

Financial Condition Report 2019



Zurich Life Insurance Company Ltd

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¹ The information published in this report is consistent with the information published in the Annual Report 2019 of Zurich Life Insurance Company Ltd, as well as the regulatory reporting of the Zurich Life Insurance Company Ltd for the year 2019, including the regulatory reporting to the Swiss Financial Market Supervisory Authority FINMA (FINMA) on the Swiss Solvency Test, in accordance with art. 25 ISA and art. 53 ISO. While the financial statements and the information therein were subject to audit by the statutory auditor of Zurich Life Insurance Company Ltd, PricewaterhouseCoopers AG (see Appendix 2), there was no external audit or review of this report. Please further note that, while this report has been filed with FINMA, FINMA has not reviewed the report. The SST calculation for the year ended December 31, 2019 has been filed with FINMA in the 2019 SST reporting on May 14, 2020. In line with the normal timeline for FINMA reporting, the ZLIC 2019 SST reporting remains subject to regulatory review.

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

Overview

Business profile

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

CHF 2.0 billion Gross written premiums (GWP) and policy fees

CHF 263 million Operating result

CHF 18.9 billion Total investments

System of governance

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

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

Risk profile

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

ZLIC uses its Total Risk Profiling™ process to monitor both external and internal risks to our strategy and financial plan. Among the risks we identified in 2019 were uncertainties related to asset markets, stable and sustainable reserves, competitiveness when serving customers and data protection and security.

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

Financial condition

CHF 1.5 billion Total shareholder's equity

200% Swiss Solvency Test ratio as of December 31, 2019

Acronyms

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

Introduction

Introduction

Zurich Life Insurance Company Ltd's (ZLIC) financial condition report is prepared in compliance with Art. 26 Swiss Insurance Supervision Act (ISA) and FINMA's Circular 2016/2 'Disclosure - insurers' and is not audited. The report focuses on the 2019 financial year, and should be read in conjunction with the audited ZLIC's annual report 2019 (available on: <http://www.zurich.com/en/investor-relations/results-and-reports/other-statutory-filings>). Wherever applicable, this report makes reference to the Zurich Insurance Group's Financial Condition Report or the Zurich Insurance Group's Annual Report, refer to these reports for more information.

ZLIC is part of the Zurich Insurance Group, which maintains a strong capital position. As of December 31, 2019, the Insurer Financial Strength Rating (IFSR) of ZIC was rated 'AA-/Positive' by Standard and Poor's, 'Aa3/ Stable' by Moody's and 'A+(Superior)/Stable' by A.M. Best. Further, Zurich Insurance Group filed with FINMA an SST ratio of 198 percent as of January 1, 2020. The European Commission granted Switzerland and its SST requirements full equivalence relative to the Solvency II regulation in 2015 for an indefinite period.

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

1. Executive summary

The Financial Condition Report was produced in accordance with FINMA Circular 2016/2 Public Disclosure for Insurers: Fundamental principles in reporting the financial position. The management summary provides general insights and focuses on important developments in 2019, but also gives background information and explanations where necessary.

Business activities

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

Performance

ZLIC reported a net income after taxes of CHF 263 million in 2019, which was an increase of 11 percent compared to the 2018 result of CHF 237 million. Key drivers were realized capital gains from real estate sales, a merger of two affiliated companies, partly offset by reserve strengthening. ZLIC maintained a strong capital position with a total shareholders' equity of CHF 1,535 million and 1,364 CHF million as of December 31, 2019 and 2018.

Gross written premiums and policy fees increased by 12 percent to CHF 1,994 million compared to 2018. Key drivers were higher new business income in Switzerland and the continuous growth of the business in Japan. Investment income increased by CHF 276 million or 44 percent to CHF 902 million in 2019 from CHF 626 million in 2018. Main drivers were higher realization of capital gains on real estate due to sales of 38 properties as well as higher write-ups on equity securities due to the favorable market development compared to 2018.

Corporate governance & risk management

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

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

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

Introduction *continued*

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

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

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

Risk profile and Solvency

FINMA established the Swiss Solvency Test (SST) to quantitatively measure risk. ZLIC files the SST ratio annually with FINMA. ZLIC's largest risk is market risk, which constitutes approximately 45 percent of the total CHF 4.2 billion undiversified target capital. Morbidity is an emerging risk in line with growth in portfolios in Switzerland and Japan. All parts of ZLIC face expense risk, and there is also longevity risk related to Swiss annuities. Once a year, ZLIC's key risks including operational risks are also assessed during a Total Risk Profiling™ (TRP) session. Mitigation actions are defined and tracked, where necessary.

For reporting SST, assets and liabilities are valued on a market-consistent basis and are then stressed to calculate the risk-bearing capital in ZLIC's market-consistent balance sheet (MCBS). In 2019 the risk-bearing capital for ZLIC increased by CHF 0.6 billion compared to 2018.

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

The ZLIC SST ratio as of December 31, 2019 fell compared to December 31, 2018 to 200 percent. Despite a continued low-interest rate environment, ZLIC's capitalization remains strong as measured by SST. The SST ratio was again supported by strong value creation from new and in force business, offsetting the effect of the CHF 263 million dividend proposed, and strengthening assumptions in Japan based on claims experience.

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

Dividend

In 2019 ZLIC paid a cash-based dividend of CHF 320 million. This report reflects the cash dividend of CHF 263 million paid on April 21, 2020, as approved by the ZLIC Annual General Meeting that took place on April 8, 2020. According to the applicable SST valuation requirements, this dividend payment is already reflected in the SST solvency ratio as of December 31, 2019.

Outlook

The Covid-19 pandemic outbreak is leading to increased economic uncertainties for 2020. Equity markets dropped and volatilities increased. The outlook is expected to remain challenging for ZLIC's business operation. However, ZLIC is well prepared to manage this crisis. The customer's liabilities are secured and ZLIC's solvency position remains strong.

Although the economic environment remains challenging with increased unpredictable movements, the strategy is appropriate, and ZLIC's management is committed to delivering on the strategic cornerstones as evidenced by aligning the organizational setup towards a customer centric culture, the simplification of the branch and subsidiary structure, and the investments in Switzerland and Japan to further grow the business and to improve operational efficiency. Current business plans will need to be revisited later in the year as they were drawn up before the presents events.

The key priorities in 2020 will be on addressing customer needs by promoting a balanced product mix, further leveraging appropriate distribution channels, enhancing investments in essential infrastructure and establishing a strong customer service culture to allow ZLIC to deliver sustainable, profitable growth in a changing and more competitive business environment, ZLIC's management will continue to carefully monitor and act upon legal and regulatory requirements.

2. Approval of the Financial Condition Report

The 2019 ZLIC FCR was reviewed by the ZLIC chief financial officer (CFO) and ZLIC chief executive officer (CEO), by ZLIC's management board and ZLIC's audit & risk committee and then approved by the board.

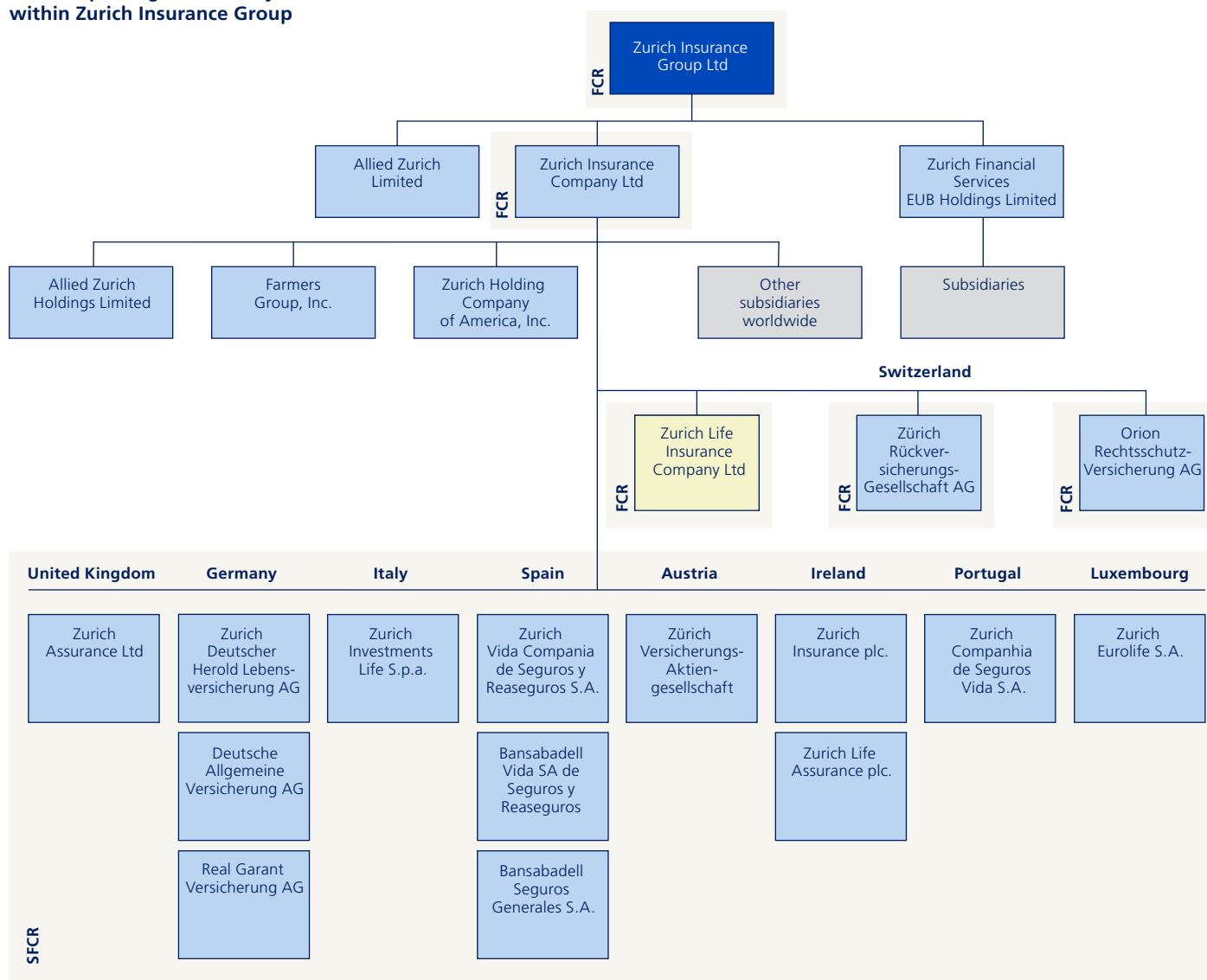
A. Business activities

A.1 Legal structure and major subsidiaries and branches

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

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

Public reporting on solvency and financial condition within Zurich Insurance Group



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

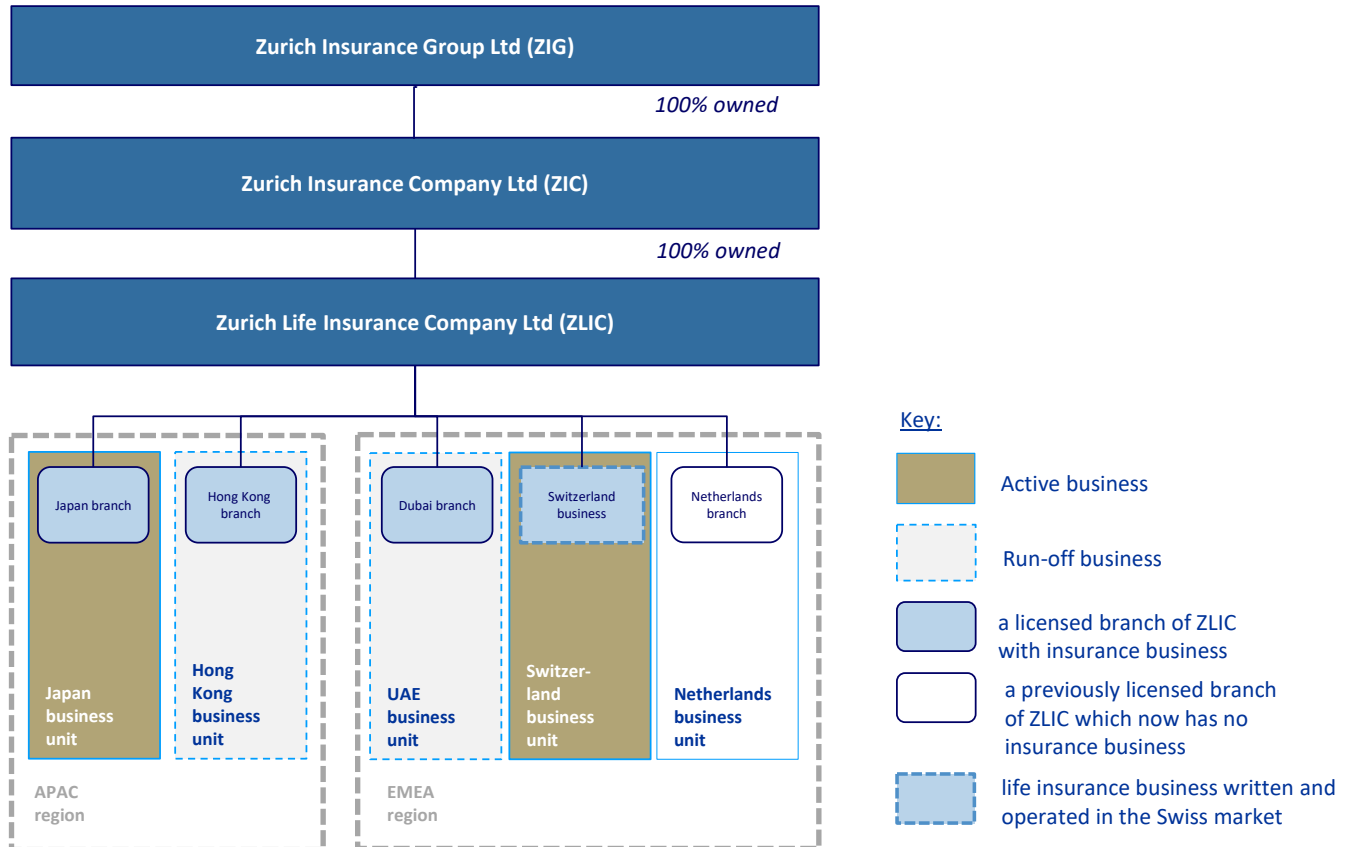
■ Subsidiary ■ Group of subsidiaries ■ Current disclosure

Note: The purpose of the chart above is to provide a simplified overview of the Group's major subsidiaries (as of December 31, 2019), with special focus on the public reporting of their solvency and financial condition. Please note that this is a simplified representation showing entities that must publish such a report and therefore it may not comprehensively reflect the detailed legal ownership structure of the entities included in the overview. The ordering of the legal entities under each country is not indicative of ownership; these are independent legal entities.

A. Business activities *continued*

ZLIC entity structure

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



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

- Switzerland generated a GWP of CHF 1.5 billion in 2019, which represents roughly 78 percent of the overall ZLIC GWP for 2019.
- Japan generated a GWP of CHF 0.4 billion in 2019, which represents roughly 20 percent of the overall ZLIC GWP for 2019.
- Hong Kong generated a GWP of CHF 0.04 billion in 2019, which represents roughly 2 percent of the overall ZLIC GWP for 2019.

Significant subsidiaries and shareholdings

In alignment with ZLIC's simplification strategy to reduce operational complexity and increase capital efficiency, 'Genevoise' and 'Casai' - both real estate firms in Switzerland - have been merged into ZLIC. Therefore, ZLIC holds no significant subsidiaries with a carrying value of more than CHF 5 million in their books.

Significant indirect subsidiaries

ZLIC has no significant indirect subsidiaries as of December 31, 2019.

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

ZLIC does not currently hold any special-purpose vehicles.

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

ZLIC strategy is derived from, and consistent with, the Group strategy. The ZLIC strategy is reviewed on an annual basis. In 2020 ZLIC confirmed the strategic focus areas set in 2018 and reconfirmed in 2019, and retains the main aspects as outlined below:

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

Switzerland:

- ZLIC in Switzerland is a major life insurer in the Swiss market in terms of gross written premiums and policy fees and accounts for approximately 78 percent of total ZLIC's business. ZLIC operates both a retail and commercial business in Switzerland. Retail products include pure risk, endowment, annuities, unit-linked and hybrid unit-linked products. As part of the long-term vision and business strategy, ZLIC in Switzerland continued to move to a more efficient, simple and customer-focused organization with customer satisfaction being measured over key touch-points such as new business, claims, complaints handling and customer service metrics. ZLIC in Switzerland aims to build a culture where customer expectations will be met at all times by focusing on enhancing customer-oriented processes. ZLIC in Switzerland also continued to focus on intelligent protection and capital efficient solutions and on maintaining a strict underwriting discipline, in particular on guarantees. On the distribution side, automated interfaces were developed and are planned to be rolled out to all agencies to facilitate interaction with customers. The sales support model has been aligned to enhance cross selling capabilities. At the same time, ZLIC in Switzerland continued to strengthen the distribution relationships while seeking to establish alternative distribution channels to realize upselling potential. From an operational perspective, ZLIC in Switzerland is streamlining the IT and process landscape through an end-to-end platform aiming at increasing efficiency and customer satisfaction while improving reporting capabilities and standardizing processes.

Japan:

- ZLIC Japan branch's retail business with key products covering death, critical illness and medical/hospital continued to grow in 2019, predominantly driven by competitive protection products. Over the past years, the Japan branch effectively achieved a sustainable niche position in the fastest growing channels and most profitable product segments. ZLIC Japan branch successfully transitioned to a multi-channel model selling through independent financial advisors (IFAs), direct business and bank distribution. Further investments were undertaken to expand direct capabilities and increase synergies between IFA's as well as bank distribution partners to exploit new business opportunities and continue growth in target segments.

Hong Kong:

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

Sourcing of critical functions

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

A. Business activities *continued*

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

ZLIC's external auditors for 2019 were PricewaterhouseCoopers AG. ZLIC's Annual Report 2019 including the auditor's opinion is available on <https://www.zurich.com/en/investor-relations/%20results-and-reports/other-statutory-filings>.

A.4 Significant unusual events

For significant events during 2019 and thereafter, please refer to the Annual Reports 2019 of Zurich Life Insurance Company and Zurich Insurance Group, respectively, as well as to the news releases available at <https://www.zurich.com/en/media/news-releases>. No other significant events are to be reported.

B. Performance

B.1 Underwriting performance

B.1.1 Gross written premiums and policy fees

Gross written premiums and policy fees increased by 12 percent to CHF 1,994 million compared to 2018. Key drivers were higher new business income in Switzerland and the continuous growth of the business in Japan.

Gross written premiums and policy fees by type of business	in CHF millions, for the years ended December 31	2018	2019
		Group insurance Switzerland	777
Group insurance abroad		–	–
Individual insurance Switzerland		635	660
Individual insurance abroad		43	41
Health insurance abroad (Japan)		320	403
Reinsurance assumed		5	5
Gross written premiums and policy fees		1,780	1,994

Gross written premiums and policy fees by country	in CHF millions, for the years ended December 31	2018	2019
		Switzerland	1,418
Hong Kong		43	41
Japan		320	403
Dubai		–	–
Gross written premiums and policy fees		1,780	1,994

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

Total claims paid, annuities and loss adjustment expenses, gross, decreased by CHF 20 million to CHF 1,900 million from CHF 1,920 million in 2018.

Claims paid, annuities and loss adjustment expenses, gross	in CHF millions, for the years ended December 31	2018	2019
		Maturity benefits	(651)
Death benefits		(135)	(152)
Annuity payments		(409)	(404)
Disability and health benefits		(242)	(257)
Surrenders		(483)	(449)
Claims paid, annuities and loss adjustment expenses, gross		(1,920)	(1,900)

B. Performance *continued*

B.2 Investment performance

B.2.1 Investment income

Investment income increased by CHF 276 million or 44 percent to CHF 902 million in 2019 from CHF 626 million in 2018. Main drivers were higher realization of capital gains on real estate due to sales of 38 properties as well as higher write-ups on equity securities due to the favorable market development compared to 2018.

Investment income by country	in CHF millions, for the years ended December 31	2018	2019
		Switzerland	591
Netherlands	19	–	
Japan	4	4	
Hong Kong	12	9	
Investment income		626	902

Investment income by category	in CHF millions, for the years ended December 31	Current income		Realized capital gains		Write-ups		Totals	
		2018	2019	2018	2019	2018	2019	2018	2019
Real estate		116	148	130	327	–	–	246	475
Investments in subsidiaries and associates		11	–	–	–	–	–	11	–
Debt securities		85	88	11	7	159	145	255	240
Policyholders' loans and other loans		9	4	1	1	–	–	10	5
Mortgage loans		44	38	–	–	–	–	44	38
Equity securities		5	12	44	41	–	77	49	130
Mixed investments funds		–	6	–	–	–	–	–	6
Other investments		7	8	5	–	–	–	12	8
Investment income		277	302	190	377	159	223	626	902

B.2.2 Investment expenses

Investment expenses decreased by CHF 9 million to CHF 100 million in 2019 from CHF 109 million in 2018. Main drivers were lower write-downs on real estate as well as equity securities.

Investment expenses by category	in CHF millions, for the years ended December 31	Realized capital losses		Write-downs		Totals	
		2018	2019	2018	2019	2018	2019
Real estate		–	–	(27)	(9)	(27)	(9)
Investments in subsidiaries and associates		–	–	–	–	–	–
Debt securities		(3)	(2)	(10)	(2)	(14)	(3)
Policyholders' loans and other loans		(6)	(21)	–	–	(6)	(21)
Mortgage loans		–	–	–	–	–	–
Equity securities		(1)	(1)	(13)	(3)	(14)	(4)
Mixed investments funds		–	–	–	(2)	–	(2)
Other investments		(1)	–	–	–	(1)	–
Other investment expenses		n.a.	n.a.	n.a.	n.a.	(49)	(62)
Investment expenses		(11)	(24)	(51)	(15)	(110)	(100)

B.3 Performance of other activities

B.3.1 Administrative and other expenses

Administrative and other expense increased by CHF 4 million from CHF 208 million in 2018 to CHF 212 million in 2019. The main drivers for this change were gains and losses on foreign currencies, on which a net gain of CHF 32 million resulted in 2018 compared with a net gain of CHF 33 million in 2019, driven by positive market performance. Staff costs have fallen by CHF 20 million and in operating and administrative expenses is a contribution of CHF 26 million to the Z Zurich Foundation included. No such contribution was paid in 2018.

Administrative and other expense	in CHF millions, for the years ended December 31	2018	2019
	Operating and administrative expenses	(230)	(169)
	Personnel expenses ¹	–	(66)
	Gains and losses on foreign currency derivatives	96	153
	Foreign currency transaction gains and losses	(64)	(120)
	Amortisation of software	(7)	(7)
	Depreciation of equipment	(1)	(1)
	Restructuring costs	(2)	(3)
	Administrative and other expense	(208)	(212)
	of which personnel expenditure	(86)	

The personnel expenses were reclassified from operating and administrative expenses to a separate position in 2019 compared to 2018.

B.3.2 Other income

Other income increased by CHF 78 million in 2019, mainly due to a release of other provisions. Other income includes interest income on deposits received under ceded reinsurance contracts as well as other technical and other non-technical income.

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

Net income before taxes:

Referring to Swiss Business the net income before taxes increased compared to 2018. The main driver for the increase is the net investment result which is due to more turn-over in the asset portfolio and positive market conditions.

Gross written premiums and policy fees:

In total, gross written premiums increased by 12 percent to CHF 1,994 million compared to 2018, mainly driven by new business in Switzerland and Japan.

Investment income:

The net investment result increased, which is mainly due to selling properties to a foundation, revaluation and positive market conditions. This led to less realized capital gains on bonds, equities, real estates and less write-ups on our single investor funds.

Unit-linked business:

Compared to the previous year, the net investment income increased because of positive market conditions. See income statement in appendix 1: Quantitative templates.

C. Corporate governance and risk management

C.1 Corporate governance

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

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

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

C.1.1 Board of Directors (Board)

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

- ZLIC strategy: The board regularly reviews and discusses ZLIC's business portfolio including its target market, customer and intermediary's strategy.
- Finance: The board approves the financial and operating plan annually and establishes guidelines for capital allocation and financial planning. The Board also reviews and approves the annual and quarterly financial statements and supervises the compilation of the annual report.
- Structure and organization of ZLIC: The board determines and regularly reviews the basic principles of the structure and major changes within the management, including major changes of management functions. The board also reviews the corporate governance framework.
- Business development: The board regularly discusses and approves major developments, pertaining, for example, to acquisitions and disposals of businesses and assets, investments, new businesses opportunities, mergers, joint ventures, cooperations and business unit (BU) restructurings or books of business, as necessary.
- Risk appetite statement: The board signed-off the risk appetite statement in their January 2019 meeting.

Audit & Risk Committee (ARC)

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

Composition of Board and Audit & Risk Committee (as of December 31, 2019)

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

Changes to composition of Board and Audit & Risk Committee in 2019

The composition of the Board and the ARC of ZLIC changed during 2019 as follows:

- Resignation of Erica Arnold per August 14, 2019
- Election of Helene Westerlind per December 17, 2019 as member of the board and the ARC.

C.1.2 Executive management

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

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

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

ZLIC's Management Board tasks include:

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

Composition of Management Board (as of December 31, 2019)

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

Changes to composition of the management board in 2019

The composition of the management board changed during 2019 as follows:

- Resignation of Peter Hirs per September 15, 2019
- Election of Tim Howell on December 10, 2019

Changes to composition of the management board in 2020

- Bettina Bornmann resigned per February 1, 2020
- Election of Andreas Henke on February 1, 2020

C. Corporate governance and risk management *continued*

C.2 Risk management

C.2.1 Risk management framework

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

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

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

The Zurich Risk Policy is the Group's main risk governance document and therefore fully applies to ZLIC. The policy describes Zurich's risk management framework, identifies Zurich's principal risk types and defines Zurich's appetite for risks. Risk-specific policy manuals provide guidelines and procedures to implement the principles of the Zurich Risk Policy. Ongoing assessments verify that requirements are met. The ZRP and its manuals must be attested annually by all members of ZLIC and Swiss management as well as key risk takers.

An Own Risk and Solvency Assessment (ORSA) for ZLIC is completed annually. The ZLIC ORSA was submitted to the regulator at the beginning of 2020. To ensure the board is adequately involved in the ORSA process, ZLIC's CRO provides a quarterly update, thus allowing the board to challenge findings and consider its views in its decision-making process.

C.2.2 Risk management organization

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

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

C.2.3 Risk assessment and reporting

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

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

C.3 Internal control system

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

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

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

Based on the Group minimum requirements, ZLIC enhances the scope of the internal control system, taking into account its risk appetite and the Group's basic minimum requirements. In particular, this includes controls over statutory and regulatory reporting and local operational key controls to ensure regulatory compliance. The scope of the internal control system takes into consideration the inherent risk to the operation, for example, due to processes, systems and people.

C.4 Compliance

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

Compliance is a second-line control function responsible for:

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

ZLIC's compliance function is vertically integrated and is led by the appointed ZLIC compliance officer. The ZLIC compliance officer has a direct line to the chairman of the board of directors of ZLIC, to the ZLIC CEO and a vertically integrated reporting line to Group compliance EMEA layer. The ZLIC compliance officer regularly provides compliance updates to the management team and the board of directors of ZLIC.

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

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

C. Corporate governance and risk management *continued*

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

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

C.5 Internal audit

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

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

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

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

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

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

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

C.6 Actuarial function

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

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

The ZLIC actuarial function also follows the governance, reporting and process standards set by the Group actuarial function. The actuarial function at Group level is led by the Group chief actuary, reporting directly to the Group chief financial officer. The Group chief actuary reports regularly to the ARC on behalf of the Group actuarial function.

D. Risk profile

D.1 Introduction and ZLIC's key risks

ZLIC is fully integrated into Zurich's Group-wide risk assessment process. For more information on ZLIC's approach to risk management, please refer to the risk review section in the Zurich Insurance Group Annual Report 2019, which describes the Group's risk management framework and risk governance, reports on capital management and capital adequacy, and presents an analysis of the main risks. As mentioned in chapter A.1, ZLIC's financial strength is enhanced by being part of Zurich Insurance Group.

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

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

The figures shown are based on the SST standard model used by ZLIC. The current information on solvency shown in the report corresponds to the information submitted to FINMA on May 14, 2020 and is subject to regulatory review.

Capital required for various types of risk:

Target capital by risk type	in CHF millions, for the years ended December 31	2018	2019	Change
Derivation of target capital				
Insurance risk		1,153	1,682	529
Market risk		1,470	1,856	386
Diversification effects		(629)	(873)	(244)
Credit risk		645	618	(27)
Risk margin and other effects on target capital		647	1,241	594
Target capital		3,286	4,524	1,238

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

ZLIC uses its assessment processes and tools, including the TRP process, to reduce the risks of strategic business decisions. Critical key risks identified and assessed during the TRP conducted in the fourth quarter 2019 included:

- Asset market corrections [market risk]
- Maintain stable and sustainable reserves (IFRS or local stat) [life insurance risk]
- Competitiveness when serving customers – interdependencies of influencing factors [operational risk]
- Data protection and security [operational risk]

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

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

D.2 Life insurance risk

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

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

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

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

D.3 Market risk

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

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

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

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

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

ZLIC's total real estate portfolio on December 31, 2019, was valued at CHF 1.9 billion (according to Swiss local statutory reporting), of which almost all was in Switzerland, with a small amount held in the Japan branch. ZLIC's Swiss real estate portfolio is managed by Zurich Invest AG. Apart from adhering to ZRP rules and the FINMA investment directive, ZIAG carries out an annual revaluation of the property portfolio and also takes into account any subsequent impairment.

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

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

D. Risk profile *continued*

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

D.4 Credit risk

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

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

- Investments: The creditworthiness of counterparties in third-party investments is monitored on a regular basis by a forward-looking risk measure (duration times spread).
- Other credit risk comprises reinsurance credit risk, receivables credit risk and intragroup credit risk. These components contribute only CHF 94 million out of the overall credit risk of CHF 618 million for the SST as of January 1, 2020.

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

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

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

D.5 Operational risk

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

ZLIC applies the following framework to assess operational risk

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

- Identification and assessment of strategic and operational risks. Risks identified and assessed above a certain threshold must be mitigated and escalated. Plans for improvement actions are documented and tracked on an ongoing basis.
- Operational event management (OEM): The ZRP requires documentation and evaluation of operational events above a threshold in a Group-wide database. To avoid recurring operational loss events, near misses and complaints, improvements are put in place.
- Reporting: Regular reports on the risk profile, current risk issues, adherence to risk policies and actions to make improvements are prepared both at ZLIC and on a Group level. There are procedures in place for referring risk issues to senior management.
- Internal control system: Operational risks are managed by the internal control system which maintains operation of regular controls in all processes, IT applications and on entity level.

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

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

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

Key operational risks comprise threats to 'competitiveness when serving customers,' 'Data protection and security' and 'IT environment and performance including technological support and interaction with strategic projects'.

D.6 Liquidity risk

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

ZLIC provides substantial liquidity to a ZIC cash pool. This pool includes a mechanism that allows ZLIC to retrieve liquidity from ZIC overnight. Ownership of the cash provided to the pool lies with ZLIC and its rights over this money are secured.

Application in life insurance

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

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

D.7 Other material risks

D.7.1 Strategic risk

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

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

D.7.2 Reputation risk

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

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

D. Risk profile *continued*

Reputation risk can also occur in isolation. Specific reputation risks are evaluated as part of the TRPs, and if necessary addressed with appropriate mitigating measures. We have identified no significant reputation risks as of December 31, 2019.

E. Valuation

E.1 Overarching valuation principles

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

To summarize, the following valuation hierarchy applies for assets:

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

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

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

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

Within the Zurich Insurance Group, the MCBS value of intra-group loans is symmetrical. It is based on IFRS carrying values and adjusted, as needed, to allow for valuation at risk-free interest rates.

E. Valuation *continued*

E.2 Market-consistent balance sheet following SST principles

Asset valuation MCBS vs Swiss local stat.	in CHF millions, for the years ended December 31		Difference to 2018 (SST)	2019 (Swiss local stat.)	Difference SST to Swiss local stat.
	2018 (SST)	2019 (SST)			
Market-consistent value of investments					
Real estate	3,579	3,245	(334)	1,941	1,304
Shareholdings	0	–	–	7	(7)
Fixed-income securities	13,714	14,075	361	12,741	1,334
Loans	836	181	(655)	179	2
Mortgages	2,396	2,348	(48)	2,113	235
Equities	634	897	263	1,369	(472)
Other investments	1,267	1,582	315	585	997
Collective investment schemes	393	540	147	125	415
Alternative investments	468	582	144	–	582
Structured products	na	–	–	–	–
Other investments	407	460	53	460	–
Total investments	22,427	22,328	(99)	18,936	3,392
Market-consistent value of other assets			–		
Financial investments from unit-linked life insurance	839	971	132	953	18
Receivables from derivative financial instruments	491	626	135	103	523
Deposits made under assumed reinsurance contracts	na	–	–	2	(2)
Cash and cash equivalents	2,313	2,279	(34)	2,310	(31)
Reinsurers' share of best estimate of provisions for insurance liabilities	(33)	25	57	578	(553)
Direct insurance: life insurance business (excluding unit-linked life insurance)	(33)	25	58	578	(553)
Reinsurance: life insurance business (excluding unit linked life insurance)	na	–	–	–	–
Direct insurance: non-life insurance business.	na	–	–	–	–
Reinsurance: non-life insurance business	na	–	–	–	–
Reinsurance: health insurance business	na	–	–	–	–
Direct insurance: other business.	na	–	–	–	–
Reinsurance: other business	na	–	–	–	–
Direct insurance : unit-linked life insurance business.	na	–	–	–	–
Reinsurance: unit-linked life insurance business	na	–	–	–	–
Fixed assets	na	11	11	2	9
Deferred acquisition costs	na	–	–	–	–
Intangible assets	na	–	–	19	(19)
Receivables from insurance business	151	228	77	251	(23)
Other receivables	109	58	(51)	46	12
Other assets	555	22	(533)	0	22
Unpaid share capital	na	–	–	–	–
Accrued assets	na	683	683	567	116
Total other assets	4,426	4,903	476	4,830	72
Total market-consistent value of assets	26,853	27,231	378	23,766	3,465

Assets

The MCBS value of assets remains steady at CHF 27 billion. The value of investment assets likewise remains steady at CHF 22 billion, while the value of non-investment assets, including assets for unit linked business and receivables from derivatives, increased from CHF 4.4 billion to CHF 4.9 billion. As interest rates fell, values of fixed income investments, equities and other investments rose. The value of real estate investments fell due to sales, while the value of loans fell due to winding up of a CHF 0.6 billion intra-group lending arrangement (simultaneous with winding up of a corresponding borrowing arrangement).

While assets are valued in a market-consistent manner in MCBS for SST calculations, assets are carried at amortized cost, at cost value less impairment, at the lower of cost or market value, or at nominal value less impairment under Swiss local statutory reporting. These differences in approach can lead to large differences between the asset values as determined using IFRS, Swiss local statutory reporting or MCBS. This effect is observed in the differences in values of real estate, equities, cash, mortgages, derivatives – in particular swaptions – and fixed income securities. The aggregate value of investment and respective hedging assets is CHF 3.9 billion greater for SST than for Swiss local statutory reporting at year-end 2018. The difference has widened since year-end 2018 primarily due to the 2019 merger into ZLIC of Swiss subsidiaries holding real estate with considerable unrealized gains, besides favorable market movements.

Reinsurers' share of best estimate provisions for insurance liabilities (reinsurance assets) is considerably higher for Swiss local statutory reporting. This is primarily due to allowance for future net reinsurance payments in SST but not from a Swiss local statutory reporting perspective: on a market-consistent basis, projected best estimate cash flows in favor of the reinsurer more than offset projected recoveries from the reinsurer, primarily for ZLIC's Japanese business. There are further minor classification and valuation differences between the SST and Swiss local statutory reporting valuation approach for non-investment assets. Overall these result in a lower SST valuation by CHF 0.6 billion for the year-end 2019 than for Swiss local statutory reporting, almost all of which relates to reinsurance assets. For the 2019 ZLIC FCR, reinsurance assets are shown as assets on the asset side of the balance sheet, whereas in 2018 they were shown as liabilities. This impacts the assets and liabilities shown by CHF 33 million compared to the 2018 ZLIC FCR, without impact on the net AFR.

Overall the value of assets is thus CHF 3.5 billion greater on the market-consistent SST basis than on the amortized cost value basis used for Swiss local statutory reporting.

E. Valuation *continued*

Liability valuation MCBS vs Swiss local stat.

in CHF millions, for the years ended December 31

	Q4 2018 (SST)	Q4 2019 (SST)	Difference to 2018 (SST)	Q4 2019 (Swiss local stat.)	Difference SST to Swiss local stat.
BEL: Best estimate liabilities (including unit linked life insurance)					
Best estimate of provisions for life insurance liabilities	(16,210)	(16,140)	70	(18,503)	2,364
Direct insurance: life insurance business (excluding unit linked life insurance)	(16,202)	(16,133)	70	–	(16,133)
Reinsurance: life insurance business (excluding unit linked life insurance)	(3)	(3)	0	–	(3)
Direct insurance: non-life insurance business	na	–	–	–	–
Direct insurance: health insurance business	na	–	–	–	–
Reinsurance: non-life insurance business	na	–	–	–	–
Reinsurance: health insurance business	na	–	–	–	–
Direct insurance: other business	(4)	(4)	0	–	(4)
Reinsurance: other business	na	–	–	–	–
Best estimate of provisions for unit-linked life insurance liabilities	(739)	(840)	(101)	(946)	106
Direct insurance: unit-linked life insurance business	(739)	(840)	(101)	(946)	106
Reinsurance: unit-linked life insurance business	na	–	–	–	–
Market consistent value of other liabilities					
Non-technical provisions	(10)	(6)	4	(128)	122
Interest-bearing liabilities	(1,139)	(244)	895	(256)	12
Liabilities from derivative financial instruments	(6)	(2)	5	(2)	0
Deposits retained on ceded reinsurance	(300)	(415)	(115)	(415)	0
Liabilities from insurance business	(145)	(173)	(28)	(196)	23
Other liabilities	(1,523)	(779)	744	(777)	(2)
Accrued liabilities	na	(734)	(734)	(477)	(257)
Subordinated debts	na	(541)	(541)	(530)	(11)
Total BEL plus market-consistent value of other liabilities	(20,072)	(19,873)	199	(22,230)	2,357
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	6,781	7,357	577	1,535	5,822

Insurance liabilities

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

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

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

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

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

Life insurance liabilities gross of reinsurance are part of the MCBS and apart from a few de minimis items are all directly written. Overall, ZLIC makes limited use of reinsurance as a proportion of overall liabilities; corresponding reinsurance assets are shown on the asset side of the MCBS on the previous page.

The market value of insurance liabilities remained steady at CHF 17 billion. Based on the cash flow projection underlying the Q4 2018 SST calculation, a CHF 0.5 billion reduction to the value of insurance liabilities is expected. The present value of the liabilities is further decreased by CHF 0.4 billion future profits in relation to new business both in Japan, contributing CHF 0.3 billion, and Switzerland. This was largely offset by CHF 0.7 billion increase in liabilities due to lower discounting as interest rates fell, among other smaller items. The unit linked liabilities increased by CHF 0.1 billion following equity market growth.

Valuations for Swiss local statutory reporting embeds a degree of prudence in demographic assumptions, and zeroise future profits. The valuation interest rate for Swiss local statutory reporting reserving is also set cautiously but is nevertheless reflective of the actual yield on the investment portfolio, which is higher than the current FINMA yield curve used for SST valuation. Nevertheless, the overall Swiss local statutory reporting reserving basis is more conservative than the best estimate approach used for SST, and as such the overall value of best estimate insurance liabilities is CHF 2.5 billion lower for SST than for Swiss local statutory reporting as of December 31, 2019, up from CHF 2.3 billion at December 31, 2018, with the increase driven by growth in Japan.

Other liabilities

These liabilities include various positions valued at market value. They range from cash pooling liabilities and subordinated debt, to collateral payables from hedging activities, and tax provisions. For SST the total other liabilities amounted to CHF 3.1 billion at the end of 2018, falling to CHF 2.9 billion at the end of 2019, due to winding up of CHF 0.6 billion intra-group borrowing, offset by CHF 0.2 billion growth in collateral payable in respect of interest rate hedging, and CHF 0.2 billion growth in accrued expenses for business in Japan. Overall other liabilities for SST are CHF billion 0.1 billion higher than other liabilities for Swiss local statutory reporting, primarily because of SST provisions for deferred real estate taxes, partially offset by non-technical statutory provisions not relevant for best estimate SST valuation.

F. Capital management

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

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

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

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

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

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

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

The following table shows the composition of shareholder's equity as of December 31, 2019 and 2018 respectively (according to Swiss local statutory reporting), and before appropriation of available earnings. The CHF 0.2 billion increase in equity capital in 2019 was driven by the excess of CHF 0.3 billion net income after taxes and CHF 0.2 billion gains from the merger of real estate subsidiaries into ZLIC over the CHF 0.3 billion dividend paid.

Shareholder's equity	in CHF millions, as of December 31			
	2018	2019	Change	
Share capital	60	60	–	
Legal reserve	41	41	–	
General free reserve	878	878	–	
Retained earnings:			–	
<i>Beginning of year</i>	1,605	385	(1,221)	
<i>Gain of merger</i>		229	229	
<i>Dividend paid</i>	(1,457)	(320)	1,137	
<i>Net income after taxes</i>	237	263	26	
Retained earnings, end of year	385	556	171	
Total shareholder's equity	1,364	1,535	171	

The Swiss local statutory shareholders' equity is CHF 6.1 billion lower than SST risk-bearing capital. As explained in further detail in the previous section, this difference is primarily due to the CHF 3.5 billion difference in asset valuation, together with CHF 0.5 billion eligible subordinated debt not treated as a liability under SST, and CHF 2.4 billion lower liabilities under SST, partially offset by the 0.3 billion proposed cash dividend reducing SST risk-bearing capital but not local statutory shareholder's equity.

G. Solvency

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

ZLIC is part of the Zurich Insurance Group which maintains a strong capital position. As of December 31, 2019, the IFSR of ZIC was 'AA-/Positive' by Standard & Poor's, 'Aa3/Stable' by Moody's and 'A+(Superior)/Stable by A.M. Best. Furthermore, Zurich filed with FINMA an SST ratio of 198 percent as of January 1, 2020.

Breakdown of target capital into essential components

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

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

As of December 31, 2019 and 2018 respectively, the break-down in target capital was as follows:

Solvency	in CHF millions, for the years ended December 31			
	2018	2019	Change	
Derivation of risk-bearing capital				
Assets	26,853	27,231	378	
Liabilities	(20,072)	(19,873)	199	
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	6,781	7,357	577	
Deductions (proposed dividends)	(320)	(263)	57	
Core capital	6,461	7,094	634	
Supplementary capital (eligible subordinated debt)	542	541	–	
Risk-bearing capital	7,002	7,635	633	
Derivation of target capital				
Insurance risk	1,153	1,682	529	
Market risk	1,470	1,856	386	
Diversification effects	(629)	(873)	(244)	
Credit risk	645	618	(27)	
Risk margin and other effects on target capital	647	1,241	594	
Target capital	3,286	4,524	1,238	
SST ratio				
(Risk-bearing capital – MVM)/(target capital – MVM) (in %)	251%	200%	(51%)	

G. Solvency *continued*

The values shown here already reflect diversification within each risk type with regard to individual risk drivers. The item Risk margin and other effects on target capital consists of the market value margin, accounting for CHF 1,409 million in 2019, CHF 820 million in 2018, as well as run-off expenses and the reduction in target capital for the expected financial result. The SST ratio is defined in the SST Circular 2017/3 as a ratio of risk-bearing capital less risk margin to target capital less risk margin.

Comments on the SST ratio

The ZLIC SST ratio of 200 percent as of December 31, 2019 fell from 251 percent at December 31, 2018. Despite a continued low-interest rate environment, ZLIC's capitalization remains strong as measured by SST. The SST ratio was supported by strong value creation from new business, with the fall in the ratio driven by the proposed dividend and strengthening of assumptions in Japan.

Risk-bearing capital and target capital both grew. The CHF 0.6 billion growth in risk-bearing capital was largely driven by Switzerland, with a CHF 0.1 billion contribution from Japan. Japan contributed the majority of the CHF 1.2 billion growth in target capital, of which CHF 0.6 billion was from growth in risk margin.

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

Breakdown of market risk into essential components

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

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

Solvency – Market risk

in CHF millions, for the years ended December 31

	2018	Adjustments previous period	2019	Change
Market risk derivation of target capital				
Interest rate risk	685		900	215
Spread risk	655		740	85
Exchange rate risk	443		605	162
Equity risk	468		642	174
Real estate risk	693		636	(57)
Volatility risk	13		0.3	(13)
Diversification	(1,487)		(1,667)	(180)
Total of market risk target capital	1,470		1,856	386

Market risk increased during 2019 primarily due to increased equity risks in Switzerland, as the allocation to equity assets increased, and there was an increased contribution to overall ZLIC interest rate and exchange rate risk from Japan as the business there grew and best estimate assumptions were strengthened. Furthermore spread risk increased as risk exposures grew in terms of market value. This was partially offset by reduced risk exposures from the lower market value of real estate following asset sales, and volatility risk fell as swaption holdings moved further into the money.

Credit risk remained stable overall at CHF 0.6 billion, with investment credit risk related to migration or default of third-party debt investments up slightly, at CHF 0.5 billion. Other credit risk, almost all of which is intragroup credit risk, fell from CHF 0.2 billion to CHF 0.1 billion.

Breakdown of life insurance risk into essential components

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

- Mortality risk is the risk that liabilities increase through higher than expected mortality rates.
- Longevity risk is the risk that liabilities increase through lower than expected mortality rates for annuitants.

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

Solvency – Insurance risk

in CHF millions, for the years ended December 31

	2018	Adjustments previous period	2019	Change
Insurance risk derivation of target capital				
Life insurance liabilities				
Mortality	98		134	36
Longevity	358		395	36
Morbidity incidence	680		1,078	399
Morbidity recovery	1,211		1,986	775
Business risk				
Expenses	555		643	87
Lapses	92		81	(12)
Option take-up	2		5	3
Diversification	(1,842)		(2,638)	(796)
Total of insurance risk target capital	1,154		1,683	529

Besides growth of the business in Japan, the main driver of the increase from CHF 1.2 billion to CHF 1.7 billion was the strengthening of assumptions for morbidity in Japan.

Breakdown of risk-bearing capital into essential components

The following table shows a breakdown of the risk-bearing capital based on its essential components. The risk-bearing capital calculation starts with assets less liabilities, as set out in the market-consistent balance sheet. The net assets less liabilities are then reduced by deductions for proposed dividends to give the core capital. Subordinated debt with equity features approved by FINMA as eligible for inclusion in risk-bearing capital is included in the liabilities, and so is added to the core capital as a final step to give the risk-bearing capital.

Market-consistent Balance Sheet

in CHF millions as of December 31

	2018	2019	Change
Assets	26,853	27,231	378
Liabilities	(20,072)	(19,873)	199
Deductions (proposed dividends)	(320)	(263)	57
Core capital (= assets – liabilities – deductions)	6,461	7,094	634
Eligible subordinated debt	542	541	(0)
Risk-bearing capital	7,002	7,635	633

Appendix 1: Quantitative templates

Income statement Solo

in CHF millions, for the years ended December 31

	Total		Individual Life	
	2018	2019	2018	2019
1 Gross written premiums and policy fees	1'780	1,994	353	318
2 Premiums ceded to reinsurers	(451)	(353)	(1)	(1)
3 Net written premiums and policy fees	1'329	1,641	351	317
4 Change in reserves for unearned premiums, gross	34	2	11	7
5 Change in reserves for unearned premiums, ceded	(7)	(0)	–	–
6 Net earned premiums and policy fees	1'357	1,642	363	324
7 Other income	29	107	7	22
8 Total technical income	1'386	1,750	369	347
9 Claims paid, annuities and loss adjustment expenses, gross	-1'920	(1,900)	(808)	(711)
10 Claims paid, annuities and loss adjustment expenses, ceded	55	109	–	0
11 Change in insurance reserves, gross	360	(204)	282	137
12 Change in insurance reserves, ceded	149	129	–	(0)
13 Change in actuarial provisions for unit-linked contracts	129	(140)	–	(0)
14 Insurance benefits and losses, net of reinsurance	-1'227	(2,006)	(525)	(574)
15 Underwriting & policy acquisition costs, gross	(247)	(263)	(29)	(31)
16 Underwriting & policy acquisition costs, ceded	174	180	–	–
17 Underwriting & policy acquisition costs, net of reinsurance	(73)	(83)	(29)	(31)
18 Administrative and other expense	(208)	(212)	(35)	(63)
19 Total technical expense				
20 Investment income	626	902	147	180
21 Investment expenses	(110)	(100)	(26)	(21)
22 Net investment result	516	802	121	158
23 Net investment result on unit-linked investments	(82)	136	–	23
24 Other financial income	4	31	1	6
25 Other financial expense	(5)	(6)	(1)	(1)
26 Operating result	312	413	(100)	(136)
27 Interest expense on debt and other interest expense	(48)	(49)		
28 Other income	–	–		
29 Other expense	–	–		
30 Extraordinary income/expense	–	–		
31 Net income before taxes	264	363		
32 Direct tax expenses	(26)	(100)		
33 Net income after taxes	237	263		

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

Appendix 1: Quantitative templates *continued*

Market-consistent balance sheet: Market-consistent value of assets	In CHF millions, as of December 31	Adjustments	
		2018	previous period
Market-consistent value of investments			2019
Real estate		3,579	3,245
Shareholdings		–	–
Fixed-income securities		13,714	14,075
Loans		836	181
Mortgages		2,396	2,348
Equities		634	897
Other investments		1,267	1,582
Collective investment schemes		393	540
Alternative investments		468	582
Structured products		na	–
Other investments		407	460
Total investments		22,427	22,328
Market-consistent value of other assets			
Financial investments from unit-linked life insurance		839	971
Receivables from derivative financial instruments		491	626
Deposits made under assumed reinsurance contracts		na	–
Cash and cash equivalents		2,313	2,279
Reinsurers' share of best estimate of provisions for insurance liabilities		(33)	25
Direct insurance: life insurance business (excluding unit-linked life insurance)		(33)	25
Reinsurance: life insurance business (excluding unit-linked life insurance)		na	–
Direct insurance: non-life insurance business.		na	–
Direct insurance: health insurance business		na	–
Reinsurance: non-life insurance business		na	–
Reinsurance: health insurance business		na	–
Direct insurance: other business.		na	–
Reinsurance: other business		na	–
Direct insurance : unit-linked life insurance business.		na	(0)
Reinsurance: unit-linked life insurance business		na	–
Fixed assets		na	11
Deferred acquisition costs		na	–
Intangible assets		na	–
Receivables from insurance business		151	228
Other receivables		109	58
Other assets		555	22
Unpaid share capital		na	–
Accrued assets		na	683
Total other assets		4,426	4,903
Total market-consistent value of assets		26,853	27,231

**Market-consistent
balance sheet:
Best estimate
liabilities (BEL)**

In CHF millions, as of December 31

	2018	Adjustments previous period	2019
Best estimate of liabilities (BEL)			
Best estimate of provisions for life insurance liabilities	(16,210)		(16,140)
Best estimate of provisions for unit-linked life insurance liabilities	(739)		(840)
Market-consistent value of other liabilities			
Non-technical provisions	(10)		(6)
Interest-bearing liabilities	(1,139)		(244)
Liabilities from derivative financial instruments	(6)		(2)
Deposits retained on ceded reinsurance	(300)		(415)
Liabilities from the insurance business	(145)		(173)
Other liabilities	(1,523)		(779)
Accrued liabilities	–		(734)
Subordinated debts	–		(541)
Total BEL plus market-consistent value of other liabilities	(20,072)		(19,873)
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	6,781		7,357

Solvency

in CHF millions, for the years ended December 31

	2018	Adjustments previous period	2019	Change
Derivation of risk-bearing capital				
Assets	26,853		27,231	378
Liabilities	(20,072)		(19,873)	199
Deductions (proposed dividends)	(320)		(263)	57
Core capital	6,461		7,094	634
Supplementary capital (eligible subordinated debt)	542		541	–
Risk-bearing capital	7,002		7,635	633
Derivation of target capital				
Insurance risk	1,153		1,682	529
Market risk	1,470		1,856	386
Diversification effects	(629)		(873)	(244)
Credit risk	645		618	(27)
Risk margin and other effects on target capital	647		1,241	594
Target capital	3,286		4,524	1,238
SST ratio				
(Risk-bearing capital – MVM)/(target capital – MVM) (in %)	251%		200%	(51%)

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

The Financial Condition Report is not audited.

The consolidated financial statements of Zurich Life Insurance Company Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements for the year ended December 31, 2019, are audited. Please refer to the report of the statutory auditor in ZLIC's Annual Report 2019, page 18:

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

Disclaimer and cautionary statement

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

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Zurich Life Insurance Company Ltd
Austrasse 46
8045 Zürich
Switzerland
www.zurich.com

