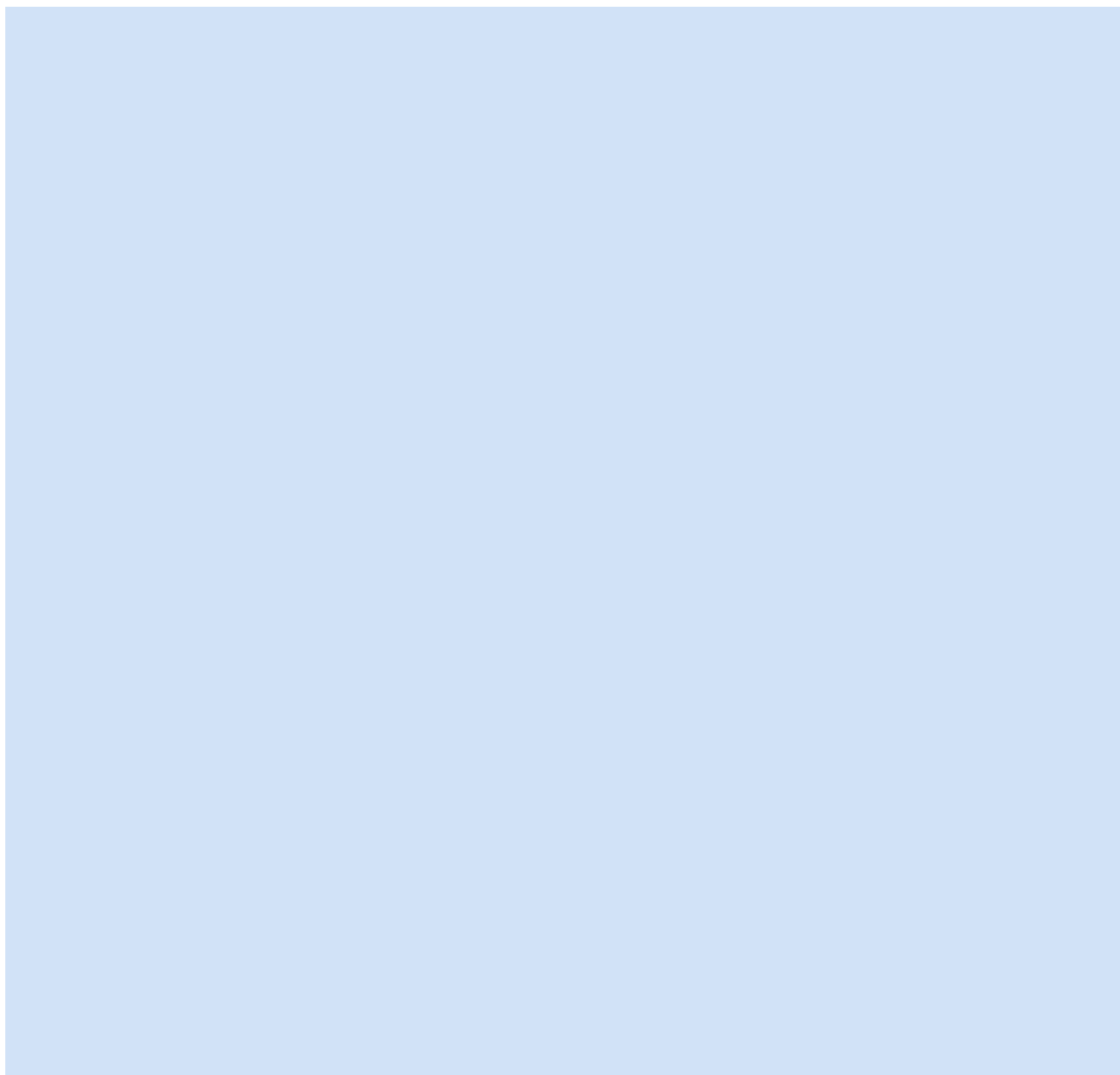


Consolidated financial statements 2017

Annual Results 2017



Consolidated financial statements

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Consolidated income statements

in USD millions, for the years ended December 31	Notes	2017	2016
Revenues			
Gross written premiums		46,685	48,208
Policy fees		2,429	2,407
Gross written premiums and policy fees		49,114	50,615
Less premiums ceded to reinsurers		(7,977)	(7,843)
Net written premiums and policy fees		41,136	42,772
Net change in reserves for unearned premiums	10	(79)	(150)
Net earned premiums and policy fees		41,057	42,622
Farmers management fees and other related revenues	26	2,892	2,867
Net investment income on Group investments		5,215	5,474
Net capital gains/(losses) and impairments on Group investments		2,034	1,560
Net investment result on Group investments	6	7,249	7,034
Net investment result on unit-linked investments		11,664	13,613
Net gains/(losses) on divestment of businesses		(84)	(89)
Other income		1,183	1,199
Total revenues		63,961	67,245
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	10	34,894	35,123
Less ceded insurance benefits and losses	10	(6,252)	(4,682)
Insurance benefits and losses, net of reinsurance	10	28,643	30,441
Policyholder dividends and participation in profits, net of reinsurance	10	12,984	14,519
Underwriting and policy acquisition costs, net of reinsurance	10	9,039	8,538
Administrative and other operating expense	12	7,212	7,478
Interest expense on debt		411	423
Interest credited to policyholders and other interest		546	525
Total benefits, losses and expenses		58,835	61,924
Net income before income taxes		5,125	5,321
of which: Attributable to non-controlling interests		459	408
Income tax (expense)/benefit	17	(1,816)	(1,843)
attributable to policyholders	17	(171)	(304)
attributable to shareholders	17	(1,645)	(1,539)
of which: Attributable to non-controlling interests		154	140
Net income after taxes		3,309	3,478
attributable to non-controlling interests		305	268
attributable to shareholders		3,004	3,211
in USD			
Basic earnings per share	19	20.02	21.51
Diluted earnings per share	19	19.90	21.36
in CHF			
Basic earnings per share	19	19.71	21.18
Diluted earnings per share	19	19.58	21.04

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

Consolidated financial statements (continued)

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2016			
Comprehensive income for the period	3,211	254	125
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,307	163
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(899)	(7)
Deferred income tax (before foreign currency translation effects)		(38)	(23)
Foreign currency translation effects		(116)	(8)
2017			
Comprehensive income for the period	3,004	269	(9)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,484	(23)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(1,554)	(18)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		132	14
Foreign currency translation effects		207	18

Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
(626)	(247)	7	(995)	(988)	(1,236)	1,975	267	2,242
(767)	703	9	(1,615)	(1,606)	(903)			
141	(765)	–	–	–	(765)			
–	(62)	(2)	272	270	208			
–	(124)	–	349	349	224			
1,211	1,471	(7)	341	334	1,805	4,809	462	5,271
1,191	2,651	15	1,018	1,034	3,685			
20	(1,552)	–	–	–	(1,552)			
–	–	(22)	–	(22)	(22)			
–	146	–	(392)	(392)	(245)			
–	225	–	(286)	(286)	(61)			

Consolidated financial statements (continued)

Consolidated balance sheets

Assets	in USD millions, as of December 31	Notes	2017	2016
Assets:				
Cash and cash equivalents			8,228	7,197
Total Group investments		6	194,084	182,611
Equity securities			17,787	15,908
Debt securities			148,261	140,181
Investment property			12,238	10,562
Mortgage loans			7,047	6,794
Other loans			8,730	9,146
Investments in associates and joint ventures			21	20
Investments for unit-linked contracts			120,699	125,907
Total investments			314,782	308,518
Reinsurers' share of liabilities for insurance contracts		8	20,918	18,347
Deposits made under reinsurance contracts			1,269	1,764
Deferred policy acquisition costs		11	18,663	17,796
Deferred origination costs		11	460	426
Receivables and other assets		15	18,195	17,755
Deferred tax assets		17	1,076	1,448
Assets held for sale ¹		5	29,371	530
Property and equipment		13	961	953
Attorney in fact contracts		14	1,025	1,025
Goodwill		14	2,353	1,795
Other intangible assets		14	4,762	4,795
Total assets			422,065	382,348

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

Liabilities
and equity

in USD millions, as of December 31	Notes	2017	2016
Liabilities			
Liabilities for investment contracts	9	55,627	69,113
Deposits received under ceded reinsurance contracts		512	568
Deferred front-end fees		5,429	4,872
Liabilities for insurance contracts	8	261,335	239,369
Obligations to repurchase securities		1,394	1,280
Other liabilities	16	18,463	18,609
Deferred tax liabilities	17	4,357	4,562
Liabilities held for sale ¹	5	29,271	290
Senior debt	18	3,846	4,162
Subordinated debt	18	6,938	7,050
Total liabilities		387,172	349,875
Equity			
Share capital	19	11	11
Additional paid-in capital	19	1,162	1,348
Net unrealized gains/(losses) on available-for-sale investments		3,078	2,809
Cash flow hedges		410	418
Cumulative foreign currency translation adjustment		(8,762)	(9,973)
Revaluation reserve		228	235
Retained earnings		36,936	35,812
Shareholders' equity		33,062	30,660
Non-controlling interests		1,831	1,813
Total equity		34,893	32,473
Total liabilities and equity		422,065	382,348

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

Consolidated financial statements (continued)

Consolidated statements of cash flows

in USD millions, for the years ended December 31	2017	2016
Cash flows from operating activities		
Net income attributable to shareholders	3,004	3,211
Adjustments for:		
Net (gains)/losses on divestment of businesses	84	89
(Income)/expense from equity method accounted investments	(3)	(3)
Depreciation, amortization and impairments of fixed and intangible assets	936	781
Other non-cash items	519	431
Underwriting activities:	14,760	14,783
<i>Liabilities for insurance contracts, gross</i>	7,599	7,651
<i>Reinsurers' share of liabilities for insurance contracts</i>	(1,543)	(977)
<i>Liabilities for investment contracts</i>	7,760	9,506
<i>Deferred policy acquisition costs</i>	308	(1,056)
<i>Deferred origination costs</i>	15	31
<i>Deposits made under assumed reinsurance contracts</i>	705	(46)
<i>Deposits received under ceded reinsurance contracts</i>	(83)	(326)
Investments:	(13,807)	(16,787)
<i>Net capital (gains)/losses on total investments and impairments</i>	(12,201)	(13,569)
<i>Net change in derivatives</i>	(229)	(240)
<i>Net change in money market investments</i>	(1,528)	(195)
<i>Sales and maturities</i>		
<i>Debt securities</i>	71,794	67,597
<i>Equity securities</i>	52,590	47,725
<i>Other</i>	7,502	7,067
<i>Purchases</i>		
<i>Debt securities</i>	(71,521)	(71,988)
<i>Equity securities</i>	(53,753)	(46,139)
<i>Other</i>	(6,459)	(7,046)
Net changes in sale and repurchase agreements	24	(137)
Movements in receivables and payables	100	(1,238)
Net changes in other operational assets and liabilities	(101)	(13)
Deferred income tax, net	(311)	355
Net cash provided by/(used in) operating activities	5,207	1,473

in USD millions, for the years ended December 31	2017	2016
Cash flows from investing activities		
Additions to tangible and intangible assets	(530)	(715)
Disposals of tangible and intangible assets	29	59
(Acquisitions)/disposals of equity method accounted investments, net	3	(2)
Acquisitions of companies, net of cash acquired	(578)	(826)
Divestments of companies, net of cash divested	220	341
Dividends from equity method accounted investments	1	1
Net cash provided by/(used in) investing activities	(856)	(1,142)
Cash flows from financing activities		
Dividends paid	(2,891)	(2,768)
Issuance of share capital	53	40
Net movement in treasury shares	18	17
Issuance of debt	–	3,066
Repayment of debt	(1,049)	(1,652)
Net cash provided by/(used in) financing activities	(3,868)	(1,296)
Foreign currency translation effects on cash and cash equivalents	420	(280)
Change in cash and cash equivalents ¹	902	(1,245)
Cash and cash equivalents as of January 1	7,948	9,193
Cash and cash equivalents as of December 31	8,850	7,948
of which: Group investments	8,228	7,197
of which: Unit-linked	622	751
Other supplementary cash flow disclosures		
Other interest income received	4,783	4,876
Dividend income received	1,710	1,837
Other interest expense paid	(936)	(861)
Income taxes paid	(1,589)	(1,461)

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

Cash and cash equivalents

in USD millions, as of December 31	2017	2016
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	7,993	5,511
Cash equivalents	857	2,437
Total¹	8,850	7,948

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

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

Consolidated financial statements (continued)

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2015	11	3,245
Issuance of share capital	–	47
Dividends to shareholders	–	(1,949)
Share-based payment transactions	–	(15)
Treasury share transactions	–	21
Change in ownership interests with no loss of control	–	–
Total comprehensive income for the period, net of tax	–	–
<i>Net income</i>	–	–
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–
<i>Cash flow hedges</i>	–	–
<i>Cumulative foreign currency translation adjustment</i>	–	–
<i>Revaluation reserve</i>	–	–
<i>Net actuarial gains/(losses) on pension plans</i>	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of December 31, 2016	11	1,348
Balance as of December 31, 2016	11	1,348
Issuance of share capital	–	198
Dividends to shareholders	–	(510)
Share-based payment transactions	–	(7)
Treasury share transactions	–	132
Change in ownership interests with no loss of control	–	–
Reclassification from revaluation reserves	–	–
Total comprehensive income for the period, net of tax	–	–
<i>Net income</i>	–	–
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–
<i>Cash flow hedges</i>	–	–
<i>Cumulative foreign currency translation adjustment</i>	–	–
<i>Revaluation reserve</i>	–	–
<i>Net actuarial gains/(losses) on pension plans</i>	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of December 31, 2017	11	1,162

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

	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	2,556	294	(9,347)	228	34,192	31,178	1,725	32,904
	-	-	-	-	-	47	-	47
	-	-	-	-	(653)	(2,602)	(125)	(2,727)
	-	-	-	-	40	25	-	25
	-	-	-	-	14	35	-	35
	-	-	-	-	3	3	-	3
	254	125	(626)	7	2,216	1,975	267	2,242
	-	-	-	-	3,211	3,211	-	-
	254	-	-	-	-	254	-	-
	-	125	-	-	-	125	-	-
	-	-	(626)	-	-	(626)	-	-
	-	-	-	7	-	7	-	-
	-	-	-	-	(995)	(995)	-	-
	-	-	-	-	-	-	(54)	(54)
	2,809	418	(9,973)	235	35,812	30,660	1,813	32,473
-	2,809	418	(9,973)	235	35,812	30,660	1,813	32,473
	-	-	-	-	-	198	-	198
	-	-	-	-	(2,129)	(2,639)	(339)	(2,978)
	-	-	-	-	5	(2)	-	(2)
	-	-	-	-	(114)	18	-	18
	-	-	-	-	-	-	-	-
	-	-	-	-	17	17	-	17
	269	(9)	1,211	(7)	3,345	4,808	462	5,270
	-	-	-	-	3,004	3,004	-	-
	269	-	-	-	-	269	-	-
	-	(9)	-	-	-	(9)	-	-
	-	-	1,211	-	-	1,211	-	-
	-	-	-	(7)	-	(7)	-	-
	-	-	-	-	341	341	-	-
	-	-	-	-	-	-	(105)	(105)
	3,078	410	(8,762)	228	36,936	33,062	1,831	34,893

Consolidated financial statements (continued)

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

Zurich Insurance Group Ltd, a Swiss corporation, is the holding company of the Group and its shares are listed on the SIX Swiss Exchange. Zurich Insurance Group Ltd was incorporated on April 26, 2000, in Zurich, Switzerland. It is recorded in the Commercial Register of the Canton of Zurich under its registered address at Mythenquai 2, 8002 Zurich.

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

1. Basis of presentation

General information

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

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

Disclosures under IFRS 4 'Insurance Contracts' and IFRS 7 'Financial Instruments: Disclosures' relating to the nature and extent of risks, and capital disclosures under IAS 1 'Presentation of Financial Statements' have been included in the audited sections of the Risk review on pages 5 to 38, and they form an integral part of the consolidated financial statements.

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

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

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

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

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

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 71 million and USD 118 million for the years ended December 31, 2017 and 2016, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (12) million and USD (131) million for the years ended December 31, 2017 and 2016, respectively. For its Venezuela business, the Group had net gains/(losses) on foreign currency transactions of USD 70 million and USD 119 million for the years ended December 31, 2017 and 2016, respectively, and a cumulative foreign currency translation adjustment loss of USD 258 million in equity as of December 31, 2017 (both before non-controlling interest).

Table 1.1

Principal
exchange rates

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

Reclassifications**Changes in presentation**

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

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

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

Change in the structure of the Group

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

Other adjustments**Change in the Group's BOP policy**

As of January 1, 2017, the Group amended its policy relating to Business Operating Profit (BOP). The amendments mainly relate to certain litigation, earn-out and acquisition expenses which will no longer be eligible for exclusion from BOP. Prior year comparative figures have been revised accordingly, resulting in a reduction in BOP of USD 36 million for the period ended December 31, 2016.

Consolidated financial statements (continued)

2. New accounting standards and amendments to published accounting standards

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

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

Table 2.1

Standard/ Interpretation		Effective date
Amended standards		
IAS 7	Disclosure Initiative	January 1, 2017
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017

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

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

Table 2.2

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

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

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

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

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

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

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

IFRS 16 'Leases'

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

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

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

Consolidated financial statements (continued)

3. Summary of significant accounting policies

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

a) Consolidation principles

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

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

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

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

b) Foreign currency translation and transactions

Foreign currency translation

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

Foreign currency transactions and balances

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

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

c) Insurance contracts and investment contracts with discretionary participating features (DPF)

Classification

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

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

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

Premiums

Property & Casualty

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

Life insurance

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

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

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

Reserves for losses and loss adjustment expenses

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

Reserves for life benefits

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

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

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

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

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

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

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

Consolidated financial statements (continued)

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

Deferred acquisition costs (DAC)

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

Property & Casualty

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

Life insurance

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

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

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

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

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

Liability adequacy tests

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

Property & Casualty

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

Life insurance

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

Reinsurance

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

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

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

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

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

d) Liabilities for investment contracts (without DPF)

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

Unit-linked investment contracts

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

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

Investment contracts at amortized cost

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

Deferred origination costs (DOC)

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

e) Group investments excluding derivative financial instruments

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

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

Consolidated financial statements (continued)

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

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

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

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

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

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

Impairment of financial assets

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

f) Derivative financial instruments and hedge accounting

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

Derivative financial instruments that qualify for hedge accounting

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

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

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

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

g) Attorney-in-fact contracts (AIF)

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

h) Goodwill

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

i) Intangible assets

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

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

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

Distribution agreements

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

Software

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

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

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

j) Other fees and commission income

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

k) Employee benefits**Share-based compensation and cash incentive plans**

The Group operates long-term incentive plans that are accounted for as equity-settled share-based compensation plans. The fair value of these incentive plans is determined at the grant date and is recognized as an expense in income over the vesting period, with a corresponding increase recorded in additional paid-in capital.

Subsequently, depending on the underlying performance metrics, the Group revises its estimates of the number of shares that are expected to be issued and recognizes the impact of the revision, if any, in income with a corresponding adjustment to additional paid-in capital. However, no subsequent adjustment is made after the vesting date.

Consolidated financial statements (continued)

Retirement benefits

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

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

Other post-employment benefits

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

4. Critical accounting judgments and estimates

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

a) Reserves for insurance contracts and deferred acquisition costs

Property & Casualty

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

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

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

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

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

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

Consolidated financial statements (continued)

Life insurance

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

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

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

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

b) Fair value measurement

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

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

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

c) Impairment of assets

Financial assets

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

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

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

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

Goodwill and attorney-in-fact contracts (AIF)

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

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

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

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

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

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

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

Consolidated financial statements (continued)

Table 4.1

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

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

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

Distribution agreements

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

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

d) Deferred taxes

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

See note 17 for further information on deferred taxes.

e) Employee benefits

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

See note 20 for further information on employee benefits.

5. Acquisitions and divestments

Transactions in 2017

Acquisitions

Bright Box

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

ANZ's life and consumer credit insurance businesses

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

Cover-More

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

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

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

Table 5.1		
Cover-More balance sheet as of the acquisition date	in USD millions, as of April 13, 2017	Total
	Cash and cash equivalents	38
	Receivables and other assets	34
	Property and equipment	4
	Goodwill	566
	Other intangible assets	163
	Assets acquired	804
	Other liabilities	182
	Deferred tax liabilities	41
	Liabilities acquired	223
	Net assets acquired	581
	Non-controlling interests	(1)
	Total acquisition costs	580

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

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

Consolidated financial statements (continued)

Divestments*Held for sale*

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

Middle East operations

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

Taiwan operations

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

Transactions in 2016**Acquisitions***Macquarie Life Insurance Business*

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

MAA Takaful Berhad

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

Rural Community Insurance Services

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

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

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

RCIS final balance sheet as of the acquisition date

Table 5.2		
in USD millions, as of March 31, 2016		Total
Cash and cash equivalents		183
Reinsurers' share of liabilities for insurance contracts		235
Receivables and other assets ¹		2,131
Deferred tax assets		11
Property and equipment		12
Goodwill		350
Other intangible assets		101
Assets acquired		3,021
Liabilities for insurance contracts		289
Other liabilities		2,040
Liabilities acquired		2,329
Total acquisition costs		692

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

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

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

Income statement information

Table 5.3		
in USD millions, information for the nine months from acquisition ended December 31, 2016		Total
Gross written premiums		1,702
Net income after taxes		122
in USD millions, local statutory information for the twelve months ended December 31, 2016		Total
Gross written premiums		1,676
Net income after taxes		24

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

Kono Insurance Limited

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

Loss of control

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

Divestments

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

Consolidated financial statements (continued)

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

6. Group investments

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

Table 6.1

Net investment result on Group investments

in USD millions, for the years ended December 31

	Net investment income		Net capital gains/(losses) and impairments		Net investment result		of which impairments	
	2017	2016	2017	2016	2017	2016	2017	2016
Investment cash	11	2	–	–	11	2	–	–
Equity securities	402	489	1,422	542	1,824	1,031	(77)	(168)
Debt securities	3,942	4,034	558	789	4,500	4,823	–	(12)
Investment property ¹	463	440	355	408	818	848	–	–
Mortgage loans	198	222	–	5	198	227	–	5
Other loans	415	417	9	17	424	434	8	(1)
Investments in associates and joint ventures	3	3	–	3	3	6	–	–
Derivative financial instruments	–	–	(310)	(203)	(310)	(203)	–	–
Investment result, gross, for Group investments	5,433	5,607	2,034	1,560	7,467	7,167	(69)	(176)
Investment expenses for Group investments	(218)	(134)	–	–	(218)	(134)	–	–
Investment result, net, for Group investments	5,215	5,474	2,034	1,560	7,249	7,034	(69)	(176)

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

Table 6.2

Details of Group investments by category

as of December 31

	2017		2016	
	USD millions	% of total	USD millions	% of total
Equity securities:				
Fair value through profit or loss	3,597	1.9	3,359	1.8
Available-for-sale	14,190	7.3	12,548	6.9
Total equity securities	17,787	9.2	15,908	8.7
Debt securities:				
Fair value through profit or loss	5,699	2.9	5,672	3.1
Available-for-sale	140,240	72.3	131,967	72.3
Held-to-maturity	2,322	1.2	2,543	1.4
Total debt securities	148,261	76.4	140,181	76.8
Investment property	12,238	6.3	10,562	5.8
Mortgage loans	7,047	3.6	6,794	3.7
Other loans	8,730	4.5	9,146	5.0
Investments in associates and joint ventures	21	0.0	20	0.0
Total Group investments	194,084	100.0	182,611	100.0

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

Consolidated financial statements (continued)

Table 6.3

Details of debt securities by category

in USD millions, as of December 31

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

Table 6.4

Debt securities maturity schedule

in USD millions, as of December 31

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

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

Table 6.5

Investment property

in USD millions

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

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

Net unrealized gains/(losses) on Group investments included in equity	Table 6.6	
	in USD millions, as of December 31	
	2017	Total 2016
Equity securities: available-for-sale	1,862	1,341
Debt securities: available-for-sale	9,720	9,637
Other	350	468
Gross unrealized gains/(losses) on Group investments	11,932	11,447
Less amount of unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(6,779)	(6,500)
Life deferred acquisition costs and present value of future profits	(702)	(696)
Deferred income taxes	(928)	(1,006)
Non-controlling interests	(36)	(17)
Total¹	3,488	3,228

¹ Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 398 million and USD 418 million as of December 31, 2017 and 2016, respectively.

Securities lending, repurchase and reverse repurchase agreements	Table 6.7	
	in USD millions, as of December 31	
	2017	2016
Securities lending agreements		
Securities lent under securities lending agreements ¹	970	3,465
Collateral received for securities lending	1,082	3,744
of which: Cash collateral	153	126
of which: Non-cash collateral ²	929	3,619
Liabilities for cash collateral received for securities lending	153	126
Repurchase agreements		
Securities sold under repurchase agreements ³	1,397	1,284
Obligations to repurchase securities	1,394	1,280
Reverse repurchase agreements		
Securities purchased under reverse repurchase agreements ⁴	156	973
Receivables under reverse repurchase agreements	153	970

¹ The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 970 million and USD 3.5 billion as of December 31, 2017 and 2016, respectively. The majority of these assets were debt securities.

² The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 818 million and USD 3.3 billion as of December 31, 2017 and 2016, respectively.

³ The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 797 million and USD 724 million as of December 31, 2017 and 2016, respectively. The majority of these assets were debt securities.

⁴ The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of nil and USD 845 million as of December 31, 2017 and 2016, respectively.

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

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

Consolidated financial statements (continued)

7. Group derivative financial instruments and hedge accounting

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

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

Table 7.1 in USD millions, as of December 31		2017						2016	
		Maturity by notional amount			Notional amounts	Positive fair values	Negative fair values	Notional amounts	Positive fair values
		< 1 year	1 to 5 years	> 5 years					
Interest rate contracts:									
OTC									
Swaps	105	513	2,004	2,622	97	(12)	3,166	116	(19)
Swaptions	333	1,319	745	2,397	52	(17)	2,185	57	(23)
Exchange traded									
Futures	136	–	–	136	–	–	231	–	–
Total interest rate contracts	574	1,832	2,749	5,155	149	(30)	5,582	174	(43)
Equity contracts:									
OTC									
Options	1,665	2,896	200	4,761	70	(29)	4,855	118	(79)
Exchange traded									
Futures	363	–	–	363	–	(2)	358	3	–
Total equity contracts	2,028	2,896	200	5,124	71	(32)	5,213	120	(79)
Foreign exchange contracts:									
OTC									
Swaps and forwards	16,323	–	–	16,323	78	(50)	16,790	87	(75)
Total foreign exchange contracts	16,323	–	–	16,323	78	(50)	16,790	87	(75)
Other contracts:									
OTC									
Options	–	–	11	11	–	(1)	–	–	–
Swaps	–	–	46	46	–	(7)	51	–	(6)
Total other contracts	–	–	58	58	–	(8)	51	–	(6)
Total Group derivative financial instruments	18,924	4,728	3,007	26,659	297	(119)	27,636	381	(202)

Interest rate contracts

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

Equity contracts

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

Foreign exchange contracts

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

Other contracts

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

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

Table 7.2

in USD millions, as of December 31

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

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

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

Fair value hedges

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

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

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

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

Consolidated financial statements (continued)

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

Table 7.3			
Gains/(losses) arising from fair value hedges	in USD millions, for the years ended December 31		
		2017	2016
	Gains/(losses)		
on hedging instruments ¹		(38)	(4)
on hedged items attributable to the hedged risk		30	2

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

Cash flow hedges

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

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

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

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

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

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

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

Net investment hedges

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

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

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

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

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

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

Derivative financial instruments: offsetting of financial assets and liabilities

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

Table 7.4

in USD millions, as of December 31

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

	Derivative assets		Derivative liabilities	
	2017	2016	2017	2016
Fair value	903	968	(214)	(345)
Related amounts not offset	(71)	(142)	69	141
Cash collateral (received)/pledged	(758)	(720)	69	79
Non-cash collateral (received)/pledged	(60)	(22)	35	22
Net amount	14	84	(41)	(103)

Consolidated financial statements (continued)

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

Table 8.1

Liabilities for insurance contracts

in USD millions, as of December 31

	Gross		Ceded		Net	
	2017	2016	2017	2016	2016	
Reserves for losses and loss adjustment expenses	65,368	61,155	(11,070)	(9,777)	54,298	51,378
Reserves for unearned premiums	17,060	16,416	(3,167)	(2,910)	13,893	13,507
Future life policyholder benefits ^{1,2,3}	77,529	72,440	(3,201)	(3,766)	74,328	68,674
Policyholder contract deposits and other funds ²	24,944	22,785	(3,533)	(1,958)	21,411	20,827
Reserves for unit-linked contracts	75,413	65,530	–	–	75,413	65,530
Other insurance liabilities	1,021	1,043	–	–	1,021	1,043
Total liabilities for insurance contracts⁴	261,335	239,369	(20,971)	(18,411)	240,364	220,958

¹ The Group's life operations in the UK finalized the transfer of USD 1.6 billion of insurance assets and liabilities, associated with an annuities portfolio as of June 30, 2017.

² Farmers New World Life Insurance Company entered into a retrospective reinsurance agreement to transfer the risk of certain annuity portfolios with effect from April 1, 2017, which resulted in an initial increase of USD 1.6 billion in ceded policyholder contract deposits and other funds and USD 362 million of ceded future life policyholder benefits. The net gain of the transaction will be amortized over the remaining life of the underlying annuity contracts which is estimated to be between 30 to 50 years.

³ In July 2017, Bansabadell Vida signed a reinsurance agreement on its individual life risk portfolio which resulted in an initial increase of USD 363 million of ceded future life policyholder benefits.

⁴ Total liabilities for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 53 million and USD 64 million as of December 31, 2017 and 2016, respectively.

Table 8.2

Discounted reserves for losses and loss adjustment expenses

in USD millions, as of December 31

	Gross		Ceded		Net	
	2017	2016	2017	2016	2016	
Reserves for losses and loss adjustment expenses	65,368	61,155	(11,070)	(9,777)	54,298	51,378
of which: Discounted reserves	2,887	2,551	(25)	(22)	2,862	2,529
Discount effect	1,347	1,099	(22)	(19)	1,325	1,080
Undiscounted reserves for losses and loss adjustment expenses	66,715	62,254	(11,092)	(9,796)	55,623	52,458
of which: Undiscounted amount of discounted reserves	4,235	3,649	(47)	(40)	4,188	3,609
Average discount rate	2.2%	2.2%	2.8%	2.7%	2.2%	2.2%

Table 8.3

Development of reserves for losses and loss adjustment expenses

in USD millions

	Gross		Ceded		Net	
	2017	2016	2017	2016	2016	
As of January 1	61,155	62,971	(9,777)	(9,231)	51,378	53,739
Losses and loss adjustment expenses incurred:						
Current year	24,504	23,044	(5,083)	(4,081)	19,421	18,963
Prior years	(662)	(692)	335	214	(326)	(479)
Total incurred	23,842	22,352	(4,748)	(3,868)	19,094	18,484
Losses and loss adjustment expenses paid:						
Current year	(8,504)	(8,256)	986	873	(7,517)	(7,383)
Prior years	(13,770)	(14,145)	2,776	2,456	(10,994)	(11,690)
Total paid	(22,274)	(22,401)	3,763	3,329	(18,511)	(19,072)
Interest effects of discounted reserves	121	50	(1)	–	120	50
Acquisitions/(divestments) and transfers ¹	18	(224)	(2)	(205)	16	(430)
Foreign currency translation effects	2,506	(1,592)	(305)	198	2,201	(1,393)
As of December 31	65,368	61,155	(11,070)	(9,777)	54,298	51,378

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

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

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

For the year ended December 31, 2017, the increase of USD 2.9 billion in the net reserves for losses and loss adjustment expenses is driven by an increase of USD 2.2 billion due to foreign currency translation effects.

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

The reserve development in EMEA and Non-Core Businesses was impacted by the February 2017 change in the Ogden rate, the industry-wide discount rate used for calculating personal injury and accident claims in the UK, resulting in an increase in prior year reserves of USD 229 million.

Net favorable reserve development emerged from reserves established in prior years amounting to USD 326 million mainly related to the following:

-
- In North America, favorable prior year development of USD 344 million driven by workers' injury;
 - In EMEA, excluding the Ogden impact mentioned above, favorable prior year development for the retail segment driven by motor, largely offset by the unfavourable prior year development for commercial liability.
-

For the year ended December 31, 2016, the decrease of USD 2.4 billion in net reserves for losses and loss adjustment expenses is driven by a decrease of USD 1.4 billion due to foreign currency translation effects as well as a net decrease of USD 430 million related to acquisitions/(divestments) and transfers (see table 8.3). In addition, net favorable reserve development emerged from reserves established in prior years amounting to USD 479 million largely driven by:

-
- In North America, favorable prior year development of USD 293 million driven by property and motor;
 - In APAC, favorable prior year development of USD 186 million driven by property.
-

Consolidated financial statements (continued)

Table 8.4		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Development of insurance losses, net	in USD millions, as of December 31										
	Gross reserves for losses and loss adjustment expenses (undiscounted)	65,218	68,126	68,274	67,762	69,986	68,312	64,472	62,971	62,254	66,715
	Reinsurance recoverable (undiscounted)	(12,232)	(12,182)	(12,093)	(12,421)	(12,601)	(10,993)	(9,770)	(9,231)	(9,796)	(11,092)
	Initial net reserves for losses and loss adjustment expenses	52,986	55,944	56,180	55,341	57,385	57,319	54,703	53,739	52,458	55,623
	Cumulative paid as of:										
	One year later	(13,047)	(12,716)	(13,092)	(13,525)	(13,799)	(13,301)	(12,576)	(11,690)	(10,994)	
	Two years later	(19,909)	(19,821)	(21,073)	(21,245)	(21,465)	(21,002)	(19,460)	(18,562)		
	Three years later	(24,693)	(25,623)	(27,137)	(26,871)	(27,064)	(26,021)	(24,475)			
	Four years later	(28,808)	(30,127)	(31,375)	(31,129)	(30,691)	(29,851)				
	Five years later	(32,170)	(33,325)	(34,478)	(33,836)	(33,515)					
Six years later	(34,596)	(35,678)	(36,556)	(35,935)							
Seven years later	(36,480)	(37,324)	(38,192)								
Eight years later	(37,798)	(38,695)									
Nine years later	(38,960)										
Cumulative incurred:											
One year later	(1,059)	(1,378)	(1,302)	(571)	(757)	(59)	149	(479)	(326)		
Two years later	(2,350)	(2,565)	(1,819)	(891)	(652)	(139)	(25)	(1,106)			
Three years later	(3,048)	(2,700)	(2,028)	(677)	(777)	(72)	(438)				
Four years later	(3,176)	(2,770)	(1,891)	(804)	(709)	(214)					
Five years later	(3,235)	(2,587)	(2,020)	(826)	(912)						
Six years later	(2,958)	(2,677)	(2,051)	(1,018)							
Seven years later	(2,973)	(2,629)	(2,107)								
Eight years later	(2,883)	(2,603)									
Nine years later	(2,823)										
Net undiscounted reserves re-estimated ¹ :											
One year later	51,927	54,565	54,878	54,770	56,628	57,259	54,852	53,260	52,131		
Two years later	50,637	53,379	54,361	54,450	56,734	57,180	54,677	52,633			
Three years later	49,939	53,243	54,152	54,664	56,609	57,246	54,265				
Four years later	49,810	53,173	54,289	54,537	56,676	57,105					
Five years later	49,752	53,357	54,160	54,515	56,474						
Six years later	50,028	53,267	54,129	54,323							
Seven years later	50,014	53,315	54,073								
Eight years later	50,103	53,341									
Nine years later	50,164										
Cumulative (deficiency)/redundancy of net reserves	2,823	2,603	2,107	1,018	912	214	438	1,106	326		
Cumulative (deficiency)/redundancy as a percentage of initial net reserves	5.3%	4.7%	3.8%	1.8%	1.6%	0.4%	0.8%	2.1%	0.6%		
Gross reserves re-estimated	61,102	63,795	64,837	65,513	67,489	67,080	63,690	61,733	61,592		
Cumulative (deficiency)/redundancy of gross reserves	4,116	4,331	3,437	2,249	2,498	1,233	783	1,238	662		
Cumulative (deficiency)/redundancy as a percentage of initial gross reserves	6.3%	6.4%	5.0%	3.3%	3.6%	1.8%	1.2%	2.0%	1.1%		

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

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

Table 8.5

Development of reserves for losses and loss adjustment expenses for asbestos

in USD millions

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

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

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

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

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Table 8.6						
Development of future life policyholder benefits	in USD millions					
	Gross		Ceded		Net	
	2017	2016	2017	2016	2017	2016
As of January 1	72,440	71,952	(3,766)	(4,016)	68,674	67,935
Premiums ^{1,2}	12,593	13,532	(1,609)	(820)	10,984	12,711
Claims	(10,899)	(9,747)	783	625	(10,116)	(9,122)
Fee income and other expenses	(3,947)	(3,694)	198	151	(3,749)	(3,543)
Interest and bonuses credited to policyholders	2,136	2,177	(146)	(117)	1,990	2,060
Changes in assumptions	(133)	168	–	(6)	(133)	162
Acquisitions/(divestments) and transfers ^{3,4}	(1,561)	(55)	1,561	23	–	(32)
Increase/(decrease) recorded in other comprehensive income	(65)	(12)	–	–	(65)	(12)
Foreign currency translation effects	6,964	(1,879)	(222)	394	6,742	(1,486)
As of December 31	77,529	72,440	(3,201)	(3,766)	74,328	68,674

¹ Farmers New World Life Insurance Company entered into a retrospective reinsurance agreement to transfer the risk of certain annuity portfolios with effect from April 1, 2017, which resulted in an initial increase of USD 362 million of ceded future life policyholder benefits.

² In July 2017, Bansabadell Vida signed a reinsurance agreement on its individual life risk portfolio which resulted in an initial increase of USD 363 million of ceded future life policyholder benefits.

³ The Group's life operations in the UK finalized the transfer of USD 1.6 billion of insurance assets and liabilities, associated with an annuities portfolio as of June 30, 2017.

⁴ The 2016 net movement of USD (32) million relates to acquisitions and divestments (see note 5).

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

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

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

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

Table 8.7			
Effect of changes in assumptions for future life policyholder benefits	in USD millions, for the years ended December 31		
		2017	2016
Interest rates		2	152
Investment return		(154)	8
Changes in modeling		–	12
Expense		2	6
Morbidity		3	(10)
Longevity		(4)	(10)
Lapses		8	11
Other		10	(6)
Net impact of changes in assumptions		(133)	162

Table 8.8			
Policyholder contract deposits and other funds gross	in USD millions, as of December 31		
		2017	2016
	Universal life and other contracts	12,987	12,126
	Policyholder dividends	11,957	10,658
Total	24,944	22,785	

Development of policyholder contract deposits and other funds	Table 8.9						
	in USD millions						
	Gross		Ceded		Net		
	2017	2016	2017	2016	2017	2016	
As of January 1	22,785	22,076	(1,958)	(1,956)	20,827	20,121	
Premiums ¹	1,086	1,105	(1,719)	(58)	(632)	1,046	
Claims	(1,207)	(1,265)	272	137	(935)	(1,128)	
Fee income and other expenses	(401)	(460)	(13)	(6)	(414)	(466)	
Interest and bonuses credited to policyholders	1,295	1,002	(114)	(75)	1,181	927	
Acquisitions/(divestments) and transfers ²	–	6	–	–	–	6	
Increase/(decrease) recorded in other comprehensive income	(456)	894	–	–	(456)	894	
Foreign currency translation effects	1,842	(574)	(1)	–	1,840	(574)	
As of December 31	24,944	22,785	(3,533)	(1,958)	21,411	20,827	

¹ Farmers New World Life Insurance Company entered into a retrospective reinsurance agreement to transfer the risk of certain annuity portfolios with effect from April 1, 2017, which resulted in an initial increase of USD 1.6 billion in ceded policyholder contract deposits and other funds.

² The 2016 net movement of USD 6 million relates to reclassifications to liabilities held for sale (see note 5).

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

Expected maturity profile for reserves for insurance contracts, net of reinsurance – current period	Table 8.10a				
	in USD millions, as of December 31, 2017				
	Reserves for losses and loss adjustment expenses	Future life policyholder benefits	Policyholder contract deposits and other funds	Total	
< 1 year	14,757	9,434	1,571	25,762	
1 to 5 years	22,440	18,606	1,900	42,945	
5 to 10 years	8,434	13,932	2,237	24,603	
10 to 20 years	6,239	14,928	2,691	23,858	
> 20 years	2,428	17,429	13,012	32,869	
Total	54,298	74,328	21,411	150,037	

Expected maturity profile for reserves for insurance contracts, net of reinsurance – prior period	Table 8.10b				
	in USD millions, as of December 31, 2016				
	Reserves for losses and loss adjustment expenses	Future life policyholder benefits	Policyholder contract deposits and other funds	Total	
< 1 year	13,889	9,015	1,491	24,394	
1 to 5 years	21,222	17,184	1,641	40,047	
5 to 10 years	8,077	12,393	1,946	22,416	
10 to 20 years	5,769	14,228	2,414	22,410	
> 20 years	2,422	15,854	13,335	31,610	
Total	51,378	68,674	20,827	140,878	

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9. Liabilities for investment contracts

Table 9.1

Liabilities for
investment
contracts

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

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

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

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

Table 9.2

Development of
liabilities
for investment
contracts

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

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

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

Table 9.3a

in USD millions, as of December 31, 2017

Expected maturity profile for liabilities for investment contracts – current period

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

Table 9.3b

in USD millions, as of December 31, 2016

Expected maturity profile for liabilities for investment contracts – prior period

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

Consolidated financial statements (continued)

10. Gross and ceded insurance revenues and expenses

Table 10.1

Insurance benefits
and losses

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2017	2016	2017	2016	2017	2016
Losses and loss adjustment expenses	23,842	22,352	(4,748)	(3,868)	19,094	18,484
Life insurance death and other benefits	11,053	12,771	(1,504)	(814)	9,548	11,957
Total insurance benefits and losses	34,894	35,123	(6,252)	(4,682)	28,643	30,441

Table 10.2

Policyholder
dividends and
participation
in profits

in USD millions, for the years ended December 31

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

Table 10.3

Underwriting and
policy acquisition
costs

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2017	2016	2017	2016	2017	2016
Amortization of deferred acquisition costs	6,777	6,145	(583)	(620)	6,193	5,524
Amortization of deferred origination costs	74	75	–	–	74	75
Commissions and other underwriting and acquisition expenses ¹	3,027	3,325	(255)	(387)	2,772	2,938
Total underwriting and policy acquisition costs	9,877	9,545	(838)	(1,007)	9,039	8,538

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

Table 10.4

Change in reserves
for unearned
premiums

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2017	2016	2017	2016	2017	2016
Change in reserves for unearned premiums	295	319	(217)	(168)	79	150

11. Deferred policy acquisition costs and deferred origination costs

Table 11.1

Development of
deferred policy
acquisition costs

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

¹ Net of eliminations from inter-segment transactions.

² In July 2017, Bansabadell Vida signed a reinsurance agreement on its individual life risk portfolio which resulted in an initial increase of USD 755 million of reinsurance deferred acquisition costs.

³ Farmers New World Life Insurance Company entered into a retrospective reinsurance agreement to transfer the risk of certain annuity portfolios with effect from April 1, 2017, which resulted in deferred policy acquisition costs impairment of USD 55 million.

⁴ In 2017 Property & Casualty reclassified USD 4 million to assets held for sale based on agreement to sell business in the UK (see note 5). The 2016 Property & Casualty movement of USD 24 million includes USD 12 million related to the sale of businesses in South Africa and Morocco, USD 9 million reclassified to assets held for sale (see note 5) and a portfolio transfer of USD 3 million to Non-Core Businesses. The 2016 Life movement of USD 16 million related to the portfolio transfer of Zurich Life Insurance Singapore Pte Ltd to Non-Core Businesses.

Table 11.2

Development of
deferred
origination costs

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

Consolidated financial statements (continued)

12. Expenses

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

Table 12			
Expenses	in USD millions, for the years ended December 31	2017	2016
	Administrative and other operating expenses	7,212	7,478
	Other underwriting and policy acquisition costs ¹	2,188	2,291
	Claims handling expenses ²	1,261	1,343
	Other investment expenses ³	218	134
	Total	10,879	11,246
	of which:		
	Personnel and other related costs	5,448	5,445
	Amortization and impairments of intangible assets	570	416
	Depreciation and impairments of property and equipment	152	174
	Building and infrastructure costs	539	553
	Brand and marketing expenses	344	401
	Life recurring commission	431	398
	Asset and other non-income taxes	38	82
	IT expenses	1,394	1,439
	Restructuring costs (excl. impairments)	293	309
	Outsourcing and professional services	879	876
	Foreign currency translation	(71)	(118)
	Other	863	1,270
	Total	10,879	11,246

¹ Included within commissions and other underwriting and acquisition expenses (see table 10.3).

² Included within losses and loss adjustment expenses (see table 10.1).

³ Excludes expenses arising from investment property within investment expenses for Group investments (see table 6.1).

13. Property and equipment

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

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

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

Table 13.1

in USD millions

	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2017	168	427	378	313	727	2,013
Less: accumulated depreciation/impairments	(6)	(176)	(225)	(246)	(408)	(1,061)
Net carrying value as of January 1, 2017	162	251	154	67	319	953
Additions and improvements	1	41	27	44	99	213
Acquisitions	–	–	1	1	2	4
Disposals ¹	(1)	(2)	(5)	(3)	(27)	(39)
Transfers	(17)	(48)	–	1	1	(62)
Depreciation and impairments	–	(10)	(35)	(31)	(76)	(152)
Foreign currency translation effects	10	18	5	2	9	44
Net carrying value as of December 31, 2017	155	250	147	82	327	961
Plus: accumulated depreciation/impairments	–	165	233	244	413	1,055
Gross carrying value as of December 31, 2017	155	415	380	326	740	2,017

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

Table 13.2

in USD millions

	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value January 1, 2016	217	737	366	365	759	2,444
Less: accumulated depreciation/impairments	(6)	(363)	(228)	(300)	(407)	(1,304)
Net carrying value January 1, 2016	211	374	138	65	352	1,140
Additions and improvements	–	21	62	37	87	207
Disposals ¹	(19)	(42)	(6)	(3)	(24)	(94)
Transfers	(27)	(89)	–	–	–	(116)
Depreciation and impairments	–	(17)	(38)	(30)	(89)	(174)
Foreign currency translation effects	(3)	(4)	(3)	(5)	(10)	(25)
Net carrying value as of December 31, 2016	162	251	154	67	319	953
Plus: accumulated depreciation/impairments	6	176	225	246	408	1,061
Gross carrying value as of December 31, 2016	168	427	378	313	727	2,013

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

Property and
equipment –
current period

Property and
equipment –
prior period

Consolidated financial statements (continued)

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

Table 14.1

Intangible assets –
current period

in USD millions	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2017	1,025	2,110	2,422	3,860	4,652	251	14,321
Less: accumulated amortization/ impairments	–	(315)	(1,918)	(1,147)	(3,201)	(124)	(6,706)
Net carrying value as of January 1, 2017	1,025	1,795	504	2,713	1,450	128	7,615
Additions and acquisitions	–	565	–	119	320	38	1,043
Divestments and transfers	–	(61)	–	(2)	(44)	(23)	(129)
Amortization ¹	–	–	(55)	(213)	(350)	(9)	(626)
Amortization charged to other comprehensive income	–	–	14	–	–	–	14
Impairments	–	–	–	–	(156)	–	(156)
Foreign currency translation effects	–	53	45	210	68	4	380
Net carrying value as of December 31, 2017	1,025	2,353	507	2,828	1,288	139	8,140
Plus: accumulated amortization/ impairments	–	353	2,112	1,465	3,492	109	7,531
Gross carrying value as of December 31, 2017	1,025	2,706	2,619	4,293	4,780	247	15,671

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

As of December 31, 2017, intangible assets related to non-controlling interests were USD 76 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1.2 billion for distribution agreements and USD 15 million for software.

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

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

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

Table 14.2

Intangible assets
by business –
current period

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

Intangible assets –
prior period

Table 14.3

in USD millions	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2016	1,025	1,667	2,501	3,715	4,672	173	13,753
Less: accumulated amortization/ impairments	–	(378)	(2,035)	(963)	(3,167)	(130)	(6,673)
Net carrying value as of January 1, 2016	1,025	1,289	466	2,752	1,505	43	7,080
Additions and acquisitions	–	576	106	112	395	101	1,291
Divestments and transfers	–	(33)	–	(5)	(15)	(3)	(56)
Amortization ¹	–	–	(23)	(188)	(343)	(8)	(563)
Amortization charged to shareholders' equity	–	–	(21)	–	–	–	(21)
Impairments	–	–	–	(2)	(41)	(1)	(44)
Foreign currency translation effects	–	(38)	(24)	45	(51)	(4)	(72)
Net carrying value as of December 31, 2016	1,025	1,795	504	2,713	1,450	128	7,615
Plus: accumulated amortization/ impairments	–	315	1,918	1,147	3,201	124	6,706
Gross carrying value as of December 31, 2016	1,025	2,110	2,422	3,860	4,652	251	14,321

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

As of December 31, 2016, intangible assets related to non-controlling interests were USD 78 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1.2 billion for distribution agreements and USD 14 million for software.

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

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

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

Intangible assets
by business –
prior period

Table 14.4

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

Consolidated financial statements (continued)

15. Receivables and other assets

Table 15		2017	2016
in USD millions, as of December 31			
Receivables and other assets	Financial assets		
	Group derivative assets	903	968
	Unit-linked derivative assets	19	26
	Receivables from policyholders	3,281	3,139
	Receivables from insurance companies, agents and intermediaries	5,665	4,860
	Receivables arising from ceded reinsurance	1,179	1,432
	Reverse repurchase agreements	153	970
	Amounts due from investment brokers	847	562
	Other receivables	2,312	2,053
	Allowance for impairments ¹	(258)	(230)
	Accrued premiums	845	826
	Accrued investment income ²	1,695	1,653
	Assets for defined benefit plans ³	201	–
	Other financial assets	187	154
	Non-financial assets		
	Current income tax receivables	505	640
	Prepaid expenses	350	432
	Other non-financial assets	313	270
	Total receivables and other assets	18,195	17,755

¹ Includes receivables arising from ceded reinsurance of USD 41 million and USD 30 million as of December 31, 2017 and 2016, respectively.

² Accrued investment income on the unit-linked investments amounts to USD 107 million and USD 91 million as of December 31, 2017 and 2016, respectively.

³ See note 20

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

16. Other liabilities

Table 16.1		2017	2016
Other liabilities	in USD millions, as of December 31		
	Other financial liabilities		
	Group derivative liabilities	214	345
	Unit-linked derivative liabilities	15	9
	Amounts due to policyholders	726	694
	Amounts due to insurance companies, agents and intermediaries	1,040	1,141
	Amounts due to reinsurers	1,477	1,827
	Liabilities for cash collateral received for securities lending	153	126
	Amounts due to investment brokers	1,096	1,155
	Deposits from banking activities	1	22
	Collateralized bank financing for structured lease vehicles	518	541
	Liabilities for defined benefit plans ¹	3,590	4,317
	Other liabilities for employee benefit plans	141	130
	Accrued liabilities	2,078	1,716
	Other financial liabilities	5,563	4,988
	Other non-financial liabilities		
	Current income tax payables	953	567
	Restructuring provisions	269	334
	Other non-financial liabilities	629	698
	Total other liabilities	18,463	18,609

¹ See note 20

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

Table 16.2		2017		2016	
Maturity schedule – other financial liabilities	in USD millions, as of December 31				
		Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
	< 1 year	12,087	12,135	11,770	11,815
	1 to 2 years	284	420	58	96
	2 to 3 years	183	245	271	305
	3 to 4 years	23	39	170	238
	4 to 5 years	87	107	9	25
	> 5 years	357	593	413	757
	Total	13,022	13,540	12,693	13,237

Consolidated financial statements (continued)

Table 16.3

Restructuring
provisions

in USD millions	2017	2016
As of January 1	334	386
Provisions made during the period	192	257
Increase of provisions set up in prior years	56	90
Provisions used during the period	(296)	(355)
Provisions reversed during the period	(42)	(33)
Foreign currency translation effects	24	(10)
As of December 31	269	334

During the year ended December 31, 2017, the Group incurred total restructuring costs of USD 355 million, of which USD 206 million was due to net increases in restructuring provisions, affecting mainly Property & Casualty in Europe, Middle East & Africa and North America.

During the year ended December 31, 2016, the Group incurred total restructuring costs of USD 377 million, of which USD 314 million was due to net increases in restructuring provisions, affecting mainly Property & Casualty in North America and Europe, Middle East & Africa.

17. Income taxes

Table 17.1				
in USD millions, for the years, ended December 31				
		2017		2016
Income tax expense – current/deferred split	Current	2,128		1,487
	Deferred	(311)		355
	Total income tax expense/(benefit)	1,816		1,843

Table 17.2					
in USD millions, for the years ended December 31					
	Rate	2017	Rate	2016	
Net income before income taxes		5,125		5,321	
less: income tax (expense)/benefit attributable to policyholders		(171)		(304)	
Net income before income taxes attributable to shareholders		4,954		5,017	
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,090	22.0%	1,104	
Increase/(reduction) in taxes resulting from:					
<i>Tax rate differential in foreign jurisdictions</i>		331		322	
<i>Tax exempt and lower taxed income</i>		(124)		(95)	
<i>Non-deductible expenses</i>		133		121	
<i>Tax losses not recognized</i>		83		3	
<i>Prior year adjustments and other</i>		132		84	
Actual income tax expense attributable to shareholders	33.2%	1,645	30.7%	1,539	
plus: income tax expense/(benefit) attributable to policyholders		171		304	
Actual income tax expense	35.4%	1,816	34.6%	1,843	

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

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

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

Consolidated financial statements (continued)

Deferred tax
assets/(liabilities)
analysis
by source

Table 17.3

in USD millions, as of December 31

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	52	(659)	38	(1,017)
Depreciable and amortizable assets	39	(55)	25	(63)
Life policyholders' benefits and deposits ¹	–	(3)	1	(2)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	38	(179)	93	(277)
Accruals and deferred income	96	(22)	197	(8)
Reserves for losses and loss adjustment expenses	210	(238)	449	(229)
Reserves for unearned premiums	691	–	1,057	(24)
Pensions and other employee benefits	644	(62)	696	(48)
Other assets/liabilities	200	(20)	288	(45)
Tax loss carryforwards	717	–	667	–
Gross deferred tax assets/(liabilities) before valuation allowance	2,689	(1,239)	3,512	(1,712)
Valuation allowance	(374)	–	(352)	–
Gross deferred tax assets/(liabilities) after valuation allowance	2,314	(1,239)	3,160	(1,712)
Deferred tax assets	1,076		1,448	
Gross deferred tax				
Deferred acquisition and origination costs	24	(2,167)	27	(2,189)
Depreciable and amortizable assets	142	(1,798)	113	(1,964)
Life policyholders' benefits and deposits ¹	1,816	(949)	1,350	(793)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	226	(1,054)	165	(1,038)
Accruals and deferred income	81	(87)	124	(92)
Reserves for losses and loss adjustment expenses	97	(118)	56	(85)
Reserves for unearned premiums	20	(64)	31	(40)
Deferred front-end fees	522	–	471	–
Pensions and other employee benefits	352	(278)	616	(319)
Other assets/liabilities	677	(1,845)	462	(1,546)
Tax loss carryforwards	99	–	92	–
Gross deferred tax assets/(liabilities) before valuation allowance	4,056	(8,361)	3,505	(8,067)
Valuation allowance	(52)	–	–	–
Gross deferred tax assets/(liabilities) after valuation allowance	4,005	(8,361)	3,505	(8,067)
Deferred tax liabilities		(4,357)		(4,562)
Net deferred tax liabilities		(3,281)		(3,114)

¹ Includes reserves for unit-linked contracts

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

As of December 31, 2017 and 2016, the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized amount to approximately USD 22 billion and USD 20 billion, respectively. In the remote likelihood that these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

Table 17.4			
Development of net deferred tax liabilities	in USD millions		
		2017	2016
	As of January 1	(3,114)	(3,042)
	Net change recognized in the income statement	311	(355)
	Net change recognized in equity	(245)	208
	Net changes due to acquisitions/(divestments)	(60)	(12)
	Foreign currency translation effects	(173)	87
	As of December 31	(3,281)	(3,114)
	attributable to policyholders	(688)	(632)
	attributable to shareholders	(2,593)	(2,483)

The net deferred tax liabilities related to non-controlling interests amounted to USD 239 million and USD 338 million as of December 31, 2017 and 2016, respectively.

Table 17.5			
Development of deferred income taxes included in equity	in USD millions		
		2017	2016
	As of January 1	313	149
	Net unrealized gains/(losses) on available-for-sale investments	132	(38)
	Cash flow hedges	14	(23)
	Revaluation reserve	–	(2)
	Net actuarial gains/(losses) on pension plans	(392)	272
	Foreign currency translation effects	5	(44)
	As of December 31	73	313

Table 17.6			
Tax loss carryforwards and tax credits	in USD millions, as of December 31		
		2017	2016
	For which deferred tax assets have been recognized, expiring		
	< 5 years	15	28
	5 to 20 years	156	412
	> 20 years or with no time limitation	1,267	1,056
	Subtotal	1,438	1,495
	For which deferred tax assets have not been recognized, expiring		
	< 5 years	64	62
	5 to 20 years	33	155
	> 20 years or with no time limitation	1,731	1,247
	Subtotal	1,828	1,464
	Total	3,265	2,960

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 22.8 percent and 23.0 percent as of December 31, 2017 and 2016, respectively.

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

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

Consolidated financial statements (continued)

18. Senior and subordinated debt

Table 18.1		2017	2016	
in USD millions, as of December 31				
Senior and subordinated debt	Senior debt			
	Zurich Insurance Company Ltd	2.25% CHF 500 million notes, due July 2017 ¹	–	492
		2.375% CHF 525 million notes, due November 2018 ¹	538	515
		1.50% CHF 400 million notes, due June 2019 ^{1,2}	418	405
		1.125% CHF 400 million notes, due September 2019 ^{1,2}	421	409
		0.625% CHF 250 million notes, due July 2020 ^{1,2}	262	254
		2.875% CHF 250 million notes, due July 2021 ¹	255	244
		3.375% EUR 500 million notes, due June 2022 ^{1,3}	634	564
		1.875% CHF 100 million notes, due September 2023 ^{1,2}	112	109
		1.750% EUR 500 million notes, due September 2024 ^{1,2,3}	608	538
		1.500% CHF 150 million notes, due July 2026 ^{1,2}	167	163
	Zurich Holding Comp. of America Inc	Euro commercial paper notes, due in less than 3 months	399	399
	Zurich Santander Insurance America S.L.	7.5% EUR 42 million loan, due December 2035	11	44
	Other	Various debt instruments	20	24
		Senior debt	3,846	4,162
		Subordinated debt		
	Zurich Insurance Company Ltd	8.25% USD 500 million perpetual capital notes, first callable January 2018 ^{1,3}	500	499
		4.625% CHF 500 million perpetual notes, first callable May 2018 ¹	513	491
		7.5% EUR 425 million notes, due July 2039, first callable July 2019 ^{1,3}	509	447
		2.75% CHF 225 million perpetual capital notes, first callable June 2021 ¹	230	221
	2.75% CHF 200 million perpetual capital notes, first callable September 2021 ^{1,2}	212	205	
	4.75% USD 1 billion perpetual capital notes, first callable January 2022 ^{1,3}	994	993	
	4.25% EUR 1 billion notes, due October 2043, first callable October 2023 ^{1,3}	1,192	1,046	
	4.25% USD 300 million notes, due October 2045, first callable October 2025 ^{1,3}	299	299	
	5.625% USD 1 billion notes, due June 2046, first callable June 2026 ¹	996	996	
	3.5% EUR 750 million notes, due October 2046, first callable October 2026 ^{1,2}	890	785	
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes, first callable October 2022 ^{1,4}	604	551	
ZFS Finance (USA) Trust V	Series V 6.5% USD 501 million trust preferred securities, due May 2067, first callable May 2017	–	501	
Other	Various debt instruments	–	16	
	Subordinated debt	6,938	7,050	
	Total senior and subordinated debt	10,784	11,212	

¹ Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).

² The Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.

³ These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.

⁴ The holders of the perpetual notes benefit from the replacement capital covenant which states that if Series V fixed/floating trust preferred securities, issued by ZFS Finance (USA) Trust V, are called before 2047, the Group will issue a replacement debt instrument with terms and provisions that will be as or more equity-like than the replaced notes. Such replacement debt instrument was issued allowing the Group to call the Series V fixed/floating trust preferred securities, issued by ZFS Finance (USA) Trust V in May 2017.

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

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

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

Table 18.2

Maturity schedule of
outstanding debt

in USD millions, as of December 31

	2017		2016	
	Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
< 1 year	1,949	2,345	1,392	1,826
1 to 2 years	1,369	1,699	1,505	1,882
2 to 3 years	262	553	1,262	1,586
3 to 4 years	697	987	278	530
4 to 5 years	2,232	2,460	670	947
5 to 10 years	4,264	4,707	6,061	6,702
> 10 years	11	18	44	74
Total	10,784	12,768	11,212	13,546

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

Table 18.3

Development of
debt arising from
financing activities

in USD millions

	Total	
	2017	2016
As of January 1	11,212	10,086
Issuance of debt recognized in cash flows	–	3,066
Repayment of debt recognized in cash flows	(1,049)	(1,652)
Acquisitions/(divestments) and transfers ¹	(18)	–
Changes in fair value	(27)	(4)
Other changes	3	(14)
Foreign currency translation effects	664	(270)
As of December 31	10,784	11,212

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

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19. Shareholders' equity, dividends and earnings per share

Table 19.1

Share capital

	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2015	15,040,496	150,404,964	0.10
New shares issued from contingent capital in 2016	20,244	202,442	0.10
As of December 31, 2016	15,060,741	150,607,406	0.10
New shares issued from contingent capital in 2017	73,245	732,445	0.10
As of December 31, 2017	15,133,985	151,339,851	0.10
Authorized, contingent and issued share capital			
As of December 31, 2016	17,129,526	171,295,259	0.10
As of December 31, 2017	23,129,526	231,295,259	0.10

The following information related to authorized share capital and contingent share capital is specified in article 5 of the Articles of Association.

a) Authorized share capital

Until March 29, 2019, the Board of Zurich Insurance Group Ltd is authorized to increase the share capital by an amount not exceeding CHF 4,500,000 by issuing up to 45,000,000 fully-paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising subscription rights, and the commencement of entitlement to dividends.

The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with a subsequent offer of those shares to current shareholders. The Board may allow the expiry of subscription rights which have not been exercised, or it may place these rights as well as shares, the subscription rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or exclude the subscription rights of shareholders and to allocate them to third parties, the Company or one of its group companies, up to a maximum of 15,000,000 fully-paid registered shares, if the shares are to be used:

- for the take-over of an enterprise, or parts of an enterprise or of participations or for investments by the Company or one of its group companies, or the financing including re-financing of such transactions; or
- for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges or issuance of shares on the national or international capital markets (including private placements to one or more selected investors); or
- for the conversion of loans, bonds, similar debt instruments, equity-linked instruments or other financial market instruments (collectively, the 'Financial Instruments') issued by the Company or one of its group companies; or
- for the improvement of the regulatory capital position of the Company or one of its group companies in a fast and expeditious manner.

Up to March 29, 2019, the total of new shares issued from (i) authorized share capital where the subscription rights were restricted or excluded, and (ii) contingent share capital in connection with Financial Instruments where the advance subscription rights were restricted or excluded, may not exceed 30,000,000 new shares.

b) Contingent share capital**Financial Instruments**

The share capital of Zurich Insurance Group Ltd may be increased by an amount not exceeding CHF 3,000,000 by issuing of up to 30,000,000 fully-paid registered shares with a nominal value of CHF 0.10 each by the voluntary or mandatory exercise of conversion and/or option rights which are granted in connection with the issuance of loans, bonds, similar debt instruments, equity-linked instruments or other financial market instruments (collectively, the 'Financial Instruments') by the Company or one of its group companies or by mandatory conversion of Financial Instruments issued by the Company or one of its group companies, that allow for contingent mandatory conversion into shares of the Company, or by exercising option rights which are granted to the shareholders. The subscription rights are excluded. The then-current owners of the Financial Instruments shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board is authorized, when issuing Financial Instruments to restrict or exclude the advance subscription rights in cases where they are issued:

- for the financing including re-financing of a take-over of an enterprise, of parts of an enterprise, or of participations or of investments by the Company or one of its group companies; or
- on national or international capital markets (including private placements to one or more selected investors); or
- for the improvement of the regulatory capital position of the Company or one of its group companies in a fast and expeditious manner.

If the advance subscription rights are restricted or excluded by a resolution of the Board, the following applies: the Financial Instruments are to be issued at prevailing market conditions (including standard dilution protection clauses in accordance with market practice) and the setting of the conversion or issue price of the new shares must take due account of the stock market price of the shares and/or comparable instruments priced by the market at the time of issue or time of conversion.

The conversion rights may be exercisable during a maximum of ten years and option rights during a maximum of seven years from the time of the respective issue; contingent conversion features may remain in place indefinitely.

Up to March 29, 2019, the total of new shares issued from (i) authorized share capital where the subscription rights were restricted or excluded, and (ii) contingent share capital in connection with Financial Instruments where the advance subscription rights were restricted or excluded, may not exceed 30,000,000 new shares.

Employee participation

During 2017 and 2016, 732,445 shares and 202,442 shares, respectively, were issued to employees from contingent share capital. At the Annual General Meeting of March 29, 2017, the shareholders approved to increase the contingent share capital that can be issued to employees of the Company and group companies to CHF 500,000 by issuing up to 5,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. The remaining contingent share capital, which can be issued to employees amounted to CHF 495,541 and CHF 68,785 or 4,955,408 and 687,853 fully paid registered shares as of December 31, 2017 and 2016, respectively, with a nominal value of CHF 0.10 each. Subscription rights of the shareholders, as well as advance subscription rights, are excluded. The issuance of new shares or respective option rights to employees is subject to one or more regulations to be issued by the Board and takes into account performance, functions, levels of responsibility and criteria of profitability. New shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

c) Additional paid-in capital

This reserve is not ordinarily available for distribution. However, as of January 1, 2011, a Swiss tax regulation based on the Swiss Corporate Tax Reform II became effective, allowing for payments free of Swiss withholding tax to shareholders out of the capital contribution reserve, created out of additional paid-in capital. Therefore, amounts qualifying under this regulation can be paid out of additional paid-in capital.

d) Treasury shares

Table 19.2

Treasury shares

number of shares, as of December 31	2017	2016	2015
Treasury shares	1,156,567	1,203,523	1,243,931

Treasury shares comprise shares acquired in the market, primarily held to cover employee share and share option plans.

e) Dividends

The dividend of CHF 17 per share was partially paid out of the capital contribution reserve and partially out of the available earnings on April 4, 2017, as approved at the Annual General Meeting on March 29, 2017. The difference between the respective amounts of the dividend at transaction day exchange rates amounting to USD 2.6 billion and at historical exchange rates are reflected in the cumulative foreign currency translation adjustment.

In 2016, the dividend of CHF 17 per share was paid out of the capital contribution reserve on April 5, 2016, as approved at the Annual General Meeting on March 30, 2016. The difference between the respective amounts of the dividend at transaction day exchange rates amounting to USD 2.6 billion and at historical exchange rates are reflected in the cumulative foreign currency translation adjustment.

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f) Earnings per share

Table 19.3

Earnings per share

for the years ended December 31

	Net income attributable to common shareholders (in USD millions)	Weighted average number of shares	Per share (USD)	Per share (CHF) ¹
2017				
Basic earnings per share	3,004	150,001,064	20.02	19.71
Effect of potentially dilutive shares related to share-based compensation plans		974,049	(0.13)	(0.13)
Diluted earnings per share	3,004	150,975,114	19.90	19.58
2016				
Basic earnings per share	3,211	149,285,218	21.51	21.18
Effect of potentially dilutive shares related to share-based compensation plans		1,012,384	(0.14)	(0.14)
Diluted earnings per share	3,211	150,297,601	21.36	21.04

¹ The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2017 and 2016.

Basic earnings per share is computed by dividing net income attributable to shareholders by the weighted average number of shares outstanding for the year, excluding the weighted average number of shares held as treasury shares. Diluted earnings per share reflects the effect of potentially dilutive shares.

g) Equity component related to contracts with DPF

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

20. Employee benefits

The Group had 51,633 and 52,473 employees (full-time equivalents) as of December 31, 2017 and 2016, respectively. Personnel and other related costs incurred were USD 5.6 billion for both years ended December 31, 2017 and 2016, including wages and salaries of USD 4.8 billion and USD 4.6 billion, respectively.

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

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

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

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

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

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

a) Defined benefit pension plans

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

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

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

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

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

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

Swiss pension plan

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

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

UK pension plan

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

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

U.S. pension plans

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

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

German pension plans

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

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

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

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Table 20.1a				
in USD millions				
	Defined benefit obligation	Fair value of assets	Asset ceiling	Net defined benefit asset/ (liability)
As of January 1, 2017	(22,191)	17,883	(9)	(4,317)
Net post-employment benefit (expense)/income:				
Current service cost	(262)	–	–	(262)
Interest (expense)/income	(444)	349	–	(95)
Settlements gains/(losses)	(2)	–	–	(2)
Past service (cost)/credit	123	–	–	123
Net post-employment benefit (expense)/income	(584)	349	–	(235)
Remeasurement effects included in other comprehensive income:				
Return on plan assets excluding interest income	–	582	–	582
Experience gains/(losses)	(65)	–	–	(65)
Actuarial gains/(losses) arising from changes in demographic assumptions	517	–	–	517
Actuarial gains/(losses) arising from changes in financial assumptions	(41)	–	–	(41)
Change in asset ceiling	–	–	(86)	(86)
Remeasurement effects included in other comprehensive income	411	582	(86)	907
Employer contributions	–	513	–	513
Employer contributions paid to meet benefits directly	37	–	–	37
Plan participants' contributions	(57)	57	–	–
Payments from the plan (incl. settlements)	734	(734)	–	–
Foreign currency translation effects	(1,578)	1,284	–	(294)
As of December 31, 2017	(23,227)	19,934	(95)	(3,388)
of which: Assets for defined pension plans				201
of which: Liabilities for defined pension plans				(3,590)

Table 20.1b				
in USD millions				
	Defined benefit obligation	Fair value of assets	Asset ceiling	Net defined benefit asset/ (liability)
As of January 1, 2016	(20,945)	17,713	(17)	(3,248)
Net post-employment benefit (expense)/income:				
Current service cost	(287)	–	–	(287)
Interest (expense)/income	(526)	442	–	(85)
Settlements gains/(losses)	3	–	–	3
Past service (cost)/credit	88	–	–	88
Net post-employment benefit (expense)/income	(722)	442	–	(280)
Remeasurement effects included in other comprehensive income:				
Return on plan assets excluding interest income	–	1,712	–	1,712
Experience gains/(losses)	(44)	–	–	(44)
Actuarial gains/(losses) arising from changes in demographic assumptions	19	–	–	19
Actuarial gains/(losses) arising from changes in financial assumptions	(3,307)	–	–	(3,307)
Change in asset ceiling	–	–	7	7
Remeasurement effects included in other comprehensive income	(3,332)	1,712	7	(1,613)
Employer contributions	–	404	–	404
Employer contributions paid to meet benefits directly	33	–	–	33
Plan participants' contributions	(54)	54	–	–
Payments from the plan (incl. settlements)	769	(769)	–	–
Foreign currency translation effects	2,060	(1,672)	–	388
As of December 31, 2016	(22,191)	17,883	(9)	(4,317)

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

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

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

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

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

Table 20.2								
Fair value of assets held in funded defined benefit pension plans	in USD millions, as of December 31		2017				2016	
			Quoted in active markets		% of Total	Quoted in active markets		% of Total
	Other	Total	Other	Total	Other	Total	Other	Total
Cash and cash equivalents	88	–	88	–	542	–	542	3%
Equity securities	4,162	116	4,277	21%	3,794	88	3,882	22%
Debt securities	84	13,691	13,775	69%	–	11,839	11,839	66%
Investment property	–	1,491	1,491	7%	–	1,318	1,318	7%
Mortgage loans	–	293	293	1%	–	295	295	2%
Other assets ¹	–	8	8	–	–	7	7	–
Total	4,335	15,599	19,934	100%	4,336	13,547	17,883	100%

¹ UK annuity policies

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

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

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

Table 20.3a						
Key information by main country – current period	in USD millions, as of December 31, 2017					
	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(4,793)	(11,952)	(3,639)	(1,424)	(1,419)	(23,227)
Fair value of plan assets	5,081	9,439	3,003	1,275	1,135	19,934
Impact of asset ceiling	(87)	(8)	–	–	–	(95)
Net defined benefit asset/(liability)	201	(2,521)	(636)	(149)	(284)	(3,388)
Net post-employment benefit (expense)/income ¹	(64)	(80)	(39)	(17)	(36)	(235)

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

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Key information by main country – prior period	Table 20.3b						
	in USD millions, as of December 31, 2016						
	Switzerland	United Kingdom	United States	Germany	Other	Total	
Defined benefit obligation	(5,094)	(11,049)	(3,530)	(1,260)	(1,257)	(22,191)	
Fair value of plan assets	4,711	8,488	2,687	1,014	983	17,883	
Impact of asset ceiling	–	(9)	–	–	–	(9)	
Net defined benefit asset/(liability)	(383)	(2,570)	(843)	(246)	(275)	(4,317)	
Net post-employment benefit (expense)/income ¹	(124)	(65)	(28)	(34)	(29)	(280)	

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

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

Key financial assumptions used for major plans	Table 20.4								
	as of December 31								
	2017				2016				
	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany	
Discount rate	0.6%	2.4%	3.6%	1.7%	0.6%	2.6%	4.0%	1.7%	
Inflation rate (CPI) ¹	1.3%	2.2%	2.3%	1.8%	1.2%	2.2%	2.0%	1.8%	
Salary increase rate	1.3%	2.1%	4.5%	3.1%	1.5%	3.2%	4.5%	3.1%	
Expected future pension increases	0.1%	3.5%	n/a	1.8%	0.7%	3.4%	n/a	1.8%	
Interest crediting rate	0.6%	n/a	5.0%	n/a	0.6%	n/a	5.0%	n/a	

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

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

Mortality tables and life expectancies for major plans – current period	Table 20.5a					
	in years, as of December 31, 2017					
	Country	Mortality table for major plans	Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
aged 65			aged 45	aged 65	aged 45	
Switzerland	BVG 2015 Generational	22.38	24.26	24.43	26.29	
United Kingdom	PNXA00 with CMI_2015 projection with plan specific adjustments	22.92	24.22	23.69	25.19	
	RP 2014 with MP-2017 Generational projection and white collar adjustment	22.22	23.76	23.71	25.24	
United States	RP 2014 with plan specific adjustments	21.20	22.17	23.22	24.12	
Germany	Heubeck 2005G	19.26	21.90	23.32	25.82	

Mortality tables and life expectancies for major plans – prior period

Table 20.5b

in years, as of December 31, 2016

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

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

Maturity profile of future benefit payments for major plans

Table 20.6

as of December 31

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

Sensitivity analysis of significant actuarial assumptions

Table 20.7

in USD millions, as of December 31

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

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

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

b) Defined contribution pension plans

Certain of the Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either immediate on commencement of employment or based on completion of a specified period of continuous service. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 12 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 139 million and USD 190 million for the years ended December 31, 2017 and 2016, respectively.

21. Share-based compensation and cash incentive plans

The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based compensation plans are based on the provision of Zurich Insurance Group Ltd shares.

a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 485 million and USD 447 million for the years ended December 31, 2017 and 2016, respectively.

b) Share-based compensation plans for employees and executives

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

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

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

Employee share plans

Share Incentive Plan for employees in the UK

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

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

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

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

Share Incentive Plan for employees in Switzerland

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

The Group Long-Term Incentive Plan (LTIP)

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

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

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

Table 21

for the years ended December 31

Shares allocated during the period

	Number		Fair value at the allocation date (in CHF)	
	2017	2016	2017	2016
Shares allocated during the period	592,859	780,178	264	203

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

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

22. Commitments and contingencies, legal proceedings and regulatory investigations

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

Table 22.1

Quantifiable commitments and contingencies	in USD millions, as of December 31		
		2017	2016
Remaining commitments under investment agreements		1,820	2,009
Guarantees and letters of credit ¹		871	799
Future operating lease commitments		2,127	1,962
Undrawn loan commitments		16	7
Other commitments and contingent liabilities ²		2,625	199

¹ Guarantee features embedded in life insurance products are not included.

² Other commitments include an agreement related to the acquisition of ANZ's life insurance businesses (see note 5).

Commitments under investment agreements

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

Guarantees and letters of credit

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

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

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

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

Commitments under lease agreements

The Group has entered into various non-cancellable operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 256 million and USD 262 million for the years ended December 31, 2017 and 2016, respectively.

Table 22.2

Future payments under non-cancelable operating leases with terms in excess of one year	in USD millions, as of December 31		
		2017	2016
< 1 year		285	262
1 to 2 years		249	218
2 to 3 years		202	196
3 to 4 years		188	157
4 to 5 years		148	135
> 5 years		1,055	994
Total		2,127	1,962

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Other contingent liabilities

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

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

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

Pledged assets

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

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

Legal, compliance and regulatory developments

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

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

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

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

Legal proceedings and regulatory investigations

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

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

23. Fair value measurement

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

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

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

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

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

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

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

Table 23.1				
in USD millions, as of December 31				
Fair value and carrying value of financial assets and financial liabilities	Total fair value		Total carrying value	
	2017	2016	2017	2016
Available-for-sale securities				
Equity securities	14,190	12,548	14,190	12,548
Debt securities	140,240	131,967	140,240	131,967
Total available-for-sale securities	154,430	144,515	154,430	144,515
Fair value through profit or loss securities				
Equity securities	3,597	3,359	3,597	3,359
Debt securities	5,699	5,672	5,699	5,672
Total fair value through profit or loss securities	9,295	9,032	9,295	9,032
Derivative assets	903	968	903	968
Held-to-maturity debt securities	2,966	3,213	2,322	2,543
Mortgage loans	7,501	7,330	7,047	6,794
Other loans	10,396	10,909	8,730	9,146
Total financial assets	185,492	175,967	182,728	172,996
Derivative liabilities	(214)	(345)	(214)	(345)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(631)	(637)	(510)	(506)
Senior debt	(3,971)	(4,306)	(3,846)	(4,162)
Subordinated debt	(7,594)	(7,370)	(6,938)	(7,050)
Total financial liabilities held at amortized cost	(12,196)	(12,314)	(11,295)	(11,718)
Total financial liabilities	(12,410)	(12,659)	(11,509)	(12,062)

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

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

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

Fair values of liabilities related to investment contracts and investment contracts with DPF are determined using discounted cash flow models. Such instruments are categorized within level 3 due to the unobservability of certain inputs used in the valuation.

Recurring fair value measurements of assets and liabilities

Table 23.2a					
in USD millions, as of December 31, 2017		Level 1	Level 2	Level 3	Total
Fair value hierarchy – non unit-linked – current period	Available-for-sale securities				
	Equity securities	10,859	2,342	988	14,190
	Debt securities	–	133,989	6,251	140,240
	Total available-for-sale securities	10,859	136,331	7,239	154,430
	Fair value through profit or loss securities				
	Equity securities	959	71	2,566	3,597
	Debt securities	–	5,615	84	5,699
	Total fair value through profit or loss securities	959	5,686	2,650	9,295
	Derivative assets	–	842	61	903
	Investment property	–	2,774	9,464	12,238
	Reinsurers' share of reserves for insurance contracts fair value option ¹	–	–	224	224
	Total	11,819	145,634	19,638	177,091
	Derivative liabilities	(3)	(182)	(30)	(214)
	Reserves for insurance contracts fair value option ²	–	–	(2,436)	(2,436)
Total	(3)	(182)	(2,465)	(2,650)	

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

² Included within liabilities for insurance contracts.

Table 23.2b					
in USD millions, as of December 31, 2016		Level 1	Level 2	Level 3	Total
Fair value hierarchy – non unit-linked – prior period	Available-for-sale securities				
	Equity securities	9,237	2,395	917	12,548
	Debt securities	–	126,459	5,508	131,967
	Total available-for-sale securities	9,237	128,853	6,425	144,515
	Fair value through profit or loss securities				
	Equity securities	783	40	2,536	3,359
	Debt securities	–	5,575	97	5,672
	Total fair value through profit or loss securities	783	5,615	2,633	9,032
	Derivative assets	3	541	424	968
	Investment property	–	2,007	8,555	10,562
	Reinsurers' share of reserves for insurance contracts fair value option ¹	–	–	237	237
	Total	10,023	137,016	18,275	165,314
	Derivative liabilities	–	(281)	(63)	(345)
	Reserves for insurance contracts fair value option ²	–	–	(2,720)	(2,720)
Total	–	(281)	(2,783)	(3,065)	

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

² Included within liabilities for insurance contracts.

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Table 23.3a		Level 1	Level 2	Level 3	Total
in USD millions, as of December 31, 2017					
Fair value hierarchy – unit-linked – current period	Fair value through profit or loss securities				
	Equity securities	85,886	20,256	503	106,645
	Debt securities	–	7,064	51	7,115
	Other loans	288	2,620	–	2,907
	Total fair value through profit or loss securities	86,174	29,939	554	116,667
	Derivative assets	4	15	–	19
	Investment property	–	–	3,410	3,410
	Total investments for unit-linked contracts¹	86,178	29,954	3,963	120,096
	Financial liabilities at FV through profit or loss				
	Liabilities related to unit-linked investment contracts	–	(45,484)	–	(45,484)
	Derivative liabilities	(3)	(12)	–	(15)
	Total	(3)	(45,496)	–	(45,500)

¹ Excluding cash and cash equivalents.

Table 23.3b		Level 1	Level 2	Level 3	Total
in USD millions, as of December 31, 2016					
Fair value hierarchy – unit-linked – prior period	Fair value through profit or loss securities				
	Equity securities	92,232	20,684	446	113,362
	Debt securities	–	7,168	30	7,198
	Other loans	–	1,458	–	1,458
	Total fair value through profit or loss securities	92,232	29,309	476	122,018
	Derivative assets	5	21	–	26
	Investment property	–	–	3,138	3,138
	Total investments for unit-linked contracts¹	92,236	29,331	3,614	125,182
	Financial liabilities at FV through profit or loss				
	Liabilities related to unit-linked investment contracts	–	(60,233)	–	(60,233)
	Derivative liabilities	(4)	(5)	–	(9)
	Total	(4)	(60,238)	–	(60,242)

¹ Excluding cash and cash equivalents.

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

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

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

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

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

Within level 3, the Group has classified:

-
- Unlisted stocks, private equity funds and hedge funds that are not actively traded. Such instruments are obtained from net asset value information and audited financial statements provided by the issuing company. Quantitative unobservable inputs are not developed by the Group when measuring fair value of these assets.

 - Non-agency MBS and ABS rated below 'AAA' that are valued by independent pricing providers using a variety of valuation techniques which may require use of significant unobservable input parameters such as asset prepayment rate, default rates and credit curves. Quantitative unobservable inputs are not developed by the Group when measuring fair value of these assets.

 - Options and long-dated derivative financial instruments with fair values determined using counterparty valuations or calculated using significant unobservable inputs such as historical volatilities, historical correlation, implied volatilities from the counterparty or derived using extrapolation techniques. Quantitative information on unobservable inputs are not available when counterparty pricing was used. For internally calculated fair values significant increases/(decreases) in volatilities or correlation, would result in a significantly higher/(lower) fair value measurement.

 - Investment properties for which fair value is based on valuations performed annually by internal valuation specialists and generally on a rotation basis at least once every three years by an independent qualified appraiser. In general the portfolio is valued using an internal income capitalization approach. The model is asset specific and capitalizes the sustainable investment income of a property with its risk specific cap rate. This cap rate is an "all risk yield" with components such as asset class yield for core assets (lowest risk) plus additional premiums for additional risks, for example second tier location or deterioration risk. All cap rate components (risk premiums) are reviewed and, if necessary, adjusted annually before revaluations are performed. The model takes into consideration external factors such as interest rate, market rent and vacancy rate. The significant unobservable inputs which are outside this model, are estimated rental value, rental growth, long term vacancy rate and discount rate. Significant increases/(decreases) in rental value and rental growth, in isolation, would result in a significantly higher/(lower) fair value measurement. Significant increases/(decreases) in the long term vacancy rate and discount rate, in isolation, would result in a significantly lower/(higher) fair value measurement.

 - Reinsurers' share of reserves and reserves for insurance contracts fair value option. The fair values are determined using discounted cash flow models. The discount factors used are based on derived rates for LIBOR swap forwards, spreads to U.S. Treasuries and spreads to U.S. corporate A or higher rated bond segments for financials, industrials and utilities. The liability-projected cash flows use contractual information for premiums, benefits and agent commissions, administrative expenses under third party administrative service agreements and best estimate parameters for policy decrements. The primary unobservable inputs are the policy decrement assumptions used in projecting cash flows. These include disability claim parameters for incidence and termination (whether for recovery or death) and lapse rates. Significant increases/(decreases) in claim incidence rates and significant decreases/(increases) in claim termination rates would result in a significantly higher/(lower) fair value measurement.

 - The Group's private debt holdings comprise certain private placements and other collateralized loan obligations (CLO) which are valued by dedicated external asset managers applying a combination of expert judgment and other specific adjustments for which interest rates as well as credit spreads serve as input parameters. Quantitative unobservable inputs are not developed by the Group when measuring fair value of these assets.
-

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

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

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

Consolidated financial statements (continued)

Development of assets and liabilities classified within level 3 – non unit-linked – current period	Table 23.4a							
	in USD millions							
	Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities	Investment property	
Equity securities	Debt securities	Equity securities	Debt securities					
As of January 1, 2017	917	5,508	2,536	97	424	(63)	8,555	
Realized gains/(losses) recognized in income ¹	199	8	6	1	2	(48)	177	
Unrealized gains/(losses) recognized in income ^{1,2}	2	(9)	238	4	(58)	43	129	
Unrealized gains/(losses) recognized in other comprehensive income	(40)	34	–	–	(2)	(4)	38	
Purchases	212	1,753	206	44	7	(1)	668	
Settlements/sales/redemptions	(334)	(1,263)	(455)	(67)	(10)	48	(563)	
Transfer from/to assets held for own use	–	–	–	–	–	–	51	
Transfer to assets held for sale	–	–	–	–	–	–	(37)	
Transfers into level 3	–	121	–	–	–	–	–	
Transfers out of level 3	–	(115)	–	–	(316)	–	–	
Foreign currency translation effects	32	214	34	4	14	(5)	446	
As of December 31, 2017	988	6,251	2,566	84	61	(30)	9,464	

¹ Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements.

² Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

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

Development of assets and liabilities classified within level 3 – non unit-linked – prior period	Table 23.4b							
	in USD millions							
	Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities	Investment property	
Equity securities	Debt securities	Equity securities	Debt securities					
As of January 1, 2016	959	5,962	2,419	146	529	(99)	7,828	
Realized gains/(losses) recognized in income ¹	105	24	9	–	–	–	129	
Unrealized gains/(losses) recognized in income ^{1,2}	(15)	(34)	154	–	(31)	(4)	236	
Unrealized gains/(losses) recognized in other comprehensive income	(9)	24	–	–	59	38	9	
Purchases	223	1,291	448	1	8	–	836	
Settlements/sales/redemptions	(299)	(1,416)	(471)	(29)	(6)	–	(245)	
Transfer from/to assets held for own use	–	–	–	–	–	–	(5)	
Transfer to assets held for sale	–	–	–	–	–	–	(74)	
Transfers into level 3	–	29	1	–	–	–	–	
Transfers out of level 3	–	(228)	–	(6)	(130)	–	–	
Acquisitions and divestments	(6)	–	–	–	–	–	–	
Foreign currency translation effects	(42)	(145)	(25)	(15)	(5)	2	(159)	
As of December 31, 2016	917	5,508	2,536	97	424	(63)	8,555	

¹ Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements.

² Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

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

Table 23.5a				
Development of reserves for insurance contracts fair value option classified within level 3 – current period		in USD millions		
		Gross	Ceded	Net
As of January 1, 2017		2,720	(237)	2,483
Premiums		69	(6)	64
Claims		(365)	22	(343)
Fee income and other expenses		(10)	1	(9)
Interest and bonuses credited to policyholders		43	(4)	38
Changes in assumptions		11	–	11
(Decreases)/increases recorded in other comprehensive income		(32.6)	–	(33)
As of December 31, 2017		2,436	(224)	2,212

Table 23.5b				
Development of reserves for insurance contracts fair value option classified within level 3 – prior period		in USD millions		
		Gross	Ceded	Net
As of January 1, 2016		2,927	(270)	2,657
Premiums		77	(6)	71
Claims		(363)	44	(319)
Fee income and other expenses		(38)	10	(28)
Interest and bonuses credited to policyholders		60	(8)	52
Changes in assumptions		56	(7)	49
(Decreases)/increases recorded in other comprehensive income		–	–	–
As of December 31, 2016		2,720	(237)	2,483

Table 23.6a		Fair value through profit or loss securities		
Development assets and liabilities classified within level 3 – unit-linked – current period		in USD millions		
		Equity securities	Debt securities	Investment property
As of January 1, 2017		446	30	3,138
Realized gains/(losses) recognized in income ¹		–	(1)	(20)
Unrealized gains/(losses) recognized in income ¹		38	(3)	128
Purchases		89	17	133
Sales/redemptions		(56)	–	(189)
Transfers into level 3		–	8	–
Transfers out of level 3		(16)	(1)	–
Acquisitions and divestments		–	–	(79)
Foreign currency translation effects		1	2	300
As of December 31, 2017		503	51	3,410

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

Consolidated financial statements (continued)

Development assets and liabilities classified within level 3 – unit-linked – prior period	Table 23.6b	Fair value through profit or loss		
	in USD millions	securities		
		Equity securities	Debt securities	Investment property
As of January 1, 2016		336	43	4,341
Realized gains/(losses) recognized in income ¹		–	–	(4)
Unrealized gains/(losses) recognized in income ¹		11	(1)	(89)
Purchases		164	–	116
Sales/redemptions		(63)	(7)	(567)
Transfers into level 3		1	1	–
Foreign currency translation effects		(2)	(6)	(659)
As of December 31, 2016		446	30	3,138

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

Non-recurring fair value measurements of assets and liabilities

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

24. Analysis of financial assets

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

Table 24.1a

in USD millions, as of December 31, 2017

Analysis of financial assets – current period

	Debt securities	Mortgage loans	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	148,159	6,943	8,720	12,629	176,450
Past due but not impaired financial assets.					
Past due by:					
1 to 90 days	–	69	–	1,393	1,463
91 to 180 days	–	9	–	197	206
181 to 365 days	–	4	–	158	163
> 365 days	–	7	–	182	189
Past due but not impaired financial assets	–	90	–	1,931	2,020
Financial assets impaired	102	22	21	164	308
Gross carrying value	148,261	7,054	8,741	14,723	178,779
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	2	11	92	105
Impairment allowances on collectively assessed financial assets	–	5	–	167	172
Net carrying value	148,261	7,047	8,730	14,465	178,502

Table 24.1b

in USD millions, as of December 31, 2016

Analysis of financial assets – prior period

	Debt securities	Mortgage loans	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	140,038	6,719	9,145	13,010	168,912
Past due but not impaired financial assets.					
Past due by:					
1 to 90 days	–	38	–	1,156	1,194
91 to 180 days	–	10	–	252	262
181 to 365 days	–	5	–	184	189
> 365 days	–	8	–	181	189
Past due but not impaired financial assets	–	60	–	1,773	1,834
Financial assets impaired	143	66	21	121	351
Gross carrying value	140,181	6,845	9,166	14,904	171,097
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	46	20	71	137
Impairment allowances on collectively assessed financial assets	–	5	–	159	164
Net carrying value	140,181	6,794	9,146	14,675	170,796

Consolidated financial statements (continued)

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

Table 24.2a				
Development of allowance for impairments – current period	in USD millions	Mortgage		
		loans	Other loans	Receivables
	As of January 1, 2017	51	20	230
	Increase/(decrease) in allowance for impairments	–	(8)	70
	Amounts written-off	(47)	–	(49)
	Acquisitions and divestments	–	–	(1)
	Foreign currency translation effects	2	–	8
	As of December 31, 2017	7	11	258

Table 24.2b				
Development of allowance for impairments – prior period	in USD millions	Mortgage loans		
		Other loans	Receivables	
	As of January 1, 2016	106	20	249
	Increase/(decrease) in allowance for impairments	(5)	2	33
	Amounts written-off	(47)	(2)	(19)
	Acquisitions and divestments	–	–	(31)
	Foreign currency translation effects	(3)	(1)	(2)
	As of December 31, 2016	51	20	230

25. Related-party transactions

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

Table 25 summarizes related-party transactions with key personnel reflected in the consolidated financial statements. Key personnel includes members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd and members of the Executive Committee.

Table 25			
in USD millions, for the years ended December 31			
		2017	2016
Related party transactions – key personnel	Remuneration of key personnel of the Group		
	Cash compensation, current benefits and fees	28	21
	Post-employment benefits	4	4
	Share-based compensation	22	17
	Other remuneration	3	2
	Total remuneration of key personnel	56	43

As of December 31, 2017 and 2016, there were no loans, advances or credits outstanding from members of the Executive Committee. Outstanding loans and guarantees granted to members of the Board of Directors amounted to nil for the years ended December 31, 2017 and 2016. The terms 'members of the Board of Directors' and 'members of the Executive Committee' in this context include the individual as well as members of their respective households. The figures in table 25 include the fees paid to members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd, which were USD 5 million for both years ended December 31, 2017 and 2016.

Information required by art. 14–16 of the Swiss Ordinance against Excessive Compensation and art. 663c paragraph 3 of the Swiss Code of Obligations is disclosed in the Remuneration report.

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

Consolidated financial statements (continued)

26. Relationship with the Farmers Exchanges

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

a) Certificates of contribution/surplus notes issued by the Farmers Exchanges

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

Table 26.1			
in USD millions, as of December 31			
		2017	2016
Certificates of contribution/surplus notes	6.15% certificate of contribution, due June 2021	200	707
	3.758% surplus note, due December 2027	100	–
	Various other certificates of contribution	23	23
	Total	323	730

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

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

b) Quota share reinsurance treaties with the Farmers Exchanges

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

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

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

Quota share reinsurance treaties	Table 26.2					
	in USD millions, for the years ended December 31					
	APD agreement		All Lines agreement		Total	
	2017 ¹	2016 ²	2017 ³	2016 ⁴	2017	2016
Net earned premiums and policy fees	–	–	1,541	1,521	1,541	1,521
Insurance benefits and losses, net ⁵	–	(1)	(1,049)	(1,084)	(1,049)	(1,085)
Total net technical expenses ⁶	–	–	(493)	(487)	(493)	(487)
Net underwriting result	–	(1)	(1)	(50)	(1)	(51)

¹ All prior year's business in run-off were settled in 2017.

² The APD agreement was not renewed in 2016. Net underwriting result in 2016 reflects adverse development on prior year's business in run-off.

³ From January 1, 2017, ZIC assumed an 8.0 percent quota share. Another 16.0 percent was assumed by third parties. Subject to the approval of the California Department of Insurance, effective December 31, 2017, Farmers Re Co assumed an 1.0 percent quota share, while another 28.0 percent was assumed by third parties. ZIC has no participation in the December 31, 2017 All Lines agreement.

⁴ From January 1, 2016, ZIC assumed an 8.0 percent quota share. Another 12.0 percent was assumed by third parties.

⁵ Under the All Lines agreement the Farmers Exchanges catastrophe losses are subject to a provisional maximum of USD 1.3 billion dependent on loss experience and recoveries at a specified rate for each year. Based on the results for 2017, the total catastrophe recoveries subject to the All Lines agreement was USD 1.3 billion.

⁶ Under the All Lines agreement, the Farmers Exchanges receive a ceding commission of 26.7 percent, 8.1 percent of premiums for unallocated loss adjustment expenses (8.2 percent in 2016) and 5.3 percent of premiums for other expenses.

c) Farmers management fees and other related revenues

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

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

Consolidated financial statements (continued)

27. Segment information

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

-
- P&C regions

 - Life regions

 - Farmers

 - Group Functions and Operations

 - Non-Core Businesses

The Group's reportable segments comprise the following:

P&C and Life regions

-
- Europe, Middle East & Africa

 - North America

 - Asia Pacific

 - Latin America

 - Group Reinsurance

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

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

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

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

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

Aggregations and additional information

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

→ P&C – Total

→ Life – Total

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

→ P&C Commercial Insurance

→ P&C Retail and Other Insurance

Business operating profit

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

Consolidated financial statements (continued)

Property & Casualty
– Overview by
segment

Table 27.1

in USD millions, for the year ended December 31

	Europe, Middle East & Africa		North America	
	2017	2016	2017	2016
Revenues				
Direct written premiums	12,486	13,102	14,414	14,342
Assumed written premiums	1,589	1,586	724	825
Gross written premiums and policy fees	14,075	14,688	15,137	15,167
Less premiums ceded to reinsurers	(2,209)	(2,088)	(4,549)	(5,159)
Net written premiums and policy fees	11,866	12,600	10,588	10,008
Net change in reserves for unearned premiums	(1)	179	(132)	11
Net earned premiums and policy fees	11,865	12,779	10,456	10,019
Net investment income on Group investments	647	732	964	922
Net capital gains/(losses) and impairments on Group investments	34	17	157	50
Net investment result on Group investments	681	749	1,121	972
Other income	405	487	27	51
Total BOP revenues	12,950	14,015	11,604	11,042
Benefits, losses and expenses				
Losses and loss adjustment expenses, net	8,479	8,603	7,917	6,947
Life insurance death and other benefits, net	(1)	(2)	–	–
Insurance benefits and losses, net	8,478	8,601	7,917	6,947
Policyholder dividends and participation in profits, net	(1)	1	8	6
Underwriting and policy acquisition costs, net	2,223	2,317	2,461	2,366
Administrative and other operating expense (excl. depreciation/amortization)	1,711	1,913	360	504
Interest credited to policyholders and other interest	185	118	31	30
Restructuring provisions and other items not included in BOP	(115)	(137)	(50)	(107)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	12,480	12,813	10,726	9,746
Business operating profit (before interest, depreciation and amortization)				
	470	1,202	878	1,296
Depreciation and impairments of property and equipment	39	49	26	35
Amortization and impairments of intangible assets	143	69	52	45
Interest expense on debt	15	14	–	9
Business operating profit before non-controlling interests	273	1,070	800	1,207
Non-controlling interests	14	16	–	–
Business operating profit	259	1,054	800	1,207

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
2,221	2,078	2,560	2,249	–	–	–	–	31,681	31,770
184	191	79	81	214	240	(1,447)	(1,571)	1,343	1,352
2,405	2,269	2,639	2,329	214	240	(1,447)	(1,571)	33,024	33,122
(392)	(385)	(419)	(462)	(369)	(491)	1,447	1,571	(6,492)	(7,014)
2,013	1,884	2,220	1,868	(155)	(251)	–	–	26,532	26,108
(101)	–	(287)	(224)	22	27	–	–	(499)	(6)
1,912	1,884	1,933	1,644	(133)	(224)	–	–	26,033	26,102
60	76	161	144	15	15	–	1	1,847	1,891
–	–	–	–	–	–	–	–	191	67
60	76	161	144	15	15	–	1	2,038	1,958
112	5	74	57	142	120	(9)	(12)	751	708
2,084	1,965	2,168	1,845	25	(89)	(10)	(11)	28,822	28,768
1,055	964	805	739	(259)	94	–	–	17,997	17,346
–	–	–	–	–	–	–	–	(1)	(2)
1,055	964	805	739	(259)	94	–	–	17,996	17,345
–	–	–	–	–	–	–	–	7	7
452	436	832	651	2	(6)	–	–	5,970	5,765
396	269	231	167	39	35	(9)	(11)	2,727	2,878
3	–	2	5	(3)	–	–	–	218	153
(16)	(4)	(6)	(55)	2	–	–	–	(185)	(304)
1,890	1,665	1,864	1,508	(218)	123	(9)	(11)	26,733	25,844
194	300	304	338	243	(211)	–	–	2,088	2,924
16	14	5	7	4	3	–	–	89	109
23	16	10	17	–	–	–	–	228	148
–	–	–	–	85	74	–	–	100	97
155	270	288	313	155	(289)	–	–	1,670	2,570
–	–	111	117	–	–	–	–	124	133
155	270	177	196	155	(289)	–	–	1,546	2,437

Consolidated financial statements (continued)

Life –
Overview by
segment

Table 27.2

in USD millions, for the years ended December 31

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

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

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

Consolidated financial statements (continued)

Table 27.3

in USD millions, for the years ended December 31

Business operating
profit by business

	Property & Casualty		Life	
	2017	2016	2017	2016
Revenues				
Direct written premiums	31,681	31,770	11,857	12,642
Assumed written premiums	1,343	1,352	177	208
Gross Written Premiums	33,024	33,122	12,034	12,851
Policy fees	–	–	2,036	1,806
Gross written premiums and policy fees	33,024	33,122	14,070	14,657
Less premiums ceded to reinsurers	(6,492)	(7,014)	(1,128)	(684)
Net written premiums and policy fees	26,532	26,108	12,942	13,973
Net change in reserves for unearned premiums	(499)	(6)	(132)	(119)
Net earned premiums and policy fees	26,033	26,102	12,810	13,854
Farmers management fees and other related revenues	–	–	–	–
Net investment income on Group investments	1,847	1,891	2,925	2,993
Net capital gains/(losses) and impairments on Group investments	191	67	649	640
Net investment result on Group investments	2,038	1,958	3,574	3,633
Net investment result on unit-linked investments	–	–	10,892	13,259
Other income	751	708	641	716
Total BOP revenues	28,822	28,768	27,918	31,461
of which: Inter-segment revenues	(238)	(283)	(215)	(263)
Benefits, losses and expenses				
Losses and loss adjustment expenses, net	17,997	17,346	–	–
Life insurance death and other benefits, net	(1)	(2)	9,258	11,130
Insurance benefits and losses, net	17,996	17,345	9,259	11,130
Policyholder dividends and participation in profits, net	7	7	12,095	14,067
Income tax expense/(benefit) attributable to policyholders	–	–	171	304
Underwriting and policy acquisition costs, net	5,970	5,765	2,489	2,155
Administrative and other operating expense (excl. depreciation/amortization)	2,727	2,878	1,959	2,203
Interest credited to policyholders and other interest	218	153	315	307
Restructuring provisions and other items not included in BOP	(185)	(304)	(104)	(221)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	26,733	25,844	26,185	29,945
Business operating profit (before interest, depreciation and amortization)				
	2,088	2,924	1,733	1,516
Depreciation and impairments of property and equipment	89	109	15	21
Amortization and impairments of intangible assets	228	148	161	100
Interest expense on debt	100	97	9	10
Business operating profit before non-controlling interests	1,670	2,570	1,548	1,385
Non-controlling interests	124	133	289	255
Business operating profit	1,546	2,437	1,258	1,130

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

	Farmers		Group Functions and Operations		Non-Core Businesses		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	566	552	–	–	41	59	–	–	44,145	45,024
	995	1,597	48	48	79	80	(102)	(101)	2,539	3,184
	1,561	2,149	48	48	120	139	(102)	(101)	46,685	48,208
	310	311	–	–	83	290	–	–	2,429	2,407
	1,871	2,459	48	48	202	429	(102)	(101)	49,114	50,615
	(195)	(189)	(42)	(43)	(222)	(13)	102	101	(7,977)	(7,843)
	1,676	2,270	6	6	(19)	416	–	–	41,136	42,772
	546	(65)	–	–	5	40	–	–	(79)	(150)
	2,223	2,205	6	6	(14)	456	–	–	41,057	42,622
	2,892	2,867	–	–	–	–	–	–	2,892	2,867
	215	262	170	228	233	281	(175)	(180)	5,215	5,474
	1	–	–	–	(8)	(11)	–	–	833	697
	216	262	170	228	225	270	(175)	(180)	6,048	6,171
	136	39	–	–	636	315	–	–	11,664	13,613
	153	177	243	1,135	42	64	(648)	(1,601)	1,183	1,199
	5,619	5,550	419	1,368	889	1,105	(823)	(1,781)	62,844	66,471
	(37)	(35)	(318)	(1,196)	(15)	(5)	823	1,781	–	–
	1,044	1,085	–	–	52	53	–	–	19,094	18,484
	389	380	–	–	(97)	448	–	–	9,548	11,957
	1,434	1,465	–	–	(45)	501	–	–	28,643	30,441
	144	47	–	–	737	398	–	–	12,984	14,519
	–	–	–	–	–	–	–	–	171	304
	582	614	1	–	4	11	(7)	(7)	9,039	8,538
	1,521	1,408	321	1,348	87	122	(126)	(1,072)	6,490	6,888
	109	148	119	120	54	79	(269)	(281)	546	525
	(22)	(8)	(66)	(100)	(1)	(1)	–	–	(377)	(634)
	3,769	3,674	374	1,369	837	1,110	(402)	(1,360)	57,496	60,581
	1,850	1,876	45	–	52	(4)	(420)	(421)	5,348	5,890
	34	35	12	9	–	–	–	–	152	174
	125	119	56	49	–	–	–	–	570	416
	–	–	710	727	13	10	(420)	(421)	411	423
	1,691	1,722	(733)	(785)	39	(15)	–	–	4,215	4,877
	–	–	(2)	(6)	–	–	–	–	411	382
	1,691	1,722	(731)	(779)	39	(15)	–	–	3,803	4,495

Consolidated financial statements (continued)

Table 27.4

in USD millions, for the year ended December 31

Reconciliation of
BOP to net income
after income taxes

	Property & Casualty		Life	
	2017	2016	2017	2016
Business operating profit	1,546	2,437	1,258	1,130
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	972	499	238	155
Net gains/(losses) on divestment of businesses ¹	(96)	(134)	7	47
Restructuring costs	(182)	(251)	(86)	(76)
Other adjustments ²	(3)	(53)	(18)	(145)
Add back:				
Business operating profit attributable to non-controlling interests	124	133	289	255
Net income before shareholders' taxes	2,361	2,631	1,689	1,366
Income tax expense/(benefit) attributable to policyholders	–	–	171	304
Net income before income taxes	2,361	2,631	1,861	1,670
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

¹ In 2017, Property & Casualty includes losses of USD 97 million for re-measurements of assets held for sale based on agreements to sell businesses in the UK (see note 5). In 2016, USD 134 million of losses in Property & Casualty include USD (137) million related to the sale of businesses in South Africa and Morocco and the re-measurements of assets held for sale and USD 47 million of gains in Life relate to a forward sale agreement of a UK based distributor (see note 5).

² Other adjustments include USD 23 million and USD 256 million of non-operating charges for the years ended December 31, 2017 and 2016, respectively.

	Farmers		Group Functions and Operations		Non-Core Businesses		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	1,691	1,722	(731)	(779)	39	(15)	3,803	4,495
	35	19	(55)	23	10	168	1,201	863
	–	–	5	(2)	–	–	(84)	(89)
	(19)	(8)	(67)	(41)	(1)	(1)	(355)	(377)
	(3)	–	2	(58)	–	–	(23)	(256)
	–	–	(2)	(6)	–	–	411	382
	1,705	1,734	(849)	(864)	48	151	4,954	5,017
	–	–	–	–	–	–	171	304
	1,705	1,734	(849)	(864)	48	151	5,125	5,321
							(1,816)	(1,843)
							(171)	(304)
							(1,645)	(1,539)
							3,309	3,478
							305	268
							3,004	3,211

Consolidated financial statements (continued)

Assets and
liabilities by
business

Table 27.5

in USD millions, as of December 31

	Property & Casualty		Life	
	2017	2016	2017	2016
Assets				
Cash and cash equivalents	9,724	10,766	3,664	3,097
Total Group Investments	74,590	70,505	106,898	95,561
Equity securities	9,434	8,406	7,551	6,751
Debt securities	55,582	53,634	78,537	70,233
Investment property	4,501	4,016	7,481	6,295
Mortgage loans	1,293	1,285	5,175	4,920
Other loans	3,777	3,159	8,137	7,350
Investments in associates and joint ventures	2	5	15	13
Investments for unit-linked contracts ¹	–	–	115,659	114,362
Total investments	74,590	70,505	222,556	209,923
Reinsurers' share of liabilities for insurance contracts	13,414	11,852	1,858	2,749
Deposits made under assumed reinsurance contracts	158	142	70	82
Deferred policy acquisition costs	5,289	4,830	11,624	11,117
Deferred origination costs	–	–	460	426
Goodwill	1,350	808	183	168
Other intangible assets	1,483	1,461	2,766	2,759
Other assets ²	15,152	14,970	35,493	6,438
Total assets (after cons. of investments in subsidiaries)	121,160	115,333	278,675	236,759
Liabilities				
Liabilities for investment contracts	–	–	55,227	68,715
Liabilities for insurance contracts, gross	77,831	72,688	161,256	137,072
Reserves for losses and loss adjustment expenses, gross	60,080	56,074	–	–
Reserves for unearned premiums, gross	16,976	15,781	–	–
Future life policyholder benefits, gross	36	33	71,828	66,440
Policyholder contract deposits and other funds, gross	23	22	18,880	16,649
Reserves for unit-linked contracts, gross ¹	–	–	70,371	53,983
Other insurance liabilities, gross	716	777	178	–
Senior debt	703	415	–	–
Subordinated debt	973	905	649	593
Other liabilities ²	19,261	20,728	44,529	14,884
Total liabilities	98,768	94,737	261,661	221,264
Equity				
Shareholders' equity	–	–	–	–
Non-controlling interests	–	–	–	–
Total equity	–	–	–	–
Total liabilities and equity	–	–	–	–
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	264	406	185	123

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

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

	Farmers		Group Functions and Operations		Non-Core Businesses		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	1,103	1,754	12,015	10,608	1,551	1,683	(19,828)	(20,711)	8,228	7,197
	5,939	6,759	10,475	10,748	6,743	7,547	(10,562)	(8,510)	194,084	182,611
	31	144	596	492	174	115	-	-	17,787	15,908
	3,246	4,994	6,701	6,562	5,389	5,901	(1,196)	(1,142)	148,261	140,181
	169	21	10	10	78	220	-	-	12,238	10,562
	579	589	-	-	-	-	-	-	7,047	6,794
	1,914	1,011	3,168	3,685	1,099	1,309	(9,366)	(7,368)	8,730	9,146
	-	-	-	-	3	2	-	-	21	20
	807	677	-	-	4,233	10,868	-	-	120,699	125,907
	6,746	7,436	10,475	10,748	10,977	18,415	(10,562)	(8,510)	314,782	308,518
	2,319	698	-	-	3,389	3,113	(61)	(64)	20,918	18,347
	771	1,476	-	-	271	65	-	-	1,269	1,764
	1,730	1,833	-	-	15	15	5	1	18,663	17,796
	-	-	-	-	-	-	-	-	460	426
	819	819	-	-	-	-	-	-	2,353	1,795
	443	475	70	99	-	-	-	-	4,762	4,795
	1,623	1,697	846	981	1,782	1,689	(4,268)	(4,064)	50,629	21,711
	15,554	16,187	23,406	22,437	17,984	24,980	(34,713)	(33,347)	422,065	382,348
	204	189	-	-	197	209	-	-	55,627	69,113
	7,682	8,138	27	28	14,600	21,508	(61)	(64)	261,335	239,369
	809	918	22	22	4,508	4,200	(50)	(59)	65,368	61,155
	79	625	3	3	8	12	(5)	(4)	17,060	16,416
	2,073	1,988	2	2	3,596	3,978	(6)	-	77,529	72,440
	3,915	3,930	-	-	2,126	2,183	-	-	24,944	22,785
	807	677	-	-	4,235	10,870	-	-	75,413	65,530
	-	-	1	2	127	265	-	-	1,021	1,043
	-	-	10,579	9,054	288	300	(7,723)	(5,608)	3,846	4,162
	-	-	7,752	7,741	-	-	(2,436)	(2,189)	6,938	7,050
	1,777	2,153	15,131	14,859	3,220	3,043	(24,493)	(25,486)	59,425	30,181
	9,663	10,479	33,489	31,682	18,305	25,059	(34,713)	(33,347)	387,172	349,875
	-	-	-	-	-	-	-	-	33,063	30,660
	-	-	-	-	-	-	-	-	1,831	1,813
	-	-	-	-	-	-	-	-	34,893	32,473
	-	-	-	-	-	-	-	-	422,065	382,348
	174	155	31	31	-	-	-	-	653	715

Consolidated financial statements (continued)

Table 27.6

in USD millions, for the year ended December 31

	Commercial Insurance		Retail and Other Insurance	
	2017	2016	2017	2016
Gross written premiums and policy fees	15,852	15,873	18,441	18,606
Net earned premiums and policy fees	11,007	11,739	15,159	14,587
Insurance benefits and losses, net	9,213	8,427	9,041	8,823
Policyholder dividends and participation in profits, net	8	7	–	–
Total net technical expenses	3,038	3,215	5,270	5,025
Net underwriting result	(1,252)	90	848	738
Net investment income	1,122	1,135	710	740
Net capital gains/(losses) and impairments on investments	149	51	42	16
Net non-technical result (excl. items not included in BOP)	(45)	67	(59)	22
Business operating profit before non-controlling interests	(26)	1,343	1,541	1,515
Non-controlling interest	20	29	104	104
Business operating profit	(45)	1,315	1,436	1,412

¹ Commercial and Retail Insurance overview exclude Group ReinsuranceProperty & Casualty
– Commercial and
Retail Insurance
overview¹

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

Table 27.7

in USD millions

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

Consolidated financial statements (continued)

Life –
Revenues and
non-current assets
by region

Table 27.8						
in USD millions						
	Gross written premiums and policy fees from external customers				Property, equipment and intangible assets	
	for the years ended		Life insurance deposits		as of December 31	
	December 31		December 31			
	2017	2016	2017	2016	2017	2016
Europe, Middle East & Africa						
Austria	183	134	49	51	27	24
Germany	1,762	2,018	1,885	1,895	284	231
Italy	822	452	1,121	1,524	55	49
Ireland ¹	611	534	3,043	2,432	8	11
Portugal	27	24	179	170	1	–
Spain	3,148	5,008	31	34	1,342	1,261
Switzerland	1,246	1,255	181	166	3	70
United Kingdom	1,560	1,409	7,171	4,636	148	204
Zurich International Life ²	405	498	1,447	1,310	20	24
Rest of Europe, Middle East & Africa	145	63	–	–	4	–
Europe, Middle East & Africa	9,909	11,395	15,107	12,218	1,891	1,874
North America						
United States	323	151	1,735	238	6	7
North America	323	151	1,735	238	6	7
Asia Pacific						
Australia	521	363	39	37	218	205
Hong Kong	54	62	26	30	–	–
Indonesia	33	20	–	–	2	1
Japan	246	191	–	–	15	17
Malaysia	194	171	36	46	82	77
Asia Pacific	1,048	807	102	114	317	300
Latin America						
Argentina	134	141	81	61	18	23
Brazil	1,455	1,177	2,038	1,915	450	499
Chile	765	561	109	91	260	254
Mexico	369	367	–	29	119	119
Uruguay	15	9	–	–	–	–
Venezuela	1	3	–	–	–	–
Latin America	2,739	2,259	2,228	2,097	848	895
Total	14,019	14,612	19,172	14,666	3,061	3,077

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

28. Interest in subsidiaries

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

Table 28.1

as of December 31, 2017

Significant
subsidiaries –
non-listed

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

Consolidated financial statements (continued)

Significant
subsidiaries –
non-listed
(continued)

Table 28.1

as of December 31, 2017

	Registered office	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
Spain					
Bansabadell Pensiones, E.G.F.P, S.A. ²	Barcelona	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros ²	Barcelona	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros y Reaseguros ²	Barcelona	50	50	EUR	43.9
Zurich Latin America Holding S.L. - Sociedad Unipersonal	Barcelona	100	100	EUR	43.0
Zurich Santander Holding (Spain), S.L.	Boadilla del Monte	100	100	EUR	94.3
Zurich Santander Holding Dos (Spain), S.L.	Madrid	100	100	EUR	40.0
Zurich Santander Insurance America, S.L.	Madrid	51	51	EUR	177.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. - Sociedad Unipersonal	Madrid	100	100	EUR	56.4
Switzerland					
Genevoise Real Estate Company Ltd	Geneva	100	100	CHF	20.4
Zurich Finance Company AG	Zurich	100	100	CHF	0.2
Zurich Insurance Company Ltd	Zurich	100	100	CHF	825.0
Zurich Investment Management AG	Zurich	100	100	CHF	10.0
Zurich Life Insurance Company Ltd	Zurich	100	100	CHF	60.0
Zürich Rückversicherungs-Gesellschaft AG	Zurich	100	100	CHF	11.7
Turkey					
Zurich Sigorta A.S.	Istanbul	100	100	TRY	168.9
United Kingdom					
Allied Zurich Holdings Limited	St. Hélier	100	100	GBP	90.7
Zurich Assurance Ltd	Cheltenham, England	100	100	GBP	236.1
Zurich Employment Services Limited	Cheltenham, England	100	100	GBP	182.4
Zurich Financial Services (UKISA) Limited	Cheltenham, England	100	100	GBP	1,652.1
Zurich Holdings (UK) Limited	Fareham, England	100	100	GBP	147.8
Zurich International Life Limited	Douglas, Isle of Man	100	100	GBP	123.4
Zurich UK General Services Limited	Fareham, England	100	100	GBP	258.2
Zurich Finance (UK) plc	Cheltenham, England	100	100	GBP	0.1

Significant
subsidiaries –
non-listed
(continued)

Table 28.1

as of December 31, 2017

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

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

Consolidated financial statements (continued)

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

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

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

Table 28.2 shows the summarized financial information for each subsidiary that has non-controlling interests that are material to the Group.

Table 28.2

in USD millions, as of December 31

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

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

29. Events after the balance sheet date

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

Report of the statutory auditor

Report of the statutory auditor

To the General Meeting of Zurich Insurance Group Ltd, Zurich

Report on the audit of the consolidated financial statements

Opinion

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

In our opinion the consolidated financial statements (pages 3 to 107 and the audited sections of the risk review on pages 5 to 38) give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

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

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

Our audit approach

Overview



Overall Group audit materiality: USD 200 million

We concluded full scope audit work at 19 business units in 9 countries. The full scope audit work addressed 68% and 78% of the Group's gross written premiums and policy fees (GWP) and total assets, respectively. In addition, specific procedures were performed on a further 17 business units in 8 countries representing a further 8% and 2% of the Group's GWP and total assets, respectively.

The following are the key audit matters we have identified:

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

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the business units by us, as the Group engagement team, or by component auditors from PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those business units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements of the Group as a whole.

The Group's business units vary significantly in size and we identified 19 which, in our view, required an audit of their complete financial information, due to their size or risk characteristics. Audits of these business units were performed using materiality levels lower than the materiality level for the Group as a whole, ranging from USD 20 million to USD 130 million, and established by reference to the size of, and risks associated with, the business concerned. Specific audit procedures on certain balances and transactions were performed at a further 17 business units. Together the full scope audits and specific audit procedures accounted for 76% and 80% of Group GWP and total assets, respectively.

Our involvement included various site visits and component auditor working paper reviews across significant business units, together with discussions around audit approach and any audit results arising from the work, and regular conference calls with the component audit teams.

Audit materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of any misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group audit materiality

Overall Group audit materiality: USD 200 million

How we determined it

We determined our materiality for the audit of the consolidated financial statements using quantitative and qualitative factors. Based on these factors we have selected a combined 3 year average of net income before income taxes (NIBIT) and business operating profit (BOP) as appropriate benchmarks for measuring audit materiality. We applied a 5% rule of thumb which resulted in an overall audit materiality of USD 200 million.

Rationale for the materiality benchmark applied

We chose NIBIT as a benchmark because, in our view, it is the benchmark against which the Group's performance is most commonly measured, and is a generally accepted benchmark. We also consider BOP as a benchmark because, in our view, BOP is a key indicator for analysts and external parties.

We agreed with the Audit Committee that we would report to them misstatements above USD 20 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report of the statutory auditor (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of actuarially determined life insurance assets and liabilities

Key audit matter	How our audit addressed the key audit matter
<p>The Group's valuation of the actuarially determined life insurance assets (including deferred policy acquisition costs, deferred origination costs, and present value of future profits) and liabilities (reserves for insurance contracts and deferred front-end fees) is based on complex actuarial methodologies and models and involves comprehensive assumption setting processes with regards to future events. Actuarial assumptions selected by the Group with respect to interest rates, investment returns, mortality, morbidity, longevity, persistency, expenses, stock market volatility and future policyholder behavior and the underlying methodologies and assumptions used may result in material impacts on the valuation of actuarially determined life insurance assets and liabilities.</p> <p>Specifically, the continued low interest rate environment results in reduced investment returns creating a risk of accelerated amortization of deferred policy acquisition costs and a strain on the sufficiency of reserves for traditional life insurance contracts and also influences policyholders' behaviors.</p> <p>Refer to Notes 4 and 8 to the consolidated financial statements.</p>	<p>We assessed and tested the design and operating effectiveness of selected key controls over actuarial methodology, integrity of data used in the actuarial valuation, and the assumptions setting processes used by management related to the valuation of actuarially determined life insurance assets and liabilities.</p> <p>In relation to the particular matters set out opposite, our substantive testing procedures included the following:</p> <ul style="list-style-type: none"> – Tested the completeness and accuracy of underlying data to source documentation. – Involved our life insurance actuarial specialists to independently test management's methodology and the assumptions used, with particular consideration of industry studies, the Group's experience and management's liability adequacy testing procedures. – Assessed the consistency of the life actuarial methods used across the Group's business units. – Challenged the Group's methodology and assumptions, focusing on changes to life actuarial methodology and assumptions during the year, by applying our industry knowledge and experience to compare whether the methodologies are in compliance with recognized actuarial practices as well as regulatory and reporting requirements. <p>Based on the work performed we determined the methodologies and assumptions used in the valuation of actuarially determined life insurance assets and liabilities are reasonable and in line with financial reporting requirements and industry accepted practice.</p>

Valuation of property and casualty reserves

Key audit matter

The valuation of property and casualty loss reserves involves a high degree of subjectivity and complexity. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses at a given date. The Group uses a range of actuarial methodologies to estimate these provisions. Property and casualty loss reserves require significant judgment relating to factors and assumptions such as inflation, claims development patterns and regulatory changes.

Specifically, long-tail lines of business, which often have low frequency, high severity claims settlements, are generally more difficult to project and subject to greater uncertainties than short-tail, high frequency claims. Further, not all catastrophic events can be modeled using actuarial methodologies, which increases the degree of judgment needed in estimating property and casualty loss reserves.

Refer to Notes 4 and 8 to the consolidated financial statements.

How our audit addressed the key audit matter

We assessed and tested the design and operating effectiveness of selected key controls over actuarial methodology, integrity of data used in the actuarial valuation, and the assumptions setting and governance processes used by management related to the valuation of property and casualty reserves.

In relation to the particular matters set out opposite, our substantive testing procedures included the following:

- Tested the completeness and accuracy of underlying claims data utilized by the Group's actuaries in estimating property and casualty loss reserves.
- Utilized information technology audit techniques to analyze claims through claims data plausibility checks and recalculation of claims development patterns.
- Involved our actuarial specialists to independently test management's property and casualty loss reserve studies and evaluate the reasonableness of the methodology and assumptions used against recognized actuarial practices and industry standards.
- Performed independent re-projections on selected product lines, particularly focusing on the largest and most uncertain property and casualty reserves. For these product lines our actuarial specialists compared their reprojected reserves to those recorded by the Group, and assessed any significant differences.
- Performed sensitivity testing and evaluated the appropriateness of any significant adjustments made to management's property and casualty reserve estimates.

Based on the work performed we determined the methodology and assumptions used in the valuation of property and casualty reserves are reasonable and in line with financial reporting requirements and industry accepted practice.

Report of the statutory auditor (continued)

Recoverability of goodwill, distribution agreements and attorney-in-fact contracts**Key audit matter**

As detailed in Notes 3, 4 and 14 of the consolidated financial statements, the Group's goodwill is allocated to cash generating units (CGUs) that are identified generally at a segment level. The valuation and recoverability of significant goodwill, distribution agreements and attorney-in-fact contracts involves complex judgments and estimates, including projections of future income, terminal growth rate assumptions, and discount rates. These assumptions and estimates can have a material impact on the valuations and impairment decisions reflected in the consolidated financial statements of the Group.

Refer to Notes 3, 4 and 14 to the consolidated financial statements.

How our audit addressed the key audit matter

We assessed and tested the design and operating effectiveness of selected key controls over projections of future income, terminal growth rate assumptions, and discount rates related to the recoverability of goodwill, distribution agreements and attorney-in-fact contracts.

In relation to the particular matters set out opposite, our substantive testing procedures included the following:

- Corroborated the justification of the CGUs defined by management for goodwill allocation.
- Tested the principles and integrity of the Group's discounted cash flow model that supports the value-in-use calculations in order to assess the appropriateness of the methodology applied in the Group's annual impairment assessment.
- Tested the reasonableness of the assumptions used in the impairment assessment including projections on future income (comparing forecast to actual results), terminal growth rate assumptions, discount rates and sensitivity analyses to determine the impact of those assumptions.
- Engaged our internal valuation experts to assist in the testing of key assumptions and inputs.

We determined that the assumptions used in the valuation of the significant goodwill, distribution agreements and attorney-in-fact contracts were reasonable.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of Zurich Insurance Group Ltd, the audited sections of the risk review on pages 5 to 38, the Remuneration report of Zurich Insurance Group Ltd and our auditor's reports thereon. Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Mark Humphreys
Audit expert
Auditor in charge

Stephen O'Hearn
Global relationship partner

Zurich, February 7, 2018

Disclaimer and cautionary Statement

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

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

It should be noted that past performance is not a guide to future performance. Please also note that interim results are not necessarily indicative of full year results.

Persons requiring advice should consult an independent advisor.

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

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