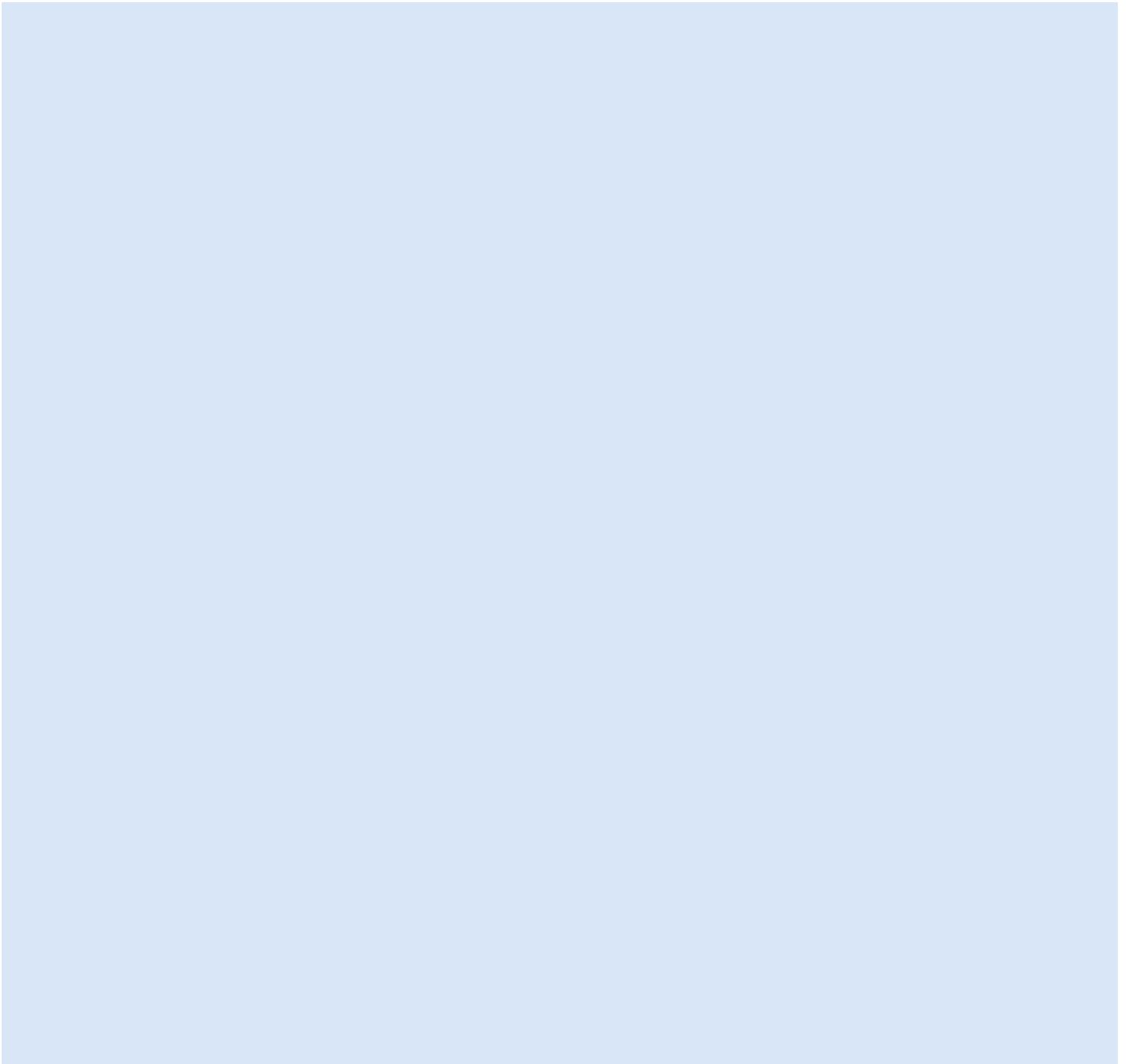


Zurich Life Insurance Company Ltd



Annual Report 2018



Financial statements

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Management report

Zurich Life Insurance Company Ltd (ZLIC), a life insurance company domiciled in Zurich, Switzerland, is operating primarily in Switzerland and through its main branches in Japan and Hong Kong.

Financial review

ZLIC reported a net income after taxes of CHF 237 million in 2018, which is a decrease of 14 percent compared to the prior year's result of CHF 276 million. Key drivers were unwinding effects of technical reserves, realized capital gains from real estate sales and the continuous growth of the business in Japan.

Gross written premiums and policy fees decreased by 5 percent to CHF 1,780 million compared to 2017 mainly driven by the strategic decision to transfer the corporate foreign business managed by Zurich International Corporate Solutions (ZICS) and Zurich Global Employee Benefits Solutions (ZGEBS) to Zurich Insurance Company Ltd (ZIC) in order to further simplify the legal structure as of December 31, 2017.

Business review

2018 remained a challenging year due to low interest rates. In this environment, the execution of ZLIC's capital light and protection oriented strategy as well as dedicated in-force management continued to be recognized as effective tools to drive growth and to improve profitability.

Switzerland

ZLIC in Switzerland is a major life insurer in the Swiss market in terms of gross written premiums and policy fees and also accounts for approximately 80 percent of ZLIC's business. ZLIC operates both a retail and commercial business in Switzerland. Retail products include traditional products term/death, endowment, annuities and unit-linked products hybrid unit-linked with traditional guarantees, pure unit-linked. The commercial business includes domestic life, disability and pension solutions and international group risk solutions (group life and disability cover for international mobile employees and international savings plans to other expatriate markets) offered via ZICS.

As part of the long-term vision and business strategy, ZLIC in Switzerland continued to move to a more efficient, simple and customer-focused organization. Customer satisfaction was measured over key touch-points such as new business, claims, complaints handling and customer service metrics. ZLIC in Switzerland aims to build a culture where customer expectations will be exceeded focusing to push forward customer-oriented processes. ZLIC in Switzerland also continued to focus on intelligent protection and capital-light savings products as well as leveraging a semi-autonomous model while maintaining a strict underwriting discipline, in particular on guarantees. On the distribution side, automated interfaces were developed and are planned to roll out to all agencies to facilitate interaction with customers. The sales support model has been aligned to enhance cross selling capabilities. At the same time, ZLIC in Switzerland continued to strengthen the distribution relationships while seeking to establish alternative distribution channels to realize upselling potential. From an operational perspective, ZLIC in Switzerland is centralizing the IT & process landscape merging into an end-to-end platform to increase efficiency and customer satisfaction while improving reporting capabilities and standardizing processes.

ZICS and ZGEBS

ZICS provides group life and disability cover for International Mobile Employees (IMEs) through hubs in Hong Kong, Dubai and Zurich. ZICS also works with sister companies in the Isle of Man and Luxembourg to provide group life and disability cover, and international savings plans, to other expatriate markets. ZGEBS offers captive, international program and pooling solutions for the employee benefits coverage of multinational companies.

In alignment with ZLIC's strategy to predominantly focus on the Swiss market, ZICS and ZGEBS have been ceded to ZIC as of December 2017 in order to further simplify ZLIC's legal structure. ZLIC solely retained the international Swiss business written by ZICS with gross written premiums of approximately CHF 10 million p.a.

Financial statements (continued)

Japan

ZLIC Japan branch's retail business with key products covering death, critical illness and medical/hospital expenses continued to experience strong growth in 2018, mainly driven by competitive protection products. Over the past years, the Japan branch effectively achieved a sustainable niche position in the fastest growing channels and most profitable product segments. ZLIC Japan branch successfully transitioned to a multi-channel model selling through independent financial advisors (IFAs), direct business and bank distribution. Investments were undertaken to enhance the direct capabilities and strengthen relationships with IFAs and bank distribution partners to further grow production in target segments.

Hong Kong

Hong Kong retail business was placed in run-off as of December 31, 2013.

Investments in subsidiaries and associates

In line with ZLIC's strategy to predominantly focus on the Swiss market, a dividend in kind to ZIC including the shares in ZLIC's overseas subsidiaries was remitted to ZIC in April 2018.

Investment Management

ZLIC's objective is to achieve superior, risk-adjusted investment returns relative to liabilities with the majority of the risk capital allocated to market risk. In order to enhance investment returns and grow operating earnings while reducing overall risk exposure, rebalancing transactions have been executed within the fixed income portfolio. Further, the real estate asset allocation has been reduced.

Risk review

ZLIC has an established risk management framework under the lead of the ZLIC Chief Risk Officer. ZLIC has produced an Own Risk and Solvency Assessment (ORSA) report to summarize ZLIC's risk and solvency assessment. In-depth discussions and reviews of the ORSA were performed with the ZLIC Management Board and the ZLIC Board of Directors during 2018 and the Board approved ZLIC's ORSA report. Throughout the year, quarterly risk reports to the ZLIC Management Board and the ZLIC Board of Directors provide updates of the risk and solvency situation.

ZLIC's risk assessment process is fully integrated into the Group-wide process of the Zurich Insurance Group (ZIG). For more information on ZLIC's approach to risk management, please refer to the risk review section in the ZIG Annual Report 2018 which describes the Group's risk management framework and risk governance, reports on capital management and capital adequacy, and presents an analysis of the main risks.

Outlook

Although the economic environment is challenging, the strategy is appropriate, and ZLIC's management is committed to delivering on the strategic cornerstones as evidenced by aligning the organizational setup towards a customer centric culture, the simplification of the branch and subsidiary structure, and the investments in Switzerland and Japan to further grow the business and to improve operational efficiency.

The key priorities in 2019 will be on addressing customer needs through promoting a balanced product mix, leveraging appropriate distribution channels, investing in essential infrastructure and fostering a strong customer service culture to allow ZLIC in the long term to deliver sustainable, profitable growth in a changing and more competitive business environment where ZLIC's management will continue to carefully monitor and act upon legal and regulatory requirements.

Urban Angehrn
Chairman of the Board

Juan Beer
Chief Executive Officer

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Financial statements (continued)

Board of Directors, Management and Auditors**Board of Directors,
Management
and Auditors**

| | Residence | Expiration of current term of office |
|------------------------------------------------------|---------------------------|--------------------------------------------|
| Board of Directors as of December 31, 2018 | | |
| Urban Angehrn, Chairman of the Board | Greifensee, Switzerland | 2019 |
| Christian Felderer | Zurich, Switzerland | 2019 |
| Erica Arnold | Zurich, Switzerland | 2019 |
| Gary Shaughnessy | Kilchberg, Switzerland | 2019 |
| Robert David Campbell | Edinburgh, United Kingdom | 2019 |
| <hr/> | | |
| Andres Christen, Secretary of the Board of Directors | | |
| <hr/> | | |
| Chief Executive Officer | | |
| Juan José Beer | | |
| <hr/> | | |
| Chief Financial Officer | | |
| Bettina Bornmann | | |
| <hr/> | | |
| Auditors | | |
| PricewaterhouseCoopers AG | | |

As of January 1, 2018, the Board of Directors for Zurich Life Insurance Company Ltd was chaired by Urban Angehrn.

The Annual General Meeting was held on April 10, 2018.

The Audit & Risk Committee of Zurich Life Insurance Company Ltd as of January 1, 2018, consisted of Urban Angehrn, David Campbell (Chairperson) and Erica Arnold.

As of January 1, 2018, the CEO of ZLIC was Joachim Masur. Joachim Masur resigned from his position as CEO of ZLIC effective January 31, 2018. Juan Beer was appointed as CEO and member of the Management Board of ZLIC effective February 1, 2018, by resolution of the Board of Directors of January 16, 2018. The Management Board also included Bettina Bornmann, Erik Erixon, Sandro Meyer and Peter Hirs.

On behalf of the Board of Zurich Life Insurance Company Ltd

| | |
|-----------------------|---------------------|
| Urban Angehrn | Erica Arnold |
| Chairman of the Board | Member of the Board |

Zurich, April 2, 2019

Income statements

| Income statements | in CHF millions, for the years ended December 31 | Notes | 2018 | 2017 |
|-------------------|--------------------------------------------------|-------|----------------|----------------|
| | | 3 | 1,780 | 1,875 |
| | | | (451) | (228) |
| | | | 1,329 | 1,646 |
| | | | 34 | 42 |
| | | | (7) | (23) |
| | | | 1,357 | 1,665 |
| | | 4 | 29 | 14 |
| | | | 1,386 | 1,679 |
| | | 5 | (1,920) | (2,055) |
| | | | 55 | 53 |
| | | 13 | 360 | 329 |
| | | 13 | 149 | 66 |
| | | | 129 | (13) |
| | | | (1,227) | (1,619) |
| | | | (247) | (257) |
| | | | 174 | 150 |
| | | | (73) | (107) |
| | | 6 | (208) | (691) |
| | | | (1,507) | (2,417) |
| | | 7 | 626 | 1,180 |
| | | 8 | (110) | (112) |
| | | | 516 | 1,068 |
| | | | (82) | 101 |
| | | | 4 | 6 |
| | | | (5) | (6) |
| | | | 312 | 431 |
| | | | (48) | (50) |
| | | | 264 | 380 |
| | | | (26) | (105) |
| | | | 237 | 276 |

Financial statements (continued)

Balance sheets

| Assets | in CHF millions as of December 31 | Notes | 2018 | 2017 |
|---------------------|-----------------------------------------------------|-------|---------------|---------------|
| Investments | | | | |
| | Real estate | | 1,610 | 1,717 |
| | Investments in subsidiaries and associates | 9 | 288 | 1,544 |
| | Debt securities | | 13,107 | 13,640 |
| | Policyholders' loans and other loans | | 1,104 | 1,180 |
| | Mortgage loans | | 2,187 | 2,266 |
| | Equity securities | | 1,087 | 1,065 |
| | Other investments | 10 | 408 | 414 |
| | Total investments | | 19,790 | 21,825 |
| Other assets | | | | |
| | Investments for unit-linked contracts | 11 | 819 | 938 |
| | Derivative assets | | 99 | 54 |
| | Deposits made under assumed reinsurance contracts | | 2 | 1 |
| | Cash and cash equivalents | | 1,924 | 1,656 |
| | Insurance reserves, ceded | 14 | 456 | 307 |
| | Fixed assets | | 2 | 1 |
| | Intangible assets | | 11 | 13 |
| | Receivables from insurance and reinsurance business | 12 | 321 | 224 |
| | Other receivables | | 73 | 110 |
| | Other assets | | – | – |
| | Accrued assets | | 399 | 244 |
| | Total other assets | | 4,107 | 3,548 |
| | Total assets | | 23,897 | 25,373 |

Liabilities and
shareholder's
equity

| in CHF millions as of December 31 | | Notes | 2018 | 2017 |
|--------------------------------------------------------------------------------|----|-------|---------------|---------------|
| Liabilities | | | | |
| Insurance reserves, gross | 14 | | 18,427 | 18,940 |
| Actuarial provisions for unit-linked contracts | | | 799 | 927 |
| Provisions | | | 260 | 269 |
| Senior and other debt | 15 | | 370 | 183 |
| Derivative liabilities | | | 6 | 40 |
| Deposits received under ceded reinsurance contracts | | | 300 | 179 |
| Liabilities from insurance and reinsurance business | 16 | | 319 | 127 |
| Other liabilities | | | 575 | 615 |
| Accrued liabilities | | | 349 | 359 |
| Subordinated debt | 15 | | 1,127 | 1,150 |
| Total liabilities | | | 22,532 | 22,789 |
| Shareholder's equity (before appropriation of available earnings) | | | | |
| | 19 | | | |
| Share capital | | | 60 | 60 |
| Legal reserve | | | 41 | 41 |
| General free reserve | | | 878 | 878 |
| Retained earnings: | | | | |
| <i>Beginning of year</i> | | | 1,605 | 1,329 |
| <i>Dividend paid</i> | | | (1,457) | – |
| <i>Net income after taxes</i> | | | 237 | 276 |
| Retained earnings, end of year | | | 385 | 1,605 |
| Total shareholder's equity (before appropriation of available earnings) | | | 1,364 | 2,584 |
| Total liabilities and shareholder's equity | | | 23,897 | 25,373 |

Financial statements (continued)

Notes to the financial statements

1. Basis of presentation

Zurich Life Insurance Company Ltd (ZLIC), or the Company, is a life insurance company domiciled in Zurich, Switzerland. ZLIC operates mainly in Switzerland and through its branches in Japan, Hong Kong and Dubai.

The ZLIC financial statements are prepared in accordance with the Swiss Code of Obligations and relevant insurance supervisory law, including the FINMA Insurance Supervision Ordinance (ISO-FINMA), revised December 15, 2015.

All amounts in the financial statements, unless otherwise stated, are shown in CHF, rounded to the nearest million, with the consequence that the rounded amounts may not add up to the rounded total in all cases. All variances are calculated using the actual figures rather than the rounded amounts.

2. Summary of significant accounting policies

Investments

Real estate held for investment and held for own use is carried at acquisition cost less required or permissible impairment and is valued on a single valuation basis.

Investments in subsidiaries and associates are equity interests held on a long-term basis. Each investment in subsidiaries and associates is valued individually and carried at its cost less adjustments for impairments.

Debt securities are carried at amortized cost, using the effective interest rate method. They are impaired as necessary. The valuation of debt securities held in the single investor funds in Switzerland is the same as for directly held securities.

Policyholders' loans and other loans are financial assets with fixed or determinable payments that are not quoted in an active market and have not been included in any other category of investment. They are carried at amortized cost less any charges for impairment.

Mortgage loans are carried at nominal value less impairments as necessary.

Equity securities are carried at the lower of cost or market value, i.e. at acquisition cost or the market price if the latter is lower at the end of the financial year. The lower valuation basis is maintained until the securities are sold or redeemed, so that there are no subsequent write-ups due to higher stock market prices. The valuation of equity securities held in the single investor funds in Switzerland is the same as for directly held securities.

Derivative financial instruments

Derivative assets and derivative liabilities are carried at fair value in accordance with the Swiss Insurance Supervision Law. Derivatives hedging long-term cash flows from life insurance liabilities in Switzerland are carried at amortized cost.

Other assets

Investments and actuarial provisions for unit-linked contracts

Investments and actuarial provisions for unit-linked contracts represent portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks relating to the investments. The liabilities are carried at fair value, with fair value being determined by reference to the underlying financial assets. The related assets are carried at fair value to reduce measurement inconsistencies. If the contract is subject to a put or surrender option, the fair value of the financial liability is never recorded at less than the amount payable on surrender, discounted for the required notice period, where applicable. 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.

Deposits made under assumed reinsurance contracts

Reinsurance deposits consist of funds deposited with ceding insurers to guarantee contractual liabilities for assumed reinsurance.

Accrued assets

This amount relates primarily to interest accruals, other prepaid expenses (mainly prepaid annuity benefits) and other accrued income. Investment income is accrued for interest income which is earned but not yet due for payment at year-end. Interest is accrued on a day-to-day basis and recognized as earned income. Accrued investment income within the single investor funds in Switzerland is recorded as write-up on investments.

Accrued liabilities

This amount includes accrued interest payables, accrued commissions, other accrued expenses and premium prepayments from policyholders.

Insurance reserves

Reserves for unearned premiums represent the portion of the premiums received but not yet earned. In many insurance contracts, the insurance period for which the Company assumes a risk against a premium received in advance does not correspond to the Company's financial year. Thus, an amount equivalent to the unearned portion of the premium is set up as a reserve at the end of the financial year.

Future life policyholders' benefits represent the estimated future policyholder benefit liability for life insurance policies and include provisions for losses incurred but not yet reported (IBNR). In addition, equalization reserves are included where these are required or accepted by the regulator. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed.

Reserves for policyholders' dividends represents the amount for policyholders' participation in profits to be paid out in future years.

Other income and administrative and other expense

Other income includes interest income on deposits received under ceded reinsurance contracts as well as other technical and other non-technical income. **Administrative and other expense** represents primarily technical expense in connection with the operation of the insurance business as well as other technical or non-technical expenses.

Investment income and expenses

Realized capital gains/losses on investments occur when the sales price or redemption value is higher or lower than the carrying value at the time of sale. The gains/losses are determined from the difference between carrying value and the sales price.

Write-downs on investments are losses arising from a decrease in the fair value below cost or carrying value at the previous year end of equity securities. Write-downs on debt securities are other than temporary impairments.

Write-downs and write-ups on investments further include the change in valuation of the single investor funds, which also include the investment income of the investments within these funds.

Direct tax expenses

Direct tax expenses include both Swiss and foreign income tax expense and capital tax expense in Switzerland as well as foreign withholding tax expense on investment income.

Financial statements (continued)

3. Gross written premiums and policy fees

| Gross written premiums and policy fees by type of business | in CHF millions, for the years ended December 31 | |
|------------------------------------------------------------|--------------------------------------------------|--------------|
| | 2018 | 2017 |
| Group insurance Switzerland | 777 | 812 |
| Group insurance abroad | – | – |
| Individual insurance Switzerland | 635 | 632 |
| Individual insurance abroad | 43 | 46 |
| Health insurance abroad | 320 | 242 |
| Reinsurance assumed | 5 | 144 |
| Gross written premiums and policy fees | 1,780 | 1,875 |

| Gross written premiums and policy fees by country | in CHF millions, for the years ended December 31 | |
|---------------------------------------------------|--------------------------------------------------|--------------|
| | 2018 | 2017 |
| Switzerland | 1,418 | 1,587 |
| Hong Kong | 43 | 47 |
| Japan | 320 | 242 |
| Dubai | – | (1) |
| Gross written premiums and policy fees | 1,780 | 1,875 |

4. Other income

Other income increased by CHF 15 million in 2018, mainly due to the partial release of the provision for value fluctuations of investments of CHF 10 million in 2018.

5. Claims paid, annuities and loss adjustment expenses, gross of reinsurance

| Claims paid, annuities and loss adjustment expenses, gross | in CHF millions, for the years ended December 31 | |
|-------------------------------------------------------------------|--------------------------------------------------|----------------|
| | 2018 | 2017 |
| Maturity benefits | (651) | (665) |
| Death benefits | (135) | (324) |
| Annuity payments | (409) | (413) |
| Disability and health benefits | (242) | (233) |
| Surrenders | (483) | (419) |
| Claims paid, annuities and loss adjustment expenses, gross | (1,920) | (2,055) |

Total claims paid, annuities and loss adjustment expenses, gross, decreased by CHF 135 million to CHF 1,920 million from CHF 2,055 million in 2017.

6. Administrative and other expense

| Administrative and other expense | in CHF millions, for the years ended December 31 | |
|------------------------------------------------------|--------------------------------------------------|--------------|
| | 2018 | 2017 |
| Operating and administrative expenses | (230) | (356) |
| Gains and losses on foreign currency derivatives | 96 | (306) |
| Foreign currency transaction gains and losses | (64) | (26) |
| Amortisation of software | (7) | (6) |
| Depreciation of equipment | (1) | – |
| Restructuring costs | (2) | 4 |
| Administrative and other expense¹⁾ | (208) | (691) |
| of which personnel expenditure | (86) | (71) |

¹⁾ In 2017, administrative and other expenses would have amounted to CHF (683) million. Operating and administrative expenses would have amounted to CHF (351) million and gains and losses on foreign currency derivatives would have amounted to CHF (303) million. The offset was booked in other financial income and other financial expense in 2017.

Administrative and other expense decreased by CHF 483 million from CHF 691 million in 2017 to CHF 208 million in 2018. The main drivers for this change were gains and losses on foreign currencies, on which a net gain of CHF 32 million resulted in 2018 compared with a net loss of CHF 332 million in 2017. Further, the increase of the provision for value fluctuations of investments (mortgages), which was booked in 2017, had a negative impact of CHF 120 million in 2017.

7. Investment income

| Investment income by country | in CHF millions, for the years ended December 31 | 2018 | 2017 |
|------------------------------|--------------------------------------------------|-------------|--------------|
| | | Switzerland | 591 |
| Netherlands | | 19 | 5 |
| Japan | | 4 | 2 |
| Hong Kong | | 12 | 10 |
| Investment income | | 626 | 1,180 |

| Investment income by category | in CHF millions, for the years ended December 31 | Current income | | Realized capital gains | | Write-ups | | Totals | |
|--------------------------------------------|--------------------------------------------------|----------------|------------|------------------------|------------|------------|------------|------------|--------------|
| | | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | | Real estate | 116 | 126 | 130 | 148 | – | – | 246 |
| Investments in subsidiaries and associates | 11 | 10 | – | – | – | – | 11 | 10 | |
| Debt securities | 85 | 89 | 11 | 11 | 159 | 565 | 255 | 665 | |
| Policyholders' loans and other loans | 9 | 11 | 1 | – | – | – | 10 | 11 | |
| Mortgage loans | 44 | 47 | – | – | – | – | 44 | 47 | |
| Equity securities | 5 | 9 | 44 | 51 | – | 107 | 49 | 166 | |
| Other investments | 7 | 6 | 5 | – | – | – | 12 | 6 | |
| Investment income | | 277 | 299 | 190 | 210 | 159 | 672 | 626 | 1,180 |

Investment income decreased by CHF 555 million or 47 percent to CHF 626 million in 2018 from CHF 1,180 million in 2017, mainly driven by the decrease in the value of the single investor funds as well as the overall deterioration in equity securities markets compared to 2017.

8. Investment expenses

| Investment expenses by category | in CHF millions, for the years ended December 31 | Realized capital losses | | Write-downs | | Totals | |
|--------------------------------------------|--------------------------------------------------|-------------------------|------------|-------------|-------------|--------------|--------------|
| | | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | | Real estate | – | (3) | (27) | (46) | (27) |
| Investments in subsidiaries and associates | – | – | – | – | – | – | |
| Debt securities | (3) | (2) | (10) | (1) | (14) | (3) | |
| Policyholders' loans and other loans | (6) | – | – | – | (6) | – | |
| Mortgage loans | – | – | – | – | – | – | |
| Equity securities | (1) | (2) | (13) | (4) | (14) | (6) | |
| Other investments | (1) | – | – | – | (1) | – | |
| Subtotal investment expenses | | (11) | (8) | (51) | (51) | (61) | (59) |
| Other investment expenses | | n.a. | n.a. | n.a. | n.a. | (49) | (53) |
| Investment expenses | | (11) | (8) | (51) | (51) | (110) | (112) |

Investment expenses decreased by CHF 2 million to CHF 110 million in 2018 from CHF 112 million in 2017. Lower write-downs on real estate have been partially offset by increased write-downs on debt securities and equity securities within the single investor funds.

Financial statements (continued)

9. Investments in subsidiaries and associates

The table below shows the significant subsidiaries and associates, which ZLIC holds directly. Subsidiaries and associates of ZLIC with a carrying value of less than CHF 1 million in total are not listed below.

Significant subsidiaries

as of December 31, 2018

| | Registered office | Voting rights % | Ownership interest % | Currency | Share capital in million units of local currency |
|-------------------------------------------------------------|-------------------|-----------------|----------------------|----------|--------------------------------------------------|
| Genevoise Real Estate Company Ltd, Switzerland ¹ | Geneva | 100.0 | 100.0 | CHF | 20.4 |
| SOCIETE AVENUE LOUIS CASAI 86 SA ¹ | Geneva | 100.0 | 100.0 | CHF | 0.1 |
| Zurich Colombia Seguros S.A. ² | Bogota | 5.1 | 5.1 | COP | 65,883.3 |
| Inversiones Suizo-Argentina S.A., Argentina ² | Buenos Aires | 2.0 | 2.0 | ARS | 100.0 |
| Investments in subsidiaries and associates | | | | | |

¹ Statutory purpose: Service company

² Statutory purpose: Holding company

ZLIC transferred investment subsidiaries with a carrying value of CHF 1,257 million as dividend in kind to Zurich Insurance Company Ltd (ZIC) in April 2018. This dividend in kind consisted of the two 100 percent owned investments in subsidiaries, Zurich Vida, Compañía de Seguros y Reaseguros, S.A. (Spain) and Zurich Latin America Holding, S.L. (Spain) and of the 90 percent interest in Zurich Eurolife S.A. (Luxembourg) as well as of 99.99 percent of the Company's shares of Zurich - Companhia de Seguros Vida, S.A. (Portugal).

Significant indirect subsidiaries

ZLIC has no significant indirect subsidiaries as of December 31, 2018. As of December 31, 2017, Bansabadell Vida S.A. de Seguros y Reaseguros, Spain, and Zurich Santander Brasil Seguros e Previdência S.A., Brazil, were indirect subsidiaries of ZLIC. Both parent companies were part of the dividend in kind to ZIC in April 2018.

10. Other investments

| Other investments | | | |
|-------------------|------------------------------------|------------|------------|
| | in CHF millions, as of December 31 | 2018 | 2017 |
| | Asset-backed securities | 408 | 414 |
| | Other investments | 408 | 414 |

11. Investments for unit-linked contracts

| Investments held for unit-linked contracts | | | |
|--------------------------------------------|---------------------------------------------------|------------|------------|
| | in CHF millions, as of December 31 | 2018 | 2017 |
| | Real estate | 22 | 17 |
| | Debt securities | 345 | 364 |
| | Equity securities | 452 | 557 |
| | Investments held for unit-linked contracts | 819 | 938 |

12. Receivables from insurance and reinsurance business

| Receivables from insurance and reinsurance business | | | |
|-----------------------------------------------------|------------------------------------------------------------|------------|------------|
| | in CHF millions, as of December 31 | 2018 | 2017 |
| | Receivables from policyholders | 76 | 64 |
| | Amounts from agents and intermediaries | – | 1 |
| | Amounts from insurance and reinsurance companies | 245 | 160 |
| | Receivables from insurance and reinsurance business | 321 | 224 |

13. Change in insurance reserves, net

| Change in insurance reserves, net | | | |
|-----------------------------------|------------------------------------------------------------|------------|------------|
| | in CHF millions, for the years ended December 31 | 2018 | 2017 |
| | Gross | | |
| | Change in other technical reserves | (3) | (3) |
| | Change in reserves for future life policyholders' benefits | 444 | 397 |
| | Change in reserves for policyholders' dividends | (82) | (65) |
| | Change in insurance reserves, gross | 360 | 329 |
| | Ceded | | |
| | Change in reserves for future life policyholders' benefits | 148 | 65 |
| | Change in reserves for policyholders' dividends | 1 | 1 |
| | Change in insurance reserves, ceded | 149 | 66 |
| | Net | | |
| | Change in other technical reserves | (3) | (3) |
| | Change in reserves for future life policyholders' benefits | 593 | 462 |
| | Change in reserves for policyholders' dividends | (81) | (64) |
| | Change in insurance reserves, net of reinsurance | 509 | 395 |

Financial statements (continued)

14. Insurance reserves, net

| Insurance reserves, net | in CHF millions, as of December 31 | 2018 | 2017 |
|--------------------------------|-----------------------------------------------|---------------|---------------|
| | Gross | | |
| | Reserves for unearned premiums | 164 | 198 |
| | Other technical reserves | 26 | 23 |
| | Future life policyholders' benefits | 17,733 | 18,205 |
| | Reserves for policyholders' dividends | 504 | 515 |
| | Insurance reserves, gross | 18,427 | 18,940 |
| | Ceded | | |
| | Reserves for unearned premiums | (1) | (8) |
| | Future life policyholders' benefits | (454) | (299) |
| | Insurance reserves, ceded | (456) | (307) |
| | Net | | |
| | Reserves for unearned premiums | 163 | 190 |
| | Other technical reserves | 26 | 23 |
| | Future life policyholders' benefits | 17,279 | 17,906 |
| | Reserves for policyholders' dividends | 504 | 515 |
| | Insurance reserves, net of reinsurance | 17,971 | 18,633 |

Total insurance reserves, net, decreased by CHF 662 million to CHF 17,971 million in 2018 from CHF 18,633 million in 2017, mainly driven by restrictive underwriting of traditional saving and old-age pension products.

15. Interest-bearing liabilities

Senior and other debts are all due in less than 12 months, and the two subordinated debts with Group companies are perpetual.

16. Liabilities from insurance and reinsurance business

| Liabilities from insurance and reinsurance business | in CHF millions, as of December 31 | 2018 | 2017 |
|------------------------------------------------------------|------------------------------------------------------------|-------------|------------|
| | Amounts due to policyholders | 111 | 55 |
| | Amounts due to agents and intermediaries | – | 1 |
| | Amounts due to insurance and reinsurance companies | 208 | 71 |
| | Liabilities from insurance and reinsurance business | 319 | 127 |

17. Assets and liabilities relating to companies within Zurich Insurance Group

| Assets and liabilities relating to ZIC Ltd and ZIG Ltd | in CHF millions, as of December 31 | 2018 | 2017 |
|--------------------------------------------------------|------------------------------------|--------------|--------------|
| Assets | | | |
| Policyholders' loans and other loans | | 130 | 162 |
| Equity securities ¹ | | 3 | 3 |
| Derivative assets | | 11 | 4 |
| Cash and cash equivalents | | 1,255 | 1,316 |
| Insurance reserves, ceded | | 438 | 289 |
| Receivables from insurance and reinsurance business | | 237 | 21 |
| Other receivables | | 7 | 9 |
| Accrued assets | | 225 | 72 |
| Total assets | | 2,306 | 1,874 |
| Liabilities | | | |
| Senior and other debt | | 365 | 181 |
| Derivative liabilities | | 2 | 7 |
| Deposits received under ceded reinsurance contracts | | 300 | 179 |
| Liabilities from insurance and reinsurance business | | 179 | 23 |
| Other liabilities | | 31 | 18 |
| Accrued liabilities | | 130 | 50 |
| Subordinated debt | | 530 | 530 |
| Total liabilities | | 1,537 | 987 |

¹ ZLIC owns Zurich Insurance Group Ltd shares with a cost value of CHF 3 million as of December 31, 2018 and 2017.

| Assets and liabilities relating to direct and indirect subsidiaries | in CHF millions, as of December 31 | 2018 | 2017 |
|---------------------------------------------------------------------|------------------------------------|--------------|--------------|
| Assets | | | |
| Investments in subsidiaries and associates | | 288 | 1,544 |
| Policyholders' loans and other loans | | 914 | 938 |
| Receivables from insurance and reinsurance business | | – | 33 |
| Other receivables | | – | – |
| Accrued assets | | 1 | 1 |
| Total assets | | 1,203 | 2,517 |
| Liabilities | | | |
| Insurance reserves, gross | | – | 18 |
| Liabilities from insurance and reinsurance business | | – | 5 |
| Other liabilities | | 2 | 1 |
| Accrued liabilities | | – | – |
| Total liabilities | | 2 | 24 |

Financial statements (continued)

18. Supplementary information

| Supplementary information | in CHF millions, as of December 31 | 2018 | 2017 |
|----------------------------------------------------------------------------|------------------------------------|---------------------------------------------------------|------|
| | | Commitments under investment agreements, net of funding | 175 |
| Leasing obligations not recorded on the balance sheet | | 3 | 1 |
| Pledged assets in respect of securities lending agreements (at book value) | | 19 | 26 |
| Audit fees | | (2) | (2) |
| Other service fees | | – | – |
| Number of employees – average full time equivalents | | 303 | 256 |

According to regulatory requirements, CHF 21.0 billion and CHF 22.1 billion are attributed to tied assets, including the requirement of the foreign branches, as of December 31, 2018 and 2017, respectively.

19. Shareholder's equity

| Shareholder's equity | in CHF millions, as of December 31 | 2018 | 2017 | Change |
|-----------------------------------|------------------------------------|---------------|--------------|----------------|
| | | Share capital | 60 | 60 |
| Legal reserve | | 41 | 41 | – |
| General free reserve | | 878 | 878 | – |
| Retained earnings: | | | | |
| <i>Beginning of year</i> | | 1,605 | 1,329 | 276 |
| <i>Dividend paid</i> | | (1,457) | – | (1,457) |
| <i>Net income after taxes</i> | | 237 | 276 | (38) |
| Retained earnings, end of year | | 385 | 1,605 | (1,220) |
| Total shareholder's equity | | 1,364 | 2,584 | (1,220) |

20. Exchange rates

The presentation currency for ZLIC and its branches is the Swiss franc. Several ZLIC branches operate outside Switzerland with different functional currencies. A functional currency is the currency of the primary economic environment in which the branch operates. Assets and liabilities of those branches with functional currencies other than the Swiss franc are translated into the presentation currency at end-of-period exchange rates, except for investments in subsidiaries and associates, where historical exchange rates are used. Revenues and expenses are translated using the average exchange rate for the year. The resulting exchange differences are recorded in the income statements.

The table below summarizes the principal exchange rates that have been used for translation purposes.

| Principal exchange rates | CHF per 100 foreign currency unit | Balance sheets | | Income statements | |
|--------------------------|-----------------------------------|----------------|------------|-------------------|--------|
| | | 31/21/2018 | 31/12/2017 | 2018 | 2017 |
| | | | | | |
| | Euro | 112.67 | 117.02 | 115.52 | 111.15 |
| | Hong Kong dollar | 12.56 | 12.47 | 12.48 | 12.63 |
| | Japanese yen | 0.90 | 0.87 | 0.89 | 0.88 |
| | United Arab Emirates dirham | 26.79 | 26.53 | 26.63 | 26.80 |

Exchange differences included in the income statements were a net gain of CHF 32 million and a net loss of CHF 332 million for the years ended December 31, 2018 and 2017, respectively.

21. Net release of hidden reserves

In 2018 and 2017, there was no material release of hidden reserves.

Financial statements (continued)

Appropriation of available earnings as proposed by the Board of Directors

| in CHF, for the years ended December 31 | 2018 (Proposed) | 2017 (Approved) |
|-------------------------------------------------------------------------------|----------------------|------------------------|
| Appropriation of available earnings as proposed by the Board of Directors | | |
| Balance brought forward | 148,179,652 | 1,329,451,401 |
| Net income after taxes | 237,280,570 | 275,537,285 |
| Available earnings | 385,460,222 | 1,604,988,686 |
| Cash dividend | (320,000,000) | (200,000,000) |
| Subtotal cash dividend | (320,000,000) | (200,000,000) |
| Dividend in kind: Zurich Vida, Compañía de Seguros y Reaseguros, S.A. (Spain) | – | (665,291,920) |
| Dividend in kind: Zurich – Companhia de Seguros Vida, S.A. (Portugal) | – | (38,393,324) |
| Dividend in kind: Zurich Eurolife S.A (Luxembourg) | – | (25,508,757) |
| Dividend in kind: Zurich Latin America Holding, S.L. (Spain) | – | (527,615,033) |
| Subtotal dividend in kind | – | (1,256,809,034) |
| Balance carried forward | 65,460,222 | 148,179,652 |

The Board of Directors proposes to the shareholder at the Annual General Meeting on April 2, 2019, to pay a cash dividend of CHF 320,000,000 and to carry forward available earnings of CHF 65,460,222 as shown in the table above.

As the legal reserve exceeds 50 percent of fully paid-in share capital, no further allocation to the legal reserve is required by the Swiss Code of Obligations.

On behalf of the Board of Directors of Zurich Life Insurance Company Ltd

Urban Angehrn
Chairman of the Board

Zurich, April 2, 2019

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Report of the statutory auditor

Report of the statutory auditor

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

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Zurich Life Insurance Company Ltd (the Company), which comprise the income statement, balance sheet and notes (pages 5–17), for the year ended December 31, 2018.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of association. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2018, comply with Swiss law and the company's articles of association.

Report on other legal requirements

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

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings (page 18) complies with Swiss law and the company's articles of association. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Ray Kunz
Audit expert
Auditor in charge

Martin Schwörer
Audit expert

Zurich, April 2, 2019

Disclaimer and cautionary statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predications of or indicate future events, trends, plans or objectives of Zurich Life Insurance Company Ltd. Forward-looking statements include statements regarding Zurich Life Insurance Company Ltd's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding Zurich Life Insurance Company Ltd'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 Life Insurance Company Ltd 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 Life Insurance Company Ltd and on whether the targets will be achieved. Zurich Life Insurance Company 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.

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

Persons requiring advice should consult an independent advisor.

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

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

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