Financial Condition Report 2020

Zurich Insurance Company Ltd

Zurich Insurance Company Ltd

Contents

The information published in this report is consistent with the information published in the Annual Reports 2020 of Zurich Insurance Group and Zurich Insurance Company Group, as well as the regulatory reporting of Zurich Insurance Company Ltd for the year 2020, 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 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.

Overview

Business profile

Zurich Insurance Company Group which includes Zurich Insurance Company Ltd (ZIC Ltd or the Company) and its subsidiaries (ZIC Group) is the main operating carrier of Zurich Insurance Group (Zurich or the Group). Zurich is a leading multi-line insurer that services its customers in global and local markets. With about 55,000 employees, it provides a wide range of property and casualty, and life insurance products and services in more than 215 countries and territories. ZIC Ltd writes direct property and casualty insurance business mainly in Switzerland, Canada, Hong Kong and Japan.

Total gross written premiums and policy fees

CHF 15.0bn

Net income after taxes

CHF 2.4bn

Net investment result

CHF 3.5bn

System of governance and enterprise risk management

Good corporate governance enables ZIC Ltd to create sustainable value for all its stakeholders.

The enterprise risk management framework (ERM) supports achievement of Zurich's strategy and helps protect capital, liquidity, earnings and reputation across all of its entities, including ZIC Ltd.

Risk profile

Zurich identifies, assesses, manages, monitors and reports risks that have an impact on the achievement of its strategic objectives by applying its proprietary Total Risk Profiling™ (TRP) methodology. The TRP methodology supports the Group in delivering oversight and risk insights and enhances Zurich's capabilities in managing risks.

The Group's commitment to sustainability, including managing the risks posed by climate change, continues to be an integral part of Zurich's risk management approach. The Group assesses risks in cyber, information technology, data security and risks arising from emerging technologies and innovation to ensure our business remains resilient in the future.

Financial condition

ZIC Ltd maintained its strong rating level in 2020. As of December 31, 2020, the insurance financial strength rating of ZIC Ltd was 'AA–/Positive' by S&P Global Ratings, 'Aa3/Stable' by Moody's, and 'A+(Superior)/Stable by A.M. Best.

Shareholders' equity

CHF 25.4bn

Swiss Solvency Test ratio as of January 1, 2021

SST 181%

Standard & Poor's financial strength rating as of December 31, 2020

AA–/Positive[1]

1 S&P upgraded the Group rating on March 15, 2021, to AA / Stable.

Acronyms

AC	Audit Committee
AFR	available financial resources
AG	Aktiengesellschaft (stock company)
AGM	Annual General Meeting
Board	Board of Directors
BEL	best estimate liability
bn	billion
BRL	Brazilian real
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHF	Swiss franc
CIDO	Chief Information and Digital Officer
CRO	Chief Risk Officer
EMEA	Europe, Middle East & Africa
ERM	Enterprise Risk Management
EUR	euro
ExCo	Executive Committee
FCR	Financial Condition Report
FINMA	Swiss Financial Market Supervisory Authority FINMA
GBP	Great Britain pound
Group	Zurich Insurance Group
IFRS	International Financial Reporting Standards
ISA	Swiss Insurance Supervision Act
ISDA	International Swaps and Derivatives Association
ISO	Insurance Supervision Ordinance
LatAm	Latin America
MCBS	market-consistent balance sheet
P&C	Property and Casualty
PwC	PricewaterhouseCoopers AG
Q	quarter
SFCR	Solvency and Financial Condition Report
SST	Swiss Solvency Test
TRP	Total Risk Profiling™
UK	United Kingdom
UPR	unearned premium reserves
USD	U.S. dollar
Z-ECM	Zurich Economic Capital Model
ZIC Group	ZIC Ltd and its subsidiaries
ZIC Ltd	Zurich Insurance Company Ltd
Zurich	Zurich Insurance Group

Introduction

How to read the report

ZIC Ltd's financial condition report is prepared in compliance with Art. 26 ISO and FINMA's Circular 2016/2 'Disclosure – insurers'. The report focuses on the 2020 financial year, and should be read in conjunction with the ZIC Group's Annual Report 2020 (available on www.zurich.com/en/investor-relations/results-and-reports/other-statutory-filings). Wherever applicable, this report also makes reference to the Zurich Insurance Group's Financial Condition Report or the Zurich Insurance Group's Annual Report (available on www.zurich.com/en/investor-relations) or the ZIC Group's Annual Report for more information.

We prepared this report on a consolidated basis, using a look-through approach that captures the entire ZIC Group. With this approach:

- ZIC Ltd evaluates assets and liabilities of subsidiaries and participations by 'looking through' to their balance sheets. This view is possible as subsidiaries are wholly owned and deliver detailed information about the risk profile and valuation of these assets and liabilities (e.g., an equity exposure held in the balance sheet of a subsidiary is presented in the 'equity line' in the consolidated ZIC Group balance sheet, and therefore subsidiaries are not presented under 'investments in subsidiaries'),
- ZIC Ltd aggregates assets and liabilities by type or line items, to create a consolidated view.

The consolidated, look-through approach results, in particular under the Swiss Solvency Test (SST), in an equivalent level of protection of policyholders and equivalent prudential outcome. Only the presentation differs, as it focuses on a ZIC Group view, rather than a ZIC Ltd view. This approach is consistent with our regulatory SST submissions to FINMA. See section E.2 for more information.

The report presents information following the structure provided in FINMA's circular. It covers ZIC Ltd's business activities, performance, corporate governance and risk management, risk profile, valuation, capital management and solvency. Quantitative information refers to different frameworks applicable or mandatory to the Company:

- 'Business activities' information is presented on a ZIC Group consolidated IFRS basis.
- Performance results are presented with Swiss statutory reporting standards as the basis for ZIC Ltd results. The disclosure is complemented with information in the quantitative reporting templates (see Appendix 1) based on the Swiss statutory reporting standards applicable to ZIC Ltd.
- The 'risk profile' section presents information for the ZIC Group under IFRS for insurance and credit risk, and a net economic asset value-based analysis of the market risk.
- 'Valuation' presents the market-consistent balance sheet (MCBS) of the ZIC Group following the Swiss Solvency Test (SST) principles. The SST MCBS is compared with the IFRS balance sheet of the ZIC Group as of December 31, 2020.
- Finally, the 'solvency' section shows the regulatory capital adequacy of the Company, supported by the results of the SST.

In accordance with the ZIC Group's Annual Report 2020, the reference currency is the U.S. dollar, except for disclosures presented in accordance with Swiss statutory reporting standards for which CHF is the reference currency (i.e. section on 'Performance' and related quantitative reporting templates in Appendix 1).

Risk and capital are managed at the Group, region and business unit level according to Zurich's risk and capital management framework. The principles of the Zurich's enterprise risk management described in the section C. Governance and risk management and in the section D. Risk profile are equally applicable to ZIC Group. There is no material difference between how risk and capital are managed at the Group and the ZIC Group.

FINMA mandates the disclosure of quantitative templates for insurance companies that are included in Appendix 1.

Introduction (continued)

1 Executive summary

Business activities

ZIC Group is the main operating carrier of Zurich. Zurich is a leading multi-line insurer that serves its customers in global and local markets. With about 55,000 employees, it provides a wide range of property and casualty, and life insurance products and services in more than 215 countries and territories. Zurich's customers include individuals, small businesses, and mid-sized and large companies, as well as multinational corporations. The Group is headquartered in Zurich, Switzerland, where it was founded in 1872. The holding company, Zurich Insurance Group Ltd (ZURN), is listed on the SIX Swiss Exchange and has a level I American Depositary Receipt (ZURVY) program, which is traded over-the-counter on OTCQX.

Performance: ZIC Ltd's financial results overview in 2020

ZIC Ltd reported a net income after taxes of CHF 2.4 billion in 2020, a 36 percent decrease compared to 2019. This decrease was mainly driven by a lower net investment result of CHF 1.4 billion and higher net insurance benefits and losses of CHF 1.2 billion.

Total gross written premiums and policy fees increased by CHF 709 million or 5 percent to CHF 15.0 billion for the year ended December 31, 2020. Direct gross written premiums and policy fees increased by CHF 367 million to CHF 4.8 billion mainly due to ongoing growth in Switzerland, Canada, and Japan. Assumed gross written premiums and policy fees increased by CHF 342 million to CHF 10.2 billion mainly due to an increase in Group internal life reinsurance in 2020 as well as due to one-off negative impact of the non-renewal of a Group internal reinsurance contract in 2019.

Corporate governance and risk management

Zurich is committed to effective corporate governance for the benefit of its shareholders, customers, employees and other stakeholders based on the principles of fairness, transparency and accountability. Structures, rules and processes are designed to enable proper conduct of business by defining the powers and responsibilities of its corporate bodies and employees. These principles are applicable as well to ZIC Group.

The Zurich Insurance Group Ltd Board of Directors, Chief Executive Officer, and Chief Risk Officer equally serve as Board of Directors, Chief Executive Officer, and Chief Risk Officer for Zurich Insurance Company Ltd.

From January 1, 2021 the ExCo further includes the CEO of the Global Business Platforms, a new unit created to develop and deliver new digital propositions and services.

In 2020, the Group proved its resilience by remaining operationally robust and retaining a strong financial and solvency position. The Group was able to apply its expertise and tools, such as dynamic scenario sensitivity analyses, to assess and pro-actively manage the potential impact of the unprecedented conditions experienced during the year. The Group identifies plausible scenarios and quantifies their potential impact on its businesses, solvency and financial performance, and implements and monitors the mitigating actions.

Risk profile

The Group identifies, assesses, manages, monitors and reports risks that have an impact on the achievement of its strategic objectives by applying its proprietary Total Risk Profiling™ (TRP) methodology. The methodology allows Zurich to assess risks in terms of severity and probability and supports the definition and implementation of mitigating actions. At Group level, this is an annual process, followed by regular reviews and updates by management.

Taking and managing risk is an integral part of the insurance business. Zurich manages and takes risks in an informed and disciplined manner and within a pre-determined risk appetite and tolerance. This is the primary objective of Zurich's approach to risk management. The integrated risk management framework enables the achievement of the Group's strategy by supporting an effective risk identification and assessment that help protect capital, liquidity, earnings, and reputation.

Starting 2020, the Group's solvency position has been disclosed on the basis of the Swiss Solvency Test (SST) ratio to be more aligned with reporting by the Group's Swiss and European peers. The Group's SST internal model has been fully approved by the Swiss Financial Market Supervisory Authority FINMA (FINMA). Zurich's goal is to maintain capital consistent with a 'AA' financial strength rating for the Group, which translates into an SST ratio target of 160 percent or above. The Group continues to apply the Zurich Economic Capital Model (Z-ECM) as an internal metric. Z-ECM provides a key input into the Group's planning process as an assessment of the Group's economic risk profile.

Introduction (continued)

The Group regularly reports on its risk profile at local and Group levels. The Group has procedures to refer risk topics to senior management and the Board of Directors in a timely manner. To foster transparency about risk, the Board receives quarterly risk reports and risk updates. In 2020, additional dynamic reporting of COVID-19 risk scenarios took place.

The Group's commitment to sustainability, including managing the risks posed by climate change, continues to be an integral part of Zurich's risk management approach. The Group promotes best practices by managing the interconnectivity of environmental, social and governance (ESG) risks by engaging with its customers and investees.

In determining the Group's exposure to risks resulting from digital transformation, the Group assesses risks in cyber, information technology, data security and risks arising from emerging technologies and innovation. The Group is committed to strengthening the link between digitalization and sustainability for the Group and customers.

ZIC Group's key risks, as measured by the Swiss Solvency Test (SST) target capital, are market risk, premium and reserve risk, and natural catastrophe risk. ZIC Group's risk profile is largely a function of the risks written by its subsidiaries. Premium and reserve risk followed by market risk are the major risk drivers of the business directly written in Switzerland by ZIC. See section G. 'Solvency', for additional information.

Valuation

Under the SST, the market-consistent balance sheet (MCBS) represents a listing of all rights and obligations that are to be valued in accordance with economic principles in a market-consistent manner unless specified otherwise in the Insurance Supervision Ordinance (ISO).

A market-consistent valuation is based on, and does not contradict to, the most recent information that can be obtained from trading in liquid and transparent financial markets, and reflects the price at which independent, knowledgeable and willing business partners would normally purchase or sell the assets or transfer the liabilities in an arm's length transaction. The market-consistent value principles and valuation methods applied by the Group to determine the SST market-consistent balance sheet are detailed in sections E.1, E2.4 to E.2.5 of this report.

The SST net asset value, which represents the difference between the SST market-consistent value of the assets and liabilities, forms the basis for the calculation of the risk-bearing capital.

During 2020, the Group's SST risk-bearing capital increased by USD 3.6[1] billion to USD 50.2 billion as of January 1, 2021, compared to USD 46.6[2] billion as of January 1, 2020.

Capital management

The Group manages capital to maximize long-term shareholder value while maintaining financial strength within its 'AA' target range, and meeting regulatory, solvency and rating agency requirements.

As of December 31, 2020, the International Financial Reporting Standards (IFRS) shareholders' equity for ZIC Group amounted to USD 37.5 billion and subordinated debt of USD 8.3 billion were part of the available financial resources (AFR). Further adjustments usually include items such as intangible assets, deferred tax assets and liabilities, allowing for discounting of liabilities and the value of in-force business, and market-consistent valuation of external debt according to the methodology under SST.

ZIC Group strives to simplify its legal entity structure to reduce complexity and increase fungibility of capital.

The insurance financial strength ratings were unaffected by the impact of COVID-19 on earnings, balance sheet and capital. Moody's and AM Best affirmed the Group's IFSR in 2020, while S&P upgraded the Group rating on March 15, 2021, to AA / Stable, based on its view of Group's strong and resilient operating performance and strong capital adequacy.

1 Based on final SST results
2 Based on FINMA-allowed risk-free yield curves for SST

Introduction (continued)

Solvency

The Swiss Solvency Test (SST) adopts a risk-based and total balance sheet approach. Insurance companies that are part of the ZIC Group in Switzerland are required to provide a market-consistent assessment of the value of their assets and liabilities. Possible changes to these balance sheet positions are modelled over a one-year period to arrive at the total required capital.

Under SST, insurance companies and insurance groups can apply to use company-specific internal models to calculate risk-bearing and target capital, as well as the SST ratio. The SST ratio must be calculated as per January 1 and submitted to FINMA.

In 2020, Zurich applied for the use of the risk-free yield curves in line with paragraph 46 of FINMA's Circular 2017/3 ("SST") for the main currencies of USD, EUR, GBP and CHF. FINMA approved the use of these risk-free yield curves (FINMA-allowed interest rate curves for SST) instead of own risk-free yield curves starting from the end of Q1 2020. The ratio as of January 1, 2020 has been re-calculated resulting in a decrease from 241% (as published as of January 1, 2020) to 219%. Please see section G. Solvency for further information on the effects of the change in yield curves on the Group's risk-bearing and target capital. Unless otherwise stated, the previous period information within this report makes reference to the figures as of January 1, 2020 (as published). Zurich continues to use risk-free yield curves in line with the Zurich's internal model for all other currencies.

The SST ratio as of January 1, 2021 stands at 181 percent (unaudited). It is filed with FINMA at the end of April 2021 and is subject to review by FINMA. Zurich met the regulatory solvency requirements in Switzerland throughout 2020.

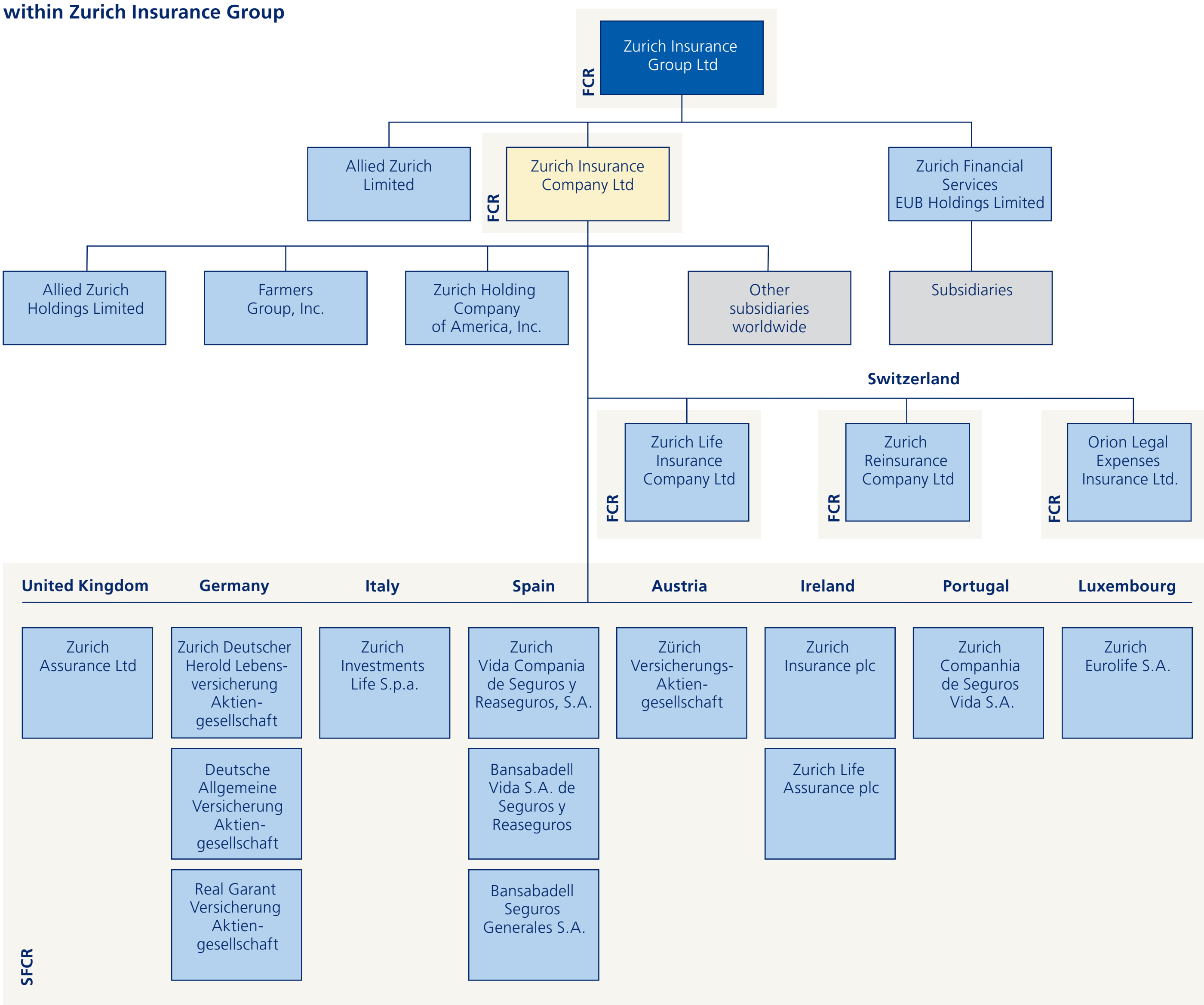
2 Approval of the Financial Condition Report

This Report was reviewed and signed-off by the Board of Directors of ZIC Ltd on April 7, 2021.

A. Business activities

A.1 Company structure and major subsidiaries

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, 2020), 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)

ZIC Ltd is a corporation domiciled in Zurich, Switzerland and is the principal operating insurance company of Zurich. With about 55,000 employees, Zurich provides a wide range of property and casualty, and life insurance products and services in more than 215 countries and territories. Zurich's customers include individuals, small businesses, and mid-sized and large companies, as well as multinational corporations. The Group is headquartered in Zurich, Switzerland, where it was founded in 1872. The holding company, Zurich Insurance Group Ltd (ZURN), is listed on the SIX Swiss Exchange and has a level I American Depositary Receipt (ZURVY) program, which is traded over-the-counter on OTCQX.

As well as being an insurance company, ZIC Ltd also acts as the holding company for the subsidiaries of the Group, except for the Group's property loans and banking activities. ZIC Ltd pools internal reinsurance and ensures pooling of capital within Zurich. In addition, it is Zurich's main issuer of debt. It also carries the cost of the Corporate Center. Its main subsidiaries include Allied Zurich Holdings Limited, Farmers Group, Inc., Zurich Assurance plc (UK), Zurich Insurance plc (Ireland), Zurich Holding Company of America, Inc. (North America), and Zurich Life Insurance Company Ltd (Switzerland).

The ZIC Ltd subsidiaries regulated in Switzerland produce their own Financial Condition Reports:

- Zurich Life Insurance Company Ltd
- Zurich Reinsurance Company Ltd
- Orion Legal Expenses Insurance Ltd

The ZIC Ltd subsidiaries based in the European Union produce their own Solvency and Financial Condition Reports under Solvency II regulation. All reports are available on Zurich's website: https://www.zurich.com/en/investor-relations/results-and-reports/other-statutory-filings.

Significant acquisition and divestment transactions operated in 2020 impacting the Group structure are detailed in the note 5 of the audited consolidated financial statement in ZIC Group's Annual report 2020, on pages 57–59.

Also, a list of the **Significant subsidiaries of** ZIC Ltd can be found in note 28 of the audited consolidated financial statements of ZIC Group's Annual Report 2020, on pages 135–137.

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

ZIC Group's business is focused on providing best-in-class insurance products and services to individuals, small businesses, mid-sized and large companies. ZIC Group's strategy:

- Focuses on customers by improving customer satisfaction and encouraging a transformation into a truly customer led company,
- Simplifies by creating a more agile and responsive organization,
- Innovates by providing better products, services and customer care.

ZIC Group's strategy is to deliver long-term competitive advantage focuses on continuing to increase profitability and consolidating the Group's position as a leading global underwriter for property and casualty (P&C) and life insurance. ZIC Group will continue to expand customer relationships and simplify the business. At the operating level, ZIC Group will continue to reduce complexity and improve accountability. ZIC Group will enhance technical excellence and strengthen its go-to-market-approach for commercial customers. It will also seek to enhance its offerings to individuals by monitoring and aiming to increase customer satisfaction and retention. For additional information on the **strategy**, see the Zurich Insurance Group's Annual Report 2020, pages 20 to 22.

ZIC Ltd includes the direct P&C business in Switzerland and its branches mainly located in Canada, Japan and Hong Kong as well as assumed reinsurance business from its subsidiaries and the Farmers Exchanges[1]. It includes the Corporate Center as well as most of the debt financing of Zurich Insurance Group.

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

A. Business activities (continued)

Group structure

ZIC Group consists of ZIC Ltd and its subsidiaries.

The operational group structure reflects both, ZIC Group's businesses and geographical regions. ZIC Group pursues a customer-centric strategy, with the P&C and Life businesses which are managed through a regional structure. For details on the activities of the various businesses refer to note 27 of the ZIC Group's audited consolidated financial statements, on pages 120–134 of ZIC Group Annual Report 2020.

ZIC Group further divides its P&C business into Retail and Commercial customer units. ZIC Group has identified the following 13 reportable and operating segments.

Group structure

Businesses	Property & Casualty (P&C)	Life	Farmers	Non-Core Businesses	Group Functions and Operations
Reportable segments	Europe, Middle East & Africa (EMEA) North America Asia Pacific (APAC) Latin America (LatAm) Group Reinsurance	Europe, Middle East & Africa (EMEA) North America Asia Pacific (APAC) Latin America (LatAm) Group Reinsurance	Farmers	Non-Core Businesses	Group Functions and Operations
Customer units	Commercial Retail				

Operating insurance branches of ZIC Ltd

as of December 31, 2020		Segment
Bahrain		
Zurich Insurance Company Ltd (Bahrain Branch)	Bahrain	Property & Casualty
Bermuda		
Zurich Insurance Company Ltd, Bermuda Branch	Bermuda	Property & Casualty
Canada		
Zurich Insurance Company Ltd, Canadian Branch	Canada	Property & Casualty
Hong Kong		
Zurich Insurance Company Ltd, Hong Kong Branch	Hong Kong	Property & Casualty
Israel		
Zurich Insurance Company Ltd, Israel Branch	Israel	Property & Casualty
Italy		
Zurich Insurance Company Limited – Rappresentanza Generale per l'Italia	Italy	Property & Casualty
Japan		
Zurich Insurance Company Limited	Japan	Property & Casualty
Qatar		
Zurich Insurance Company Ltd. QFC Branch	Qatar	Property & Casualty
Singapore		
Zurich Insurance Company Ltd Singapore Branch	Singapore	Property & Casualty
Switzerland		
Zürich Versicherungs-Gesellschaft AG, Regionalsitz Zürich	Switzerland	Property & Casualty
Zürich Versicherungs-Gesellschaft AG, Regionalsitz Bern/Mittelland	Switzerland	Property & Casualty
Zürich Versicherungs-Gesellschaft AG, Regionalsitz Zentral- und Nordwestschweiz	Switzerland	Property & Casualty
Zürich Versicherungs-Gesellschaft AG, Regionalsitz Ostschweiz	Switzerland	Property & Casualty
Zurigo Compagnia di Assicurazioni SA, Sede regionale per il Ticino	Switzerland	Property & Casualty
Zurich Compagnie d'Assurances SA, siège régional pour la Suisse romande	Switzerland	Property & Casualty
United Arab Emirates		
Zurich Insurance Company Ltd. (DIFC Branch)	United Arab Emirates	Property & Casualty

A. Business activities (continued)

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

Pricewaterhouse CoopersAG (PwC), Birchstrasse 160, in 8050 Zurich, is ZIC Ltd's external auditor.

The external auditors of ZIC Ltd are annually appointed by its shareholders . At the Annual General Meeting on April 1, 2020, PwC was re-elected by the shareholders of ZIC Ltd.

Zurich has updated its policy on the rotation of the external audit mandate to adopt best practices adopted by the European Union and as a result will rotate its external auditor in 2021. In 2018, in accordance with this policy and in order to allow the greatest amount of flexibility and time for a smooth transition to the selected audit firm, Zurich ran a competitive, transparent and fair tender process and selected Ernst & Young Ltd to replace PwC as of financial year 2021.

At the Annual General Meeting on April 7, 2021, the shareholders of ZIC Ltd elected Ernst & Young Ltd as external auditor for the financial year 2021. For additional information on the Group's external auditors, refer to page 77 of the Group's Annual Report 2020.

A.4 Significant unusual events

For significant events during 2020 and thereafter until March 12, 2021, please refer to the Annual Report 2020 of ZIC Group and the Group, respectively, as well as to the news releases available at https://www.zurich.com/en/media/news-releases.

Since the end of 2019, the COVID-19 pandemic has developed rapidly with far-reaching impacts across the insurance industry and the global economy overall. The global nature of the pandemic and the varying government actions taken to mitigate it make the potential losses (including the wide range of related coverage issues and associated litigation generated) inherently more difficult to model than traditional catastrophic losses or loss events with a consequent increase in uncertainty around them. Management has considered the effect of COVID-19 to the extent possible in its estimates and assumptions. Specifically, insurance reserves reflect management's best estimate of claims activity directly related to COVID-19 as well as premium returns and rebates to customers where appropriate.

The continuing nature of COVID-19 pandemic has the potential to impact the Company's future results both positively and negatively with the overall outcome dependent on factors such as the duration of lockdowns imposed by governments and levels of mortality. Following re-underwriting measures taken since the start of the pandemic, the Company's exposure to business interruption claims has been significantly reduced from the 2020 level. More broadly, continued rate increases within the Company's property and casualty business are expected to support growth and improve the Company's underwriting performance, while persistent low yields may have an adverse impact on investment results.

B. Performance

B.1 Most important markets

In 2020, the most important markets for ZIC Ltd according to premium income (direct business, excluding subsidiaries) were Switzerland, Japan and Canada.

B.2 Performance overview of ZIC Ltd

As complementary to the consolidated, look-through perspective presented for ZIC Group, FINMA and the Swiss Statutory Accounting Principle mandate the disclosure of statutory stand-alone information prepared from ZIC Ltd perspective, under local reporting requirements (Swiss Code of Obligations and relevant supervisory law) and in Swiss francs. Based on this perspective, ZIC Group presents performance information, differentiating between the direct Property & Casualty business written by ZIC Ltd in Switzerland and its branches located mainly in Canada, Japan and Hong Kong as well as assumed reinsurance business, reflecting primarily business assumed from ZIC Ltd's subsidiaries. Zurich provides this information in Appendix 1. A discussion of the main factors affecting performance is outlined below.

ZIC Ltd reported a net income after taxes of CHF 2.4 billion in 2020, a 36 percent decrease compared to 2019. This decrease was mainly driven by a lower net investment result of CHF 1.4 billion and higher net insurance benefits and losses of CHF 1.2 billion.

Total gross written premiums and policy fees increased by CHF 709 million or 5 percent to CHF 15.0 billion for the year ended December 31, 2020. In local currency, gross written premiums and policy fees increased by 8 percent or CHF 1.2 billion. Direct gross written premiums and policy fees increased by CHF 367 million to CHF 4.8 billion mainly due to ongoing growth in Switzerland, Canada, and Japan. Assumed gross written premiums and policy fees increased by CHF 342 million to CHF 10.2 billion mainly due to an increase in Group internal life reinsurance in 2020 as well as due to negative one-off impact of the non-renewal of a Group internal reinsurance contract in 2019.

The net insurance reserves decreased by CHF 791 million compared with the year ended December 31, 2019. As the Swiss franc strengthened against the U.S dollar and the British pound during 2020, the net insurance reserves translated into Swiss franc decreased. In local currency, the net insurance reserves increased by CHF 577 million, mainly driven by the acquisition of a commercial accident and health insurance portfolio in Switzerland, the COVID-19 pandemic as well as catastrophe and weather events in the United States during 2020. This increase was partially offset by a release of net insurance reserves reflecting the termination of the Whole Account Quota Share (WAQS) reinsurance treaty with Zurich American Insurance Company in 2018, which is now in run-off.

The net investment result decreased by CHF 1.4 billion to CHF 3.5 billion, mainly due to lower income from and higher write-downs on investments in subsidiaries and associates and due to overall volatility in the equity securities markets during 2020 in response to the COVID-19 pandemic.

Shareholder's equity decreased by CHF 539 million to CHF 25.4 billion for the year ended December 31, 2020, from CHF 25.9 billion for the year ended December 31, 2019. This decrease reflects the dividend payment to Zurich Insurance Group Ltd of CHF 2.9 billion in 2020, which was approved at the Annual General Meeting on April 1, 2020, partially offset by the net income after taxes of CHF 2.4 billion.

B. Performance (continued)

Direct Swiss Business

The underwriting result decreased by CHF 217 million to CHF 238 million in 2020, mainly as a result of higher insurance benefits and losses, mainly driven by the acquisition of a commercial accident and health insurance portfolio and the losses due to the COVID-19 pandemic.

Direct Non-Swiss Business

The net underwriting result increased by CHF 204 million to a gain of CHF 71 million in 2020, as net earned premiums and policy fees increased and net technical expenses decreased. The different branches contributed to this result as follows:

Japan

Technical income grew by CHF 7 million with the major portfolios of Accident & Health and Motor continuing to perform well. The underwriting result increased from a loss of CHF 58 million in 2019 to a gain of CHF 122 million in 2020 as underwriting & policy acquisition costs have been negatively impacted by the commutation of the personal accident quota share treaty with Zürich Rückversicherungs-Gesellschaft AG in 2019.

Canada

Technical income increased from CHF 231 million in 2019 to CHF 295 million in 2020, with growth in earned premium and other income especially in the property business. The underwriting result declined from a loss of CHF 34 million in 2019 to a loss of CHF 67 million in 2020 following higher insurance benefits and losses in the property business, partially offset by lower net insurance benefits and losses in the motor business.

Italy

The decrease in gross written premiums and policy fees in the motor business is more than offset with less incurred claims due to the limitation of car circulation caused by the COVID-19 pandemic and the subsequent lock-down in 2020.

Hong Kong

Net earned premiums and policy fees in 2020 increased by CHF 38 million following the establishment of an internal loss portfolio transfer treaty in 2019 which decreased the net earned premiums and policy fees in 2019.

Bermuda

All the direct business in the Company's Bermuda branch is in run-off an in 2020. The underwriting result improved from a loss of CHF 14 million to a gain of CHF 6 million. In 2020, the underwriting result reflected a release of reserves for prior year claims in the energy business.

Other branches and businesses

In Singapore, the underwriting result decreased by CHF 7 million compared to 2019 mainly as a result of a decrease in net earned premiums and policy fees in the property business. Liechtenstein reports a stable underwriting result with gross written premiums and policy fees of CHF 30 million and net insurance benefits and losses of around CHF 20 million both in 2020 and 2019.

Indirect Business

ZIC Ltd acts as an internal reinsurer to the other subsidiaries of Zurich Insurance Group. Reinsurance programs are structured to support and enable the Group's risk management, capital management, underwriting and customer strategy. In the Indirect business, the underwriting result declined by CHF 129 billion in 2020, resulting in a loss of CHF 777 million. The higher net insurance benefits and losses reflect the impact of COVID-19 claims in 2020.

Detailed financial results are disclosed in ZIC Group's Annual Report 2020. In particular, additional information on **Overall Performance** of ZIC Ltd, are provided in the Management Report section in ZIC Group's Annual Report 2020 on pages 147–148.

For information on **Investment performance** of ZIC Ltd, please see notes 5 and 6 of ZIC Group's Annual Report 2020 on pages 155.

C. Corporate governance and risk management

C.1 Composition of the Board of Directors and Executive Committee

ZIC Group's and ZIC Ltd's corporate governance follows the principles of the Group.

The **Board of Directors** (the Board), under the leadership of the Chairman, is responsible for determining the overall strategy of the Group, including a strong commitment to sustainability and supervising senior management. It holds the ultimate decision-making authority for ZIC Ltd and ZIC Group.

All Directors of Zurich Insurance Group Ltd equally serve as members of the ZIC Ltd Board of Directors. Mr. Liès serves as Chairman of that Board since the Annual General Meeting (AGM) of April 4, 2018. Further information about the composition of the Board of Directors, are disclosed in the Governance report section in the Group's Annual Report, on pages 52–57.

The ZIC Ltd **Executive Committee** (ExCo) is headed by Mario Greco who also serves as Group CEO for Zurich Insurance Group Ltd. The ZIC Ltd ExCo composition is equivalent to Zurich Insurance Group ExCo. Information about the composition of the ExCo, as well as changes during 2020, are disclosed in the Governance report section in the Group's Annual Report, on pages 66–69.

C.2 Corporate governance and Risk management

Risks and capital are managed at the Zurich Insurance Group, segment, region and business unit level according to the Zurich Insurance Group risk and capital management framework. The principles of the Zurich's enterprise risk management described in the risk management and capital management section of the Group's Annual Report are equally applicable to the ZIC Group.

All information in relation with ZIC Corporate governance and Risk management is available in the Risk Review of ZIC Group's Annual Report, on pages 2–22, as well as in the Risk Review of the Group's Annual Report 2020. Please see hereafter:

- The major **Risk management objectives** at Zurich Insurance Company are described in the Risk review in ZIC Group's Annual Report, on page 3;
- The **Risk management framework** is based on a governance process that sets forth clear responsibilities for taking, managing, monitoring and reporting risks, as further detailed in ZIC Group's Annual Report 2020, on pages 3–4;
- The **Internal control system** is considered key for managing operational risk. The Board of Zurich Insurance Group Ltd has overall responsibility for the Group's risk management and internal control frameworks. The objectives of the Group's internal control system are to provide reasonable assurance that Zurich's financial statements and disclosures are materially correct, support reliable operations, and to ensure legal and regulatory compliance. The internal control system is designed to mitigate rather than eliminate risks which could impact the achievement of business objectives. Key controls are assessed for their design and operating effectiveness; please see page 154 of the Group's Annual Report 2020.
- The **Compliance** function is a control function responsible for enabling the business to manage its compliance risks, being a trusted advisor, providing independent challenge, monitoring and assurance and assisting management to promote compliance culture and ethics. ZIC Compliance is vertically integrated to support a global framework and it is led by the Chief Compliance Officer. For additional information on Compliance and its operational controls, please see page 80 of the Group's Annual Report 2020.
- The Group's **internal audit function**, Group Audit, is tasked with providing independent and objective assurance to ZIC Ltd's Board, Audit Committee, CEO and management, and to the boards and audit committees of subsidiary companies. For additional information on Group Audit, please see page 79 of the Group's Annual Report 2020.

D. Risk profile

Risk and capital are managed at the Group, regional, and business unit level according to the Group's risk and capital management framework. The Group's risk appetite and tolerance reflects Zurich's willingness and capacity to take risks in pursuit of value creation and sets boundaries within which the businesses act. Zurich protects its capital, liquidity, earnings and reputation by monitoring that risks are taken within agreed risk appetite levels and tolerance limits. The Group regularly assesses and, to the extent possible, quantifies material risks to which it is exposed. The principles of the Group's enterprise risk management described in this chapter are equally applicable to the ZIC Group.

The significant risks for ZIC Ltd, as measured by the SST target capital, are market risk, premium and reserve risk, and natural catastrophe risk. Additional qualitative and quantitative information about ZIC Group **Risk profile**, can be found in the Risk review of the ZIC Group Annual Report 2020, for each of the following risk categories:

- Insurance risk, see as pages 8 to 14;
- Market risk, including investment credit risk, see pages 15 to 18;
- Other risks including credit risk related to reinsurance assets and receivables, see pages 19 to 20;
- Operational risk, see page 20;
- Liquidity risk, see page 21;
- Strategic risk and risks to the Group's reputation, see page 22.

E. Valuation

E.1 Overarching market-consistent valuation principle

The following section presents the ZIC Group's market-consistent balance sheet (MCBS) which is essential in determining the ZIC Group's risk-bearing capital.

As an overarching principle, all assets and liabilities are valued in accordance with economic principles in a market-consistent manner including market-consistent discounting of insurance liabilities. A market-consistent valuation is based on, and does not contradict to, the most recent information that can be obtained from trading in liquid and transparent financial markets.

FINMA stipulates that the SST market-consistent balance sheet value of all insurance and non-insurance liabilities (with the exception of instruments eligible for risk-bearing capital) shall be determined under the assumption that Zurich Insurance Group will fulfill its obligation in full; thus, own credit risk is not considered.

In summary, the following valuation methods apply:

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.

For more information on fair value measurement, see notes, 6, 7 and 23 of the consolidated financial statements in the ZIC Group's Annual Report 2020, pages 60 to 62; 63 to 66; 105 to 112. The summary of accounting policies underlying IFRS valuations, as well as significant judgments and assumptions, are included in notes 3 and 4 of the consolidated financial statements in the ZIC Group's Annual Report 2020, pages 46 to 56.

E. Valuation (continued)

E.2 Market-consistent balance sheet following SST principles

FINMA has established the Swiss Solvency Test to assess risk quantitatively. SST calculations are based on a market- consistent valuation of balance sheet positions. The following tables show the main drivers for the differences in valuation between MCBS (used for SST purposes) and the IFRS values, where certain IFRS amounts have been reclassified in order to comply with FINMA requirements.

Asset valuation MCBS vs IFRS

In USD millions, as of December 31	2019 (SST)	**2020 (SST)**	Evolution 2019–2020 (SST)	**2020 (IFRS)**	Difference 2020 (IFRS – SST)
Market-consistent value of investments					
Real estate	13,261	14,749	1,488	14,749	–
Participations	39	43	4	43	–
Fixed-income securities	126,426	141,199	14,773	140,472	727
Loans	9,832	10,282	450	8,496	1,786
Mortgages	6,350	6,205	(145)	5,783	422
Equities	8,408	8,261	(147)	9,090	(829)
Other investments	31,680	32,594	914	32,593	1
Collective investment schemes	4,620	5,101	482	5,101	–
Alternative investments	8,937	10,891	1,954	10,890	1
Structured products	–	–	–	–	–
Other investments	18,123	16,602	(1,522)	16,602	–
Total Investments	**195,996**	**213,333**	**17,337**	**211,227**	**2,106**
Market-consistent value of other assets					
Financial investments from unit-linked life insurance	126,591	136,217	9,625	135,550	666
Receivables from derivative financial instruments	1,226	1,763	537	1,763	–
Deposits made under assumed reinsurance contracts	783	594	(189)	503	91
Cash and cash equivalents	8,021	11,300	3,280	11,300	–
Reinsurers' share of best estimate of provisions for insurance liabilities	21,227	23,753	2,526	25,523	(1,770)
Direct insurance: life insurance business (excluding unit linked life insurance)	6,175	5,928	(247)	7,113	(1,184)
Reinsurance: life insurance business (excluding unit linked life insurance)	381	366	(16)	371	(5)
Direct insurance: non-life insurance business	9,580	11,334	1,754	10,518	816
Direct insurance: health insurance business	–	–	–	–	–
Reinsurance: non-life insurance business	5,090	6,147	1,057	7,520	(1,373)
Reinsurance: health insurance business	–	–	–	–	–
Direct insurance: other business	–	–	–	–	–
Reinsurance: other business	1	1	–	1	–
Direct insurance: unit-linked life insurance business	–	(24)	(23)	–	(24)
Reinsurance: unit-linked life insurance business	–	–	–	–	–
Fixed assets	3,008	3,080	72	2,705	376
Deferred acquisition costs	–	–	–	20,004	(20,004)
Intangible assets	–	–	–	9,345	(9,345)
Receivables from insurance business	9,540	9,817	277	10,087	(270)
Other receivables	3,983	3,807	(176)	3,779	28
Other assets	1,285	1,097	(188)	4,029	(2,932)
Unpaid share capital	–	–	–	–	–
Accrued assets	3,297	3,365	68	4,693	(1,328)
Total other assets	**178,962**	**194,793**	**15,831**	**229,281**	**(34,488)**
Total market-consistent value of assets	**374,958**	**408,126**	**33,168**	**440,508**	**(32,382)**

E. Valuation (continued)

MCBS vs IFRS – best estimate liabilities and risk-bearing capital

In USD millions, as of December 31	2019 (SST)	**2020 (SST)**	Evolution 2019–2020 (SST)	**2020 (IFRS)**	Difference 2020 (IFRS – SST)
BEL: Best estimate liabilities (including unit linked life insurance)					
Best estimate of provisions for insurance liabilities	**(171,054)**	**(188,009)**	**(16,956)**	**(212,754)**	**24,745**
Direct insurance: life insurance business (excluding unit linked life insurance)	(101,913)	(112,081)	(10,169)	(127,650)	15,568
Reinsurance: life insurance business (excluding unit linked life insurance)	(2,045)	(2,109)	(64)	(2,135)	27
Direct insurance: non-life insurance business	(63,022)	(69,646)	(6,624)	(78,089)	8,443
Direct insurance: health insurance business	–	–	–	–	–
Reinsurance: non-life insurance business	(3,558)	(3,504)	55	(3,966)	462
Reinsurance: health insurance business	–	–	–	–	–
Direct insurance: other business	(508)	(663)	(155)	(908)	245
Reinsurance: other business	(7)	(7)	–	(7)	–
Best estimate of provisions for unit-linked life insurance liabilities	**(122,744)**	**(132,636)**	**(9,892)**	**(136,331)**	**3,695**
Direct insurance: unit-linked life insurance business	(122,744)	(132,636)	(9,892)	(136,331)	3,695
Reinsurance: unit-linked life insurance business	–	–	–	–	–
Market consistent value of other liabilities					
Non-technical provisions	(3,337)	(3,781)	(444)	(4,393)	611
Interest-bearing liabilities	(5,860)	(6,863)	(1,003)	(6,171)	(692)
Liabilities from derivative financial instruments	(365)	(481)	(115)	(481)	–
Deposits retained on ceded reinsurance	(911)	(826)	85	(910)	84
Liabilities from insurance business	(4,022)	(4,014)	8	(4,006)	(8)
Other liabilities	(12,534)	(13,018)	(484)	(14,866)	1,848
Accrued liabilities	(4,490)	(4,636)	(147)	(14,828)	10,192
Subordinated debts	(10,054)	(11,932)	(1,878)	(8,306)	(3,626)
Total BEL plus market-consistent value of other liabilities	(335,371)	(366,196)	(30,825)	(403,046)	36,850
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	**39,587**	**41,930**	**2,343**	**37,462**	**4,468**

E. Valuation (continued)

E.2.1 Evolution of assets since 2019

Total investments

The market value of Total Investments increased by USD 17.3 billion from USD 196.0 billion in 2019 to USD 213.3 billion in 2020. This is mostly driven by an increase of USD 14.8 billion in **Fixed-income securities** from USD 126.4 billion as of December 31, 2019 to USD 141.2 billion as of December 31, 2020 primarily resulting from favorable currency translation effect of USD 7.9 billion due to the strengthening of Swiss franc and EUR against the USD. Further, market valuation increased by USD 3.3 billion due to falling yields in Europe, notably in Germany of USD 1.5 billion, in Italy of USD 0.9 billion and in the UK of USD 0.4 billion. Net purchases contributed to a USD 3.3 billion increment mostly in Italy (USD 0.7 billion), in the UK (USD 1.1 billion) and in the U.S. (USD 0.7 billion).

Real estate increased by USD 1.5 billion from USD 13.3 billion as of December 31, 2019 to USD 14.7 billion as of December 31, 2020 mainly due to favorable currency movement and increases in fair value mostly in Germany (USD 0.5 billion) and in Switzerland (USD 0.9 billion).

Total other investments increased of USD 0.9 billion from USD 31.7 billion in 2019 to USD 32.6 billion in 2020 which mostly reflects a positive currency translation impact of USD 0.5 billion and positive market revaluation of USD 0.3 billion.

Loans increased by USD 0.5 billion from USD 9.8 billion in 2019 to USD 10.3 billion in 2020, resulting from favorable currency movements of USD 0.7 billion, partially offset by maturities in Germany of USD 0.2 billion.

Total Other Assets

The market-consistent value of total other assets increased by USD 15.8 billion from USD 179.0 billion as of December 31, 2019 to USD 194.8 billion as of December 31, 2020.

Financial investments from unit-linked life insurance increased by USD 9.6 billion from USD 126.6 billion in 2019 to USD 136.2 billion in 2020, thereof USD 2.3 billion is due to currency translation effects. The rest of the increase is mainly driven by favorable equity performance and new business in Ireland and Isle of Man, good equity performance in Germany and new business in Italy.

Cash and cash equivalents increased by USD 3.3 billion from USD 8.0 billion as of December 31, 2019 to USD 11.3 billion as of December 31, 2020 driven by higher operational cash.

Receivables from derivative financial instruments increased by USD 0.5 billion from USD 1.2 billion as of December 31, 2019 to USD 1.8 billion as of December 31, 2020, mainly driven by decreasing interest rates in Europe, and additions mostly in Germany of USD 0.2 billion.

The market value of **Reinsurers' share of best estimate of provisions** for insurance liabilities increased by USD 2.5 billion from USD 21.2 billion in December 31, 2019 to USD 23.8 billion in December 31, 2020 mostly driven by the non-life business.

- **Direct insurance: non-life insurance business** increased by USD 1.7 billion from USD 9.6 billion in 2019 to USD 11.3 billion in 2020 primarily driven by property catastrophe losses in the U.S., adverse development on large property and liability claims and adverse development in liability.
- **Reinsurance: non-life insurance business** increased by USD 1.0 billion from USD 5.1 billion in 2019 to USD 6.1 billion in 2020. This change in retrocessions is mainly driven by Commercial as a result of large losses and Group Reinsurance mostly due to COVID-19. Also, the depreciation of USD, in particular against CHF, contributed to the total increase.

E.2.2 Evolution of liabilities since 2019

Best estimate of insurance liabilities

The market-consistent value of best estimate of provisions for insurance liabilities increased by USD 26.8 billion from USD 293.8 billion as of December 31, 2019 to USD 320.6 billion as of December 31, 2020.

Direct insurance: life insurance business (excluding unit linked life insurance) increased by USD 10.2 billion from USD 101.9 billion as of December 31, 2019 to USD 112.1 billion as of December 31, 2020. The majority of the increase (USD 8.2 billion) is due to currency translation effects. The residual increase is due to new business growth, operating assumption updates in Japan, and policyholder share of gains coming from a reduction in credit spreads. These impacts are mostly offset by the model improvements in Germany.

Direct insurance: unit-linked life insurance business increased by USD 9.9 billion from USD 122.7 billion in 2019 to USD 132.6 billion in 2020, thereof USD 2.3 billion is due to currency translation effects. The increase is mainly driven by favorable market movements and new business in Ireland and Isle of Man, good fund performance in Germany and new business in Italy.

Direct insurance: non-life insurance business increased by USD 6.6 billion from USD 63.0 billion in 2019 to USD 69.6 billion in 2020. The increase was mostly due to economic factors, where lower discount rates caused an increase of USD 2.9 billion that impacted mainly the U.S., and the depreciation of the USD against other major currencies of USD 1.8 billion. The remaining increase of USD 1.9 billion is due to an increase of nominal reserves, to a large extent as a result of COVID-19, and adverse developments mainly in North America following catastrophe losses in property and adverse development in liability.

Total other liabilities

The market-consistent value of other liabilities increased by USD 4.0 billion from USD 41.6 billion as of December 31, 2019 to USD 45.6 billion as of December 31, 2020.

Subordinated debts increased by USD 1.9 billion from USD 10.1 billion as of December 31, 2019 to USD 11.9 billion as of December 31, 2020 mainly due to issuance of new debt of USD 1.2 billion eligible as capital for general corporate purposes and currency translation effect.

The increase in **Interest-bearing liabilities** of USD 1.0 billion from USD 5.9 billion in 2019 to USD 6.9 billion in 2020 mostly driven by unfavorable currency movements of USD 0.5 billion and issuance of a new senior debt in the U.S.

E.2.3 Changes in MCBS valuation methodology in 2020

In 2020, ZIC Ltd amended its valuation methodology to apply the FINMA-allowed risk-free yield curves for SST. This change in methodology resulted in USD 0.7 billion increase in Group's risk-bearing capital, predominantly due to a positive impact on best estimate of life insurance liabilities of USD 1 billion partially offset by the negative impact of USD 0.3 billion on best estimate of non-life insurance liabilities. Please further refer to the table disclosed in section G. Solvency of this report.

E. Valuation (continued)

E.2.4 Market-consistent value of assets

Market-consistent value of investments

Under IFRS, investments are measured at fair value, amortized cost or using the equity method. In addition, IFRS requires fair value disclosures for financial assets that are not measured at fair value. The MCBS value of investments reflects fair value determined in accordance with the overarching valuation principles outlined in section E.1.

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total IFRS value of investments		**211,227**
Fixed income securities	Bonds held-to-maturity measured at fair value in MCBS.	727
Mortgages	Mortgage loans measured at fair value in MCBS.	422
Loans	Other loans measured at fair value in MCBS.	1,786
Other investments	Own shares are not recognised in SST.	(829)
Total market-consistent value of Investments (SST)		**213,333**

Market-consistent value of financial investments from unit-linked life insurance

The investments for unit-linked insurance are measured at fair value under both IFRS and MCBS. Therefore, no measurement difference arises in MCBS.

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total IFRS value of financial investments from unit-linked life insurance		**135,550**
Financial investments from unit-linked life insurance	The reclassification to held for sale is not applicable in MCBS.	666
Total market-consistent value of financial investments from unit-linked life insurance (SST)		**136,217**

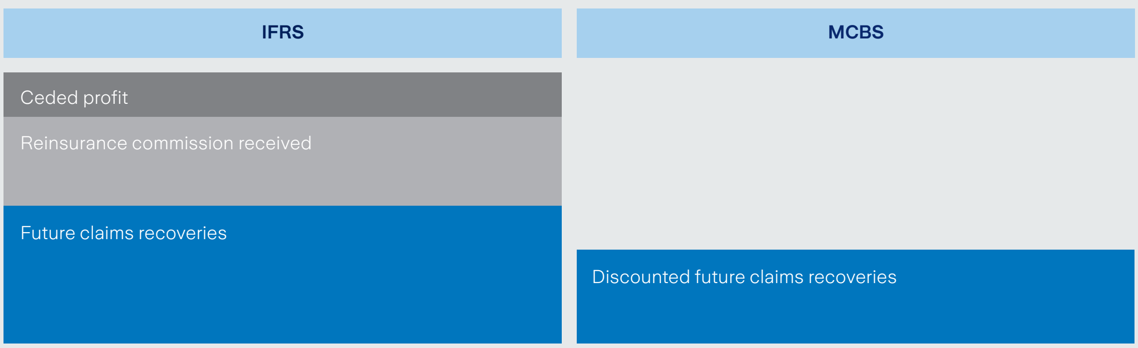
Market-consistent value of reinsurers' share of best estimate of provisions for insurance liabilities

Similar to IFRS, the calculation of the best estimate for reinsurance assets and insurance liabilities is performed on a gross basis in MCBS (i.e., no offsetting of assets with liabilities). However, the MCBS valuation is based on the actuarial discounted best estimate of future cash flows, taking into account the lifetime expected credit losses. The calculation of the expected credit loss allowance considers the rating of the reinsurance counterparty, the expected timing of future recoveries and the expected value of any collateral held.

Reinsurers' share of best estimate unearned premium reserve

Under IFRS, the reinsurers' share of the unearned premium reserve (UPR) represents the portion of the ceded premiums related to the unexpired coverage period. Under MCBS, the ceded UPR shall only reflect a market-consistent value for future claims recoveries. The illustration below provides the breakdown of ceded UPR where ceded IFRS UPR reflects the premium paid (less commission received) for the remaining bound period and the adjustments performed to arrive at the MCBS value for ceded UPR.

Illustrative break-down of ceded Unearned Premium Reserve (UPR)



E. Valuation (continued)

Reinsurers' share of property and casualty loss reserves

Under IFRS, reinsurance assets for ceded loss reserves are already held at best estimate (i.e., sum of all expected future recoveries), but generally not discounted. To make these assets market-consistent, the future cash flows are discounted while taking into account the timing of these future cash flows and expected credit losses.

Reinsurers' share of life benefits

In order to determine the SST MCBS value of best estimate ceded reserves of life insurance and investment contracts, the following generally applies:

- The best estimate of future cash flows is based on the principles discussed in the 'best estimate of life investment and insurance liabilities' section;
- The SST MCBS value for ceded reserves only reflects the market-consistent value for future claims recoveries, i.e., only present value of future cash flows to be reimbursed by the reinsurer; and
- If the reinsurer's credit risk is not included in the best-estimate future cash flows, the expected credit loss allowance is considered.

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total Best estimate of Reinsurers' share of best estimate of insurance liabilities (IFRS)		**25,523**
Reinsurers' share of best estimate of insurance liabilities -unit-linked life insurance business	Valuation differences.	(3,501)
	The reclassification to held for sale is not applicable in MCBS.	1,731
Total Best estimate of Reinsurers' share of best estimate of insurance liabilities (SST)		**23,753**

Market-consistent value of other assets

Under IFRS, other assets include deferred acquisition costs (DAC), deferred tax assets, goodwill and other intangible assets, which are valued at zero in the MCBS. Real estate held for own use is measured at cost less depreciation and impairment, whereas the MCBS value reflects fair value. Right-of-use assets are reported at IFRS carrying value (i.e. cost less depreciation and impairment) provided this is a reasonable proxy for fair value. Otherwise, if there is a major change in the market prices for comparable leases observed since inception, the MCBS value is determined considering current rental prices for comparable property and current interest rates for high-quality corporate bonds.

Cash and cash equivalents are presented at IFRS carrying value because such balances are current and solely held for the purpose of meeting short-term (operational) cash commitments.

Deposits made under assumed reinsurance contracts, receivables from insurance business and other receivables are valued at the IFRS carrying value, provided this is a reasonable proxy for fair value (i.e., the balances are subject to only insignificant risk of changes in value and settlement is expected to occur generally within three months and no more than twelve months). In this case, the IFRS carrying value is reported net of credit impairment allowance. Otherwise, the value is based on fair value (including credit risk) using the IFRS valuation principles.

Derivative financial instruments are measured at fair value under both IFRS and MCBS.

The reclassification of assets for USD 2.5 billion to the held for sale category under IFRS is not applicable in MCBS.

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total IFRS value of other assets (excluding Financial investments from unit-linked life insurance & Reinsurers' share of best estimate of provisions for insurance liabilities)		**68,208**
Other assets	Deferred acquisition costs: Value set to zero in MCBS.	(20,004)
	Deferred origination costs: Value set to zero in MCBS.	(426)
	Deferred tax assets: Value set to zero in MCBS.	(1,314)
	Goodwill and other intangible assets: Value set to zero in MCBS.	(9,345)
	Valuation differences of Deposits made under assumed reins. Contracts	91
	Reclassification to Other liabilities	(257)
	Property and equipment: Real estate held for own use is at fair value in MCBS.	376
	The reclassification to held for sale is not applicable in MCBS.	(2,506)
	Other	1
Total value of other assets (SST) (excluding Financial investments from unit-linked life insurance & Reinsurers' share of best estimate of provisions for insurance liabilities)		**34,823**

E. Valuation (continued)

E.2.5 Market-consistent value of liabilities

Best estimate of insurance liabilities

Best estimate of unearned premium reserves

Under IFRS, the unearned premium reserve (UPR) represents the portion of the premiums written related to the unexpired coverage period. The UPR typically relates to one year of premiums invoiced, which is also the case for multi-year contracts where only the first year is recognized and not the entire contractual future premium volume due in future periods. This reserve covers expected future losses, loss adjustment and policy administration expenses as well as underwriting profits for contracts in force. To arrive at the MCBS value for UPR, the following adjustments are made:

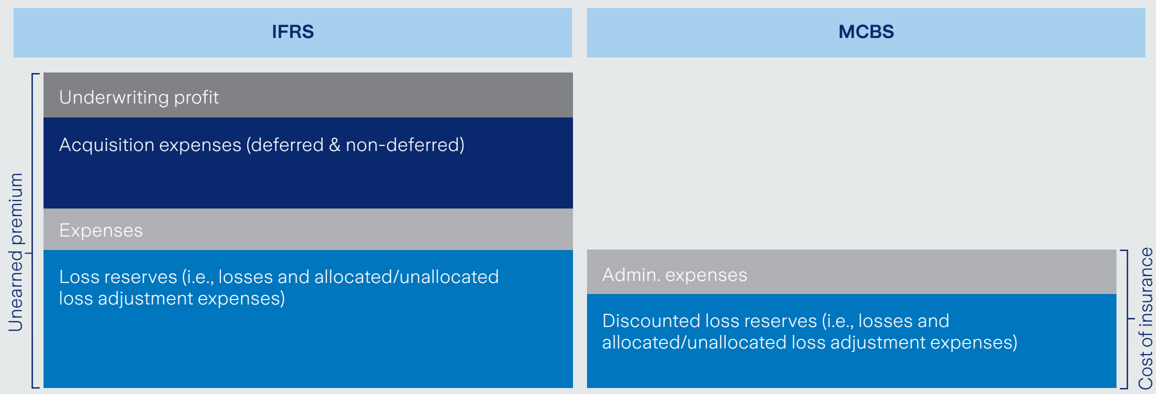
- Expected future losses (including loss adjustment expenses) are discounted;
- Underwriting profits are not included, as these do not represent future cash flows; and
- Future administration expenses only encompass the estimated costs to administer and maintain the insurance policy over the remaining coverage period. Consequently, any deferred or non-deferred acquisition-related costs (such as commissions, sales and distribution management, underwriting, risk engineering, and marketing costs) are excluded. Further, claims settlements costs are not included in administration expenses as such costs are typically part of future losses. Similarly, amortization of DAC and intangible assets is not included because DAC and intangible assets are set to zero in MCBS.

The illustration below provides the breakdown of the UPR where IFRS UPR reflects the unearned premium for the remaining bound period and the adjustments performed to arrive at the MCBS value for UPR.

Derivative financial instruments are measured at fair value under both IFRS and MCBS.

The reclassification of assets for USD 2.0 billion to the held for sale category under IFRS is not applicable in MCBS.

Illustrative breakdown of Unearned Premium Reserve (UPR)



For multi-year contracts, the determination of the best estimate of UPR requires an additional adjustment to reflect the net present value of the future cash flows from the bound multi-year contracts. The adjustment is determined using as a volume metric all unearned premiums (invoiced and not invoiced) with the best estimate of cost of insurance discounted using a discount factor reflective of the expected cash flows over the duration of the underlying insurance contracts and the discounted future premium not yet invoiced less attributable future acquisition expenses included as an inflow.

Best estimate of loss reserves

Reserves for losses under IFRS represent estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Such reserves are not discounted, except reserves for claims with payment patterns that are fixed and reasonably determinable. Reserves are held at best estimate including recoverable for salvage and subrogation, supplemented by a provision for model and parameter uncertainty under IFRS.

In order to derive a market-consistent value, best estimate loss reserves are discounted using a risk-free rates whereby the cash-flow pattern (i.e., timing of the estimated future cash flows) is adequately considered. In cases where the reserves are already presented on a discounted basis under IFRS (e.g., non-life annuities), the discounting is reversed and re-performed using the risk-free rates.

E. Valuation (continued)

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total Best estimate of non-Life insurance liabilities (IFRS)		**(82,055)**
Non-Life insurance liabilities	Valuation differences.	10,636
	The reclassification to held for sale is not applicable in MCBS.	(1,731)
Total Best estimate of non-Life insurance liabilities (SST)		**(73,150)**

Best estimate of life investment and insurance liabilities

Generally, the SST MCBS value of all unit-linked and non-unit-linked investments, as well as life insurance liabilities, is based on a bottom-up best estimate projection of future cash flows excluding any expected non-guaranteed surpluses or discretionary benefits. Any options and guarantees provided to the policyholder are valued on a market-consistent basis. Specifically, cash flow projections are made over the estimated contract period for the in-force portfolio (i.e., current policyholder base at valuation date) subject to the contractual contract boundary and in line with the principles for best estimate:

– Economic assumptions: expected asset return, discount rate, and inflation rate, stochastic economic simulations;
– Non-economic assumptions: demographic assumptions (mortality, morbidity), persistency, expense assumptions and dynamic bonus rates/profit sharing rates (where legally or contractually obligated).

Cash flow projections may vary, depending on the product. Contractually guaranteed benefits to be paid to policyholders – whether on surrender, maturity, death, morbidity or disability – increase the best estimate of life investment and insurance liabilities, as do taxes paid on behalf of policyholders, maintenance expenses and future commissions. Projected future premiums, fees and charges expected to be received from policyholders for existing business reduce the best estimate of life investment and insurance liabilities.

Best estimate of life insurance liabilities can be negative, for example, in protection business where projected regular premiums may often exceed expected death benefits and expenses on a best estimate basis. Because the own fulfilment value of an insurance or reinsurance obligation may be lower than the surrender values of the underlying contracts, no implicit or explicit surrender value floor is assumed for the market-consistent value.

Realistic assumptions about management's behavior are used, e.g., assuming management discretion when capital gains on invested assets are realized or changes in asset allocation are made. In cases where management actions, as considered in the scenario modelling, would be subject to regulatory approval (e.g., potential cancellation of policyholder dividends), the assumptions used when interpreting local supervisory guidance are verified by the local regulator or external audit.

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total Best estimate of life insurance liabilities (IFRS)		**(266,116)**
Life insurance liabilities	Valuation differences.	15,595
Direct insurance: unit-linked life insurance business	Valuation differences.	4,315
	The reclassification to held for sale is not applicable in MCBS.	(620)
Total Best estimate of life insurance liabilities (SST)		**(246,826)**

Best estimate of provisions for other business

The difference between IFRS and MCBS is explained by the liability reflecting the negative value of the insurance business acquired reported under IFRS which is valued at zero in the MCBS, similar to other intangible assets recognized as part of a business combination.

Market-consistent value of other liabilities

Interest-bearing liabilities are measured in the MCBS based on risk-free rates where the future cash flows are considered over the remaining period until the earliest contractual redemption date. In case where a quoted market price is available and used, the market price is adjusted to eliminate own credit spread. Accrued interests on interest bearing liabilities are reported as a separate position in the MCBS.

Subordinated debt instruments eligible as supplementary capital under SST are measured at market-consistent value using the IFRS valuation principles. In case where a quoted market price is available and used, the market price is not adjusted to eliminate own credit spread. The accrued interest is not reported separately and is included in the MCBS carrying value.

E. Valuation (continued)

Other liabilities include deferred front-end fees and deferred taxes (other than deferred tax on Swiss real estate transfers attributable to shareholders) that are valued at zero in the MCBS.

The market-consistent valuation of non-controlling interests is determined based on the MCBS of the underlying entities and presented separately as a liability position.

Non-technical provisions include liabilities for defined benefit pension plans measured using actuarial techniques under IFRS. Such liabilities are held at the IFRS carrying value in the MCBS.

Other non-technical provisions are held at best estimate under IFRS. To the extent such provisions are discounted, the market-consistent value is calculated by reversing the discounting effect and re-performing discounting using risk-free rates.

Lease liabilities are measured as the present value of future lease payments for the remaining lease term, discounted at risk-free rates without consideration of own credit risk.

Derivative financial instruments are measured at fair value under both IFRS and MCBS.

Obligation to repurchase securities, deposits retained on ceded reinsurance and liabilities from the insurance business are valued at IFRS carrying value as the balances are expected to be subject to only insignificant risk of changes in value and settled within a relatively short time frame (generally, within three months and under no circumstances exceeding twelve months). Otherwise, the MCBS value is based on fair value (excluding credit risk) using the IFRS principles.

The market-consistent value of other liabilities is generally determined using IFRS carrying value in accordance with the overarching valuation principles outlined in section E.1.

The reclassification of liabilities for USD 2.5 billion as held for sale under IFRS is not applicable in MCBS.

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total IFRS value of other liabilities		**(53,960)**
Interest bearing liabilities	Valuation differences	(692)
Deposit liabilities from ceded reinsurance	Valuation differences	84
Subordinated liabilities	Valuation differences	(3,626)
Other Liabilities	Non-contolling interest	(786)
	The reclassification to held for sale is not applicable in MCBS.	2,469
	Valuation differences	107
	Reclassification from Other assets	257
	Lease liabilities	(209)
Accrued liabilities	Deferred taxes (other than deferred tax on Swiss real estate transfers attributable to shareholders): Valued set to zero in MCBS.	4,641
	Deferred gains: Value set to zero in MCBS.	48
	Deferred front-end fees: Value set to zero in MCBS.	5,372
	Accrued interest	130
Non-technical provisions	Long-Term incentive plan is not recorded in ZIC SST, nor own shares	611
Other		2
Total market-consistent value of other liabilities (SST)		**(45,551)**

F. Capital management

With regard to the enterprise risk management, the principles of the Group's capital management are equally applicable to ZIC Group. This section should therefore be read in conjunction with the Group's Financial Condition Report, section 'F. Capital management', page 23.

F.1 Capital management objectives

Zurich manages capital to maximize long-term shareholder value while maintaining financial strength within its 'AA' target range, and meeting regulatory, solvency and rating agency requirements.

As of December 31, 2020, International Financial Reporting Standards (IFRS) ZIC Group's shareholders' equity amounted to USD 37.5 billion and subordinated debt of USD 8.3 billion.

ZIC Group strives to simplify its legal entity structure to reduce complexity and increase fungibility of capital.

Additional details on **Capital management objectives, Capital management framework,** and **Capital management program**, are disclosed in the Risk review of ZIC Group's Annual Report 2020, on page 6. For more information regarding the **Insurance financial strength rating** and **Regulatory capital adequacy**, please see the Risk review in ZIC Group's Annual Report 2020 on page 7.

F.2 Regulatory capital adequacy

Zurich endeavors to manage its capital so that its regulated entities meet local regulatory capital requirements. In each country in which Zurich operates, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in addition to their liabilities. In addition to the minimum capital required to comply with the solvency requirements, Zurich aims to hold an adequate buffer under local solvency requirements to ensure regulated subsidiaries can absorb a level of volatility and meet local capital requirements.

The Swiss Solvency Test (SST) adopts a risk-based and total balance sheet approach. Insurance companies that are part of the ZIC Group in Switzerland are required to provide a market-consistent assessment of the value of their assets and liabilities. Possible changes to these balance sheet positions are modelled over a one-year period to arrive at the total required capital.

Under SST, insurance companies and insurance groups can apply to use company-specific internal models to calculate risk-bearing and target capital, as well as the SST ratio. The SST ratio must be calculated as per January 1 and submitted to FINMA.

Additional information related to **Regulatory solvency regimes** are disclosed in ZIC Group's Annual Report on page 7.

G. Solvency

The Swiss Solvency Test (SST) is a principle-based, risk-sensitive supervision framework reflecting:

– A market-consistent view of the financial resources available to meet policyholder obligations – referred to as risk-bearing capital or RBC
– A view of the impact of the potential risks inherent to the regulated business – referred to as target capital and defined as an expected shortfall at a 99-percent confidence level over a one-year time horizon.

The SST compares risk-bearing capital with target capital by calculating of a ratio (the 'SST ratio'). The solvency test indicates whether the level of risk-bearing capital is sufficient to reduce the probability of policyholder impairment to a level consistent with regulatory objectives.

In 2020, Zurich applied for the use of the risk-free yield curves in line with paragraph 46 of FINMA's Circular 2017/3 ("SST") for the main currencies of USD, EUR, GBP and CHF. FINMA approved the use of these risk-free yield curves starting from the end of Q1 2020. The below table summarizes the effects of the change to FINMA-allowed risk-free yield curves on the Group's risk-bearing and target capital:

SST ratio and underlying components

USD billions	January 1st, 2021	January 1st, 2020 restated	January 1st, 2020 as published
Target capital	32.0	25.7	24.7
Risk-bearing capital	50.2	46.6	46.0
Risk margin	9.6	8.2	9.6
Target capital less Risk margin	**22.4**	**17.5**	**15.1**
Risk-bearing capital less Risk margin	40.7	38.5	36.4
SST ratio	**181%**	**219%**	**241%**

Based on the approved SST internal model, the SST ratio as of January 1, 2021 stands at 181 percent. It decreased by 38 percentage points compared to SST ratio as of January 1, 2020 restated at FINMA-allowed risk-free yield curves. Strong operational capital generation from the economic profit and business growth, net of experience variances, contributed 21 percentage points to the ZIC SST ratio. Negative impact of 5 percentage points is related to COVID-19 losses and excess catastrophes. Unfavorable market movements and risk parameters update during the year reduced the ratio by 45 percentage points, largely due to a low interest rate environment and elevated financial market volatility. Minor model changes and assumptions updates increased the ratio by 1 percentage point. Dividend accrual net of debt issuance and repayments reduced the ratio by a further 10 percentage points.

Solvency

in USD millions, for the years ended December 31	2019	Adjustments Previous year	**2020**
Derivation of risk-bearing capital			
Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	39,587		41,930
Deductions	(2,995)		(2,939)
Core capital	**36,592**		**38,991**
Supplementary capital	9,369		11,248
Risk-bearing capital	**45,961**		**50,238**
Derivation of target capital			
Underwriting risk	10,766		11,473
Market risk	12,263		13,751
Diversification effects	(3,923)		(4,279)
Credit risk[1]	6,958		10,343
Risk margin and other effects on target capital[2]	(1,378)		732
Target capital	**24,687**		**32,020**
SST ratio[3]	**241%**		**181%**

1 Credit risk includes investment credit risk, reinsurance and receivables.
2 Risk margin accounts for USD 9,568 million, other effects on target capital include diversification effects between credit risk and other risk types, and other risk models.
3 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.

G. Solvency (continued)

Target capital by risk type

in USD millions, for the years ended December 31	2019	Adjustments previous period	2020
Insurance risk derivation of target capital			
Premium and reserve risk (including UPR risk)	6,608		7,117
Nat Cat	3,944		4,527
Life insurance liabilities	3,954		3,885
Business risk	4,875		5,326
Diversification	(8,614)		(9,382)
Total	**10,766**		**11,473**
Market risk derivation of target capital			
Equity risk	3,947		4,984
Interest rate risk	7,277		5,214
Exchange rate risk	2,527		2,433
Credit spread risk	4,107		9,101
Other	11,671		16,545
Diversification	(13,610)		(18,260)
Total (including investment credit risk)	**15,919**		**20,017**
thereof			
Market risk (excluding investment credit risk)	12,263		13,751
Investment credit risk	6,785		10,113
Credit risk derivation of target capital			
Investment credit risk	6,785		10,113
Reinsurance credit risk & receivables	849		977
Diversification	(676)		(748)
Total	**6,958**		**10,343**

Appendix 1: Quantitative templates

Income Statement Zurich Insurance Company Ltd Total and Direct Swiss Business

In CHF millions, for the years ended December 31

		Total		Accident	
		2019	2020	2019	2020
1	Gross written premiums and policy fees	14,286	14,995	357	416
2	Premiums ceded to reinsurers	(3,839)	(3,804)	(7)	(6)
3	Net written premiums and policy fees (1 + 2)	10,448	11,192	350	409
4	Change in reserves for unearned premiums, gross	(246)	(283)	–	–
5	Change in reserves for unearned premiums, ceded	82	55	–	–
6	Net earned premiums and policy fees (3 + 4 + 5)	10,283	10,963	350	410
7	Other income[1]	1,117	1,173	29	33
8	**Total technical income (6+7)**	**11,400**	**12,136**	**378**	**442**
9	Claims paid, annuities and loss adjustment expenses, gross	(11,302)	(9,469)	(290)	(137)
10	Claims paid, annuities and loss adjustment expenses, ceded	2,210	1,901	4	3
11	Change in insurance reserves, gross	2,044	(1,019)	46	(175)
12	Change in insurance reserves, ceded	243	621	3	(1)
13	Change in actuarial provisions for unit-linked contracts				
14	**Insurance benefits and losses, net of reinsurance (9 + 10 + 11 + 12 + 13)**	**(6,804)**	**(7,966)**	**(237)**	**(310)**
15	Underwriting & policy acquisition costs, gross	(3,111)	(3,266)	(26)	(41)
16	Underwriting & policy acquisition costs, ceded	331	519	–	–
17	Underwriting & policy acquisition costs, net of reinsurance (15 + 16)	(2,780)	(2,747)	(26)	(41)
18	Administrative and other expense[1]	(2,142)	(1,892)	(55)	(52)
19	**Total technical expense (14 + 17 + 18) (non-life insurance only)**	**(11,727)**	**(12,604)**	**(318)**	**(404)**
20	Investment income	5,165	4,297		
21	Investment expenses	(340)	(845)		
22	**Net investment result (20 + 21)**	**4,825**	**3,452**		
23	Net investment result on unit-linked investments	–	–		
24	Other financial income	447	978		
25	Other financial expense	(460)	(966)		
26	**Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)**	**4,485**	**2,996**		
27	Interest expense on debt and other interest expense	(610)	(523)		
28	Other income	–	–		
29	Other expense	–	–		
30	Extraordinary income/expense	–	–		
31	**Net income before taxes (26 + 27 + 28 + 29 + 30)**	**3,875**	**2,472**		
32	Direct tax expenses	(161)	(112)		
33	**Net income after taxes (31 + 32)**	**3,714**	**2,361**		

1 Line items 7 and 18: lines of business allocated according to the gross written premium

Appendix 1: Quantitative templates (continued)

Direct Swiss business											
	Illness		Motor vehicle		Transport		Fire, natural hazards, property damage		General third-party liability		Other branches
2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
330	478	1,016	1,017	26	29	331	381	282	279	122	113
–	–	(1)	–	(4)	(3)	(22)	(2)	(2)	(24)	(64)	(30)
330	478	1,015	1,016	22	26	309	380	280	255	57	83
–	1	(1)	(7)	–	(1)	–	(4)	(5)	3	(19)	8
–	–	–	–	–	–	–	(3)	(3)	(8)	17	11
330	479	1,014	1,009	22	25	309	373	272	251	56	102
26	37	80	80	2	2	26	30	23	22	10	9
355	**516**	**1,094**	**1,088**	**24**	**27**	**335**	**403**	**295**	**273**	**65**	**111**
(274)	(370)	(579)	(572)	(10)	(10)	(173)	(216)	(117)	(144)	(65)	(103)
–	–	1	–	2	–	(1)	(2)	2	1	6	10
(15)	(146)	95	93	1	(2)	7	(50)	–	34	13	(52)
–	–	–	–	(1)	2	(10)	10	(2)	4	(12)	6
(289)	**(516)**	**(483)**	**(479)**	**(8)**	**(10)**	**(177)**	**(258)**	**(117)**	**(105)**	**(57)**	**(139)**
(25)	(41)	(167)	(185)	(5)	(8)	(78)	(100)	(44)	(70)	(14)	(21)
–	–	–	–	1	–	2	–	2	–	3	2
(25)	(41)	(166)	(185)	(4)	(7)	(76)	(100)	(42)	(69)	(11)	(19)
(49)	(60)	(154)	(128)	(4)	(4)	(50)	(48)	(43)	(35)	(18)	(14)
(363)	**(618)**	**(803)**	**(793)**	**(16)**	**(21)**	**(303)**	**(406)**	**(203)**	**(210)**	**(86)**	**(172)**

Appendix 1: Quantitative templates (continued)

Income Statement Zurich Insurance Company Ltd Direct Foreign Business and Assumed Business

In CHF millions, for the years ended December 31

		Direct non-Swiss business, total	
		2019	**2020**
1	Gross written premiums and policy fees	1,964	2,082
2	Premiums ceded to reinsurers	(1,087)	(1,082)
3	Net written premiums and policy fees (1 + 2)	877	1,000
4	Change in reserves for unearned premiums, gross	(100)	(111)
5	Change in reserves for unearned premiums, ceded	64	40
6	Net earned premiums and policy fees (3 + 4 + 5)	842	929
7	Other income[1]	151	163
8	**Total technical income (6+7)**	**993**	**1,092**
9	Claims paid, annuities and loss adjustment expenses, gross	(1,129)	(1,055)
10	Claims paid, annuities and loss adjustment expenses, ceded	577	453
11	Change in insurance reserves, gross	16	85
12	Change in insurance reserves, ceded	34	(79)
13	Change in actuarial provisions for unit-linked contracts		
14	**Insurance benefits and losses, net of reinsurance (9 + 10 + 11 + 12 + 13)**	**(502)**	**(596)**
15	Underwriting & policy acquisition costs, gross	(476)	(500)
16	Underwriting & policy acquisition costs, ceded	142	337
17	Underwriting & policy acquisition costs, net of reinsurance (15 + 16)	(334)	(163)
18	Administrative and other expense[1]	(290)	(263)
19	**Total technical expense (14 + 17 + 18) (non-life insurance only)**	**(1,126)**	**(1,021)**
20	Investment income		
21	Investment expenses		
22	**Net investment result (20 + 21)**		
23	Net investment result on unit-linked investments		
24	Other financial income		
25	Other financial expense		
26	**Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)**		
27	Interest expense on debt and other interest expense		
28	Other income		
29	Other expense		
30	Extraordinary income/expense		
31	**Net income before taxes (26 + 27 + 28 + 29 + 30)**		
32	Direct tax expenses		
33	**Net income after taxes (31 + 32)**		

1 Line items 7 and 18: lines of business allocated according to the gross written premium

Appendix 1: Quantitative templates (continued)

													Indirect business
Personal accident		Health		Motor		Marine, aviation, transport		Property		Casualty		Miscellaneous	
2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
302	284	34	32	1,431	1,325	290	273	3,805	3,768	1,929	2,013	2,067	2,504
(6)	(5)	–	–	(26)	(30)	(88)	(74)	(1,663)	(1,751)	(459)	(496)	(410)	(301)
296	280	34	32	1,405	1,296	202	199	2,142	2,017	1,471	1,517	1,657	2,203
(3)	4	(1)	(1)	(12)	17	(18)	(6)	(106)	(145)	(66)	(57)	85	16
–	–	–	–	(3)	1	7	(2)	31	23	(22)	4	(8)	(11)
293	284	33	30	1,390	1,313	191	191	2,067	1,896	1,382	1,464	1,734	2,208
24	22	3	2	112	104	23	21	297	295	151	157	162	196
317	**306**	**36**	**33**	**1,502**	**1,417**	**213**	**212**	**2,365**	**2,190**	**1,533**	**1,622**	**1,895**	**2,403**
(442)	(350)	(36)	(26)	(1,312)	(998)	(185)	(120)	(2,031)	(1,868)	(2,728)	(1,715)	(1,932)	(1,784)
1	2	–	–	24	19	50	37	981	737	179	239	385	402
444	332	23	11	395	82	69	7	(181)	(510)	1,445	(278)	(314)	(451)
–	(1)	–	–	3	(7)	(12)	(20)	(85)	378	100	493	225	(164)
3	**(18)**	**(13)**	**(15)**	**(889)**	**(903)**	**(79)**	**(97)**	**(1,316)**	**(1,263)**	**(1,003)**	**(1,261)**	**(1,637)**	**(1,997)**
(94)	(92)	(8)	(8)	(466)	(439)	(61)	(64)	(712)	(701)	(436)	(492)	(501)	(503)
–	–	–	–	2	2	4	7	119	113	24	26	33	31
(94)	(92)	(8)	(8)	(464)	(437)	(56)	(57)	(593)	(589)	(412)	(467)	(467)	(472)
(45)	(36)	(5)	(4)	(215)	(167)	(44)	(34)	(571)	(475)	(289)	(254)	(310)	(316)
(137)	**(145)**	**(26)**	**(27)**	**(1,568)**	**(1,507)**	**(179)**	**(189)**	**(2,480)**	**(2,327)**	**(1,705)**	**(1,982)**	**(2,414)**	**(2,784)**

Appendix 1: Quantitative templates (continued)

Market-Consistent Balance Sheet

in USD millions, for the years ended December 31	2019	Adjustments previous period	2020
Market-consistent value of investments			
Real estate	13,261		14,749
Participations	39		43
Fixed-income securities	126,426		141,199
Loans	9,832		10,282
Mortgages	6,350		6,205
Equities	8,408		8,261
Other investments	31,680		32,594
Collective investment schemes	4,620		5,101
Alternative investments	8,937		10,891
Structured products	–		–
Other investments	18,123		16,602
Total Investments	**195,996**		**213,333**
Market-consistent value of other assets			
Financial investments from unit-linked life insurance	126,591		136,217
Receivables from derivative financial instruments	1,226		1,763
Deposits made under assumed reinsurance contracts	783		594
Cash and cash equivalents	8,021		11,300
Reinsurers' share of best estimate of provisions for insurance liabilities	21,227		23,753
Direct insurance: life insurance business (excluding unit linked life insurance)	6,175		5,928
Reinsurance: life insurance business (excluding unit linked life insurance)	381		366
Direct insurance: non-life insurance business	9,580		11,334
Direct insurance: health insurance business	–		–
Reinsurance: non-life insurance business	5,090		6,147
Reinsurance: health insurance business	–		–
Direct insurance: other business	–		–
Reinsurance: other business	1		1
Direct insurance: unit-linked life insurance business	–		(24)
Reinsurance: unit-linked life insurance business	–		–
Fixed assets	3,008		3,080
Deferred acquisition costs	–		–
Intangible assets	–		–
Receivables from insurance business	9,540		9,817
Other receivables	3,983		3,807
Other assets	1,285		1,097
Unpaid share capital	–		–
Accrued assets	3,297		3,365
Total other assets	**178,962**		**194,793**
Total market-consistent value of assets	374,958		408,126

Appendix 1: Quantitative templates (continued)

Market-Consistent Balance Sheet

in USD millions, for the years ended December 31	2019	Adjustments previous period	2020
BEL: Best estimate liabilities (including unit linked life insurance)			
Best estimate of provisions for insurance liabilities	**(171,054)**		**(188,009)**
Direct insurance: life insurance business (excluding unit linked life insurance)	(101,913)		(112,081)
Reinsurance: life insurance business (excluding unit linked life insurance)	(2,045)		(2,109)
Direct insurance: non-life insurance business	(63,022)		(69,646)
Direct insurance: health insurance business	–		–
Reinsurance: non-life insurance business	(3,558)		(3,504)
Reinsurance: health insurance business	–		–
Direct insurance: other business	(508)		(663)
Reinsurance: other business	(7)		(7)
Best estimate of provisions for unit-linked life insurance liabilities	**(122,744)**		**(132,636)**
Direct insurance: unit-linked life insurance business	(122,744)		(132,636)
Reinsurance: unit-linked life insurance business	–		–
Market consistent value of other liabilities			
Non-technical provisions	(3,337)		(3,781)
Interest-bearing liabilities	(5,860)		(6,863)
Liabilities from derivative financial instruments	(365)		(481)
Deposits retained on ceded reinsurance	(911)		(826)
Liabilities from insurance business	(4,022)		(4,014)
Other liabilities	(12,534)		(13,018)
Accrued liabilities	(4,490)		(4,636)
Subordinated debts	(10,054)		(11,932)
Total BEL plus market-consistent value of other liabilities	(335,371)		(366,196)
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	39,587		41,930

Appendix 2: Report of the statutory auditor on the Group consolidated financial statements 2020

The Financial Condition Report is not audited.

The consolidated financial statements of ZIC Group, 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, 2020 (ZIC Group's Annual Report 2020, page 140) are audited and the report from the statutory auditor of ZIC Group can be found at: https://www.zurich.com/en/investor-relations/results-and-reports/other-statutory-filings.

Disclaimer and cautionary statement

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

Persons requiring advice should consult an independent adviser.

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