

Financial Condition Report 2018



Zurich Life Insurance Company Ltd

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¹ The information published in this report is consistent with the information published in the Annual Report 2018 of Zurich Life Insurance Company Ltd, as well as the regulatory reporting of the Zurich Life Insurance Company Ltd for the year 2018, including the regulatory reporting to the Swiss Financial Market Supervisory Authority FINMA (FINMA) on the Swiss Solvency Test, in accordance with art. 25 ISA and art. 53 ISO. While the financial statements and the information therein were subject to audit by the statutory auditor of Zurich Life Insurance Company Ltd, PricewaterhouseCoopers AG (see Appendix 2), there was no external audit or review of this report. Please further note that, while this report has been filed with FINMA, FINMA has not reviewed the report. The SST calculation for the year ended December 31, 2018, have been filed with FINMA in the 2018 SST reporting on April 30, 2019. In line with the normal timeline for FINMA reporting, the ZLIC 2018 SST reporting remains subject to regulatory review.

All amounts are shown in Swiss francs and rounded to the nearest million unless otherwise stated, with the consequence that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Overview

Business profile

Zurich Life Insurance Company (ZLIC), a life insurance company domiciled in Zurich, Switzerland, is operating primarily in Switzerland and through its main branches in Japan, Hong Kong and Dubai. ZLIC is 100-percent owned by Zurich Insurance Company Ltd (ZIC), which in turn is fully owned by Zurich Insurance Group Ltd (ZIG).

CHF 1.8 billion Gross written premiums (GWP) and policy fees

CHF 312 million Operating result

CHF 19.8 billion Total investments

System of governance

ZLIC has a strong corporate governance framework that is implemented in its daily business, which provides the basis for ZLIC to create sustainable value for all of its stakeholders.

Our enterprise risk management framework (ERM) supports achievement of ZLIC's strategy and helps protect our policyholder, capital, liquidity, earnings and reputation.

Risk profile

Taking risk is inherent to the insurance business, but such risk taking needs to be made in an informed and disciplined way, and within a pre-determined risk appetite and tolerance. This is the primary objective of Zurich's risk management.

ZLIC uses its Total Risk Profiling™ process to monitor both external and internal risks to our strategy and financial plan. Among the risks we identified in 2018 were uncertainties related to macroeconomic developments, ability to meet customer expectations, cyber risks (data protection and security) and risks to IT environment and performance.

The significant risks for ZLIC, as measured by Swiss Solvency Test economic capital metrics are: market, credit and insurance risks.

Financial condition

CHF 1.4 billion Total shareholder's equity

251% Swiss Solvency Test ratio as of December 31, 2018

Acronyms

AG	Aktiengesellschaft	m	million
AGM	Annual General Meeting	MCBS	market consistent balance sheet
ALM	asset liability management	MCEV	market consistent embedded value
ALMIC	Asset Liability Management and Investment Committee	MVM	market value margin
ARC	Audit & Risk Committee	OEM	Operational Event Management
Board	Board of Directors	ORSA	Own Risk and Solvency Assessment
bn	billion	PwC	PricewaterhouseCoopers AG
BU	business unit	Q	quarter
BVG	Occupational Retirement, Survivors' and Disability Provision	SAA	strategic asset allocation
CEO	Chief Executive Officer	SAV	Swiss Association of Actuaries
CFO	Chief Financial Officer	SCAF	Supplier Compliance Assurance Framework
CHF	Swiss franc	SFCR	Solvency & Financial Conditions Report
CLP	Corporate Life & Pension	SNB	Swiss National Bank
Company	Zurich Life Insurance Company Ltd	SIA	Swiss Insurance Association
CRO	Chief Risk Officer	SST	Swiss Solvency Test
ERM	Enterprise Risk Management	TDS	top-down scenario
EUR	Euro	TRP	Total Risk Profiling™
FCR	Financial Condition Report	TVOG	time value of options and guarantees
FINMA	Financial Market Supervisory Authority	USD	U.S. dollar
GA	Group Audit (internal audit)	ZBAG	Zürich Beteiligungs-Aktiengesellschaft (Deutschland) AG
GBP	Great Britain pound	ZEL	Zurich EuroLife S.A., Luxembourg
Group	Zurich Insurance Group Ltd and its subsidiaries	ZGEBBS	Zurich Global Employee Benefits Solutions
GWP	gross written premium and policy fees	ZIAG	Zurich Invest AG
HR	Human Resources	ZIC	Zurich Insurance Company Ltd
IFSR	Insurer Financial Strength Rating	ZICS	Zurich International Corporate Solutions
IFRS	International Financial Reporting Standards	ZIG	Zurich Insurance Group Ltd (holding company)
IIA	Institute of Internal Auditors	ZIGRS	Zurich International Group Risk Solutions
IMEP	internal model enhancement process	ZILL	Zurich Insurance Life Ltd
ISA	Swiss Insurance Supervision Act	ZIMRE	Zurich IMRE AG
ISL	Swiss Insurance Supervision Law	ZIP	Zurich Insurance plc
ISO	Swiss Insurance Supervision Ordinance	ZLIC	Zurich Life Insurance Company Ltd
IT	information technology	ZRP	Zurich Risk Policy
JV	joint-venture	Zurich	Zurich Insurance Group
Ltd	limited		

Introduction

Introduction

Zurich Life Insurance Company Ltd's (ZLIC) financial condition report is prepared in compliance with art. 26 Swiss Insurance Supervision Ordinance (ISO) and FINMA's Circular 2016/2 'Disclosure - insurers' and is not audited. The report focuses on the 2018 financial year, and should be read in conjunction with the audited ZLIC's annual report 2018 (available on: www.zurich.com/en/investor-relations/results-and-reports/other-statutory-filings). Wherever applicable, this report makes reference to the Zurich Insurance Group's Financial Condition Report or the Zurich Insurance Group's Annual Report refer to these reports for more information.

ZLIC is part of the Zurich Insurance Group which maintains a strong capital position. As of December 31, 2018, the Insurer Financial Strength Rating (IFSR) of ZIC was rated 'AA-/Stable' by Standard and Poor's, 'Aa3/ Stable' by Moody's and 'A+(Superior)/Stable by A.M. Best. Further, Zurich Insurance Group filed with FINMA an SST ratio of 221 percent as of January 1, 2019. The European Commission granted Switzerland and its SST requirements full equivalence relative to the Solvency II regulation in 2015 for an indefinite period.

The ZLIC Financial Condition Report (FCR) is a standalone report reflecting the actual situation of ZLIC. The results thereof will be consolidated into the Zurich Insurance Group Financial Condition Report.

1. Executive summary

The Financial Condition Report was produced in accordance with FINMA Circular 2016/2 Public Disclosure for Insurers: Fundamental principles in reporting the financial position. The management summary provides general insights and focuses on important developments in 2018, but also gives background information and explanations where necessary.

Business activities

ZLIC serves two main customer segments (individual life insurance called 'Retail', and Corporate Life & Pensions) operating primarily in Switzerland with branches in Japan, Hong Kong and Dubai.

Performance

ZLIC reported a net income after taxes of CHF 237 million in 2018, which is a reduction of CHF 39 million compared to the prior year's result of CHF 276 million. This was primarily driven by lower investment income partially offset by lower expenses.

GWP decreased by 5 percent to CHF 1.8 billion compared to 2017 mainly driven by the strategic decision to transfer the corporate foreign business managed by ZICS (Zurich International Corporate Solutions) and ZGEB (Zurich Global Employee Benefits Solutions) to ZIC in order to further simplify the legal structure of ZLIC as of December 31, 2017.

Investment income decreased CHF 555 million or 47 percent to CHF 626 million in 2018 from 1.2 billion 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.

Corporate governance & risk management

Several governance bodies exist in ZLIC with the aim of ensuring sufficient oversight of ZLIC. In line with legal and regulatory requirements, ZLIC has a Board of Directors (Board), an Audit & Risk Committee (ARC) at Board level, and a Management Board. These bodies meet regularly to ensure appropriate oversight and control (including activities on branch/business and subsidiary level). There are also quarterly branch/business oversight meetings to support the oversight and control process on a Board and Management Board level.

ZLIC has established a 'three lines of defense' approach, aimed at clearly identifying, assessing, owning, and managing risks.

- As the first line of defense, business management engages in risk-taking through business activities and is responsible for day-to-day risk management.
- The risk management function (the second line of defense) oversees the overall risk management framework, and also helps manage risk. Issues, when they arise, based on their relevance, are escalated to the Management Board and the Board. ZLIC's risk appetite statement establishes risk limits. Compliance also has a specialist function within the second line of defense ensuring adherence to laws and regulation and internal guidelines. For certain risks, for which there is zero or very low tolerance, compliance provides specialized assistance to the risk owner(s) through risk-specific policies, risk evaluations, process and control analysis and advice, training and awareness, designing controls and monitoring operations.

Introduction *continued*

- Internal audit (the third line of defense) provides independent assurance regarding the effectiveness of the ERM framework, risks and controls.

Other governance and advisory functions, such as Legal and Actuarial, help business management to manage and control specific types of risks.

An internal control system is in place to provide entity level and process assurance around ZLIC's operations.

Risk profile and Solvency

FINMA established the Swiss Solvency Test (SST) to quantitatively measure risk. ZLIC files the SST ratio annually with FINMA. ZLIC's largest risk is market risk, which constitutes approximately 45 percent of the total CHF 3.3 billion undiversified target capital. Morbidity is an emerging risk in line with growth in portfolios in Switzerland and Japan. All parts of ZLIC face expense risk, and there is also longevity risk related to Swiss annuities. Once a year, ZLIC's key risks including operational risks are also assessed during a Total Risk Profiling TM (TRP) session. Mitigation actions are defined and tracked, where necessary.

For reporting SST, assets and liabilities are valued on a market-consistent basis and are then stressed to calculate the risk-bearing capital in ZLIC's market consistent balance sheet (MCBS). In 2018 the risk-bearing capital for ZLIC increased by CHF 1.0 billion compared to 2017.

ZLIC's capital management is mainly governed by SST, statutory equity and tied asset requirements, which ZLIC follows in accordance with FINMA guidelines and statutory law. For the tied assets coverage, reserves are calculated on a prudent, statutory basis.

The ZLIC SST ratio as of December 31, 2018 remained steady compared to December 31, 2017 at 251 percent. Despite a continued low-interest rate environment, ZLIC's capitalization remains strong as measured by SST. The SST ratio was again supported by strong value creation from new business and positive assumption changes, offsetting lower diversification benefits arising from FINMA's update for the whole industry to a 15 percent correlation between market and life insurance risks, and adverse economic variance.

The data, methods, and results of the Swiss Solvency Test for ZLIC are produced in accordance with the Insurance Supervision Ordinance (ISO, art. 41 seqq.). ZLIC's SST is calculated using the SST standard model.

Dividend

ZLIC paid total dividends of CHF 1,457 million in 2018, of which CHF 200 million was a cash based dividend and the rest a dividend in kind. The ZLIC Annual General Meeting (AGM), that took place on April 2, 2019, decided to distribute a cash dividend of CHF 320 million. According to the applicable SST valuation requirements, this dividend payment is already reflected in the SST solvency ratio as of December 31, 2018.

2. Approval of the Financial Condition Report

The 2018 ZLIC FCR was reviewed by the ZLIC Chief Financial Officer (CFO) and ZLIC Chief Executive Officer (CEO), reviewed by ZLIC's Management Board and ZLIC's Audit & Risk Committee and then approved by the Board.

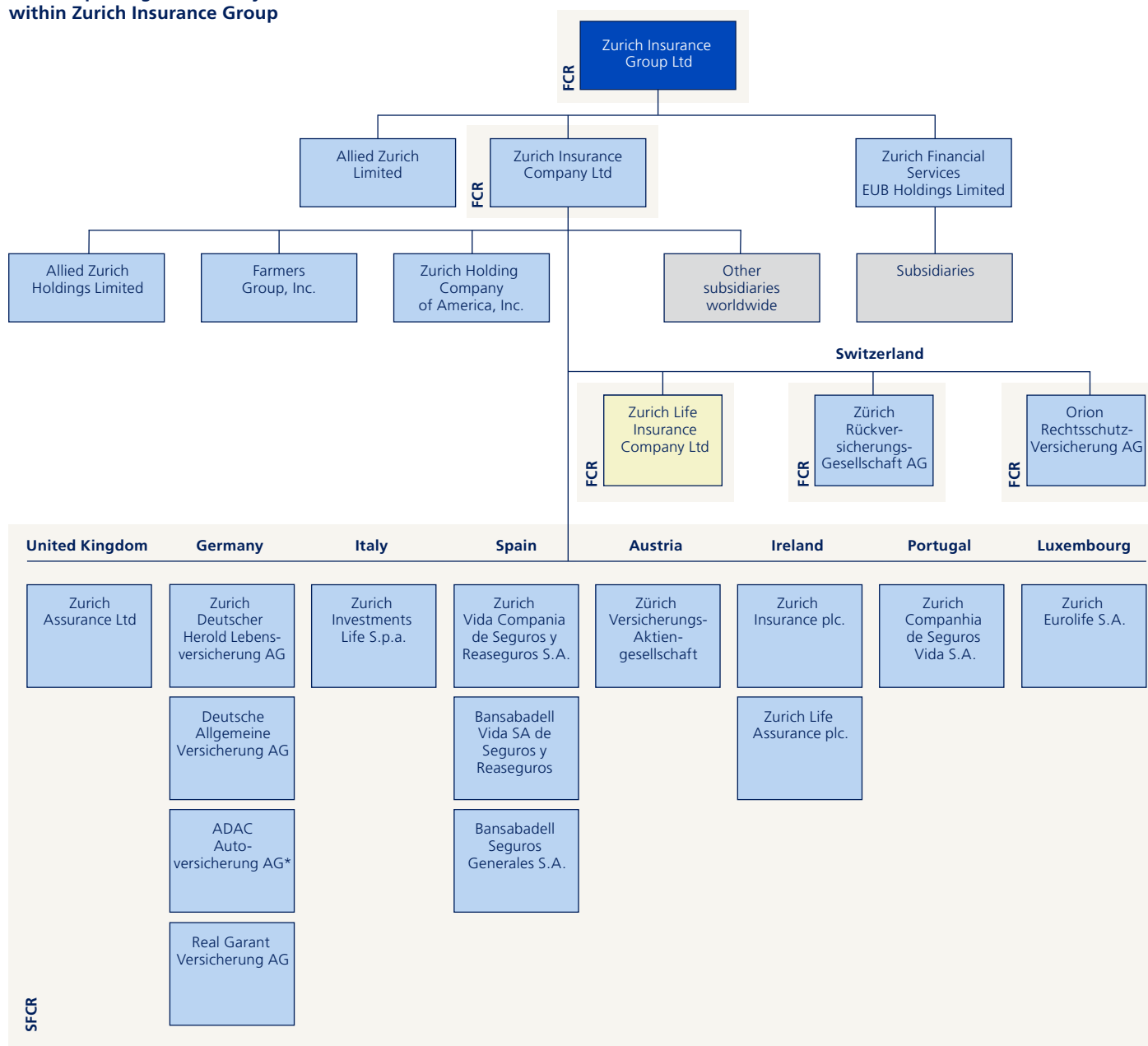
A. Business activities

A.1 Legal structure and major subsidiaries and branches

ZLIC is a life insurance provider serving both retail and corporate customers, primarily in Switzerland as well as through branches in Japan, Hong Kong and Dubai. ZLIC is part of the Zurich Insurance Group ('Zurich' or 'the Group').

The Group discloses more information on its risk and capital management in its risk review, an integral part of Zurich Insurance Group's Annual Report available on www.zurich.com.

Public reporting on solvency and financial condition within Zurich Insurance Group



SFCR: Solvency and Financial Condition Report (Solvency II; from 2016) **FCR:** Financial Condition Report (Swiss regulation; from 2017)

■ Subsidiary ■ Group of subsidiaries ■ Current disclosure

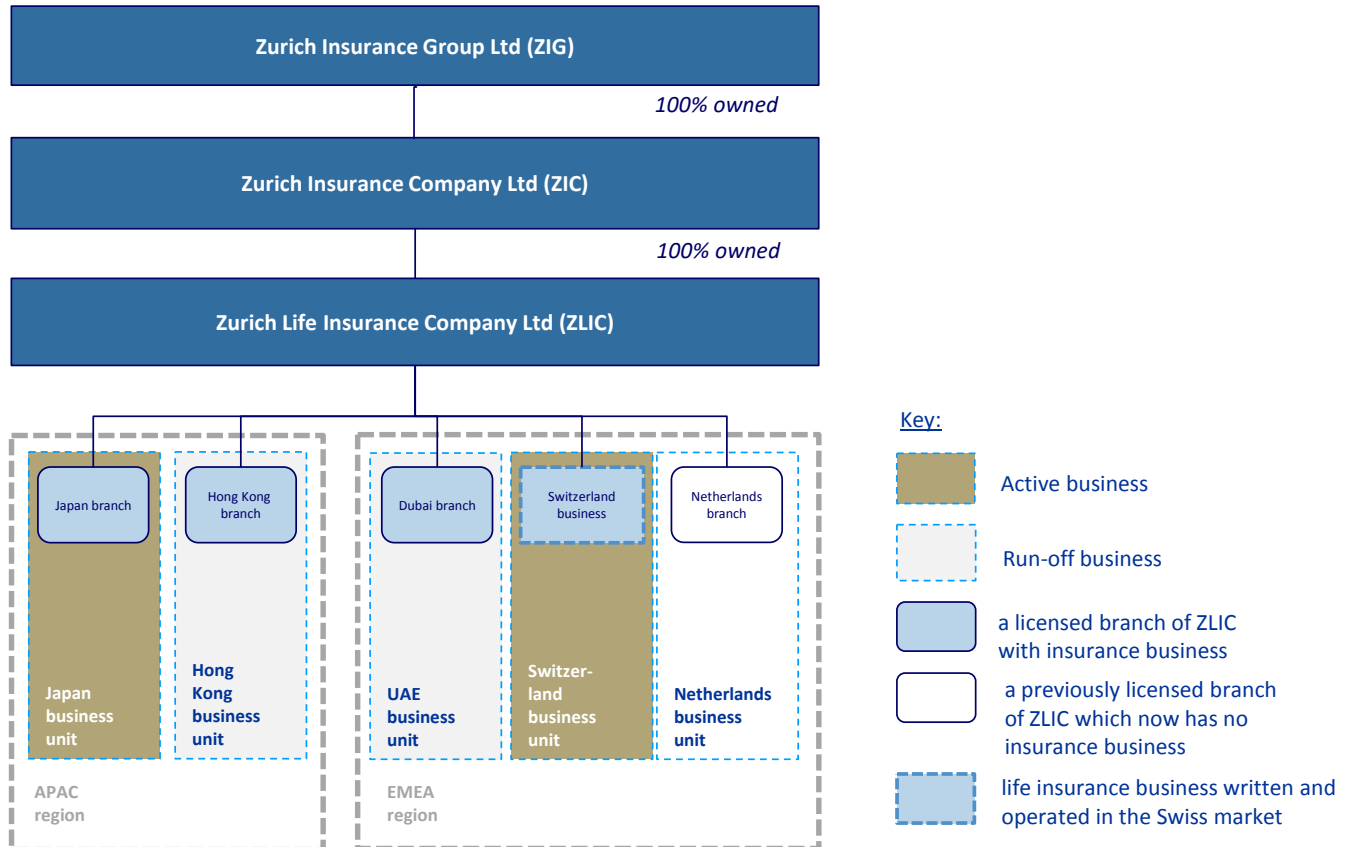
Note: The purpose of the chart above is to provide a simplified overview of the Group's major subsidiaries (as of December 31, 2018), with special focus on the public reporting of their solvency and financial condition. Please note that this is a simplified representation showing entities that must publish such a report and therefore it may not comprehensively reflect the detailed legal ownership structure of the entities included in the overview. The ordering of the legal entities under each country is not indicative of ownership; these are independent legal entities.

*on December 21, 2018, the Group entered into an agreement to sell its 51% participation in ADAC Autoversicherung AG. The sale of the shares in ADAC Autoversicherung AG became effective as of January 1, 2019.

A. Business activities *continued*

ZLIC entity structure

The chart below shows the ZLIC entity structure in place since the second quarter of 2018.



Listing of branches or businesses with a significant share of the business in relation to ZLIC:

- Switzerland generated a GWP of CHF 1.4 billion in 2018, which represents roughly 80 percent of the overall ZLIC GWP for 2018.
- Japan generated a GWP of CHF 0.3 billion in 2018, which represents roughly 18 percent of the overall ZLIC GWP for 2018.
- Hong Kong generated a GWP of CHF 0.04 billion in 2018, which represents roughly 2 percent of the overall ZLIC GWP for 2018.

Significant subsidiaries and shareholdings

The following table 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 in the following table.

Significant subsidiaries	as of December 31, 2018					Share capital in
	Registered office	Voting rights %	Ownership interest %	Registered office	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	

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.

Quantitative and qualitative information about special purpose vehicles (e.g., risk transfer and capital transfer companies) and joint ventures.

ZLIC does not currently hold any special-purpose vehicles.

A.2 Information about the company's strategy, objectives and key business segments

ZLIC strategy is derived from, and consistent with, the Group strategy. The ZLIC strategy is reviewed on an annual basis. In 2018 ZLIC developed a new strategy for 2019, with the strategic cornerstones outlined below:

- ZLICs strategic focus remains on protection and capital-light savings products in full alignment with the Group.
- ZLIC will continue to leverage the business model in cooperation with the Vita foundations and Zurich Invest AG in Switzerland.
- ZLIC will continue to aim to drive profitable top-line growth by focusing on particular strategic market segments.

Switzerland:

- ZLIC is a major life insurer in the Swiss market, serving both retail and corporate life and pensions (CLP) customers. ZLIC's business is focused on Switzerland which contributes 98 percent of ZLIC's overall business as measured by net reserves. Retail products include protection and savings products. The CLP business includes domestic protection and pension solutions.

A. Business activities *continued*

- The business unit in Switzerland continues to move to a more efficient, simple, customer-focused organization. Customer satisfaction is measured through customer touchpoints when generating new business, handling claims or complaints and providing customer service. ZLIC business focusses on intelligent protection and capital-light savings products, leveraging a semi-autonomous model in the CLP space, and maintaining a strict underwriting discipline on guarantees. Actions are taken to continue to strengthen the distribution partnership relationships and interfaces. IT is being centralized to increase efficiency and customer satisfaction.

Japan:

- Japan's retail business focuses on protection products and continued to experience strong growth in 2018. Over the past years, the business has achieved a sustainable niche position and successfully implemented a multi-channel distribution model. Japan is making additional investments in distribution to further grow in target segments.

Hong Kong:

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

Sourcing of critical functions

In order to improve the governance structure and taking into account recent regulatory developments, ZIC and ZLIC entered into a revised outsourcing agreement as per January 1, 2018. ZLIC has outsourced all business, management and control functions' services (excluding non-transferable tasks, board duties and branch business) to ZIC. As of July 19, 2017 ZLIC and ZIC established an intra-group staffing agreement ('Personalverleihvertrag'). This staffing agreement insources to ZLIC the staff to fill the roles and responsibilities of the members of ZLIC Management Board, the appointed actuary and the heads of Risk Management and Compliance as per FINMA requirements. All other significant functions of ZLIC remain outsourced to ZIC.

A.3 Information about the company's external auditors as per Article 28 ISA 8

ZLIC's external auditors for 2018 were PricewaterhouseCoopers AG. ZLIC's Annual Report 2018 including the Auditor's opinion is available on <https://www.zurich.com/en/investor-relations/%20results-and-reports/other-statutory-filings>.

A.4 Significant unusual events

For significant events during 2018 and thereafter, please refer to the Annual Reports 2018 of Zurich Life Insurance Company and Zurich Insurance Group, respectively, as well as to the news releases available at <https://www.zurich.com/en/media/news-releases>. No other significant events are to be reported.

B. Performance

B.1 Underwriting performance

B.1.1 Gross written premiums and policy fees

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.

Gross written premiums and policy fees by type of business	in CHF millions, for the years ended December 31	
	2017	2018
Group insurance Switzerland	812	777
Group insurance abroad	–	–
Individual insurance Switzerland	632	635
Individual insurance abroad	46	43
Health insurance abroad (Japan)	242	320
Reinsurance assumed	144	5
Gross written premiums and policy fees	1,876	1,780

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

B.1.2 Claims paid, annuities and loss adjustments expenses, gross of reinsurance

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.

Claims paid, annuities and loss adjustment expenses, gross	in CHF millions, for the years ended December 31	
	2017	2018
Maturity benefits	(665)	(651)
Death benefits	(324)	(135)
Annuity payments	(413)	(409)
Disability and health benefits	(234)	(242)
Surrenders	(419)	(483)
Claims paid, annuities and loss adjustment expenses, gross	(2,055)	(1,920)

B. Performance *continued*

B.2 Investment performance

B.2.1 Investment income

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.

Investment income by country	in CHF millions, for the years ended December 31	2017	2018
		Switzerland	1,163
Netherlands		5	19
Japan		2	4
Hong Kong		10	12
Investment income		1,180	626

Investment income by category	in CHF millions, for the years ended December 31	Current income		Realized capital gains		Write-ups		Totals	
		2017	2018	2017	2018	2017	2018	2017	2018
Real estate		126	116	148	130	–	–	274	246
Investments in subsidiaries and associates		10	11	–	–	–	–	10	11
Debt securities		89	85	11	11	565	159	665	255
Policyholders' loans and other loans		11	9	–	1	–	–	11	10
Mortgage loans		47	44	–	–	–	–	47	44
Equity securities		9	5	51	44	107	–	167	49
Other investments		6	7	–	5	–	–	6	12
Investment income		299	277	210	190	672	159	1,180	626

B.2.2 Investment expenses

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.

Investment expenses by category	in CHF millions, for the years ended December 31	Realized capital losses		Write-downs		Totals	
		2017	2018	2017	2018	2017	2018
Real estate		(3)	–	(46)	(27)	(50)	(27)
Investments in subsidiaries and associates		–	–	–	–	–	–
Debt securities		(2)	(3)	(1)	(10)	(3)	(14)
Policyholders' loans and other loans		–	(6)	–	–	–	(6)
Mortgage loans		–	–	–	–	–	–
Equity securities		(2)	(1)	(4)	(13)	(6)	(14)
Other investments		–	(1)	–	–	–	(1)
Other investment expenses		n.a.	n.a.	n.a.	n.a.	(53)	(49)
Investment expenses		(8)	(11)	(51)	(51)	(112)	(110)

B.3 Performance of other activities

B.3.1 Administrative and other expenses

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.

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

B.3.2 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.

B.3.3 Comments to the income statement in appendix 1: Quantitative templates

Net income before taxes:

Referring to Swiss Business the net income before taxes decreased compared to 2017. The main driver for the decrease is the net investment result which is due to less turn-over in the asset portfolio and negative market conditions. Due to regulatory requirements the Liechtenstein Business is excluded from Swiss Business and shown in foreign business.

Gross written premiums and policy fees:

In total, gross written premiums decreased by 5 percent to CHF 1,780 million compared to 2017. Within individual life we are facing a slight decline, which is driven by the shrinking traditional business. The main reason for the decrease in gross written premiums and policy fees in group life was the ZIGRS Portfolio which was transferred to ZGEB (Zurich Global Employee Benefits Solutions).

Investment income:

The net investment result decreased, which is mainly due to less turn-over in the asset portfolio and negative market conditions. This led to less realized capital gains on bonds, equities, real estates and less write-ups on our single investor funds.

Unit-linked business:

Compared to the previous year, the net investment income decreased because of negative market conditions. This movement is offset by the growing UL book on the Swiss market.

See income statement in appendix 1: Quantitative templates.

C. Corporate governance and risk management

C.1 Corporate governance

ZLIC is subject to insurance supervision by FINMA. The Swiss insurance supervision law (ISL) requires Swiss insurance companies to establish and maintain a corporate governance including an effective risk management and internal control system that is appropriate to their business activities. In addition to the supervision exercised by FINMA, ZLIC and its branches are supervised according to the requirements of relevant local supervisory authorities.

The principles of corporate governance are incorporated and reflected in a number of corporate documents, in particular the Articles of Incorporation, the Organizational Rules, the charter of the ARC of the Board and the ZLIC Governance Framework. ZLIC has established an approach based on three lines of defense aimed at clearly identifying, assessing, owning, managing and monitoring risks:

- The first line of defense consists of business management that takes risks and is responsible for day-to-day risk management.
- The second line of defense consists of the two control functions, risk management and compliance. The second line provides the frameworks to manage risks, offers independent challenge, oversight, monitoring and advice to support the first line in managing risks.
- The third line of defense consists of the assurance function audit. The third line provides independent and objective assurance regarding the adequacy and effectiveness of risk management, internal controls and governance processes and the operations in general.

C.1.1 Board of Directors (Board)

The Board, under the leadership of the Chairman, is responsible for determining the overall strategy of ZLIC and the supervision of management. It holds the ultimate decision-making authority for ZLIC, except for decisions on matters reserved for the shareholders' general meetings. The Board prepares the AGM and implements its resolutions. In particular, the Board is responsible for taking actions in the following areas:

- ZLIC strategy: The Board regularly reviews and discusses ZLIC's business portfolio including its target market, customer and intermediaries strategy and its human resources strategy.
- Finance: The Board approves the financial and operating plan annually and establishes guidelines for capital allocation and financial planning. The Board also reviews and approves the annual and quarterly financial statements, and supervises the compilation of the annual report.
- Structure and organization of ZLIC: The Board determines and regularly reviews the basic principles of the structure and major changes within the management, including major changes of management functions. The Board also reviews the corporate governance framework.
- Business development: The Board regularly discusses and approves major developments, pertaining, for example, to acquisitions and disposals of businesses and assets, investments, new businesses opportunities, mergers, joint ventures, cooperations and business unit (BU) restructurings or books of business, as necessary.

Audit & Risk Committee (ARC)

Management is responsible for preparing ZLIC's financial statements, managing risk, developing and maintaining internal controls and ensuring appropriate governance processes, the ARC serves as a focal point for discussion and for the communication of matters related to financial reporting oversight, internal controls, compliance and risk management, and reports on these matters to the full Board. For this purpose the ARC receives regular information about important audit findings, including adverse opinions, mitigation actions and management concerns. Internal audit, risk management and compliance functions and ZLIC's management ensure that issues affecting ZLIC's operations are brought to ARC's attention, and that action is taken as necessary.

Composition of Board and Audit & Risk Committee (as of December 31, 2018)

Name	Residence	Position held
Urban Angehrn	Greifensee, Switzerland	Chairman of the Board Member of the Audit & Risk Committee
Christian Felderer	Zurich, Switzerland	Member of the Board (independent)
Erica Arnold	Zurich, Switzerland	Member of the Board Member of the Audit & Risk Committee
Gary Shaughnessy	Kilchberg, Switzerland	Member of the Board
Robert David Campbell	Edinburgh, United Kingdom	Member of the Board (Independent) Chairman of the Audit & Risk Committee

Changes to composition of Board and Audit & Risk Committee in 2018

The composition of the Board and the ARC of ZLIC remained unchanged in 2018.

C.1.2 Executive Management

In accordance with the Articles of Incorporation and the Organizational Rules of ZLIC, the Board appointed a CEO for the company and delegated authorities to him. The CEO is responsible for managing the business and representing the company, subject to the Organizational Rules enacted by the Board.

The Board also appointed the members of the executive management (ZLIC Management Board).

Under the supervision of the CEO, the Management Board members are individually responsible for the business functions assigned to them.

ZLIC's Management Board tasks include:

- Implementing the overall strategy and developing individual units, subject to any overriding directives and to the principles of a decentralized management organization.
- Achieving the strategic and operational objectives of the individual business units.
- Supporting and supervising the heads of the individual business units as required, taking into account their needs and their level of competence.
- Promoting know-how transfer within the Company and, in particular, within their respective business units.
- Representing the interests of their business units, geographic regions and their respective business units vis-à-vis other business units/regions and superordinated bodies or functions.
- Coordinating activities in countries with multiple business units.
- Reporting regularly to the CEO. Upon invitation of the CEO or the Chairman, the members of the Management Board also present their reports at the meetings of the Board.

Composition of Management Board (as of December 31, 2018)

Name	Residence	Position held
Juan José Beer	Möriken-Wildegg, Switzerland	CEO
Bettina Bornmann	Zurich, Switzerland	CFO
Sandro Meyer	Horgen, Switzerland	Head CLP & Life Technical Functions
Peter Hirs	Hong Kong, Hong Kong	Head Finance APAC
Erik Erixon	Richterswil, Switzerland	Chief Life Actuary Switzerland

Changes to composition of the Management Board in 2018

Joachim Masur resigned as ZLIC's CEO and from the Management Board on January 31, 2018. Juan Beer joined the Management Board and was appointed CEO effective as of February 1, 2018.

C. Corporate governance and risk management *continued*

C.2 Risk management

C.2.1 Risk management framework

ERM is embedded in the system of governance and is designed to support the decision-making procedures by providing consistent, reliable and timely risk information and protecting Zurich's capital, earnings and reputation from risks that exceed established risk tolerances. These risk tolerances define maximum willingness and ability to take risk overall and with respect to specific risk types. Actions are defined where necessary to mitigate potential negative consequences.

ZLIC has a defined risk appetite. The risk appetite is fixed through existing limits, e.g. severity categories for the TRP and various limits defined in the Zurich Risk Policy (ZRP). ZLIC's risk appetite statement is reviewed by the Management Board. Once approved, it is signed off by the Board at least annually, and adjusted if necessary during the year. As part of the ERM, the risk management function calculates risk tolerance limits annually and evaluates actual and potential breaches. Ultimate responsibility, however, lies with the Management Board (refer to the tasks of Management Board). The risk management function and other functions, such as compliance, legal, actuarial and finance, develop and operate methodologies to identify, manage and mitigate all types of risks. Escalation procedures are in place for all risk types. The risk management function monitors overall risks, including specific risk types, and escalates any risk that exceeds the level of defined risk tolerance, in line with the governance system.

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 and therefore fully applies to ZLIC. The policy describes Zurich's risk management framework, identifies Zurich's principal risk types and defines Zurich's appetite for risks. 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 ZRP and its manuals must be attested annually by all members of ZLIC and Swiss management as well as Key Risk Takers.

An Own Risk and Solvency Assessment (ORSA) for ZLIC is completed annually. The ZLIC ORSA was submitted to the regulator at the beginning of 2019. To ensure the Board is adequately involved in the ORSA process, ZLIC's CRO provides a quarterly update, thus allowing the Board to challenge findings and consider its views in its decision-making process.

C.2.2 Risk management organization

ZLIC's CRO leads the ZLIC Risk Management function, which aims to ensure that risks are identified, measured, managed, monitored and reported throughout the entity. The ZLIC CRO is responsible for oversight of risks across the legal entity. The CRO regularly reports to the CEO, Management Board and the ARC of the Board on matters pertaining to risk.

The ZLIC risk management team is part of Zurich's Group Risk Management organization, which consists of central functions at Group level and a decentralized risk management network at regional, BU and functional levels.

C.2.3 Risk assessment and reporting

Risk profile reports are generated regularly at local, respectively branch, and ZLIC levels. ZLIC has procedures (e.g., ZLIC Risk Appetite Statement, TRP, control frameworks) to identify and report risks to senior management and the Board in a timely way. To foster risk transparency, each quarter the ARC receives an integrated assurance and a risk report and other, additional updates throughout the year.

ZLIC assesses risks systematically and from a strategic perspective through its proprietary TRP process, which allows ZLIC to identify and evaluate the probability and severity of risk scenarios. As part of the TRP process, mitigation actions are defined and executed by the business, while risk management monitors improvements. The TRP process is integral to how Zurich deals with change, including changes to the business environment and other factors that could affect its business, and is particularly suited to evaluating strategic risks as well as risks to Zurich's reputation, capital and earnings. This process is conducted annually, reviewed quarterly and is closely tied to the strategy and planning processes of ZLIC.

C.3 Internal control system

At Zurich, various governance and control functions help to identify and appropriately manage risks. Internal controls are in place and Zurich seeks to ensure that they operate effectively. This coordinated effort to ensure that ZLIC's controls work appropriately is referred to as 'integrated assessment and assurance'. The Board is ultimately responsible for supervising these assurance activities. Although each party in the process maintains its distinct mandate and responsibilities, those involved work closely together, regularly exchange information, and engage in 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.

With regard to internal controls, ZLIC follows the framework and guidelines prescribed by the Group. The Board has overall responsibility to determine the strategy and set out the goals of the internal control system. In particular, the Board regulates and supervises the internal control system. The Board has appointed the ARC to review and submit the strategy and goals of the Company's internal control system for approval to the Board; the Board receives and reviews periodic reports from internal audit, risk management and compliance functions with regard to the internal control system. The Management Board and the Board review and approve the strategy and scope of the internal control system on an annual basis.

ZLIC considers controls to be key instruments for monitoring and managing financial reporting, compliance and operational risks. The internal control system for ZLIC aims to ensure the reliability of ZLIC's financial reporting, make operations more effective and ensure legal and regulatory compliance. ZLIC bases its internal control system on the Zurich Insurance Group's internal control system methodology.

Based on the Group minimum requirements, ZLIC enhances the scope of the internal control system, taking into account its risk appetite and risks that are not adequately covered by the Group's basic minimum requirements. In particular, this includes controls over statutory and regulatory reporting and local operational key controls to ensure regulatory compliance. The scope of the internal control system takes into consideration the inherent risk to the operation, for example, due to processes, systems and people.

C.4 Compliance

ZLIC is committed to complying with all applicable laws, regulations, internal requirements, professional, industry standards, and its stated corporate values.

Compliance is a second-line control function responsible for:

- Enabling the business to manage its Compliance risks
- Being a trusted advisor
- Providing independent challenge, monitoring and assurance
- Assisting management to promote a culture of Compliance and ethical behaviors.

ZLIC's Compliance function is vertically integrated and is led by the appointed ZLIC Compliance Officer. The ZLIC Compliance Officer has a direct line to the Chairman of the Board of Directors of ZLIC, to the ZLIC CEO and a vertically integrated reporting line to Group Compliance EMEA layer. The ZLIC Compliance Officer regularly provides Compliance updates to the management team and the Board of Directors of ZLIC.

ZLIC's Compliance function performs its activities according to the annual Compliance plan and reports on progress measured against the plan, as well as outcomes and insights to management, the Board of Directors of ZLIC and Group Compliance. The annual Compliance plan is a risk-based plan and must be prepared based on an independent forward-looking Compliance risk assessment, taking into account key risk drivers in both the internal and external environments.

ZLIC's Compliance function provides an independent Compliance view on the key Compliance risks to the business and performs independent risk-based monitoring and assurance activities, while challenging the business as necessary. In addition, the function provides Compliance risk insight through relevant and targeted reporting.

C. Corporate governance and risk management *continued*

The Group Chief Compliance Officer defines and issues Compliance policies relevant to the Group and establishes appropriate processes and guidance. ZLIC's Compliance function implements such Group Compliance policies and issues additional Compliance policies for ZLIC if required. ZLIC Compliance function supports a strong Compliance culture within ZLIC through training and awareness initiatives in line with Zurich's code of conduct, while keeping in mind changes in the regulatory environment.

Zurich encourages its employees to speak up and report improper conduct that they believe is illegal, unethical, or violates Zurich's code of conduct, Group and local policies and other internal requirements. 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.

C.5 Internal audit

The internal audit function, Group Audit (GA), is responsible for providing independent and objective assurance to the Board, the ARC, the CEO and management, on the adequacy and effectiveness of ZLIC's risk management, internal control and governance processes.

GA develops and delivers an annual risk-based audit plan, which is updated as risks change. The audit plan takes into account the full spectrum of business risks, including concerns and issues raised by the ARC, management and other stakeholders. The ARC is responsible for approving the annual plan and any changes to it.

GA executes the plan in accordance with GA's principles-based engagement standards, which incorporate and comply with the International Standards for the Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA).

Audit staff are expected to be independent and objective in all assignments and to do nothing that might prejudice or be perceived as prejudicing independence or objectivity. GA has no operational responsibilities over the areas it reviews and, to ensure independence, all GA staff report (via audit managers) to the Head of Group Audit.

GA is authorized to review all areas and has full, free and unrestricted access to all activities, accounts, records, property and personnel necessary to fulfill its duties. In the course of its work, GA takes into consideration the work of other assurance functions. In particular, GA coordinates its activities with the external auditors, sharing risk assessments, work plans, audit reports and updates on audit actions.

GA is responsible for ensuring that issues which it identifies that could impact ZLIC's operations are communicated to the responsible management, CEO and the ARC. GA issues periodic reports to management and the ARC, summarizing audit findings, the status of corrective actions and the status of plan execution. A member of GA attends each ARC meeting.

The ARC assesses the independence of GA and reviews its activities, plans and organization, the quality of its work and its cooperation with the external auditors. As required by the IIA International Standards, an independent qualified assessor reviews the quality of GA at least every five years. This review was conducted most recently in 2016 and 2017. The results confirmed that GA's practices comply with all IIA standards.

C.6 Actuarial function

The ZLIC actuarial function provides actuarial governance and reporting in line with Swiss laws and insurance regulations.

Within ZLIC, the ZLIC Chief Life Actuary coordinates the work of the ZLIC actuarial function and is responsible for the ZLIC governance of acceptance of new business and reinsurance. The ZLIC actuarial function prepares the tied assets and SST in addition to meeting the actuarial reporting requirements of the Group. The ZLIC appointed actuary reports to the ZLIC Chief Life Actuary and is responsible for ensuring the adequacy of local statutory reserves. The ZLIC appointed actuary is, in addition, responsible for adequate pricing assumptions, for the technical business plan and for the adherence to regulatory requirements referring to tied assets.

The ZLIC actuarial function also follows the governance, reporting and process standards set by the Group Actuarial function. The Actuarial function at Group level is led by the Group Chief Actuary, reporting directly to the Group Chief Financial Officer. The Group Chief Actuary reports regularly to the Group Audit Committee on behalf of the Group Actuarial function.

D. Risk profile

D.1 Introduction and ZLIC's key risks

ZLIC is fully integrated into Zurich's Group-wide risk assessment process. For more information on ZLIC's approach to risk management, please refer to the risk review section in the Zurich Insurance Group 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. As mentioned in chapter A.1, ZLIC's financial strength is enhanced by being part of Zurich Insurance Group.

ZLIC uses two sources for the identification and assessment for risk. One is the risk and capital model as required by SST. This model quantifies financial risks which threaten the capital of the company over a one-year time horizon. The other source is the TRP which identifies all risks that threaten capital, earnings and reputation over a three-year planning horizon.

The significant risks for ZLIC, as measured by capital metrics, are market risk, business risk, life liability risk, and investment credit risk as shown in the following table. Insurance risks related to participations in general insurance business are considered minor.

The figures shown are based on the SST standard model used by ZLIC. The current information on solvency shown in the report corresponds to the information submitted to FINMA as of April 30, 2019, and is subject to regulatory review.

Capital required for various types of risk:

Target capital by risk type	in CHF millions, for the years ended December 31	2017	2018	Change
Derivation of target capital				
Insurance risk		941	1,153	213
Market risk		1,341	1,470	129
Diversification effects		(652)	(629)	23
Credit risk		643	645	2
Risk margin and other effects on target capital		585	647	61
Target capital		2,858	3,286	428

The figures shown in the table above include diversification within each risk type. There is no diversification of credit risks under the SST standard model used by ZLIC. Thus any diversification effects are purely between insurance and market risk.

ZLIC uses its assessment processes and tools, including the TRP process, to reduce the risks of strategic business decisions. Critical key risks identified and assessed during the TRP conducted in the fourth quarter 2018 included:

- Macroeconomic disruptions (market shocks, high unemployment, recession, etc.) [market risk]
- Ability to meet customer expectations (quality, speed, innovation) [operational risk]
- Cyber risks (data protection and security) [operational risk]
- IT environment and performance [operational risk]

To reduce the likelihood or severity of key risks, plans have been developed and implemented to provide appropriate actions necessary to reduce the likelihood or severity of key risks. The status of these plans is monitored on a quarterly basis, including reviewing key risks and assessing the exposure.

The remainder of this section considers in turn each of the key categories of risk faced by ZLIC. ZLIC holds capital under SST for life insurance risk, market risk and credit risk.

D.2 Life insurance risk

As a life insurance company, ZLIC is in the business of assuming others' risks with regard to mortality, longevity and morbidity/disability. In the course of doing business ZLIC may be exposed to greater than expected current and future outgo resulting from taking on those risks. Life insurance risk exposure stems primarily from changes in the expected value of provisions.

Life insurance risk is actively monitored, primarily by the ZLIC actuaries. In calculating premiums and reserves, the actuaries rely on the mortality and disability tables of the Swiss Insurance Association (SIA), as well as on tables developed internally, and use forecasting tools to estimate how the book of business will likely develop. Their analyses are presented to the ZLIC Management Board to determine if proposed measures are sufficient to counter any negative developments.

Concentration risk arises if a company engages in single or highly correlated risks that have a significant damage or loss potential for life insurance in the area of underwriting and investment.

Due to diversification, concentration risk in underwriting is very low. Large risks are passed on to reinsurers. There are effective accumulation controls in place.

D.3 Market risk

Market risk is the risk of a loss or an adverse development in ZLIC's financial situation, resulting directly and/or indirectly from volatility in market prices of assets, liabilities and financial instruments. In line with the investment strategy, the following sub-risks are taken into account as specific categories: interest rate risk, equity risk, real estate risk, credit spread risk including credit rating migration risk, credit default risk, currency risk and concentration risk.

Market risk is very significant for ZLIC when taking total risk capital requirements within the SST into account. The greatest market risks are real estate, interest rate and credit spread risk. Interest rate risk is of particular relevance to ZLIC, due to the characteristics of life insurance liabilities. Interest rate risk arises if the market value of assets declines by more or increases by less than the market value in liabilities, resulting in lower risk-bearing capital for shareholders. Changes in interest rate risk, especially in environments where interest rates remain low, also puts pressure on net investment income, and may lead to changes in liabilities to which ZLIC is committed.

The interest rate sensitivity of the investments is regularly reviewed as part of ALM analysis and in the local ALMIC, and, where necessary, managed by taking the appropriate measures. Investment management is of particular importance in this regard, as outlined in the ZRP. Duration and convexity gaps between investment portfolio and insurance liabilities must be addressed through consistent ALM. It is also important to actively review the market environment to identify potential opportunities to further reduce interest rate risk. Transactions with derivative financial instruments are undertaken exclusively for hedging purposes.

The risk of market price changes that may have a material impact on ZLIC's capital and earnings can be mitigated through rigorously-defined asset-class targets and limits, as well as interest-rate sensitivity targets and limits, which are regularly monitored, reported and reviewed in the local ALMICs. Investment management makes every effort to achieve adequate asset diversification and maintain good credit quality within the bond portfolio.

Risks pertaining to single securities are limited through a well-diversified investment portfolio, as well as through an index-driven investment policy that includes specific tracking error targets.

ZLIC's total real estate portfolio on December 31, 2018, was valued at CHF 1.6 billion (according to Swiss local statutory reporting), of which almost all were from Switzerland, with a small amount held in the Japan branch. In addition, ZLIC also owns real estate carrying subsidiaries in Switzerland. ZLIC's Swiss real estate portfolio is managed by Zurich Invest AG (ZIAG; the former portfolio manager Zurich IMRE AG was absorbed by ZIAG by way of a merger in June 2018). Apart from adhering to ZRP rules and the FINMA investment directive, ZIAG carries out an annual revaluation of the property portfolio and also takes into account any subsequent impairment.

D. Risk profile *continued*

For ZLIC, investment return is monitored as a key risk; investment management explores opportunities to enhance economic and accounting returns within economic capital (SST) guidelines and tied asset constraints. A potential change in real estate values represents another key risk. Investment management reviews the real estate strategy for Switzerland to ensure portfolio resilience in the event of a market correction.

Potential concentration risk in investments is limited by the appropriate level of diversification. The strategic asset allocation (SAA) aims to diversify investments across different asset classes, as well as different sectors. For investments within each asset class, it is important to ensure a broad diversification. This applies both to individual issuers, as well as for countries. To further reduce the concentration risk, the investment guidelines, which follow FINMA guidelines, as well as Swiss Insurance Supervision Law, provide limits on sector and issuer, depending on asset class or issuer. Investment supervision and monitoring is done on a regular basis by the ALMIC.

To control concentration risk, ZLIC adheres to provisions as set out in the ZRP and also adheres to all regulatory requirements about mix and range of investments.

D.4 Credit risk

Credit risk is the risk associated with a loss (default or credit migration) or potential loss due to counterparties failing to fulfill their financial obligations to ZLIC.

This risk to ZLIC can arise mainly in the following areas:

- Investments: The creditworthiness of counterparties in third-party investments is monitored on a regular basis by a forward-looking risk measure (duration times spread).
- Other credit risk comprises reinsurance credit risk, receivables credit risk and intragroup credit risk. These components contribute only CHF 156 million out of the overall credit risk of CHF 645 million for the SST as of January 1, 2019.

There is a permanent exposure to this risk, and it is monitored on a continuous basis.

The principles of the SAA are adhered strictly to manage investment credit risk. The SAA is a portfolio strategy that involves setting target allocations for various asset classes, and includes periodically rebalancing the portfolio when positions deviate significantly from initial targets.

In cases in which credit risk deteriorates, receivables from policyholders are adjusted by a lump sum to avoid accumulating significant risk positions.

D.5 Operational risk

Zurich's operational risk definition is: Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events such as insufficient delivery of outsourcing partners, catastrophes, legislation or external fraud. Operational risk includes legal risk, but excludes strategic and reputational risks.

ZLIC applies the following framework to assess operational risk:

Zurich has developed a comprehensive framework based on a common approach to identify, assess, quantify, mitigate, monitor and report operational risk within the Group, which ZLIC also applies. The core components of the operational risk management framework are:

- TRP: Identification and assessment of strategic and operational risks. Risks identified and assessed above a certain threshold must be mitigated and escalated. Plans for improvement actions are documented and tracked on an ongoing basis.
- Scenario based assessments: Top-down scenarios (TDS) for operational risk quantification and modeling.

- Operational event management (OEM): The ZRP requires documentation and evaluation of operational events above a threshold in a Group-wide database. To avoid recurring operational loss events, near misses and complaints, improvements are put in place.
- Reporting: Regular reports on the risk profile, current risk issues, adherence to risk policies and actions to make improvements are prepared both at ZLIC and on a Group level. There are procedures in place for referring risk issues to senior management.
- Internal control system: Operational risk is managed by internal control systems which drive the operation of regular controls in all processes, IT applications and on entity level.

The ZRP manuals contain detailed guidelines for managing operational risks, as well as security, information security, IT, business continuity management, investment activities, internal insurance, fraud, outsourcing and project risks.

Management actively and continuously monitors risks arising from intra-group outsourcing. These risks are then reviewed by the corresponding oversight bodies. External outsourcing agreements are reviewed according to a supplier compliance-assurance process defined in the Zurich Risk Policy manual for Outsourcing ('Rules for Managing Risk in Outsourcing')

Operational risks pertaining to services supplied by third parties are systematically monitored. This is done through risk assessments such as TRP, and, if necessary, by taking mitigation actions to reduce risk exposure. A review of mitigation actions must be conducted at least quarterly.

Key operational risks comprise threats to the ability to meet customer expectations (quality, speed, innovation), cyber risks (data protection and security) and IT environment and performance.

D.6 Liquidity risk

Liquidity risk is the risk that ZLIC may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to meet these obligations. ZLIC's policy is to maintain adequate liquidity to meet its liquidity needs under normal conditions and in time of stress.

ZLIC can draw liquidity through a cash pool from ZIC. This pool is divided into several smaller sub-pools and includes a mechanism that allows ZIC to grant overnight loans to provide ZLIC with short-term liquidity.

Application in life insurance

This risk can arise due to unexpected payment obligations in indemnification cases, and from other payment obligations to contractors that cannot be covered promptly by asset sales for reasons of financial market illiquidity, or that can only be covered by asset sales at substantially reduced prices.

The volume of contingent payments is used to determine the level of liquid funds required to mitigate liquidity risk. Liquidity risk is also mitigated by comprehensive monthly liquidity planning, in which all relevant liquidity flows from assets and liabilities are reviewed, together with reinvestment risks or risks that can be minimized by pre-expiry-date sales on a consolidated basis. Investment management takes into account the marketability of the assets, as well as the expected net cash flows when planning asset transactions to cover the liquidity needs. Regular stress-based analysis further confirms the adequacy of ZLIC's available liquidity.

D.7 Other material risks

D.7.1 Strategic risk

Executing strategic plans implies risk-taking. This is necessary to make use of opportunities identified in the business plan, which assumes that the opportunities outweigh the corresponding risks. The annual ZLIC TRP supports the decision-making process in identifying, assessing and managing strategic risks.

D. Risk profile *continued*

The TRP process is applied to identify, evaluate, control and monitor these risks. Mitigation actions are defined for key risks. The TRP is completed annually with management's participation. Tracking the actions taken, and providing updates on risks, is carried out quarterly. Risk management is responsible for managing these tasks on an ongoing and timely way as part of its regular quarterly activities.

D.7.2 Reputation risk

Reputation risk is the risk that arises from potential damage to the company's reputation as a result of a negative perception by the public (e.g., customers, business partners, shareholders, governments). Like strategic risk, reputational risk usually occurs together with other risks.

Zurich's code of conduct applies to all its employees. Employees must complete an annual training session to make them aware of our guidelines and approach, and employee surveys are regularly carried out offering another way to identify potential risks to Zurich's reputation.

Reputation risk can also occur in isolation. Specific reputation risks are evaluated as part of the TRPs, and if necessary addressed with appropriate mitigating measures. We currently have identified no significant reputation risks.

E. Valuation

E.1 Overarching valuation principles

For SST calculations, all assets and liabilities are valued in accordance with economic principles in a market-consistent manner and their valuations are presented in the MCBS. In general, the MCBS applies the same fair value measurement and hierarchy as the Group IFRS annual financial statement, unless stated otherwise. In such cases, fair value is determined on a best estimate valuation basis, without margins, using assumptions and parameters as defined by FINMA or based on management's judgment.

To summarize, the following valuation hierarchy applies for assets:

MCBS valuation principles			
	Mark-to-market	Highest priority for third-party assets, IFRS equity instruments and eligible capital instruments	Fair value as defined in the consolidated IFRS financial statements;
	Mark-to-model	If mark-to-market cannot be applied	Fair value as defined in the consolidated IFRS financial statements; or Best estimate valuation using parameter or assumptions explicitly stipulated by FINMA (e.g.; liabilities valued at discounted cash flows using risk-free rate, thus, without consideration of own credit risk).
	IFRS carrying value		As a practical expedient, IFRS carrying value other than fair value is used as proxy to market-consistent valuation provided such measurement can be considered reasonable. For example, IFRS carrying value may be considered as a reasonable proxy based on the following considerations: – It represents current balances (e.g., cash accounts); or – It involves high-frequency turnover with daily settlements (e.g., operational clearing accounts); or – It is expected to be settled/realized within relatively short period after origination (generally, within three months and always less than twelve months) and is exposed to only insignificant risk of changes in value.

When applying the mark-to-model method, adequate and best-practice valuation models and methodologies are used and sufficiently documented.

Within asset classes, investments accounted for at fair value under IFRS will be valued the same in MCBS. This includes available-for-sale equity and debt instruments, real estate for investment, investment trusts, hedge funds, derivatives and unit-linked investments.

For investments accounted for at nominal value, at amortized cost or at equity method under IFRS, the market-consistent value will not be equal to IFRS carrying value and will be determined using IFRS fair value principles. This includes hold-to-maturity bonds, real estate held for own use or for sale and mortgages.

Within the Zurich Insurance Group, the MCBS value of intra-group loans is symmetrical. It is based on IFRS carrying values and adjusted, as needed, to allow for valuation at risk-free interest rates. Investments in affiliates in MCBS are derived from the MCBS value of the interest held in the investee's equity, instead of the IFRS carrying value.

E. Valuation *continued*

E.2 Market consistent balance sheet following SST principles

Asset valuation MCBS vs Swiss local stat.

in CHF millions, for the years ended December 31

	2017 (SST)	2018 (SST)	Difference to 2017 (SST)	2018 (Swiss local stat.)	Difference SST to Swiss local stat.
Market-consistent value of investments					
Real estate	3,971	3,579	(392)	1,610	1,969
Shareholdings	–	0	0	288	(288)
Fixed-income securities	14,665	13,714	(951)	13,107	607
Loans	923	836	(87)	1,104	(268)
Mortgages	2,499	2,396	(103)	2,187	209
Equities	767	634	(133)	1,087	(453)
Other investments	1,279	1,267	(12)	408	860
Collective investment schemes	416	393	(23)	–	393
Alternative investments	447	468	21	–	468
Other investments	417	407	(10)	408	(1)
Total investments	24,104	22,427	(1,678)	19,790	2,636
Financial investments from unit-linked life insurance	956	839	(117)	819	20
Receivables from derivative financial instruments	462	491	29	99	392
Market-consistent value of other assets					
Cash and cash equivalents	1,579	2,313	735	1,924	390
Receivables from insurance business	108	151	43	321	(171)
Other receivables	104	109	5	73	36
Other assets	414	555	141	415	141
Total other assets	2,205	3,128	923	2,733	395
Total market-consistent value of assets	27,728	26,886	(842)	23,441	3,444

Assets

The MCBS value of assets decreased from CHF 28 billion at year-end 2017 to CHF 27 billion at year end 2018. The value of investment assets likewise decreased from CHF 24 billion to CHF 22 billion, while the value of non-investment assets, including assets for unit linked business and receivables from derivatives, increased from CHF 3.6 billion to CHF 4.5 billion.

While assets are valued in a market-consistent manner in MCBS for SST calculations, assets are carried at amortized cost, at cost value less impairment, at the lower of cost or market value, or at nominal value less impairment under Swiss local statutory reporting. Furthermore, Swiss subsidiaries of ZLIC are valued for SST looking through to the underlying assets and liabilities. However for Swiss local statutory reporting subsidiaries are instead included only in the shareholdings line item at net equity value, and showing loans from the ZLIC legal entity to its Swiss subsidiaries as assets of ZLIC. These differences in approach can lead to large differences between the asset values as determined using IFRS, Swiss local statutory reporting or MCBS. This effect is observed in the differences in values of real estate, equities, cash, mortgages, derivatives – in particular swaptions and fixed income securities. The aggregate value of investment and respective hedging assets is CHF 3.0 billion greater for SST than for Swiss local statutory reporting at year-end 2018. The difference has narrowed since year-end 2017 following real estate sales and lower unrealized gains on fixed income, equities and other investments.

Besides the impact look through SST valuation for Swiss subsidiaries of ZLIC, there are minor classification and valuation differences between the SST and Swiss local statutory reporting valuation approach for non-investment assets. Overall these result in a higher SST valuation by CHF 0.4 billion for the year-end 2018 that for Swiss local statutory reporting, driven primarily by an accumulation of cash in a Swiss subsidiary following real estate sales during 2018.

Overall the value of assets is thus CHF 3.4 billion greater on the market consistent SST basis than on the amortized cost value basis used for Swiss local statutory reporting.

Liability valuation MCBS vs Swiss local stat.

in CHF millions, for the years ended December 31

	Q4 2017 (SST)	Q4 2018 (SST)	Difference to 2017 (SST)	Q4 2018 (Swiss local stat.)	Difference SST to Swiss local stat.
Best estimate liabilities (BEL)					
Best estimate of provisions for insurance liabilities	(19,244)	(16,949)	2,295	(19,226)	2,277
Life insurance business	(18,366)	(16,210)	2,156	(18,427)	2,217
Non-life insurance business	–	–	–	–	–
Health insurance business	–	–	–	–	–
Unit-linked life insurance business	(878)	(739)	139	(799)	59
Reinsurers' share of best estimate of provisions for insurance liabilities	(33)	(33)	1	456	(488)
Market-consistent value of other liabilities					
Non-technical provisions	(9)	(10)	(1)	(260)	250
Interest-bearing liabilities	(621)	(1,139)	(518)	(1,497)	358
Liabilities from derivative financial instruments	(39)	(6)	33	(6)	0
Deposits retained on ceded reinsurance	(179)	(300)	(121)	(300)	0
Liabilities from insurance business	(542)	(145)	397	(319)	174
Other liabilities	(870)	(1,523)	(653)	(924)	(599)
Total BEL plus market-consistent value of other liabilities	(21,538)	(20,105)	1,433	(22,077)	1,972
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities					
	6,189	6,781	591	1,364	5,416

Insurance liabilities

For SST, liability cash-flows are projected based on best-estimate demographic and policyholder behavior assumptions. These assumptions are generally company specific, in particular for expenses, and when used to scale industry tables for demographic assumptions to match ZLIC's experience data. These assumptions are derived from experience analyses of historic values and industry data. Specific assumptions are described as follows:

- Demographics: Mortality, longevity, morbidity incidence and morbidity recovery assumptions are based on experience data analysis including Swiss and other industry statistics.
- Policyholder behavior: Policyholder behavior assumptions include surrenders, lapses and option take-up and are based on ZLIC's own experience.
- Further company-specific assumptions: Expenses are calculated using the CFO Forum Principles of experience analysis as a basis. No future improvements from efficiencies are considered in the calculation, and one-off expenses are also excluded.
- Management actions, such as strategic asset allocation and policyholder participation principles, are modeled consistently in line with agreed practices.

The run-off view prescribed by the FINMA standard model is used. This excludes discretionary benefits and for Swiss Corporate Life & Pensions business excludes future premiums after the second projection year.

For SST, economic assumptions are used as provided by FINMA and are determined such that projected cash flows are valued in line with the prices of similar cash flows that are traded on capital markets. Risk-free valuation yields are calibrated to levels matching mid-market quoted government bond prices. Market consistent liabilities are calculated prior to shareholder tax.

Market-consistent liabilities are best estimates. They differ from the local statutory liabilities, which correspond to liabilities valued according to more prudent assumptions as required by the Swiss Code of Obligations.

Life insurance liabilities gross of reinsurance are part of the MCBS. Overall, ZLIC makes limited use of reinsurance as a proportion of overall liabilities. On a market-consistent basis, projected best-estimate cash flows in favor of the reinsurer more than offset projected recoveries from the reinsurer.

E. Valuation *continued*

The market value of insurance liabilities fell by CHF 2.3 billion from CHF 19.2 billion as of December 31, 2017 to CHF 16.9 billion as of December 31, 2018. Based on the cash flow projection underlying the Q4 2017 SST calculation, a CHF 0.7 billion reduction to the value of insurance liabilities is expected. The present value of the liabilities is further decreased by CHF 0.5 billion future profits in relation to new business both in Japan, contributing CHF 0.3 billion, and Switzerland. In line with the requirements of the SST standard model, discretionary benefits for the Swiss Individual Life business are no longer included in the SST insurance liabilities, reducing them by CHF 0.8 billion. The unit linked liabilities dropped by CHF 0.1 billion following equity market volatility. The residual reduction in liabilities was largely driven by CHF 0.2 billion favorable updates to best estimate assumptions.

Valuations for Swiss local statutory reporting embed a degree of prudence in demographic assumptions, and zeroise future profits. The valuation interest rate for Swiss local statutory reporting reserving is also set cautiously but is nevertheless reflective of the actual yield on the investment portfolio, which is higher than the current FINMA yield curve used for SST valuation. Nevertheless the overall Swiss local statutory reporting reserving basis is more conservative than the best estimate approach used for SST, and as such the overall value of best estimate insurance liabilities is CHF 2.3 billion lower for SST than for Swiss local statutory reporting. The greater difference at year-end 2018 is driven by no longer counting CHF 0.8 billion Swiss Individual Life discretionary benefits as a liability for SST, and profitable growth in Japan. On the other hand, Swiss local statutory reporting shows reinsurance assets CHF 0.5 billion in excess of SST, since SST fully reflects the reinsurer's share in the present value of future profits, primarily in relation to Japan.

Other liabilities

These liabilities include various positions valued at market value. They range from cash pooling liabilities and subordinated debt, to tax provisions. For SST the total other liabilities amounted to CHF 2.3 billion at the end of 2017, increasing to CHF 3.1 billion at the end of 2018, primarily because of an update to how CHF 0.5 billion subordinated debt eligible for AFR is now included in the amount shown for SST liabilities. Overall other liabilities for SST are CHF billion 0.2 billion lower than other liabilities for Swiss local statutory reporting, primarily because of non-technical statutory provisions not relevant for best estimate SST valuation.

F. Capital management

ZLIC's capital management and planning approach is embedded in the overall capital management policy of Zurich Insurance Group. The approach is designed to maximize long-term shareholder value through an optimal capital allocation, while managing the balance sheet in accordance with regulatory and solvency requirements, including managing and monitoring of local statutory capital adequacy of ZLIC operations in Switzerland, as well as in its foreign branches.

As a legal entity, ZLIC is obliged to take into account its regulatory solvency position as part of its business plans. This includes, taking into account planned dividends and cash remittances, including possible risks to pay these in future.

The capital planning horizon is set in line with the overall planning cycle.

In addition to the capital and liquidity held within ZLIC, Zurich holds substantial amounts of capital and liquidity centrally at Group level. This centrally held capital can be deployed into subsidiaries if needed, providing resilience to absorb potential losses caused by very large risk events. The solvency and financial condition of ZLIC must therefore be understood in the context of the resilience and stability of the Group.

ZLIC must monitor that it remains within the solvency and capital requirement targets set in accordance to ZLIC's Risk Appetite Statement as described in this report and ensure adherence to local laws and regulations. In particular, ZLIC must ensure compliance with regulatory capital reporting standards such as correct classification and reporting of own fund items.

ZLIC is subject to the SST and tied asset regulations, and Swiss law on solvency more generally. Statutory shareholder equity, SST and tied assets are thus all taken into account when planning capital or cash repatriations to the Group. Internal target ratios and/or thresholds, as defined in ZLIC's Risk Appetite Statement, are considered when assessing and defining the potential to repatriate capital or cash to Group.

Tied asset requirements are calculated and tracked according to FINMA guidelines and their development is analyzed on at least a monthly basis. From a risk appetite perspective, ZLIC's Board will be informed in the event that any transaction or business plan could cause ZLIC's tied asset ratio to fall below defined levels.

The following table shows the composition of shareholder's equity as of December 31, 2018 and 2017 respectively (according to Swiss local statutory reporting), and before appropriation of available earnings. The reduction in equity capital in 2018 was driven primarily by payment of a CHF 1,257 million one-off dividend in kind of ZLIC's overseas subsidiaries.

Shareholder's equity	in CHF millions, as of December 31	2017	2018	Change
Share capital		60	60	–
Legal reserve		41	41	–
General free reserve		878	878	–
Retained earnings:				–
<i>Beginning of year</i>		1,329	1,605	276
<i>Dividend paid</i>		–	(1,457)	(1,457)
<i>Net income after taxes</i>		276	237	(39)
Retained earnings, end of year		1,605	385	(1,220)
Total shareholder's equity		2,584	1,364	(1,220)

The Swiss local statutory shareholder's equity is CHF 5.6 billion lower than SST risk-bearing capital. As explained in further detail in the previous section, this difference is primarily due to the CHF 3.4 billion difference in asset valuation, together with CHF 0.5 billion eligible subordinated debt not treated as a liability under SST, and CHF 2.0 billion lower net liabilities under SST, partially offset by the 0.3 billion cash dividend reducing SST risk-bearing capital but not local statutory shareholder's equity.

G. Solvency

ZLIC assesses its solvency under the SST. In performing the SST, ZLIC assesses its solvency and financial condition, expressed as the SST ratio. The SST ratio must be calculated as per January 1 and must be submitted to FINMA. For business focused on Switzerland, FINMA typically requires the SST standard model to be used, and in line with this ZLIC uses the SST standard model for SST.

ZLIC is part of the Zurich Insurance Group which maintains a strong capital position. As of December 31, 2018, the IFSR of ZIC was 'AA-/Stable' by Standard & Poor's, 'Aa3/Stable' by Moody's and 'A+(Superior)/Stable' by A.M. Best. Furthermore, Zurich filed with FINMA an SST ratio of 221 percent as of January 1, 2019.

Breakdown of target capital into essential components

ZLIC's implementation of the SST standard model follows the design principles and requirements described by FINMA. In particular, the risks considered are market, credit and insurance risks. For ZLIC, the risks that are most material are the following:

- Market risk (ALM) covers the potential adverse change in net asset values due to movements in markets that affect, for example, interest rates, credit spreads, equity prices, real estate and foreign exchange rates, as well as respective volatilities.
- Life insurance risks comprise the risks of an adverse movement of in-force business due to developments in biometric experience relative to current expectations, or resulting from unanticipated adverse changes in maintenance expenses or persistency experience, or a decrease in new business relative to current expectations.
- Credit risks comprise the risk of a decrease in the value of assets due to changes (migrations) in the credit quality of counterparties and eventual default. The SST standard model allows for both third party investment credit risk, in which exposure consists mainly of bonds, mortgage-backed securities, mortgages, loans and cash; and other credit risks. Other credit risks include reinsurance credit risk in which the exposure consists of net reinsurance receivables; receivables credit risk; and intragroup credit risk.
- ZLIC's business focuses primarily on life insurance, leaving only negligible property and casualty premiums, reserving and natural catastrophe risks.

As of December 31, 2018 and 2017 respectively, the break-down in target capital was as follows:

Solvency	in CHF millions, for the years ended December 31		
	2017	2018	Change
Derivation of risk-bearing capital			
Assets	27,728	26,886	(842)
Liabilities	(21,538)	(20,105)	1,433
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	6,189	6,781	591
Deductions (proposed dividends)	(200)	(320)	(120)
Core capital	5,447	6,461	472
Supplementary capital (eligible subordinated debt)	542	542	(0)
Risk-bearing capital	5,989	7,002	1,013
Derivation of target capital			
Insurance risk	941	1,153	213
Market risk	1,341	1,470	129
Diversification effects	(652)	(629)	23
Credit risk	643	645	2
Risk margin and other effects on target capital	585	647	61
Target capital	2,858	3,286	428
SST ratio			
(Risk-bearing capital – MVM) / (target capital – MVM) (in %)	251%	251%	–

The values shown here already reflect diversification within each risk type with regard to individual risk drivers. For 2018, CHF 542 million supplementary capital is shown as a liability, whereas for 2017 it was not, and was thus additionally deducted when calculating core capital. The item Risk margin and other effects on target capital consists of the market value margin, accounting for CHF 820 million in 2018, CHF 778 million in 2017, as well as run-off expenses and the reduction in target capital for the expected financial result. The SST ratio is defined in the SST Circular 2017/3 as a ratio of risk-bearing capital less risk margin to target capital less risk margin.

Comments on the SST ratio

The ZLIC SST ratio as of December 31, 2018 remained steady compared to December 31, 2017 at 251 percent. Despite a continued low-interest rate environment, ZLIC's capitalization remains strong as measured by SST. The SST ratio was again supported by strong value creation from new business and positive assumption changes, offsetting lower diversification benefits arising from FINMA's update for the whole industry to a 15% correlation between market and life insurance risks, and adverse economic variance.

Risk-bearing capital and target capital both grew driven primarily by i) removal of discretionary benefits in respect of the Swiss Individual Life business from SST modelling in line with FINMA requirements and ii) growth in Japan. In addition, target capital grew due to the use of the 15% correlation parameter between market and life insurance risks newly required by FINMA.

The data, methods, and results of the Swiss Solvency Test for ZLIC are produced in accordance with the Insurance Supervision Ordinance (ISO, art. 41 seqq.). ZLIC's SST is calculated using the SST standard model.

Breakdown of market risk into essential components

The following chart shows the market risk broken down into its essential components:

- Interest rate risk refers to the risk of a reduction in risk-bearing capital due to movements in interest rates.
- Credit spread, equity risk and real estate risks refer to the risks that decline in market prices will reduce the value of debt, equity and real estate assets, respectively. For unit-linked business, such a decline would largely be reflected in reduced liability values. For the rest of ZLIC's business, the loss in market value due to a widening of credit spreads or a fall in equity or real estate prices would not be fully passed on to policyholders, reducing risk-bearing capital. Private equity and hedge funds risks are shown with equities.
- Volatility risk relates to the change in value of assets and/or liabilities in response to changes in implied volatilities.

Solvency – Market risk

in CHF millions, for the years ended December 31

	2017	Adjustments previous period	2018	Change
Market risk derivation of target capital				
Interest rate risk	631		685	55
Spread risk	579		655	76
Exchange rate risk	391		443	52
Equity risk	322		468	146
Real estate risk	613		693	80
Volatility risk	55		13	(42)
Diversification	(1,250)		(1,487)	(237)
Total of market risk target capital	1,341		1,470	129

Market risk increased during 2018 primarily due to removing the buffering effect of discretionary benefits for Swiss Individual Life business. This was partially offset by reduced risk exposures from the lower market value of most asset classes. Standalone exchange rate risk increased in the context of the growth of business in Japan.

Credit risk remained stable overall at CHF 0.6 billion, with investment credit risk related to migration or default of third-party debt investments remaining at CHF 0.5 billion. Other credit risk, almost all of which is intragroup credit risk, increased slightly to CHF 0.2 billion.

Breakdown of life insurance risk into essential components

The following table shows the life insurance risk broken down into its essential components:

- Mortality risk is the risk that liabilities increase through higher than expected mortality rates.
- Longevity risk is the risk that liabilities increase through lower than expected mortality rates for annuitants.
- Morbidity incidence risk is the risk that liabilities increase through higher than expected rates of morbidity inception.

G. Solvency *continued*

- Morbidity recovery risk is the risk that liabilities increase through lower than expected rates of recovery.
- Lapse risk is the risk that more policyholders than expected allow their policies to lapse or surrender their policies to the disadvantage of ZLIC.
- Expense risk is the risk that the expenses of running the in-force business are higher than expected.

Solvency – Insurance risk

in CHF millions, for the years ended December 31

	2017	Adjustments previous period	2018	Change
Insurance risk derivation of target capital				
Life insurance liabilities				
Mortality	69		98	29
Longevity	343		358	15
Morbidity incidence	515		680	164
Morbidity recovery	961		1,211	250
Business risk				
Expenses	457		555	98
Lapses	72		92	20
Option take-up	1		2	1
Diversification	(1,478)		(1,842)	(364)
Total of insurance risk target capital	939		1,154	214

Besides growth of the business in Japan, the main driver of the increase from CHF 0.9 billion to CHF 1.2 billion was updated modelling of the Swiss business.

Breakdown of risk-bearing capital into essential components

The following table shows a breakdown of the risk-bearing capital based on its essential components. The risk-bearing capital calculation starts with assets less liabilities, as set out in the market consistent balance sheet. This is reduced by deductions for proposed dividends to give the core capital. For 2018, subordinated debt with equity features approved by FINMA as eligible for inclusion in risk-bearing capital is included in the liabilities, and so is added to the core capital as a final step to give the risk-bearing capital. For 2017, subordinated debt was not included in the liabilities, and so was deducted when calculating core capital.

Market-Consistent Balance Sheet

in CHF millions as of December 31

	2017	2018	Change
Assets	27,728	26,886	(842)
Liabilities	(21,538)	(20,105)	1,433
Deductions (proposed dividends)	(200)	(320)	(120)
Core capital (= assets – liabilities – deductions)	5,447	6,461	1,013
Eligible subordinated debt	542	542	(0)
Risk-bearing capital	5,989	7,002	1,013

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Appendix 1: Quantitative templates

Income statement Solo

in CHF millions for the years ended December 31

	Total		Individual Life	
	2017	2018	2017	2018
1 Gross written premiums and policy fees	1,875	1'780	417	353
2 Premiums ceded to reinsurers	(228)	(451)	(1)	(1)
3 Net written premiums and policy fees	1,646	1'329	416	351
4 Change in reserves for unearned premiums, gross	42	34	12	11
5 Change in reserves for unearned premiums, ceded	(23)	(7)	–	–
6 Net earned premiums and policy fees	1,665	1'357	428	363
7 Other income	14	29	3	7
8 Total technical income	1,679	1'386	430	369
9 Claims paid, annuities and loss adjustment expenses, gross	(2,055)	-1'920	(842)	(808)
10 Claims paid, annuities and loss adjustment expenses, ceded	53	55	0	–
11 Change in insurance reserves, gross	329	360	356	282
12 Change in insurance reserves, ceded	66	149	(0)	–
13 Change in actuarial provisions for unit-linked contracts	(13)	129	–	–
14 Insurance benefits and losses, net of reinsurance	(1,619)	-1'227	(486)	(525)
15 Underwriting & policy acquisition costs, gross	(257)	(247)	(36)	(29)
16 Underwriting & policy acquisition costs, ceded	150	174	–	–
17 Underwriting & policy acquisition costs, net of reinsurance	(107)	(73)	(36)	(29)
18 Administrative and other expense	(691)	(208)	(167)	(35)
19 Total technical expense	(2,417)	(689)		
20 Investment income	1,180	626	305	147
21 Investment expenses	(112)	(110)	(29)	(26)
22 Net investment result	1,068	516	276	121
23 Net investment result on unit-linked investments	101	(82)	–	–
24 Other financial income	6	4	1	1
25 Other financial expense	(6)	(5)	(2)	(1)
26 Operating result	431	312	18	(100)
27 Interest expense on debt and other interest expense	(50)	(48)		
28 Other income	–	–		
29 Other expense	–	–		
30 Extraordinary income/expense	–	–		
31 Net income before taxes	380	264		
32 Direct tax expenses	(105)	(26)		
33 Net income after taxes	276	237		

Line items 7, 18–26: LoB allocated according to GWP

Appendix 1: Quantitative templates *continued*Market-consistent
balance sheet

In CHF millions, as of December 31

	2017	Adjustments previous period	2018
Market-consistent value of investments			
Real estate	3,971		3,579
Shareholdings	(0)		0
Fixed-income securities	14,665		13,714
Loans	923		836
Mortgages	2,499		2,396
Equities	767		634
Other investments	1,279		1,267
Collective investments schemes	416		393
Alternative investments	447		468
Other investments	417		407
Total investments	24,104		22,427
Financial investments from unit-linked life insurance	956		839
Receivables from derivative financial instruments	462		491
Market-consistent value of other assets			
Cash and cash equivalents	1,579		2,313
Receivables from insurance business	108		151
Other receivables	104		109
Other assets	414		555
Total other assets	2,205		3,128
Total market-consistent value of assets	27,728		26,886
Best estimate of liabilities (BEL)			
Best estimate of provisions for insurance liabilities	(19,244)		(16,949)
Life insurance business	(18,366)		(16,210)
Non-life insurance business	–		–
Health insurance business	–		–
Unit-linked life insurance business	(878)		(739)
Other business			
Outward reinsurance: life insurance business			
Outward reinsurance: non-life insurance business			
Outward reinsurance: health insurance business			
Outward reinsurance: unit-linked life insurance business			
Outward reinsurance: other business			
Reinsurers' share of best estimate for insurance liabilities	(33)		(33)
Direct insurance: life insurance business			–
Direct insurance: non-life insurance business			
Direct insurance: health insurance business			
Direct insurance: unit-linked life insurance business			
Direct insurance: other business			
Outward reinsurance: life insurance business	(33)		(33)
Outward reinsurance: non-life insurance business			
Outward reinsurance: health insurance business			
Outward reinsurance: unit-linked life insurance business			
Outward reinsurance: other business			
Market-consistent value of other liabilities			
Non-technical provisions	(9)		(10)
Interest-bearing liabilities	(621)		(1,139)
Liabilities from derivative financial instruments	(39)		(6)
Deposits retained on ceded reinsurance	(179)		(300)
Liabilities from the insurance business	(542)		(145)
Other liabilities	(870)		(1,523)
Total BEL plus market-consistent value of other liabilities	(21,538)		(20,105)
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	6,189		6,781

Solvency

in CHF millions, for the years ended December 31

	2017	Adjustments previous period	2018	Change
Derivation of risk-bearing capital				
Assets	27,728		26,886	(842)
Liabilities	(21,538)		(20,105)	1,433
Deductions (proposed dividends)	(200)		(320)	(120)
Core capital	5,447		6,461	1,013
Supplementary capital (eligible subordinated debt)	542		542	–
Risk-bearing capital	5,989		7,002	1,013
Derivation of target capital				
Insurance risk	941		1,153	213
Market risk	1,341		1,470	129
Diversification effects	(652)		(629)	23
Credit risk	643		645	2
Risk margin and other effects on target capital	585		647	61
Target capital	2,858		3,286	428
SST ratio				
(Risk-bearing capital – MVM) / (target capital – MVM) (in %)	251%		251%	–

Appendix 2: Reference to the ZLIC Annual Report including report of the statutory auditors

The Financial Condition Report is not audited.

The consolidated financial statements of Zurich Life Insurance Company Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements for the year ended December 31, 2018 are audited. Please refer to the report of the statutory auditor in ZLIC's Annual Report 2018, page 20:

<https://www.zurich.com/en/investor-relations/results-and-reports/other-statutory-filings>.

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