectively. Ratio for December 31, 2017 reflects midpoint estimate with an error margin of +/–5 pts.
[7] Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

Financial overview (continued)

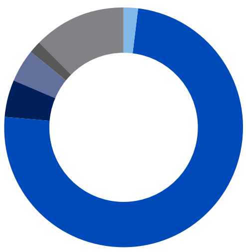
Balance sheet review

The total assets for the Group increased to USD 422 billion from USD 382 billion in 2016. The increase was mainly driven by foreign exchange movements, whereby net assets predominantly denominated in the British pound and euro strengthened against the U.S. dollar, and market valuation gains on the Groups investment portfolio. The Group entered into agreements to sell certain UK businesses, as a result USD 29 billion of assets (comprising investments for unit-linked contracts) were reclassified as held for sale. The Group's acquisition of Cover-More added USD 728 million of goodwill and other intangible assets.

These factors also drove an increase in the total liabilities for the Group to USD 387 billion from USD 350 billion in 2016.

Consolidated balance sheets – Assets

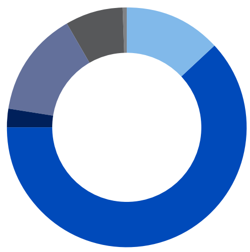
as of December 31, 2017 (in USD millions)



Cash and cash equivalents	8,228
Total investments	314,782
'Reinsurers' share of liabilities	20,918
Deferred policy acquisition costs	18,663
Intangible assets	7,115
Other assets	52,358

Consolidated balance sheets – Liabilities and equity

as of December 31, 2017 (in USD millions)



Liabilities for investment contracts	55,627
Liabilities for insurance contracts	261,335
Debt	10,784
Other liabilities	59,425
Shareholders' equity	33,062
Non-controlling interests	1,831

The Group's shareholder equity increased to USD 33 billion from USD 31 billion in 2016. The increase primarily resulted from the Group's 2017 net income attributable to shareholders of USD 3 billion, and a USD 1.2 billion positive development in cumulative foreign currency translation reserve due to a general weakening of the U.S. dollar against other key currencies where the Group owns subsidiaries. This increase was partially offset by a dividend payment of USD 2.6 billion.

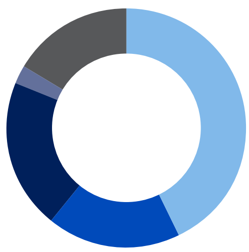
Treasury management

The Group's balance sheet remains very strong, as demonstrated by the Zurich Insurance Company Ltd financial strength ratings with S&P and Moody's, of AA- and Aa3 respectively, both with stable outlook. In addition, as of December 31, 2017, the Group's estimated Z-ECM ratio increased to 132 percent, with an error margin of +/–5 percentage points.

During the year the Group saw net remittances of USD 3.7 bn, a level consistent with the Group's target for remittances to exceed USD 9.5bn over the 2017–2019 period. The level of remittances has been driven both by operational earnings and capital released as a result of the Group's efforts to extract capital from non-core businesses.

Net cash remittances by business

for the year ended December 31, 2017 (in USD millions)



Property & Casualty	2,517
Life	1,053
Farmers	1,194
Non-Core Businesses	(155)
Group Functions and Operations	(948)

Significant transactions in 2017

The Group continued to drive its strategic objectives of investing to improve the quality of service and experience of our customers and becoming a more agile organization.

The 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 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 was USD 580 million.

Building on these positions, Zurich has begun offering travel insurance to customers of easyJet and in December acquired a majority stake in FitSense, an analytics company that uses data from mobile applications and online devices to provide customized insurance products. The Group also strengthened its proposition to drivers and the automobile industry with the acquisition in December 2017 of Bright Box HK Limited, a provider of telematics solutions linking drivers, dealers and manufacturers.

Also in December, Zurich announced plans to strengthen its leadership in distributing insurance products through banks with the acquisition of OnePath Life, the Australian life insurance business of Australia and New Zealand Banking Group (ANZ), for AUD 2.85 billion (USD 2 billion). The agreement, which is subject to regulatory approval, will make the company the leading retail life insurer in Australia.

Refocusing on its core business, the Group entered into agreements to sell the Endsleigh group of companies and the UK workplace pensions and savings business. The transactions are expected to close in 2018 subject to regulatory approval. As at December 31, 2017 the respective assets and liabilities of these businesses have been classified as held for sale.

The Group also finalized the sale of its property and casualty (P&C) insurance operations in the Middle East and Taiwan.

Being a responsible taxpayer

Our commitment to being a responsible corporate citizen influences both our day-to-day decisions and our long-term planning. That is why Zurich considers effective and efficient tax compliance as a key activity. We are dedicated to managing our tax affairs in a sustainable, well-governed and transparent manner.

Zurich is subject to strict regulations and is a significant tax contributor, both on taxes borne and taxes that we collect on behalf of the tax administrations in the jurisdictions in which we operate.

A non-exhaustive list of taxes paid (either borne or collected) by Zurich includes:

- Corporate income taxes
- Employment taxes
- Insurance premium taxes
- Value added taxes
- Stamp taxes and other transactional taxes
- Real estate and other asset taxes
- Excise taxes
- Withholding taxes.

See more details on our tax strategy in our Corporate Responsibility pages at www.zurich.com.

The shareholders' effective tax rate increased to 33.2 percent for the period ended December 31, 2017 compared with 30.7 percent for the same period of 2016. This increase is explained by adverse impacts 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. This was partially offset by the one-off US tax reform impact from the re-measurement of the deferred tax position of Zurich's U.S. entities.

Message from our Group Chief Investment Officer

Strong investment returns

"Despite the low-yield environment, we have delivered attractive returns to our shareholders and customers, while also increasing our commitment to impact investments."

Urban Angehrn
Group Chief Investment Officer

Group Investment Management applies a systematic and structured investment process focused on deploying allocated risk capital and acting as the investor for Zurich. Our disciplined approach has been effective across market cycles.

Overview of investment results

The total return on average Group investments of 4.1 percent was relatively stable compared with 2016, despite lower fixed-income returns year-on-year. Net investment income of USD 5.2 billion, included primarily in the core business results, decreased by 5 percent in both U.S. dollar terms and on a local currency basis, mainly as a result of low European bond yields. Net capital gains on investments and impairments included in the net investment result were USD 2 billion, mainly due to sales of equity securities amid strength in equity markets.

Solid investment results delivered in a challenging environment

Our investment portfolio benefited in 2017 from the strong performance of higher-risk assets, in particular equities. Credit markets began to lag equities in the final six months of the year, while spreads fell to cycle lows.

Investment income continued to be challenged by re-investment yields remaining at compressed levels. However, rising yields in some bond markets, alongside further net new investments into private debt and real estate, helped preserving investment income and stabilizing it in the second half of 2017.

Our investment approach includes disciplined underwriting of credit and real estate risk, while continuing invest in sound, less-liquid assets such as corporate loans and infrastructure debt. During 2017, our portfolio of private debt increased by USD 1 billion to USD 8 billion, allowing us to lock in illiquidity premia and relative value, despite increased competition for assets.

We executed on our strategy to invest in high quality real estate in core locations and acquired USD 1 billion of direct real estate partly offset by disposals of USD 0.5 billion of non-core assets.

Our disciplined investment process ensures appropriate risk taking

As a long-term investor for Zurich we aim to achieve superior returns relative to Zurich's insurance obligations through an optimal strategic asset allocation. During 2017 we employed a stable risk allocation, well within the risk limits allocated to investment risk, while directing new investments into less-liquid assets. Total investment risk versus liabilities continued to be well balanced, with equity and credit risk dominating, while unrewarded exposures were minimized.

We are a responsible investor for Zurich

We take a long-term view that integrates environmental, social and governance factors in our investment decisions. In 2017 we achieved a milestone in our responsible investment strategy by exceeding the target of USD 2 billion in green bond investments. See more details on our responsible investment strategy in our 'CR highlights' at www.zurich.com.

Investment expertise generates a competitive advantage for Zurich

As the investor for Zurich, we provide investment expertise across Zurich's unit-linked investments and savings products, as well as for our employee pension funds.

Our skilled and diverse investment teams work closely with local businesses, providing investment solutions for retail and group savings products, as well as selected asset management services

U. Angehrn

Urban Angehrn
Group Chief Investment Officer

Investment portfolio[1]

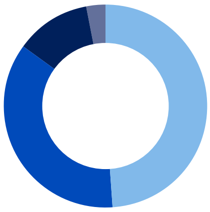
(%)

Government and government guaranteed	**36%**
Credit, private debt	**43%**
Mortgages	**3%**
Real estate	**7%**
Equities	**5%**
Hedge funds, private equity	**2%**
Cash	**5%**

Direct real estate

(%)

Switzerland	**49%**
Europe	**36%**
U.S.	**12%**
Other	**3%**

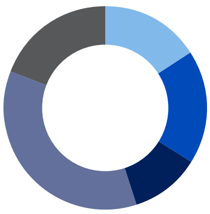


USD 12bn
in 2017

Private debt

(%)

AAA Collateralized loan obligation	**16%**
Commercial real estate loans	**18%**
Infrastructure debt	**11%**
Private placements	**36%**
Senior corporate lending	**19%**



USD 8bn
in 2017

Investments for unit-linked contracts

(%)

United Kingdom	**32%**
Ireland	**18%**
Germany	**14%**
U.S.	**12%**
Others	**24%**

[1] Market value of the investment portfolio (economic view).

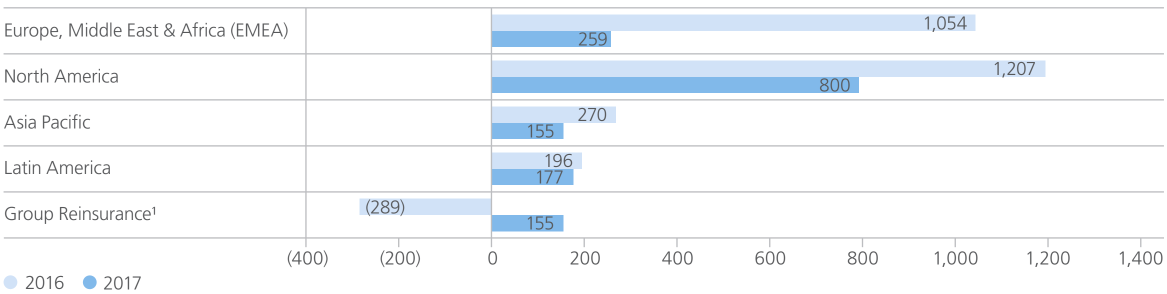
Operating review

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	17,996	17,345	(4%)	9,213	8,427	(9%)
Net underwriting result	(231)	485	n.m.	(1,252)	90	n.m.
Net investment result	2,038	1,958	4%	1,271	1,186	7%
Business operating profit	**1,546**	**2,437**	**(37%)**	**(45)**	**1,315**	**(103%)**
Loss ratio	69.1%	66.4%	(2.7 pts)	83.7%	71.8%	(11.9 pts)
Expense ratio	31.8%	31.7%	(0.1 pts)	27.7%	27.4%	(0.2 pts)
Combined ratio	**100.9%**	**98.1%**	**(2.7 pts)**	**111.4%**	**99.2%**	**(12.1 pts)**

[1] Excluding Group Reinsurance and intersegment eliminations.

P&C Business operating profit (BOP)
in USD millions, for the years ended December 31



[1] Including intersegment elimination.

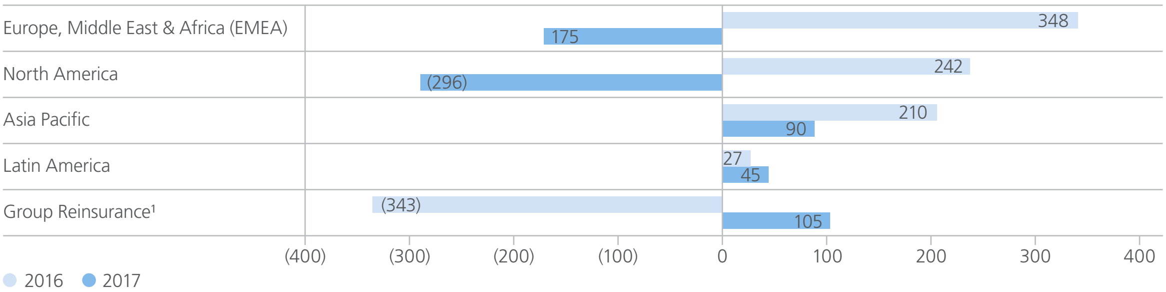
Business operating profit decreased by USD 892 million to USD 1.5 billion, heavily affected by catastrophe losses beyond a normal level, in particular hurricanes Harvey, Irma and Maria during the third quarter of 2017, with a total net loss of USD 700 million impacting North America, EMEA and Group Reinsurance. Adjusted for the U.S. hurricanes and the impact of measures related to the Group's restructuring of USD 99 million, business operating profit decreased by USD 93 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 795 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 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** reflected mainly a recovery 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.

P&C Net underwriting result

in USD millions, for the years ended December 31



[1] Including intersegment elimination.

Gross written premiums and policy fees remained broadly flat in U.S. dollar terms and 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 716 million to a loss of USD 231 million, with an overall combined ratio of 100.9 percent, 2.7 percentage points higher than in 2016. Adjusted for the impact of the U.S. hurricanes Harvey, Irma and Maria of USD 700m, the combined ratio was 98.2 percent, with the loss ratio in line with prior year. An improvement in the underlying loss experience was offset by higher other catastrophe and weather-related losses and lower favorable development of loss reserves established in prior years. 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 lower expense ratio.

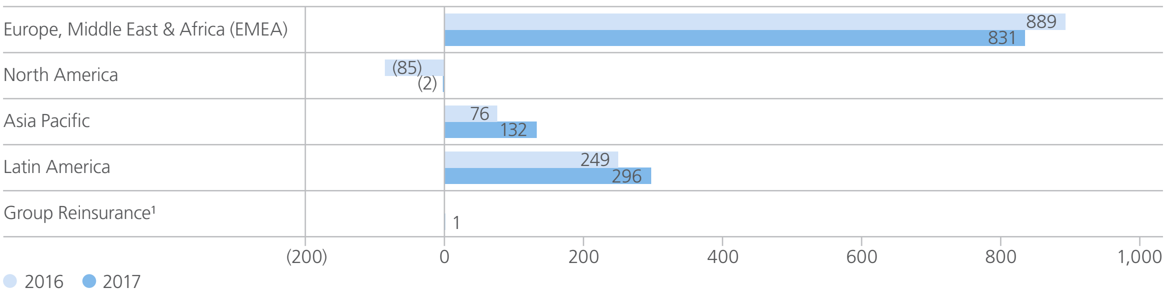
The net underwriting result in **EMEA** decreased by USD 523 million due to higher catastrophe and weather related losses, unfavorable development in loss reserves established in prior years compared to favorable development in prior year, and lower net premium volumes, partly due to higher internal 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]	269,836	248,899	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.

Life Business operating profit (BOP)
in USD millions, for the years ended December 31



[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 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.

Source of earnings[1]

in USD millions, for the years ended December 31	2017	2016	Change
Loadings and fees	3,484	3,282	6%
Investment margin	642	546	18%
Technical margin	946	842	12%
Operating and funding costs	(1,490)	(1,419)	(5%)
Acquisition costs	(2,488)	(2,361)	(5%)
Impact of deferrals	164	240	(31%)
Business operating profit	**1,258**	**1,130**	**11%**

[1] Each line represents the Group's interest after deducting non-controlling interests, amounting in total to USD 289 million in 2017 and USD 255 million in 2016 in business operating profit.

Viewed by profit sources and on a local currency basis, business operating profit benefited from growth resulting in higher loadings and fees net of acquisition costs, as well as improvements in the investment margin and the technical margin. Expense savings were more than offset by an increase in policyholder taxes leading to higher operating costs.

Loadings and fees improved by 6 percent both in U.S dollar terms and on a local currency basis. Growth in Asia Pacific, which benefited from the 2016 acquisitions of MAA Takaful Berhad in Malaysia and the retail life insurance protection business of Macquarie Group in Australia, higher volumes in Latin America and a large contribution to an existing corporate protection scheme in North America were the main drivers. These positive factors were partially offset by lower fee revenue in Germany due to a decrease in single premium business volume. **Investment margin** improved by 18 percent in U.S. dollar terms, and 16 percent on a local currency basis. All segments improved, with the highest contribution from EMEA, where lower policyholder crediting rates in Germany were the main contributor. **Technical margin** improved by 12 percent in U.S dollar terms and 11 percent on a local currency basis, driven by the growing life insurance protection business in Asia Pacific, predominantly in Australia and Japan, and improved claims experience in North America and Latin America.

Operating and funding costs deteriorated by 5 percent in U.S dollar terms and on a local currency basis. In EMEA savings were achieved despite the negative impact which resulted from the change to UK capital gains tax indexation relief. Higher operating and funding costs in Asia Pacific, largely resulted from growth initiatives and the costs related to integrating the recently acquired businesses. In North America the increase was driven by premium taxes resulting from a large contribution to an existing corporate protection scheme. **Acquisition costs** increased by 5 percent both in U.S dollar terms and on a local currency basis. The increase on a local currency basis reflected higher volumes of business in Asia Pacific and Latin America. EMEA was broadly flat. The positive contribution from the **impact of deferrals** decreased by 31 percent in U.S. dollar terms and 30 percent on a local currency basis, mainly in EMEA, driven by an update of expected reinvestment rates, partially offset by the positive effect in North America, where prior year was impacted by the review of expected persistency in certain universal life books of business.

Operating review (continued)

NBV, APE and NBM by segment

in USD millions, for the years ended December 31	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[2]		New business margin, after tax (as % of APE) (NBM)[3]	
	2017	2016	**2017**	2016	**2017**	2016
Europe, Middle East & Africa (EMEA)	605	541	3,333	3,238	19.1%	18.3%
North America	66	25	224	62	29.3%	40.8%
Asia Pacific	165	88	195	155	85.8%	57.8%
Latin America	164	126	1,117	1,231	23.2%	14.7%
Total	**999**	**782**	**4,868**	**4,686**	**23.3%**	**19.4%**

NBV, APE and NBM by line of business

in USD millions, for the years ended December 31	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[2]		New business margin, after tax (as % of APE) (NBM)[3]	
	2017	2016	**2017**	2016	**2017**	2016
Protection	736	615	1,698	1,645	54.3%	45.9%
Corporate Pensions	108	124	1,399	1,186	7.8%	10.5%
Unit Linked	167	97	1,252	1,024	14.6%	10.5%
Annuities and Savings	(12)	(54)	519	831	(3.0%)	(9.4%)
Total	**999**	**782**	**4,868**	**4,686**	**23.3%**	**19.4%**

[1] New business value is calculated on embedded value principles net of non-controlling interests.
[2] APE is shown gross of non-controlling interests.
[3] New business margin is calculated using new business value as a percentage of APE based on figures net of non-controlling interests for both metrics.

APE improved by USD 183 million to USD 4.9 billion, or 4 percent both in U.S. dollar terms and on a local currency basis. On a local currency basis, the largest 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 in EMEA, where higher corporate and unit-linked retail sales were only partly offset by reductions in sales of individual savings products in Spain and Italy. Asia Pacific also improved, reflecting both the impact of the MAA Takaful Berhad acquisition in Malaysia and organic growth. These positive impacts were partly offset by lower new business sales in Latin America, where growth in sales of individual protection products in Zurich Santander Brazil was more than offset by a reduction in the Zurich operations in Chile, where 2016 included the effect of a large corporate contract.

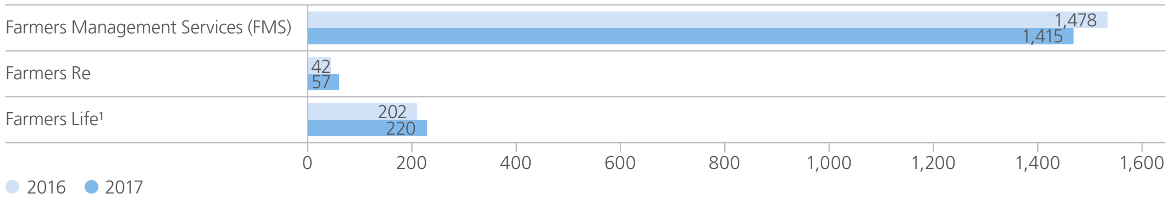
New business value increased by USD 218 million to USD 1 billion, or 28 percent both in U.S. dollar terms and on a local currency basis. On a local currency basis, new business value benefited from higher volumes of new business in EMEA and North America, and an improved product mix in EMEA. In addition, Asia Pacific benefited from a positive change in operating assumption in Japan.

New business margin improved by 3.9 percentage points to 23 percent, with improvements in all segments except North America. The most notable improvements occurred in Asia Pacific following the positive impact of assumptions changes in Japan. In Latin America, declining interest rates in Brazil resulted in an improved margin on individual protection business. In EMEA, improvements in Italy and Spain, resulting from a shift in sales away from individual savings, were partly offset by an overall increase in sales of lower margin corporate business.

Farmers

Farmers Business operating profit (BOP)

in USD millions, for the years ended December 31



[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 31 million to USD 1.7 billion, or by 2 percent. **Farmers Management Services** business operating profit decreased by USD 64 million to USD 1.4 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 220 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 15 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 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	–
New business annual premium equivalent (APE)	91	94	(3%)
New business value (NBV)	100	85	18%
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.

APE was lower mainly due to lower cross-sell opportunities. **NBV** increased largely due to improved persistency and mortality, favorable sales mix and lower acquisition expenses, partially offset by lower sales volumes and the negative impact of higher interest rates on certain individual protection business.

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	(450)	(549)	18%
Headquarters	(281)	(230)	(22%)
Total business operating profit	**(731)**	**(779)**	**6%**

Holding and Financing business operating loss of USD 450 million improved by USD 100 million or 18 percent in U.S. dollar terms and 18 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 both in U.S. dollar terms and in local currency. 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	(8)	(24)	67%
Other run-off	47	9	n.m.
Total business operating profit	**39**	**(15)**	**n.m.**

Zurich Legacy Solutions, which predominantly comprises P&C run-off portfolios, reported a business operating loss of USD 8 million, an improvement of USD 16 million driven by net reserve releases in run-off portfolios.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a USD 38 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.

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		5,215	5,474
Net capital gains/(losses) and impairments on Group investments		2,034	1,560
Net investment result on Group investments	6	7,249	7,034
Net investment result on unit-linked investments		11,664	13,613
Net gains/(losses) on divestment of businesses		(84)	(89)
Other income		1,183	1,199
Total revenues		63,961	67,245
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	10	34,894	35,123
Less ceded insurance benefits and losses	10	(6,252)	(4,682)
Insurance benefits and losses, net of reinsurance	10	28,643	30,441
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	7,212	7,478
Interest expense on debt		411	423
Interest credited to policyholders and other interest		546	525
Total benefits, losses and expenses		58,835	61,924
Net income before income taxes		5,125	5,321
of which: Attributable to non-controlling interests		459	408
Income tax (expense)/benefit	17	(1,816)	(1,843)
attributable to policyholders	17	(171)	(304)
attributable to shareholders	17	(1,645)	(1,539)
of which: Attributable to non-controlling interests		(154)	(140)
Net income after taxes		**3,309**	**3,478**
attributable to non-controlling interests		305	268
attributable to shareholders		3,004	3,211
in USD			
Basic earnings per share	19	20.02	21.51
Diluted earnings per share	19	19.90	21.36
in CHF			
Basic earnings per share	19	19.71	21.18
Diluted earnings per share	19	19.58	21.04

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	3,211	254	125
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,307	163
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(899)	(7)
Deferred income tax (before foreign currency translation effects)		(38)	(23)
Foreign currency translation effects		(116)	(8)
2017			
Comprehensive income for the period	3,004	269	(9)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,484	(23)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(1,554)	(18)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		132	14
Foreign currency translation effects		207	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
	(626)	(247)	7	(995)	(988)	(1,236)	1,975	267	2,242
	(767)	703	9	(1,615)	(1,606)	(903)			
	141	(765)	–	–	–	(765)			
	–	(62)	(2)	272	270	208			
	–	(124)	–	349	349	224			
	1,211	1,471	(7)	341	334	1,805	4,809	462	5,271
	1,191	2,651	15	1,018	1,034	3,685			
	20	(1,552)	–	–	–	(1,552)			
	–	–	(22)	–	(22)	(22)			
	–	146	–	(392)	(392)	(245)			
	–	225	–	(286)	(286)	(61)			

Consolidated financial statements (continued)

Consolidated balance sheets

Assets

in USD millions, as of December 31	Notes	**2017**	2016
Assets			
Cash and cash equivalents		8,228	7,197
Total Group investments	6	194,084	182,611
Equity securities		17,787	15,908
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		314,782	308,518
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	18,195	17,755
Deferred tax assets	17	1,076	1,448
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		**422,065**	**382,348**

[1] In 2017, the 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 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.

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

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	239,369
Obligations to repurchase securities		1,394	1,280
Other liabilities	16	18,463	18,609
Deferred tax liabilities	17	4,357	4,562
Liabilities held for sale[1]	5	29,271	290
Senior debt	18	3,846	4,162
Subordinated debt	18	6,938	7,050
Total liabilities		**387,172**	**349,875**
Equity			
Share capital	19	11	11
Additional paid-in capital	19	1,162	1,348
Net unrealized gains/(losses) on available-for-sale investments		3,078	2,809
Cash flow hedges		410	418
Cumulative foreign currency translation adjustment		(8,762)	(9,973)
Revaluation reserve		228	235
Retained earnings		36,936	35,812
Shareholders' equity		33,062	30,660
Non-controlling interests		1,831	1,813
Total equity		**34,893**	**32,473**
Total liabilities and equity		**422,065**	**382,348**

[1] In 2017, the 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 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).

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

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	3,004	3,211
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	519	431
Underwriting activities:	14,760	14,783
Liabilities for insurance contracts, gross	*7,599*	*7,651*
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:	(13,807)	(16,787)
Net capital (gains)/losses on total investments and impairments	*(12,201)*	*(13,569)*
Net change in derivatives	*(229)*	*(240)*
Net change in money market investments	*(1,528)*	*(195)*
Sales and maturities		
Debt securities	*71,794*	*67,597*
Equity securities	*52,590*	*47,725*
Other	*7,502*	*7,067*
Purchases		
Debt securities	*(71,521)*	*(71,988)*
Equity securities	*(53,753)*	*(46,139)*
Other	*(6,459)*	*(7,046)*
Net changes in sale and repurchase agreements	24	(137)
Movements in receivables and payables	100	(1,238)
Net changes in other operational assets and liabilities	(101)	(13)
Deferred income tax, net	(311)	355
Net cash provided by/(used in) operating activities	5,207	1,473

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	(2,891)	(2,768)
Issuance of share capital	53	40
Net movement in treasury shares	18	17
Issuance of debt	–	3,066
Repayment of debt	(1,049)	(1,652)
Net cash provided by/(used in) financing activities	(3,868)	(1,296)
Foreign currency translation effects on cash and cash equivalents	420	(280)
Change in cash and cash equivalents[1]	902	(1,245)
Cash and cash equivalents as of January 1	7,948	9,193
Cash and cash equivalents as of December 31	**8,850**	**7,948**
of which: Group investments	8,228	7,197
of which: Unit-linked	622	751
Other supplementary cash flow disclosures		
Other interest income received	4,783	4,876
Dividend income received	1,710	1,837
Other interest expense paid	(936)	(861)
Income taxes paid	(1,589)	(1,461)

[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	7,993	5,511
Cash equivalents	857	2,437
Total[1]	**8,850**	**7,948**

[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	11	3,245
Issuance of share capital	–	47
Dividends to shareholders	–	(1,949)
Share-based payment transactions	–	(15)
Treasury share transactions	–	21
Change in ownership interests with no loss of control	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of December 31, 2016	11	1,348
Balance as of December 31, 2016	11	1,348
Issuance of share capital	–	198
Dividends to shareholders	–	(510)
Share-based payment transactions	–	(7)
Treasury share transactions	–	132
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	**11**	**1,162**

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
	2,556	294	(9,347)	228	34,192	31,178	1,725	32,904
	–	–	–	–	–	47	–	47
	–	–	–	–	(653)	(2,602)	(125)	(2,727)
	–	–	–	–	40	25	–	25
	–	–	–	–	14	35	–	35
	–	–	–	–	3	3	–	3
	254	125	(626)	7	2,216	1,975	267	2,242
	–	–	–	–	*3,211*	*3,211*		
	254	–	–	–	–	*254*		
	–	*125*	–	–	–	*125*		
	–	–	*(626)*	–	–	*(626)*		
	–	–	–	*7*	–	*7*		
	–	–	–	–	*(995)*	*(995)*		
	–	–	–	–	–	–	(54)	(54)
	2,809	418	(9,973)	235	35,812	30,660	1,813	32,473
–	2,809	418	(9,973)	235	35,812	30,660	1,813	32,473
	–	–	–	–	–	198	–	198
	–	–	–	–	(2,129)	(2,639)	(339)	(2,978)
	–	–	–	–	5	(2)	–	(2)
	–	–	–	–	(114)	18	–	18
	–	–	–	–	–	–	–	–
	–	–	–	–	17	17	–	17
	269	(9)	1,211	(7)	3,345	4,808	462	5,270
	–	–	–	–	*3,004*	*3,004*		
	269	–	–	–	–	*269*		
	–	*(9)*	–	–	–	*(9)*		
	–	–	*1,211*	–	–	*1,211*		
	–	–	–	*(7)*	–	*(7)*		
	–	–	–	–	*341*	*341*		
	–	–	–	–	–	–	(105)	(105)
	3,078	**410**	**(8,762)**	**228**	**36,936**	**33,062**	**1,831**	**34,893**

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

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

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

1. Basis of presentation

General information

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

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

Disclosures under IFRS 4 'Insurance Contracts' and IFRS 7 'Financial Instruments: Disclosures' relating to the nature and extent of risks, and capital disclosures under IAS 1 'Presentation of Financial Statements' have been included in the audited sections of the Risk review on pages 123 to 155, and they form an integral part of the consolidated financial statements.

The Group's consolidated balance sheets are not presented using a current/non-current classification. The following balances are generally considered to be current: cash and cash equivalents, deferred policy acquisition costs on 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 118 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 (131) million for the years ended December 31, 2017 and 2016, respectively. For its Venezuela business, the 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).

Table 1.1

Principal exchange rates

USD per foreign currency unit	Consolidated balance sheets at end-of-period exchange rates		Consolidated income statements and cash flows at average exchange rates	
	12/31/17	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 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 Group

Following the changes to the 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 Group's BOP policy

As of January 1, 2017, the 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 36 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 Group's operations

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

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

Table 2.2

Standard/Interpretation

		Effective date
New standards/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 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 Group Implementation Program (Program) has been set up sponsored by 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 Group accounting policies, actuarial methodologies and disclosure requirements to be consistently implemented throughout the Group. The implementation work stream takes responsibility for analyzing systems implications and data flows. In 2017 significant progress was made in defining 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 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 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 Group acts as a lessee (and intermediate lessor), especially on real estate rental contracts. The 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 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 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 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 Group's financial position or performance.

3. Summary of significant accounting policies

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

a) Consolidation principles

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

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

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

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

b) Foreign currency translation and transactions

Foreign currency translation

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

Foreign currency transactions and balances

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

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

c) Insurance contracts and investment contracts with discretionary participating features (DPF)

Classification

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

The Group also issues products containing embedded options that entitle the policyholder to switch all or part of the current and future invested funds into another product issued by the Group. Where this results in the reclassification of an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are also reclassified and are accounted for in accordance with the accounting policy 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 Group's Spanish operations are recognized as gross written premiums and insurance benefits and losses and not as deposits.

Reserves for losses and loss adjustment expenses

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

Reserves for life benefits

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

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

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

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

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

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

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

For products managed on a dynamic basis, an option in IFRS 4 is used to measure 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 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 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 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 Group under assumed or ceded reinsurance contracts, respectively, when funds are retained by the reinsured under the terms of the contract.

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

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

d) Liabilities for investment contracts (without DPF)

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

Unit-linked investment contracts

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

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

Investment contracts at amortized cost

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

Deferred origination costs (DOC)

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

e) Group investments excluding derivative financial instruments

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

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

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

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

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

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

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

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

Impairment of financial assets

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

f) Derivative financial instruments and hedge accounting

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

Derivative financial instruments that qualify for hedge accounting

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

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

g) Attorney-in-fact contracts (AIF)

The AIF reflects the ability of the Group to generate future revenues based on the Group's relationship with the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. (FGI), a wholly owned subsidiary of the Group. In determining that these relationships have an indefinite useful life, the Group 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.

h) 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.

i) Intangible assets

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

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

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

Distribution agreements

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

Software

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

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

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

j) Other fees and commission income

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

k) Employee benefits

Share-based compensation and cash incentive plans

The Group operates long-term incentive plans that are accounted for as equity-settled share-based compensation plans. The fair value of these incentive plans is determined at the grant date and is recognized as an expense in income over the vesting period, with a corresponding increase recorded in additional paid-in capital.

Subsequently, depending on the underlying performance metrics, the Group revises its estimates of the number of shares that are expected to be issued and recognizes the impact of the revision, if any, in income with a corresponding adjustment to additional paid-in capital. However, no subsequent adjustment is made after the vesting date.

Retirement benefits

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

Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Group's expense 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 Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the 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 Group establishes its reserves by product line, type and extent of coverage and year of occurrence. There are two categories of loss reserve: reserves for reported losses and reserves for incurred but not reported (IBNR) losses. Additionally, reserves are held for loss adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

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

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

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

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

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

Life insurance

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

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

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

See note 8 for further information on reserves for insurance contracts and note 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 Group makes extensive use of independent, reliable and reputable third party pricing providers and only in rare cases places reliance on prices that are derived from internal models.

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

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

c) Impairment of assets

Financial assets

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

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

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

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

Goodwill and attorney-in-fact contracts (AIF)

Goodwill is allocated to a cash generating unit (CGU) as outlined in note 3. Based on consideration of Group organizational changes, the Group has redefined the CGUs according to regions, separating Property & 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)

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

Table 4.1

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

See note 20 for further information on employee benefits.

5. Acquisitions and divestments

Transactions in 2017

Acquisitions

Bright Box

On December 22, 2017, the 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 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 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 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 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 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 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 Group entered into various agreements to sell Property & Casualty (P&C) and Life businesses in the UK. On January 2, 2018, the 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 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 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 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 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 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 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 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 Group prior to completion of the transaction. The Group has assessed the fair value and the classification of assets and liabilities. Certain balances are presented net in receivables and other assets, as these balances will be settled on a net basis.

Table 5.2 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 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 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 Group incurred transaction-related costs of USD 1 million included in other administrative expenses.

Kono Insurance Limited

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

Loss of control

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

Divestments

On December 7, 2016, the Group closed the sale of its insurance business in South Africa to Fairfax Financial Holdings Limited. The contractually agreed sales price amounted to 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 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 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.

Net investment result on Group investments

Table 6.1

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) and impairments		Net investment result		of which impairments	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Investment cash	11	2	–	–	11	2	–	–
Equity securities	402	489	1,422	542	1,824	1,031	(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	–	5	198	227	–	5
Other loans	415	417	9	17	424	434	8	(1)
Investments in associates and joint ventures	3	3	–	3	3	6	–	–
Derivative financial instruments	–	–	(310)	(203)	(310)	(203)	–	–
Investment result, gross, for Group investments	5,433	5,607	2,034	1,560	7,467	7,167	(69)	(176)
Investment expenses for Group investments	(218)	(134)	–	–	(218)	(134)	–	–
Investment result, net, for Group investments	5,215	5,474	2,034	1,560	7,249	7,034	(69)	(176)

[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.

Details of Group investments by category

Table 6.2

as of December 31	**2017**		2016	
	USD millions	**% of total**	USD millions	% of total
Equity securities:				
Fair value through profit or loss	3,597	1.9	3,359	1.8
Available-for-sale	14,190	7.3	12,548	6.9
Total equity securities	17,787	9.2	15,908	8.7
Debt securities:				
Fair value through profit or loss	5,699	2.9	5,672	3.1
Available-for-sale	140,240	72.3	131,967	72.3
Held-to-maturity	2,322	1.2	2,543	1.4
Total debt securities	148,261	76.4	140,181	76.8
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	**194,084**	**100.0**	**182,611**	**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 2017	Fair value through profit or loss 2016	Available-for-sale 2017	Available-for-sale 2016	Held-to-maturity 2017	Held-to-maturity 2016	Total 2017	Total 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 2017	Fair value through profit or loss 2016	Available-for-sale 2017	Available-for-sale 2016	Held-to-maturity 2017	Held-to-maturity 2016	Total 2017	Total 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	Total 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	2016
Equity securities: available-for-sale	1,862	1,341
Debt securities: available-for-sale	9,720	9,637
Other	350	468
Gross unrealized gains/(losses) on Group investments	11,932	11,447
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	(36)	(17)
Total[1]	**3,488**	**3,228**

[1] Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 398 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 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 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 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 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 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 Group's balance sheet. Cash received as collateral is recorded as an asset, and a corresponding liability is established. Interest expense is charged to income using the effective interest rate method over the life of the agreement.

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

7. Group derivative financial instruments and hedge accounting

The Group uses derivative financial instruments mainly for economic hedging purposes 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 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	–	–	231	–	–
Total interest rate contracts	**574**	**1,832**	**2,749**	**5,155**	**149**	**(30)**	**5,582**	**174**	**(43)**
Equity contracts:									
OTC									
Options	1,665	2,896	200	4,761	70	(29)	4,855	118	(79)
Exchange traded									
Futures	363	–	–	363	–	(2)	358	3	–
Total equity contracts	**2,028**	**2,896**	**200**	**5,124**	**71**	**(32)**	**5,213**	**120**	**(79)**
Foreign exchange contracts:									
OTC									
Swaps and forwards	16,323	–	–	16,323	78	(50)	16,790	87	(75)
Total foreign exchange contracts	**16,323**	**–**	**–**	**16,323**	**78**	**(50)**	**16,790**	**87**	**(75)**
Other contracts:									
OTC									
Options	–	–	11	11	–	(1)	–	–	–
Swaps	–	–	46	46	–	(7)	51	–	(6)
Total other contracts	**–**	**–**	**58**	**58**	**–**	**(8)**	**51**	**–**	**(6)**
Total Group derivative financial instruments	**18,924**	**4,728**	**3,007**	**26,659**	**297**	**(119)**	**27,636**	**381**	**(202)**

Interest rate contracts

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

Equity contracts

Equity contracts are entered into, either on a portfolio or on a macro level, to protect 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 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 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.

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

Table 7.2

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 Group against changes in interest rate exposure and foreign currency exposure of debt issued by the Group.

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

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

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

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

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 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 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 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 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 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 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 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 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	968	(214)	(345)
Related amounts not offset	(71)	(142)	69	141
Cash collateral (received)/pledged	(758)	(720)	69	79
Non-cash collateral (received)/pledged	(60)	(22)	35	22
Net amount	**14**	**84**	**(41)**	**(103)**

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

Table 8.1

Liabilities for insurance contracts

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	61,155	(11,070)	(9,777)	54,298	51,378
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**	**239,369**	**(20,971)**	**(18,411)**	**240,364**	**220,958**

[1] The 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.

Table 8.2

Discounted reserves for losses and loss adjustment expenses

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	61,155	(11,070)	(9,777)	54,298	51,378
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	62,254	(11,092)	(9,796)	55,623	52,458
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%

Table 8.3

Development of reserves for losses and loss adjustment expenses

in USD millions	Gross		Ceded		Net	
	2017	2016	**2017**	2016	**2017**	2016
As of January 1	61,155	62,971	(9,777)	(9,231)	51,378	53,739
Losses and loss adjustment expenses incurred:						
Current year	24,504	23,044	(5,083)	(4,081)	19,421	18,963
Prior years	(662)	(692)	335	214	(326)	(479)
Total incurred	23,842	22,352	(4,748)	(3,868)	19,094	18,484
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**	**61,155**	**(11,070)**	**(9,777)**	**54,298**	**51,378**

[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 Group's insurance operations in Morocco and South Africa. Additionally, USD (147) million are reclassified to assets and liabilities held for sale (see note 5) and USD (128) million relate to a reinsurance agreement which transferred the benefits and risks of some of the Group's non-core business portfolio to a third party.

The 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 2.9 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.

The reserve development in EMEA and Non-Core Businesses was impacted by the February 2017 change in the Ogden rate, the industry-wide discount rate used for calculating personal injury and accident claims in the UK, resulting in an increase in prior year reserves of USD 229 million.

Net favorable reserve development emerged from reserves established in prior years amounting to USD 326 million mainly related to the following:

→ In North America, favorable prior year development of USD 344 million driven by workers' injury;

→ In EMEA, excluding the Ogden impact mentioned above, favorable prior year development for the retail segment driven by motor, largely offset by the unfavourable prior year development for commercial liability.

For the year ended December 31, 2016, the decrease of USD 2.4 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 479 million largely driven by:

→ 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	62,254	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	52,458	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*	*(479)*	*(326)*	
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*	*53,260*	*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	326	
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%	0.6%	
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	662	
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%	1.1%	

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

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Development of future life policyholder benefits

Table 8.6

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 The 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.

Effect of changes in assumptions for future life policyholder benefits

Table 8.7

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**

Policyholder contract deposits and other funds gross

Table 8.8

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		Ceded		Net	
	2017	2016	**2017**	2016	**2017**	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	13,889	9,015	1,491	24,394
1 to 5 years	21,222	17,184	1,641	40,047
5 to 10 years	8,077	12,393	1,946	22,416
10 to 20 years	5,769	14,228	2,414	22,410
> 20 years	2,422	15,854	13,335	31,610
Total	**51,378**	**68,674**	**20,827**	**140,878**

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, the 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 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, the 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 Group actively manages the Life in-force business to improve persistency and retention.

Table 9.3a

Expected maturity profile for liabilities for investment contracts – current period

in USD millions, as of December 31, 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**

Table 9.3b

Expected maturity profile for liabilities for investment contracts – prior period

in USD millions, as of December 31, 2016	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	2,629	187	245	3,062
1 to 5 years	6,692	151	1,330	8,173
5 to 10 years	7,651	88	1,501	9,240
10 to 20 years	8,560	55	1,067	9,683
> 20 years	34,700	25	4,230	38,955
Total	**60,233**	**506**	**8,374**	**69,113**

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	23,842	22,352	(4,748)	(3,868)	19,094	18,484
Life insurance death and other benefits	11,053	12,771	(1,504)	(814)	9,548	11,957
Total insurance benefits and losses	**34,894**	**35,123**	**(6,252)**	**(4,682)**	**28,643**	**30,441**

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.

Expenses

Table 12

in USD millions, for the years ended December 31	**2017**	2016
Administrative and other operating expenses	7,212	7,478
Other underwriting and policy acquisition costs[1]	2,188	2,291
Claims handling expenses[2]	1,261	1,343
Other investment expenses[3]	218	134
Total	**10,879**	**11,246**
of which:		
Personnel and other related costs	5,448	5,445
Amortization and impairments of intangible assets	570	416
Depreciation and impairments of property and equipment	152	174
Building and infrastructure costs	539	553
Brand and marketing expenses	344	401
Life recurring commission	431	398
Asset and other non-income taxes	38	82
IT expenses	1,394	1,439
Restructuring costs (excl. impairments)	293	309
Outsourcing and professional services	879	876
Foreign currency translation	(71)	(118)
Other	863	1,270
Total	**10,879**	**11,246**

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**	**378**	**313**	**727**	**2,013**
Less: accumulated depreciation/impairments	(6)	(176)	(225)	(246)	(408)	(1,061)
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	233	244	413	1,055
Gross carrying value as of December 31, 2017	**155**	**415**	**380**	**326**	**740**	**2,017**

[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**	**366**	**365**	**759**	**2,444**
Less: accumulated depreciation/impairments	(6)	(363)	(228)	(300)	(407)	(1,304)
Net carrying value as of January 1, 2016	**211**	**374**	**138**	**65**	**352**	**1,140**
Additions and improvements	–	21	62	37	87	207
Disposals[1]	(19)	(42)	(6)	(3)	(24)	(94)
Transfers	(27)	(89)	–	–	–	(116)
Depreciation and impairments	–	(17)	(38)	(30)	(89)	(174)
Foreign currency translation effects	(3)	(4)	(3)	(5)	(10)	(25)
Net carrying value as of December 31, 2016	**162**	**251**	**154**	**67**	**319**	**953**
Plus: accumulated depreciation/impairments	6	176	225	246	408	1,061
Gross carrying value as of December 31, 2016	**168**	**427**	**378**	**313**	**727**	**2,013**

[1] Includes USD 24 million 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**	**4,652**	**251**	**14,321**
Less: accumulated amortization/ impairments	–	(315)	(1,918)	(1,147)	(3,201)	(124)	(6,706)
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	3,492	109	7,531
Gross carrying value as of December 31, 2017	**1,025**	**2,706**	**2,619**	**4,293**	**4,780**	**247**	**15,671**

[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 76 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1.2 billion for distribution agreements and USD 15 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**

Table 14.3

Intangible assets – prior period

in USD millions	Attorney-in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2016	**1,025**	**1,667**	**2,501**	**3,715**	**4,672**	**173**	**13,753**
Less: accumulated amortization/ impairments	–	(378)	(2,035)	(963)	(3,167)	(130)	(6,673)
Net carrying value as of January 1, 2016	**1,025**	**1,289**	**466**	**2,752**	**1,505**	**43**	**7,080**
Additions and acquisitions	–	576	106	112	395	101	1,291
Divestments and transfers	–	(33)	–	(5)	(15)	(3)	(56)
Amortization[1]	–	–	(23)	(188)	(343)	(8)	(563)
Amortization charged to 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	3,201	124	6,706
Gross carrying value as of December 31, 2016	**1,025**	**2,110**	**2,422**	**3,860**	**4,652**	**251**	**14,321**

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

As of December 31, 2016, intangible assets related to non-controlling interests were USD 78 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1.2 billion for distribution agreements and USD 14 million for software.

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

For the year ended December 31, 2016, divestments and transfers include a USD 7 million reclassification to assets held for sale and 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.

Table 14.4

Intangible assets by business – prior period

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**

Consolidated financial statements (continued)

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	968
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	2,312	2,053
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	505	640
Prepaid expenses	350	432
Other non-financial assets	313	270
Total receivables and other assets	**18,195**	**17,755**

[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

Table 16.1

Other liabilities

in USD millions, as of December 31	2017	2016
Other financial liabilities		
Group derivative liabilities	214	345
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	1,155
Deposits from banking activities	1	22
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	141	130
Accrued liabilities	2,078	1,716
Other financial liabilities	5,563	4,988
Other non-financial liabilities		
Current income tax payables	953	567
Restructuring provisions	269	334
Other non-financial liabilities	629	698
Total other liabilities	**18,463**	**18,609**

[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.

Table 16.2

Maturity schedule – other financial liabilities

in USD millions, as of December 31	2017		2016	
	Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
< 1 year	12,087	12,135	11,770	11,815
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	**13,022**	**13,540**	**12,693**	**13,237**

Consolidated financial statements (continued)

Restructuring provisions

Table 16.3

in USD millions	2017	2016
As of January 1	334	386
Provisions made during the period	192	257
Increase of provisions set up in prior years	56	90
Provisions used during the period	(296)	(355)
Provisions reversed during the period	(42)	(33)
Foreign currency translation effects	24	(10)
As of December 31	**269**	**334**

During the year ended December 31, 2017, the Group incurred total restructuring costs of USD 355 million, of which USD 206 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 Group incurred total restructuring costs of USD 377 million, of which USD 314 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	2,128	1,487
Deferred	(311)	355
Total income tax expense/(benefit)	**1,816**	**1,843**

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		5,125		5,321
less: income tax (expense)/benefit attributable to policyholders		(171)		(304)
Net income before income taxes attributable to shareholders		4,954		5,017
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,090	22.0%	1,104
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*331*		*322*
Tax exempt and lower taxed income		*(124)*		*(95)*
Non-deductible expenses		*133*		*121*
Tax losses not recognized		*83*		*3*
Prior year adjustments and other		*132*		*84*
Actual income tax expense attributable to shareholders	**33.2%**	**1,645**	**30.7%**	**1,539**
plus: income tax expense/(benefit) attributable to policyholders		171		304
Actual income tax expense	35.4%	1,816	34.6%	1,843

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

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

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

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Deferred tax assets/(liabilities) analysis by source

Table 17.3

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)	93	(277)
Accruals and deferred income	96	(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)	288	(45)
Tax loss carryforwards	717	–	667	–
Gross deferred tax assets/(liabilities) before valuation allowance	2,689	(1,239)	3,512	(1,712)
Valuation allowance	(374)	–	(352)	–
Gross deferred tax assets/(liabilities) after valuation allowance	2,314	(1,239)	3,160	(1,712)
Deferred tax assets	**1,076**		**1,448**	
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		**(3,281)**		**(3,114)**

[1] Includes reserves for unit-linked contracts

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

As of 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 22 billion and USD 20 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	(3,114)	(3,042)
Net change recognized in the income statement	311	(355)
Net change recognized in equity	(245)	208
Net changes due to acquisitions/(divestments)	(60)	(12)
Foreign currency translation effects	(173)	87
As of December 31	**(3,281)**	**(3,114)**
attributable to policyholders	(688)	(632)
attributable to shareholders	(2,593)	(2,483)

The net deferred tax liabilities related to non-controlling interests amounted to USD 239 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	313	149
Net unrealized gains/(losses) on available-for-sale investments	132	(38)
Cash flow hedges	14	(23)
Revaluation reserve	–	(2)
Net actuarial gains/(losses) on pension plans	(392)	272
Foreign currency translation effects	5	(44)
As of December 31	**73**	**313**

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	1,056
Subtotal	1,438	1,495
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	1,731	1,247
Subtotal	1,828	1,464
Total	**3,265**	**2,960**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 22.8 percent and 23.0 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
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	20	24
Senior debt		3,846	4,162
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		**10,784**	**11,212**

[1] Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).
[2] The Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.
[3] These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.
[4] The holders of 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 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 Group to call the Series V fixed/floating trust preferred securities, issued by ZFS Finance (USA) Trust V in May 2017.

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 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 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	1,949	2,345	1,392	1,826
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	**10,784**	**12,768**	**11,212**	**13,546**

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	11,212	10,086
Issuance of debt recognized in cash flows	–	3,066
Repayment of debt recognized in cash flows	(1,049)	(1,652)
Acquisitions/(divestments) and transfers[1]	(18)	–
Changes in fair value	(27)	(4)
Other changes	3	(14)
Foreign currency translation effects	664	(270)
As of December 31	**10,784**	**11,212**

[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, dividends and earnings per share

Table 19.1

Share capital

	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2015	15,040,496	150,404,964	0.10
New shares issued from contingent capital in 2016	20,244	202,442	0.10
As of December 31, 2016	15,060,741	150,607,406	0.10
New shares issued from contingent capital in 2017	73,245	732,445	0.10
As of December 31, 2017	15,133,985	151,339,851	0.10
Authorized, contingent and issued share capital			
As of December 31, 2016	17,129,526	171,295,259	0.10
As of December 31, 2017	23,129,526	231,295,259	0.10

The following information related to authorized share capital and contingent share capital is specified in article 5 of the Articles of Association.

a) Authorized share capital

Until March 29, 2019, the Board of Zurich Insurance Group Ltd is authorized to increase the share capital by an amount not exceeding CHF 4,500,000 by issuing up to 45,000,000 fully-paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising subscription rights, and the commencement of entitlement to dividends.

The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with a subsequent offer of those shares to current shareholders. The Board may allow the expiry of subscription rights which have not been exercised, or it may place these rights as well as shares, the subscription rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or exclude the subscription rights of shareholders and to allocate them to third parties, the Company or one of its group companies, up to a maximum of 15,000,000 fully-paid registered shares, if the shares are to be used:

- for the take-over of an enterprise, or parts of an enterprise or of participations or for investments by the Company or one of its group companies, or the financing including re-financing of such transactions; or
- for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges or issuance of shares on the national or international capital markets (including private placements to one or more selected investors); or
- for the conversion of loans, bonds, similar debt instruments, equity-linked instruments or other financial market instruments (collectively, the 'Financial Instruments') issued by the Company or one of its group companies; or
- for the improvement of the regulatory capital position of the Company or one of its group companies in a fast and expeditious manner.

Up to March 29, 2019, the total of new shares issued from (i) authorized share capital where the subscription rights were restricted or excluded, and (ii) contingent share capital in connection with Financial Instruments where the advance subscription rights were restricted or excluded, may not exceed 30,000,000 new shares.

b) Contingent share capital

Financial Instruments

The share capital of Zurich Insurance Group Ltd may be increased by an amount not exceeding CHF 3,000,000 by issuing of up to 30,000,000 fully-paid registered shares with a nominal value of CHF 0.10 each by the voluntary or mandatory exercise of conversion and/or option rights which are granted in connection with the issuance of loans, bonds, similar debt instruments, equity-linked instruments or other financial market instruments (collectively, the 'Financial Instruments') by the Company or one of its group companies or by mandatory conversion of Financial Instruments issued by the Company or one of its group companies, that allow for contingent mandatory conversion into shares of the Company, or by exercising option rights which are granted to the shareholders. The subscription rights are excluded. The then-current owners of the Financial Instruments shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board is authorized, when issuing Financial Instruments to restrict or exclude the advance subscription rights in cases where they are issued:

- for the financing including re-financing of a take-over of an enterprise, of parts of an enterprise, or of participations or of investments by the Company or one of its group companies; or
- on national or international capital markets (including private placements to one or more selected investors); or
- for the improvement of the regulatory capital position of the Company or one of its group companies in a fast and expeditious manner.

If the advance subscription rights are restricted or excluded by a resolution of the Board, the following applies: the Financial Instruments are to be issued at prevailing market conditions (including standard dilution protection clauses in accordance with market practice) and the setting of the conversion or issue price of the new shares must take due account of the stock market price of the shares and/or comparable instruments priced by the market at the time of issue or time of conversion.

The conversion rights may be exercisable during a maximum of ten years and option rights during a maximum of seven years from the time of the respective issue; contingent conversion features may remain in place indefinitely.

Up to March 29, 2019, the total of new shares issued from (i) authorized share capital where the subscription rights were restricted or excluded, and (ii) contingent share capital in connection with Financial Instruments where the advance subscription rights were restricted or excluded, may not exceed 30,000,000 new shares.

Employee participation

During 2017 and 2016, 732,445 shares and 202,442 shares, respectively, were issued to employees from contingent share capital. At the Annual General Meeting of March 29, 2017, the shareholders approved to increase the contingent share capital that can be issued to employees of the Company and group companies to CHF 500,000 by issuing up to 5,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. The remaining contingent share capital, which can be issued to employees amounted to CHF 495,541 and CHF 68,785 or 4,955,408 and 687,853 fully paid registered shares as of December 31, 2017 and 2016, respectively, with a nominal value of CHF 0.10 each. Subscription rights of the shareholders, as well as advance subscription rights, are excluded. The issuance of new shares or respective option rights to employees is subject to one or more regulations to be issued by the Board and takes into account performance, functions, levels of responsibility and criteria of profitability. New shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

c) Additional paid-in capital

This reserve is not ordinarily available for distribution. However, as of January 1, 2011, a Swiss tax regulation based on the Swiss Corporate Tax Reform II became effective, allowing for payments free of Swiss withholding tax to shareholders out of the capital contribution reserve, created out of additional paid-in capital. Therefore, amounts qualifying under this regulation can be paid out of additional paid-in capital.

d) Treasury shares

Table 19.2

Treasury shares

number of shares, as of December 31	**2017**	2016	2015
Treasury shares	1,156,567	1,203,523	1,243,931

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

e) Dividends

The dividend of CHF 17 per share was partially paid out of the capital contribution reserve and partially out of the available earnings on April 4, 2017, as approved at the Annual General Meeting on March 29, 2017. The difference between the respective amounts of the dividend at transaction day exchange rates amounting to USD 2.6 billion and at historical exchange rates are reflected in the cumulative foreign currency translation adjustment.

In 2016, the dividend of CHF 17 per share was paid out of the capital contribution reserve on April 5, 2016, as approved at the Annual General Meeting on March 30, 2016. The difference between the respective amounts of the dividend at transaction day exchange rates amounting to USD 2.6 billion and at historical exchange rates are reflected in the cumulative foreign currency translation adjustment.

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f) Earnings per share

Table 19.3

Earnings per share

for the years ended December 31	Net income attributable to common shareholders (in USD millions)	Weighted average number of shares	Per share (USD)	Per share (CHF)[1]
2017				
Basic earnings per share	**3,004**	**150,001,064**	**20.02**	**19.71**
Effect of potentially dilutive shares related to share-based compensation plans		974,049	(0.13)	(0.13)
Diluted earnings per share	**3,004**	**150,975,114**	**19.90**	**19.58**
2016				
Basic earnings per share	**3,211**	**149,285,218**	**21.51**	**21.18**
Effect of potentially dilutive shares related to share-based compensation plans		1,012,384	(0.14)	(0.14)
Diluted earnings per share	**3,211**	**150,297,601**	**21.36**	**21.04**

[1] The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2017 and 2016.

Basic earnings per share is computed by dividing net income attributable to shareholders by the weighted average number of shares outstanding for the year, excluding the weighted average number of shares held as treasury shares. Diluted earnings per share reflects the effect of potentially dilutive shares.

g) Equity component related to contracts with DPF

Certain investment and insurance contracts sold by the Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the Group. Where that discretion has not been exercised, the total amount of undeclared funds surplus is included in equity. Mandated allocations related to unrealized results and earnings are included in policyholder liabilities and, upon declaration, discretionary bonuses are allocated to policyholders. The 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

The Group had 51,633 and 52,473 employees (full-time equivalents) as of December 31, 2017 and 2016, respectively. 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 Group operates a number of retirement benefit arrangements for employees, with the majority of employees belonging to defined benefit pension plans. Other employees participate in defined contribution plans, which provide benefits equal to the amounts contributed by both the employer and the employee plus investment returns.

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

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

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

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

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

a) Defined benefit pension plans

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

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

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

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

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

For post-employment defined benefit plans, total contributions to funded plans and benefits paid directly by the Group were USD 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 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 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 Group's post-employment defined benefit plans.

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Table 20.1a

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

in USD millions	Defined benefit obligation	Fair value of assets	Asset ceiling	Net defined benefit asset/ (liability)
As of January 1, 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)

Table 20.1b

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

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 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 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.

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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 Group's post-employment defined benefit obligations and the 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 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 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 Group's view of expected future changes in the defined benefit obligation. Any management actions that may be taken to mitigate the inherent risks in the post-employment defined benefit plans are not reflected in this analysis.

b) Defined contribution pension plans

Certain of the Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either immediate on commencement of employment or based on completion of a specified period of continuous service. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 12 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 139 million and USD 190 million for the years ended December 31, 2017 and 2016, respectively.

21. Share-based compensation and cash incentive plans

The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based compensation plans are based on the provision of Zurich Insurance Group Ltd shares.

a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 485 million and USD 447 million for the years ended December 31, 2017 and 2016, respectively.

b) Share-based compensation plans for employees and executives

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

The cost of share-based payments depend on various factors, including achievement of targets, and are subject to the discretion of the Remuneration Committee. Costs may therefore vary significantly from year to year. The net amounts of USD 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 Group.

Employee share plans

Share Incentive Plan for employees in the UK

The Group established an Inland Revenue approved Share Incentive Plan and launched the Partnership Shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Insurance Group Ltd shares at the prevailing market price from their gross earnings. This plan was terminated in 2007. There were 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 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 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 Group's return on shareholders' equity (ROE), the position of its relative total shareholder return (TSR) measured against an international peer group of insurance companies, and the achievement of cash remittance targets. The three pre-defined performance criteria are each assessed over a period of three consecutive financial years starting in the year of allocation. One half of the shares that actually vest are sales-restricted for a further three years. To further align the participants with the interests of the shareholders, effective from January 1, 2014, the target shares are credited with dividend equivalent shares during the vesting period to compensate participants in LTIP for dividends paid to shareholders. As of December 31, 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.

Table 21

Shares allocated during the period

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	780,178	264	203

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

Prior to 2011, for selected senior executives, performance shares and options in shares of Zurich Insurance Group Ltd were allocated. All 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 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.

Table 22.1

Quantifiable commitments and contingencies

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	1,962
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 Group has committed to contribute capital to third parties that engage in making investments in direct private equity, private equity funds and real estate. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis.

Guarantees and letters of credit

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

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

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

Commitments under lease agreements

The Group has entered into various non-cancellable operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 256 million and USD 262 million for the years ended December 31, 2017 and 2016, respectively.

Table 22.2

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

in USD millions, as of December 31	**2017**	2016
< 1 year	285	262
1 to 2 years	249	218
2 to 3 years	202	196
3 to 4 years	188	157
4 to 5 years	148	135
> 5 years	1,055	994
Total	**2,127**	**1,962**

Other contingent liabilities

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

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

In common with other insurance companies in Europe, the 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 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 Group's liabilities are usual and standard in the markets in which the underlying agreements were executed.

Legal, compliance and regulatory developments

In recent years there has been an increase in the number of legislative initiatives that require information gathering and tax reporting regarding the Group's customers and their contracts, including the U.S. Foreign Account Tax Compliance Act (FATCA) and the expected introduction of other automatic tax information exchange regimes based on the Common Reporting Standard (CRS). The Group's compliance activities in this area could result in higher compliance costs, remedial actions and other related expenses for its life insurance, savings and pension business. There has also been increased scrutiny by various tax and law enforcement officials 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 Group, on its own initiative, undertook an internal review of the life insurance, savings and pension business sold by its non-U.S. operating companies with relevant cross-border business to customers with a nexus to the U.S. The Group engaged outside counsel and other advisors to assist in this review, which was focused on assessing compliance with relevant U.S. tax laws. The review confirmed that the Group's cross-border business with U.S. persons was very limited and of a legacy nature, with the large majority of sales having occurred more than a decade ago. The review also confirmed that the Group's U.S. operating companies were not involved in or connected to those activities.

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

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

Legal proceedings and regulatory investigations

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

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

23. Fair value measurement

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

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

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

Level 3 – includes assets and liabilities for which fair values are determined using valuation techniques with at least one significant input not being based on observable market data. This approach is used only in circumstances when there is little, if any, market activity for a certain instrument, and the Group is required to 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 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 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.

Fair value and carrying value of financial assets and financial liabilities

Table 23.1

in USD millions, as of December 31	Total fair value		Total carrying value	
	2017	2016	2017	2016
Available-for-sale securities				
Equity securities	14,190	12,548	14,190	12,548
Debt securities	140,240	131,967	140,240	131,967
Total available-for-sale securities	154,430	144,515	154,430	144,515
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**	**968**	**903**	**968**
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	**185,492**	**175,967**	**182,728**	**172,996**
Derivative liabilities	**(214)**	**(345)**	**(214)**	**(345)**
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(631)	(637)	(510)	(506)
Senior debt	(3,971)	(4,306)	(3,846)	(4,162)
Subordinated debt	(7,594)	(7,370)	(6,938)	(7,050)
Total financial liabilities held at amortized cost	(12,196)	(12,314)	(11,295)	(11,718)
Total financial liabilities	**(12,410)**	**(12,659)**	**(11,509)**	**(12,062)**

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

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

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

Fair values of liabilities related to investment contracts and investment contracts with DPF are determined using discounted cash flow models. Such instruments are categorized within level 3 due to the unobservability of certain inputs used in the valuation.

Recurring fair value measurements of assets and liabilities

Fair value hierarchy – non unit-linked – current period

Table 23.2a

in USD millions, as of December 31, 2017	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	10,859	2,342	988	14,190
Debt securities	–	133,989	6,251	140,240
Total available-for-sale securities	10,859	136,331	7,239	154,430
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	11,819	145,634	19,638	177,091
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	9,237	2,395	917	12,548
Debt securities	–	126,459	5,508	131,967
Total available-for-sale securities	9,237	128,853	6,425	144,515
Fair value through profit or loss securities				
Equity securities	783	40	2,536	3,359
Debt securities	–	5,575	97	5,672
Total fair value through profit or loss securities	783	5,615	2,633	9,032
Derivative assets	3	541	424	968
Investment property	–	2,007	8,555	10,562
Reinsurers' share of reserves for insurance contracts fair value option[1]	–	–	237	237
Total	10,023	137,016	18,275	165,314
Derivative liabilities	–	(281)	(63)	(345)
Reserves for insurance contracts fair value option[2]	–	–	(2,720)	(2,720)
Total	–	(281)	(2,783)	(3,065)

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

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

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

Where there are active and transparent markets and no significant adjustments to the observable data required, the 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 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 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 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 Group when measuring fair value of these assets.

For details on 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 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.

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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	424	(63)	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	(58)	43	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 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 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	529	(99)	7,828
Realized gains/(losses) recognized in income[1]	105	24	9	–	–	–	129
Unrealized gains/(losses) recognized in income[1,2]	(15)	(34)	154	–	(31)	(4)	236
Unrealized gains/(losses) recognized in other comprehensive income	(9)	24	–	–	59	38	9
Purchases	223	1,291	448	1	8	–	836
Settlements/sales/redemptions	(299)	(1,416)	(471)	(29)	(6)	–	(245)
Transfer from/to assets held for own use	–	–	–	–	–	–	(5)
Transfer to assets held for sale	–	–	–	–	–	–	(74)
Transfers into level 3	–	29	1	–	–	–	–
Transfers out of level 3	–	(228)	–	(6)	(130)	–	–
Acquisitions and divestments	(6)	–	–	–	–	–	–
Foreign currency translation effects	(42)	(145)	(25)	(15)	(5)	2	(159)
As of December 31, 2016	**917**	**5,508**	**2,536**	**97**	**424**	**(63)**	**8,555**

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

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

Table 23.5a

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

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	(32.6)	–	(33)
As of December 31, 2017	**2,436**	**(224)**	**2,212**

Table 23.5b

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

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**

Table 23.6a

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

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.

Consolidated financial statements (continued)

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

Table 23.6b

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 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**	**12,629**	**176,450**
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**	**14,723**	**178,779**
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**	**14,465**	**178,502**

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**	**13,010**	**168,912**
Past due but not impaired financial assets. Past due by:					
1 to 90 days	–	38	–	1,156	1,194
91 to 180 days	–	10	–	252	262
181 to 365 days	–	5	–	184	189
> 365 days	–	8	–	181	189
Past due but not impaired financial assets	**–**	**60**	**–**	**1,773**	**1,834**
Financial assets impaired	**143**	**66**	**21**	**121**	**351**
Gross carrying value	**140,181**	**6,845**	**9,166**	**14,904**	**171,097**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	46	20	71	137
Impairment allowances on collectively assessed financial assets	–	5	–	159	164
Net carrying value	**140,181**	**6,794**	**9,146**	**14,675**	**170,796**

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	51	20	230
Increase/(decrease) in allowance for impairments	–	(8)	70
Amounts written-off	(47)	–	(49)
Acquisitions and divestments	–	–	(1)
Foreign currency translation effects	2	–	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	106	20	249
Increase/(decrease) in allowance for impairments	(5)	2	33
Amounts written-off	(47)	(2)	(19)
Acquisitions and divestments	–	–	(31)
Foreign currency translation effects	(3)	(1)	(2)
As of December 31, 2016	**51**	**20**	**230**

25. Related-party transactions

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

Table 25 summarizes related-party transactions with key personnel reflected in the consolidated financial statements. Key personnel includes members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd and members of the Executive Committee.

Related party transactions – key personnel

Table 25

in USD millions, for the years ended December 31	**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 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.

Information required by art. 14–16 of the Swiss Ordinance against Excessive Compensation and art. 663c paragraph 3 of the Swiss Code of Obligations is disclosed in the Remuneration report.

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

26. Relationship with the Farmers Exchanges

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

a) Certificates of contribution/surplus notes issued by the Farmers Exchanges

As of December 31, 2017 and 2016, FGI and other 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.

Table 26.2

Quota share reinsurance treaties

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 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 Group pursues a customer-centric strategy, where the Property & Casualty (P&C) and Life businesses are managed on a regional basis. The Group's reportable segments have been identified on the basis of the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. The 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 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 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 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 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 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 Group's internal performance measure, business operating profit (BOP). This measure is the basis on which the Group manages all of its business units. It indicates the underlying performance of the Group's business units, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and impairments on investments (except for 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 years 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	8,479	8,603	7,917	6,947
Life insurance death and other benefits, net	(1)	(2)	–	–
Insurance benefits and losses, net	8,478	8,601	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)	12,480	12,813	10,726	9,746
Business operating profit (before interest, depreciation and amortization)	**470**	**1,202**	**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	273	1,070	800	1,207
Non-controlling interests	14	16	–	–
Business operating profit	**259**	**1,054**	**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	–	–	17,997	17,346
–	–	–	–	–	–	–	–	(1)	(2)
1,055	964	805	739	(259)	94	–	–	17,996	17,345
–	–	–	–	–	–	–	–	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)	26,733	25,844
194	**300**	**304**	**338**	**243**	**(211)**	**–**	**–**	**2,088**	**2,924**
16	14	5	7	4	3	–	–	89	109
23	16	10	17	–	–	–	–	228	148
–	–	–	–	85	74	–	–	100	97
155	270	288	313	155	(289)	–	–	1,670	2,570
–	–	111	117	–	–	–	–	124	133
155	**270**	**177**	**196**	**155**	**(289)**	**–**	**–**	**1,546**	**2,437**

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 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	(238)	(283)	(215)	(263)
Benefits, losses and expenses				
Losses and loss adjustment expenses, net	17,997	17,346	–	–
Life insurance death and other benefits, net	(1)	(2)	9,258	11,130
Insurance benefits and losses, net	17,996	17,345	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)	26,733	25,844	26,185	29,945
Business operating profit (before interest, depreciation and amortization)	**2,088**	**2,924**	**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	1,670	2,570	1,548	1,385
Non-controlling interests	124	133	289	255
Business operating profit	**1,546**	**2,437**	**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 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	233	281	(175)	(180)	5,215	5,474
1	–	–	–	(8)	(11)	–	–	833	697
216	262	170	228	225	270	(175)	(180)	6,048	6,171
136	39	–	–	636	315	–	–	11,664	13,613
153	177	243	1,135	42	64	(648)	(1,601)	1,183	1,199
5,619	5,550	419	1,368	889	1,105	(823)	(1,781)	62,844	66,471
(37)	(35)	(318)	(1,196)	(15)	(5)	823	1,781	–	–
1,044	1,085	–	–	52	53	–	–	19,094	18,484
389	380	–	–	(97)	448	–	–	9,548	11,957
1,434	1,465	–	–	(45)	501	–	–	28,643	30,441
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	321	1,348	87	122	(126)	(1,072)	6,490	6,888
109	148	119	120	54	79	(269)	(281)	546	525
(22)	(8)	(66)	(100)	(1)	(1)	–	–	(377)	(634)
3,769	3,674	374	1,369	837	1,110	(402)	(1,360)	57,496	60,581
1,850	**1,876**	**45**	**–**	**52**	**(4)**	**(420)**	**(421)**	**5,348**	**5,890**
34	35	12	9	–	–	–	–	152	174
125	119	56	49	–	–	–	–	570	416
–	–	710	727	13	10	(420)	(421)	411	423
1,691	1,722	(733)	(785)	39	(15)	–	–	4,215	4,877
–	–	(2)	(6)	–	–	–	–	411	382
1,691	**1,722**	**(731)**	**(779)**	**39**	**(15)**	**–**	**–**	**3,803**	**4,495**

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	**1,546**	**2,437**	**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	2,361	2,631	1,689	1,366
Income tax expense/(benefit) attributable to policyholders	–	–	171	304
Net income before income taxes	**2,361**	**2,631**	**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
	1,691	**1,722**	**(731)**	**(779)**	**39**	**(15)**	**3,803**	**4,495**
	35	19	(55)	23	10	168	1,201	863
	–	–	5	(2)	–	–	(84)	(89)
	(19)	(8)	(67)	(41)	(1)	(1)	(355)	(377)
	(3)	–	2	(58)	–	–	(23)	(256)
	–	–	(2)	(6)	–	–	411	382
	1,705	1,734	(849)	(864)	48	151	4,954	5,017
	–	–	–	–	–	–	171	304
	1,705	**1,734**	**(849)**	**(864)**	**48**	**151**	**5,125**	**5,321**
							(1,816)	(1,843)
							(171)	(304)
							(1,645)	(1,539)
							3,309	**3,478**
							305	268
							3,004	3,211

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	106,898	95,561
Equity securities	9,434	8,406	7,551	6,751
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	222,556	209,923
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	14,970	35,493	6,438
Total assets (after cons. of investments in subsidiaries)	**121,160**	**115,333**	**278,675**	**236,759**
Liabilities				
Liabilities for investment contracts	–	–	55,227	68,715
Liabilities for insurance contracts, gross	77,831	72,688	161,256	137,072
Reserves for losses and loss adjustment expenses, gross	60,080	56,074	–	–
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]	19,261	20,728	44,529	14,884
Total liabilities	**98,768**	**94,737**	**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 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 for reserves for unit-linked contracts.
[2] In 2017, the 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	12,015	10,608	1,551	1,683	(19,828)	(20,711)	8,228	7,197
	5,939	6,759	10,475	10,748	6,743	7,547	(10,562)	(8,510)	194,084	182,611
	31	144	596	492	174	115	–	–	17,787	15,908
	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	1,099	1,309	(9,366)	(7,368)	8,730	9,146
	–	–	–	–	3	2	–	–	21	20
	807	677	–	–	4,233	10,868	–	–	120,699	125,907
	6,746	7,436	10,475	10,748	10,977	18,415	(10,562)	(8,510)	314,782	308,518
	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	846	981	1,782	1,689	(4,268)	(4,064)	50,629	21,711
	15,554	**16,187**	**23,406**	**22,437**	**17,984**	**24,980**	**(34,713)**	**(33,347)**	**422,065**	**382,348**
	204	189	–	–	197	209	–	–	55,627	69,113
	7,682	8,138	27	28	14,600	21,508	(61)	(64)	261,335	239,369
	809	918	22	22	4,508	4,200	(50)	(59)	65,368	61,155
	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
	–	–	10,579	9,054	288	300	(7,723)	(5,608)	3,846	4,162
	–	–	7,752	7,741	–	–	(2,436)	(2,189)	6,938	7,050
	1,777	2,153	15,131	14,859	3,220	3,043	(24,493)	(25,486)	59,425	30,181
	9,663	**10,479**	**33,489**	**31,682**	**18,305**	**25,059**	**(34,713)**	**(33,347)**	**387,172**	**349,875**
									33,063	30,660
									1,831	1,813
									34,893	32,473
									422,065	**382,348**
	174	155	31	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	9,213	8,427	9,041	8,823
Policyholder dividends and participation in profits, net	8	7	–	–
Total net technical expenses	3,038	3,215	5,270	5,025
Net underwriting result	(1,252)	90	848	738
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	(26)	1,343	1,541	1,515
Non-controlling interest	20	29	104	104
Business operating profit	(45)	1,315	1,436	1,412

[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

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	100	100	EUR	94.3
Zurich Santander Holding Dos (Spain), S.L.	Madrid	100	100	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 Insurance Company Ltd	Zurich	100	100	CHF	825.0
Zurich Investment Management AG	Zurich	100	100	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	100	100	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	100	100	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 Group.
3 The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of Zurich Insurance Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
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 Group's business is subject to extensive regulatory supervision, and companies in the Group are subject to numerous legal restrictions and regulations. These restrictions may refer to minimum capital requirements or the ability of the Group's subsidiaries to pay dividends imposed by regulators in the countries in which the subsidiaries operate. These are considered industry norms, generally applicable to insurers who operate in the same markets.

For Zurich Santander Insurance America, S.L. and its subsidiaries, and the Bansabadell insurance entities, certain protective rights exist, which, 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 Group's capital restrictions, see the capital management section in the risk review, which forms an integral part of the consolidated financial statements.

Table 28.2 shows the summarized financial information for each subsidiary that has non-controlling interests that are material to the Group.

Non-controlling interests

Table 28.2

in USD millions, as of December 31	Zurich Santander Insurance America, S.L. and its subsidiaries		Bansabadell insurance entities	
	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 January 18, 2018, the 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

To the General Meeting of Zurich Insurance Group Ltd, Zurich

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Zurich Insurance Group Ltd and its subsidiaries (the Group), which comprise the consolidated 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 174 to 279 and the audited sections of the risk review on pages 122 to 155) give a true and fair view of the consolidated financial position of the 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 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 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 78% of the 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 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 Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the business units by us, as the Group engagement team, or by component auditors from PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those business units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements of the Group as a whole.

The Group's business units vary significantly in size and we identified 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 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 80% of Group GWP and total assets, respectively.

Our involvement included various site visits and component auditor working paper reviews across significant business units, together with discussions around audit approach and any 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 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 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 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 Group's valuation of the actuarially determined life insurance assets (including deferred policy acquisition costs, deferred origination costs, and present value of future profits) and liabilities (reserves for insurance contracts and deferred front-end fees) is based on complex actuarial methodologies and models and involves comprehensive assumption setting processes with regards to future events. Actuarial assumptions selected by the Group with respect to interest rates, investment returns, mortality, morbidity, longevity, persistency, expenses, stock market volatility and future policyholder behavior and the underlying methodologies and assumptions used may result in material impacts on the valuation of actuarially determined life insurance assets and liabilities. Specifically, the continued low interest rate environment results in reduced investment returns creating a risk of accelerated amortization of deferred policy acquisition costs and a strain on the sufficiency of reserves for traditional life insurance contracts and also influences policyholders' behaviors. Refer to Notes 4 and 8 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of selected key controls over actuarial methodology, integrity of data used in the actuarial valuation, and the assumptions setting processes used by management related to the valuation of actuarially determined life insurance assets and liabilities. In relation to the particular matters set out 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 Group's experience and management's liability adequacy testing procedures. – Assessed the consistency of the life actuarial methods used across the Group's business units. – Challenged the Group's methodology and assumptions, focusing on changes to life actuarial methodology and assumptions during the year, by applying our industry knowledge and experience to compare whether the methodologies are in compliance with recognized actuarial practices as well as regulatory and reporting requirements. Based on the work performed we determined the methodologies and assumptions used in the valuation of actuarially determined life insurance assets and liabilities are reasonable and in line with financial reporting requirements and industry accepted practice.

Valuation of 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 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 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 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 Group's goodwill is allocated to cash generating units (CGUs) that are identified generally at a segment level. The valuation and recoverability of significant goodwill, distribution agreements and attorney-in-fact contracts involves complex judgments and estimates, including projections of future income, terminal growth rate assumptions, and discount rates. These assumptions and estimates can have a material impact on the valuations and impairment decisions reflected in the consolidated financial statements of the Group.

Refer to Notes 3, 4 and 14 to the consolidated financial statements.

How our audit addressed the key audit matter

We assessed and tested the design and operating effectiveness of selected key controls over projections of future income, terminal growth rate assumptions, and discount rates related to the recoverability of goodwill, distribution agreements and attorney-in-fact contracts.

In relation to the particular matters set out 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 Group's discounted cash flow model that supports the value-in-use calculations in order to assess the appropriateness of the methodology applied in the Group's annual impairment assessment.
- Tested the reasonableness of the 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 Group Ltd, the audited sections of the risk review on pages 122 to 155, the Remuneration report of Zurich Insurance Group Ltd and our auditor's reports thereon. Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the 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 Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Mark Humphreys Audit expert Auditor in charge	Stephen O'Hearn Global relationship partner

Zurich, February 7, 2018

Holding company

Review of the year

Net income after taxes for the year was CHF 2,370 million compared with CHF 1,791 million in 2016. The increase was mainly driven by a higher dividend income from its subsidiary Zurich Insurance Company Ltd (ZIC) of CHF 2,300 million in 2017 compared to CHF 1,400 million in 2016, partially offset by a decrease in interest income on subordinated loans to subsidiaries of CHF 415 million to CHF 97 million.

The Annual General Meeting on March 29, 2017, approved a total dividend of CHF 17.00 per share to be paid to the shareholders, whereof CHF 5.70 per share were paid out of the capital contribution reserve free of Swiss withholding tax and CHF 11.30 per share less 35 percent for Swiss withholding tax were paid out of the available earnings.

Shareholders' equity increased by CHF 16 million to CHF 16,725 million as of December 31, 2017, from CHF 16,709 million as of December 31, 2016. The increase was mainly driven by net income after taxes for the year as well as by capital contributed through the issuance of new shares to employees out of contingent capital, partially offset by the dividend of CHF 2,552 million paid in 2017. The Board of Directors will propose a distribution of a dividend partially from the available earnings for 2017 and partially from the capital contribution reserve. The portion from the capital contribution reserve will be exempt from Swiss withholding tax.

Contents

Income statements

in CHF thousands, for the years ended December 31	Notes	**2017**	2016
Other operating income		184	208
Other operating expenses	4	(19,247)	(14,108)
Depreciation and valuation adjustments to non-current assets	5	–	(62,000)
Financial income	6	2,401,635	1,922,356
Dividend income		*2,300,000*	*1,400,000*
Interest income		*97,269*	*513,759*
Other financial income		*4,366*	*8,597*
Financial expenses	7	(893)	(15,748)
Direct taxes	8	(11,594)	(39,269)
Net income after taxes		**2,370,085**	**1,791,439**

Holding company (continued)

Balance sheets

Assets

in CHF thousands, as of December 31	Notes	2017	2016
Current assets			
Cash and cash equivalents		534,714	337,786
Receivables from third parties		321	–
Accrued income and prepaid expenses from subsidiaries		7	207,521
Derivatives with subsidiaries		–	931
Total current assets		535,042	546,238
Non-current assets			
Subordinated loans to subsidiaries	9	4,832,405	4,832,405
Investments in subsidiaries	10	11,368,069	11,368,069
Total non-current assets		16,200,474	16,200,474
Total assets		**16,735,516**	**16,746,712**

Liabilities and shareholders' equity

in CHF thousands, as of December 31	Notes	2017	2016
Short-term liabilities			
Other liabilities to third parties		8,198	33,024
Other liabilities to shareholders		1,320	1,192
Accrued expenses and deferred income to subsidiaries		953	993
Accrued expenses and deferred income to third parties		24	971
Derivatives with subsidiaries		13	1,712
Total short-term liabilities		10,508	37,892
Total liabilities		10,508	37,892
Shareholders' equity (before appropriation of available earnings)			
Share capital	12	15,134	15,061
Legal reserves:		835,514	1,495,143
Capital contribution reserve[1]	*13*	*494,374*	*1,154,003*
General capital contribution reserve		*212,286*	*860,481*
Reserve for treasury shares	*14*	*282,088*	*293,522*
General legal reserve		*341,140*	*341,140*
Free reserve	15	344,624	342,664
Retained earnings:			
As of January 1		*14,855,952*	*13,064,513*
Dividends paid		*(1,696,301)*	*–*
Net income after taxes		*2,370,085*	*1,791,439*
Retained earnings, as of December 31		15,529,736	14,855,952
Total shareholders' equity (before appropriation of available earnings)		16,725,008	16,708,820
Total liabilities and shareholders' equity		**16,735,516**	**16,746,712**

[1] Dividends paid in the year, out of capital contribution reserve in respect of the 2016 result, amounting to CHF 855,656.

Notes to the financial statements

1. General information
Zurich Insurance Group Ltd (the Company) is a public limited company domiciled in Zurich, Switzerland, and its shares are listed on the SIX Swiss Exchange. It was incorporated on April 26, 2000, and is the holding company of the Zurich Insurance Group with the principal activity of holding subsidiary companies. The Company does not employ staff, as employees work in a joint capacity for Zurich Insurance Company Ltd (ZIC).

2. Basis of presentation
Zurich Insurance Group Ltd presents its financial statements in accordance with Swiss law.

All amounts in these financial statements including the notes are shown in Swiss franc thousands, rounded to the nearest thousand, unless otherwise specified.

3. Summary of significant accounting policies
a) Exchange rates
Unless otherwise stated, assets and liabilities expressed in currencies other than Swiss francs are translated at year end exchange rates. Revenues and expenses are translated using the exchange rate at the date of the transaction. Net unrealized exchange losses are recorded in the income statements and net unrealized exchange gains are deferred until realized.

b) Investments in subsidiaries
Investments in subsidiaries are equity interests, held on a long-term basis for the purpose of the holding company's business activities. Each investment in subsidiaries is valued individually and carried at its cost less adjustments for impairments.

c) Accrued income
Income is accrued for interest which is earned but not yet due for payment at the end of the reporting period.

d) Derivatives
Derivatives are carried at market value, with changes in the market value recorded in the income statement.

4. Other operating expenses
Other operating expenses include directors' fees of CHF 4.8 million and CHF 4.6 million for the years ended December 31, 2017, and December 31, 2016, respectively. Overhead expenses increased by CHF 4.3 million to CHF 8.5 million in 2017. In addition, fees paid to the Swiss Financial Market Supervisory Authority of CHF 3.2 million and CHF 3.7 million are included for the years ended December 31, 2017, and December 31, 2016.

5. Depreciation and valuation adjustments to non-current assets
In 2017, no impairment on investments in subsidiaries was recorded. In 2016, the investment in Zurich Financial Services EUB Holdings Limited was impaired by CHF 62 million.

6. Financial income
Financial income for the year 2017 mainly consists of dividend income of CHF 2,300 million (2016: CHF 1,400 million) received from the Company's subsidiary ZIC and interest income of CHF 97 million (2016: CHF 512 million) on the subordinated loan with ZIC. This interest income is recognized when Zurich Insurance Company Ltd declares its intention to pay a dividend to the Company. As of December 31, 2017, ZIC has not declared its intention to pay a dividend for 2017 and hence, no accrual is recognized in the Company's financial statements.

Holding company (continued)

7. Financial expenses

Financial expenses for the year 2017 decreased by CHF 14.8 million to CHF 0.9 million mostly driven by realized and unrealized foreign exchange losses of CHF 0.9 million compared with CHF 9.9 million in the previous year and lower interest expense of CHF 5.8 million due to the repayment of the loan with Farmers Group, Inc., in December 2016.

8. Direct taxes

Direct taxes include income and capital taxes in Switzerland.

9. Subordinated loans to subsidiaries

Subordinated loans include a loan to Zurich Insurance Company Ltd of CHF 4,832 million as of December 31, 2017 and 2016, respectively.

10. Investments in subsidiaries

Investments in subsidiaries

as of December 31			2017			2016
	Carrying value[1]	**Voting rights in %**	**Capital rights in %**	Carrying value[1]	Voting rights in %	Capital rights in %
Zurich Insurance Company Ltd	11,088,466	100.00	100.00	11,088,466	100.00	100.00
Zurich Financial Services EUB Holdings Ltd	121,436	99.90	99.90	121,436	99.90	99.90
Farmers Group, Inc.	157,992	12.10	4.62	157,992	12.10	4.62
Allied Zurich Limited	175	100.00	100.00	175	100.00	100.00
Total	**11,368,069**			**11,368,069**		

[1] in CHF thousands.

In addition to the above mentioned directly held subsidiaries, the Company indirectly owns additional subsidiaries primarily through Zurich Insurance Company Ltd. Information regarding indirectly owned subsidiaries is included on pages 275 to 277 of this Annual Report.

11. Commitments and contingencies

Zurich Insurance Group Ltd has provided unlimited guarantees in support of entities belonging to the Zurich Capital Markets group of companies. The Company has also entered into support agreements and guarantees for the benefit of certain of its subsidiaries. They amounted to CHF 1,319 million as of December 31, 2017, and CHF 2,281 million as of December 31, 2016. The decrease is mainly due to an expired guarantee in the amount of USD 1,000 million (CHF 975 million) provided to a fully owned subsidiary to secure the subordinated debt obligation of the issuer. Furthermore, the Company has issued an unlimited guarantee in favor of the Institute of London Underwriters in relation to business transferred to Zurich Insurance plc from a Group company which no longer has insurance licenses.

Zurich Insurance Group Ltd knows of no event of default that would require it to satisfy any of these guarantees or to take action under a support agreement.

12. Share capital

a) Changes to the share capital

At the Annual General Meeting of March 29, 2017, the shareholders approved to increase the authorized and contingent share capital. Furthermore, the shareholders approved an extension of the authorized share capital until March 29, 2019. The authorized share capital (Art. 5bis 1) amounted to 45,000,000 shares. The contingent share capital for Financial Instruments (Art. 5ter 1a) amounted to 30,000,000 shares and the contingent share capital for employees (Art. 5ter 2a) amounted to 4,955,408 shares. During the years 2017 and 2016, a total of 732,445 shares and 202,442 shares, respectively, were issued to employees out of the contingent capital.

b) Authorized share capital (as specified in Article 5bis of the Articles of Association)
Until March 29, 2019, the Board of Zurich Insurance Group Ltd is authorized to increase the share capital by an amount not exceeding CHF 4,500,000 by issuing up to 45,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising subscription rights, and the commencement of entitlement to dividends.

The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with a subsequent offer of those shares to current shareholders. The Board may allow the expiry of subscription rights which have not been exercised, or it may place these rights as well as shares, the subscription rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or exclude the subscription rights of shareholders and to allocate them to third parties, the Zurich Insurance Group Ltd or one of its group companies, up to a maximum of 15,000,000 fully paid registered shares, if the shares are to be used:

- for the take-over of an enterprise, of parts of an enterprise or of participations or for investments by the Zurich Insurance Group Ltd or one of its group companies, or the financing including re-financing of such transactions; or
- for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges or issuance of shares on the national or international capital markets (including private placements to one or more selected investors); or
- for the conversion of loans, bonds, similar debt instruments, equity-linked instruments or other financial market instruments (collectively, the 'Financial Instruments') issued by the Zurich Insurance Group Ltd or one of its group companies; or
- for the improvement of the regulatory capital position of the Zurich Insurance Group Ltd or one of its group companies in a fast and expeditious manner.

Up to March 29, 2019, the total of new shares issued from (i) authorized share capital where the subscription rights were restricted or excluded, and (ii) contingent share capital in connection with Financial Instruments where the advance subscription rights were restricted or excluded, may not exceed 30,000,000 new shares.

c) Contingent share capital (as specified in Article 5ter of the Articles of Association)
Financial Instruments
The share capital of Zurich Insurance Group Ltd may be increased by an amount not exceeding CHF 3,000,000 by issuing of up to 30,000,000 fully paid registered shares with a nominal value of CHF 0.10 each by the voluntary or mandatory exercise of conversion and/or option rights which are granted in connection with the issuance of loans, bonds, similar debt instruments, equity-linked instruments or other financial market instruments (collectively, the 'Financial Instruments') by Zurich Insurance Group Ltd or one of its group companies or by mandatory conversion of Financial Instruments issued by the Zurich Insurance Group Ltd or one of its group companies, that allow for contingent mandatory conversion into shares of Zurich Insurance Group Ltd, or by exercising option rights which are granted to the shareholders. The subscription rights are excluded. The then-current owners of the Financial Instruments shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board is authorized, when issuing Financial Instruments to restrict or exclude the advance subscription rights in cases where they are issued:

- for the financing including re-financing of a take-over of an enterprise, of parts of an enterprise, or of participations or of investments by the Zurich Insurance Group Ltd or one of its group companies; or
- on national or international capital markets (including private placements to one or more selected investors); or
- for the improvement of the regulatory capital position of the Zurich Insurance Group Ltd or one of its group companies in a fast and expeditious manner.

If the advance subscription rights are restricted or excluded by a resolution of the Board, the following applies: the Financial Instruments are to be issued at prevailing market conditions (including standard dilution protection clauses in accordance with market practice) and the setting of the conversion or issue price of the new shares must take due account of the stock market price of the shares and/or comparable instruments priced by the market at the time of issue or time of conversion.

Holding company (continued)

The conversion rights may be exercisable during a maximum of ten years and option rights during a maximum of seven years from the time of the respective issue; contingent conversion features may remain in place indefinitely.

Up to March 29, 2019, the total of new shares issued from (i) authorized share capital where the subscription rights were restricted or excluded, and (ii) contingent share capital in connection with Financial Instruments where the advance subscription rights were restricted or excluded, may not exceed 30,000,000 new shares.

Employee participation
On January 1, 2017, the contingent share capital, to be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 68,785.30 or 687,853 fully paid registered shares with a nominal value of CHF 0.10 each. On January 1, 2016, the contingent share capital, to be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 89,029.50 or 890,295 fully paid registered shares with a nominal value of CHF 0.10 each.

During 2017 and 2016, 732,445 shares and 202,442 shares, respectively, were issued to employees from contingent share capital. At the Annual General Meeting of March 29, 2017, the shareholders approved to increase the contingent share capital that can be issued to employees of Zurich Insurance Group Ltd and group companies to CHF 500,000 by issuing up to 5,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. The remaining contingent share capital, which can be issued to employees amounted to CHF 495,540.80 and CHF 68,785.30 or 4,955,408 and 687,853 fully paid registered shares as of December 31, 2017 and 2016, respectively, with a nominal value of CHF 0.10 each. Subscription rights of the shareholders, as well as advance subscription rights, are excluded. The issuance of new shares or respective option rights to employees is subject to one or more regulations to be issued by the Board and takes into account performance, functions, levels of responsibility and criteria of profitability. New shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

13. Capital contribution reserve

Capital contribution reserve

in CHF thousands	**2017**	2016
As of January 1	1,154,003	3,645,548
Transfer to free reserve (adjustment capital contribution reserve)	(1,960)	(458)
Dividend payment out of capital contribution reserve	(855,656)	(2,537,305)
Agio on share-based payment transactions	197,987	46,218
As of December 31	**494,374**	**1,154,003**

14. Reserve for treasury shares

This reserve corresponds to the purchase value of all Zurich Insurance Group Ltd shares held by companies of the Zurich Insurance Group as shown in the table below. The Company itself does not hold any treasury shares.

Capital contribution reserve (reserve for treasury shares)

	Number of shares 2017	**Purchase value 2017[1]**	Number of shares 2016	Purchase value 2016[1]
As of January 1	1,203,523	293,522	1,243,931	303,361
Sales during the year	(46,956)	(11,434)	(40,408)	(9,839)
As of December 31	**1,156,567**	**282,088**	**1,203,523**	**293,522**
Average selling price, in CHF		262		248

[1] in CHF thousands

15. Free reserve

Free reserve

in CHF thousands	**2017**	2016
As of January 1	342,664	342,206
Transfer from capital contribution reserve	1,960	458
As of December 31	**344,624**	**342,664**

16. Shareholders

According to information available as of December 31, 2017, Zurich Insurance Group Ltd is not aware of any person or institution, other than BlackRock, Inc., New York, (>5 percent of the shares) and The Capital Group Companies, Inc., Los Angeles, (>3 percent of the shares) which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd exceeding the relevant thresholds prescribed by law.

17. Remuneration of the Board of Directors and the Executive Committee

The information required by articles 14–16 of the Ordinance Against Excessive Compensation, which prevails over article 663bbis of the Swiss Code of Obligations, is disclosed and audited in the remuneration report on pages 82 to 115 of this Annual Report.

18. Shareholdings of the Board of Directors and the Executive Committee

The information on share and share option holdings of Directors and of the members of the Executive Committee (ExCo), who held office as of December 31, 2017, as required by article 663c paragraph 3 and article 959c paragraph 2 cif 11 of the Swiss Code of Obligations is included and audited in the remuneration report on pages 82 to 115 of this Annual Report.

19. Supplementary information

Cash and cash equivalents of CHF 535 million include restricted cash of CHF 0.4 million as of December 31, 2017, compared to cash and cash equivalents of CHF 338 million and thereof restricted cash of CHF 0.4 million in the previous year.

Proposed appropriation of available earnings and capital contribution reserve

as of December 31	**2017**	2016
Registered shares eligible for dividends		
Eligible shares	151,339,851	150,607,406

The Board of Directors proposes to the shareholders at the Annual General Meeting on April 4, 2018, a total dividend of CHF 18.00 per share.

in CHF thousands	**Available earnings**
Appropriation of available earnings	
As of January 1, 2018	15,529,736
Dividend payment out of available earnings[1]	(2,512,242)
Balance carried forward[1]	**13,017,494**

The Board of Directors proposes to the shareholders at the Annual General Meeting on April 4, 2018, to pay a dividend of CHF 2,512 million out of available earnings and to carry forward retained earnings of CHF 13,017 million as shown in the above table.

in CHF thousands	**Capital contribution reserve**
Appropriation of capital contribution reserve	
As of January 1, 2018 (incl. reserve for treasury shares)	494,374
Dividend payment out of capital contribution reserve[1]	(211,876)
Balance carried forward[1]	**282,498**

[1] These figures are based on the issued share capital as of December 31, 2017. They may change following the issuance of shares out of contingent capital for employees after the balance sheet date (see note 12). Treasury shares are not entitled to dividends.

The Board of Directors proposes to the shareholders at the Annual General Meeting on April 4, 2018, to pay a dividend of CHF 212 million from the capital contribution reserve.

If these proposals are approved, a dividend of CHF 16.60 per share, less 35 percent for Swiss withholding tax, as well as a dividend of CHF 1.40 per share exempt from Swiss withholding tax are expected to be paid starting from April 10, 2018.

Zurich, February 7, 2018

On behalf of the Board of Directors of Zurich Insurance Group Ltd

T. de Swaan

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Report of the statutory auditor

To the General Meeting of Zurich Insurance Group Ltd, Zurich

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Zurich Insurance Group Ltd, which comprise the 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 170 million

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.

As key audit matter the following area of focus has been identified:

– Valuation of Investments in subsidiaries

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgments were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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 misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall audit materiality	CHF 170 million
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is the relevant benchmark for a holding company with no own business activities, and is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 17 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report of the statutory auditor (continued)

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Investments in subsidiaries

Key audit matter

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 11.4 billion, which makes up more than 67% 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 3, para b) ("Summary of significant accounting policies") and note 10 ("Investments in subsidiaries") 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.
– Tested the mathematical accuracy of management's calculations.
– Re-performed management's impairment test on the carrying value of each investment in subsidiary, and challenged the impairment decisions taken.
– Tested the required disclosures in the notes to the financial statements.

We determined that the carrying value of investments in subsidiaries and the decisions made in connection with potential impairments thereof are reasonable and supportable. 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 Audit expert Auditor in charge	Ray Kunz Audit expert

Zurich, February 7, 2018

Independent auditor’s report

On the conditional capital increase to the Board of Directors of Zurich Insurance Group Ltd, Zurich

We have audited the issue of new shares by Zurich Insurance Group Ltd in the period from January 1, 2017, to December 31, 2017, pursuant to the resolutions of the general meeting of March 30, 2010, and March 29, 2017, in accordance with article 653f para. 1 Code of Obligations (CO).

Board of Directors’ responsibility
The Board of Directors is responsible for the issue of new shares in accordance with the legal requirements and the Company’s articles of association.

Auditor’s responsibility
Our responsibility is to express an opinion based on our audit as to whether the issue of new shares complies with Swiss law and the Company’s articles of association. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the issue of new shares complies with the legal requirements and Company’s articles of association.

An audit involves performing procedures to obtain audit evidence so that material breaches of the legal requirements and the Company’s articles of association for the issue of new shares may be identified with reasonable assurance. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material breaches of the requirements concerning the issue of new shares, whether due to fraud or error.

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

Opinion
In our opinion, the issue of 732,445 registered shares with a nominal value of CHF 0.10 complies with Swiss law and the Company’s articles of association.

PricewaterhouseCoopers AG

Mark Humphreys
Audit expert

Nicolas Juillerat
Audit expert

Zurich, January 19, 2018

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Glossary

Group

Book value per share
is a measure that is calculated by dividing shareholders' equity by the number of shares issued less the number of treasury shares as of the period end.

Business operating profit (BOP)
is the Group's internal performance measure , on which the Group manages all of its business units. It indicates the underlying performance, 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. **Business operating profit before interest, depreciation and amortization (BOPBIDA)** excludes interest expense on debt, depreciation and impairments of property and equipment and amortization and impairments of intangible assets. BOPBIDA includes amortization of deferred policy acquisition costs, deferred origination costs and distribution agreements.

Business operating profit (after-tax) return on shareholders' equity (BOPAT ROE)
indicates the level of BOP relative to resources provided by shareholders. It is calculated as BOP, annualized on a linear basis and adjusted for taxes, divided by the average value of shareholders' equity, adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges, using the value at the beginning and end of each quarter within the period. The average shareholders' equity for each quarter is then added together and divided by the number of quarters. If the dividend is approved at the Annual General Meeting within the first ten working days in April, then the dividend is deducted from the second quarter opening shareholders' equity.

Investments
Total investments in the consolidated balance sheets include Group investments and investments for unit-linked contracts. **Group investments** are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Average invested assets include investment cash, but exclude cash collateral received for securities lending. The Group manages its diversified investment portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of the Group's Asset/Liability Management and Investment Committee. **Investments for unit-linked contracts** include investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked contracts. They are managed in accordance with the investment objectives of each unit-linked fund. The investment result for unit-linked products is passed to policyholders through a charge to policyholder dividends and participation in profits.

Return on shareholders' equity (ROE)
is a measure that indicates the level of profit or loss relative to resources provided by shareholders. It is calculated as net income after taxes attributable to shareholders, annualized on a linear basis, divided by the average value of shareholders' equity, adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges, using the value at the beginning and end of each quarter within the period. The average shareholders' equity for each quarter is then added together and divided by the number of quarters. If the dividend is approved at the Annual General Meeting within the first ten working days in April, then the dividend is deducted from the second quarter opening shareholders' equity.

Property & Casualty

The following Property & Casualty (P&C) measures are net of reinsurance.

Net underwriting result
is calculated as the difference between net earned premiums and policy fees and the sum of net insurance benefits and losses and net technical expenses.

Total net technical expenses
includes underwriting and policy acquisition costs, as well as the technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, and other income.

Combined ratio
is a performance measure that indicates the level of claims and net technical expenses during the period relative to net earned premiums and policy fees. It is calculated as the sum of the loss ratio and the expense ratio.

Loss ratio
is a performance measure that indicates the level of claims during the period relative to net earned premiums and policy fees. It is calculated as insurance benefits and losses net, which include paid claims, claims incurred but not reported (IBNR) and claims handling costs, divided by net earned premiums and policy fees.

Expense ratio

is a performance measure that indicates the level of technical expenses during the period relative to net earned premiums and policy fees. It is calculated as the sum of net technical expenses and policyholder dividends and participation in profits, divided by net earned premiums and policy fees.

Net non-technical result

includes expenses or income not directly linked to insurance operating performance, such as gains/losses on foreign currency translation and interest expense on debt. It includes the impact of financial market volatility and other non-operational variables that distort the ongoing business performance.

Life

Embedded value (EV) principles

is a methodology using a "bottom-up" market consistent approach, which explicitly allows for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets. Options and guarantees are valued using market consistent models calibrated to observable market prices.

Insurance deposits

are deposits, similar to customer account balances, not recorded as revenues. However, the fees charged on insurance deposits are recorded as revenue within gross written premiums and policy fees. These deposits arise from investment contracts and insurance contracts that are accounted for under deposit accounting. They represent the pure savings part, which is invested.

New business annual premium equivalent (APE)

is calculated as new business annual premiums plus 10 percent of single premiums, before the effect of non-controlling interests. **Present value of new business premiums (PVNBP)** is calculated as the value of new business premiums discounted at the risk-free rate, before the effect of non-controlling interests.

New business value, after tax

is a measure that reflects the value added by new business written during the period, including allowances for frictional costs, time value of options and guarantees, and the cost of non-market risk, and is valued at the point of sale. It is calculated as the present value of the projected after-tax profit from life insurance contracts sold during the period using a valuation methodology consistent with the EV principles, after the effect of non-controlling interests.

Source of earnings (SOE)

reporting presents the key drivers of Life BOP identifying specific profit sources. This information provides the shareholders' view of earnings, thereby the components attributable to policyholders and non-controlling interests are included in each line item and are not separately identified.

Loadings and fees include fund and non-fund based fees. The investment margin is the spread between the investment result and interest credited to policyholders, plus the return on free surplus. The technical margin shows the mortality, morbidity, and longevity premiums less benefits to the policyholders together with the reinsurance result.

Operating and funding costs include administrative and operating expenses, interest expense on debt, depreciation and amortization of fixed assets and non-acquisition related intangible assets. Acquisition expenses include commissions and other new business expenses, as well as costs related to business combinations, including amortization of acquisition related intangible assets. The impact of deferrals is the net effect of deferral and amortization of policy acquisition and origination costs and front-end fees, which may be affected by movements in financial markets and changes in assumptions as well.

Farmers

Gross management result

is a performance measure of Farmers Management Services calculated as management fees and other related revenues minus management and other related expenses, including amortization and impairments of intangible assets.

Managed gross earned premium margin

is a performance measure calculated as the gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims administrative and management services as attorney-in-fact and receives fees for its services.

Contact information

For more information please contact the appropriate office below, or visit our website at www.zurich.com

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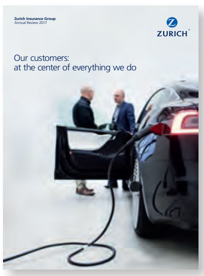
Financial calendar

For more information see page 29 of this report or website:
www.zurich.com/en/investor-relations/calendar

Our 2017 reports



Annual Review 2017
The Annual Review provides an overview of Zurich's business and strategy, and its financial and operating performance in 2017. It is available in English and German.

Annual Report 2017
The Annual Report contains detailed information about Zurich's financial performance, executive bodies, risk management, corporate governance and remuneration in 2017, and its strategy. It is available in English and German, with the financial statements in English only.

Disclaimer and cautionary statement

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

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

It should be noted that past performance is not a guide to future performance.
Please also note that interim results are not necessarily indicative of full year results.

Persons requiring advice should consult an independent advisor.

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

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