Financial Condition Report 2021

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 2021 of Zurich Insurance Group and Zurich Insurance Company Group, as well as the regulatory reporting of Zurich Insurance Company Ltd for the year 2021, 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, Ernst & Young Ltd (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.

Zurich Insurance Company Ltd (continued)

Overview

Business profile

Zurich Insurance Company Group which includes Zurich Insurance Company Ltd (ZIC or the Company) and its subsidiaries (collectively the ZIC Group) is the main operating carrier of Zurich Insurance Group (Zurich or the Group). Zurich is a leading multi-line insurer serving more than 55 million customers – both people and businesses - in more than 210 countries and territories. With about 56,000 employees, it provides a wide range of property and casualty, and life insurance products and services. ZIC writes direct property and casualty insurance business mainly in Switzerland, Canada, Hong Kong and Japan.

Total gross written premiums and policy fees

CHF 15.9bn

Net income after taxes

CHF 2.5bn

Net investment result

CHF 3.1bn

System of governance and enterprise risk management

Good corporate governance enables ZIC to create sustainable value for its shareholders, customers, employees and other 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.

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 methodology allows Zurich to assess risks in terms of severity and likelihood and supports the definition and implementation of mitigating actions.

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 maintained its strong rating level in 2021. As of December 31, 2021, the insurance financial strength rating of ZIC was 'AA/Stable' by S&P Global Ratings, 'Aa3/Stable' by Moody's, and 'A+(Superior)/Stable by A.M. Best.

Shareholder's equity

CHF 25.3bn

Swiss Solvency Test ratio as of January 1, 2022

SST 200%

Standard & Poor's financial strength rating as of December 31, 2021

AA/Stable[1]

1 S&P upgraded the insurance financial strength rating of ZIC on March 15, 2021, to AA /Stable.

Acronyms

AC	Audit Committee
AG	Aktiengesellschaft (stock company)
AGM	Annual General Meeting
APAC	Asia Pacific
Board	Board of Directors
BEL	best estimate liability
bn	billion
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHF	Swiss franc
CRO	Chief Risk Officer
DAC	deferred acquisition costs
EMEA	Europe, Middle East & Africa
ERM	Enterprise Risk Management
EUR	euro
EY	Ernst & Young Ltd
ExCo	Executive Committee
FCR	Financial Condition Report
FINMA	Swiss Financial Market Supervisory Authority FINMA
GBP	Great Britain pound
Group	Zurich Insurance Group Ltd (holding company)
IFRS	International Financial Reporting Standards
ISA	Swiss Insurance Supervision Act
ISO	Insurance Supervision Ordinance
Ltd	Limited
MCBS	market-consistent balance sheet
Nat Cat	natural catastrophes
P&C	Property and Casualty
PRA	Prudential Regulation Authority
SFCR	Solvency and Financial Condition Report
SIX	Swiss stock exchange
SST	Swiss Solvency Test
TRP	Total Risk Profiling™
UK	United Kingdom
UPR	unearned premium reserves
U.S.	United States
USD	United States dollar
Z-ECM	Zurich Economic Capital Model
ZIC Group	ZIC Ltd and its subsidiaries
ZIC	Zurich Insurance Company Ltd
Zurich	Zurich Insurance Group Ltd (holding company)

Introduction

How to read the report

The financial condition report of ZIC is prepared in compliance with Art. 25 ISA and FINMA's Circular 2016/2 'Disclosure – insurers'.

The report focuses on the 2021 financial year, and should be read in conjunction with the ZIC Group's Annual Report 2021 (available on www.zurich.com/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/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 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 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 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 given in FINMA's circular. It covers Zurich's business activities, performance, corporate governance and risk management, climate-related financial risks, risk profile, valuation, capital management and solvency. Quantitative information supporting the presentation of the 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 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.
- 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, 2021.
- 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 2021, 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 overview of ZIC' 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 'Governance' and risk management and in the section '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 groups that are presented 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 56,000 employees, it provides a wide range of property and casualty, and life insurance products and services in more than 210 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's financial results overview in 2021

ZIC reported a net income after taxes of CHF 2.5 billion in 2021, a 5 percent increase compared to 2020. This increase was mainly driven by a higher net earned premium of CHF 744 million, partially offset by a lower net investment result of CHF 360 million and lower other income of CHF 214 million.

Total gross written premiums and policy fees increased by CHF 924 million or 6 percent to CHF 15.9 billion for the year ended December 31, 2021. Direct gross written premiums and policy fees increased by CHF 476 million to CHF 5.3 billion mainly due to ongoing growth in Canada and Switzerland. Assumed gross written premiums and policy fees increased by CHF 448 million to CHF 10.6 billion mainly due to an increase in the Group internal reinsurance volume in 2021.

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 members of the Zurich Insurance Group Ltd Board of Directors (Board) and Executive Committee (ExCo) equally serve as members of the Board of Directors and Executive Committee of Zurich Insurance Company Ltd.

In 2021, the Group returned towards normality following the severe disruption of the previous year, successfully navigating through a dynamic environment as the risk landscape evolved rapidly, remaining operationally resilient and maintaining a focus on enabling its people to adapt and support its customers. The Group's integrated Enterprise Risk Management Framework supported effective risk identification and assessment to help protect our capital, liquidity, earnings, and reputation. The Group continued to apply its Risk Management expertise and tools, such as dynamic scenario and sensitivity analyses, to assess and proactively manage potential impacts. Using output from scenario assessments, the Group continues to develop, implement, and monitor actions to give optimal outcomes for our customers, shareholders and other stakeholders.

Sustainability and climate-related financial risks

Climate change is perhaps the most complex risk facing society today. It is intergenerational, international, and interdependent. The Group reports in line with the recommendation of the Financial Stability Board's Taskforce on Climate-related Financial Disclosure (TCFD). It outlines the Group's understanding of potential climate risk impacts to its insurance and investment activities and an assessment of the resilience of its strategy to climate-neutral world.

The Group assessed for the first time its portfolio-level climate risk scenario analysis (see Group Annual Report pages 142–152). Our initial scenario-based climate risk assessment has strengthened our understanding of the potential impacts of climate risk on our business. The assessment suggests our customer focused approach and diversified portfolios, supported by strong risk management practices, provide the resilience and flexibility to adapt to the impacts observed.

Sustainability, and therefore climate-related topics, are integrated into the existing governance structure and is an executive-level responsibility (see also Group Annual Report pages 132–133). It is ensured that climate change is discussed with the Group's Board and committees where and when required. In 2021, as part of regular strategy discussions, the Board requested a discussion of how major global forces stand to shape the future of our industry over a 10- to 15-year period. Considering the relevance of climate change to underwriting and investing activities and own operations, this topic was covered as part of the discussion. Outcomes of scenario-based climate risk assessments are considered as part of strategy setting processes.

The Group considers impacts from climate change as drivers for other risks, such as market or natural catastrophe risks, that are managed within existing risk management framework. The approach to managing climate risk is embedded in the multi-disciplinary Group-wide risk management framework, following the same objectives of informed and disciplined risk taking. The risk management framework is based on a governance process that sets forth clear responsibilities for taking, managing, monitoring and reporting risk (see also Group Annual Report pages 153–155).

Introduction (continued)

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 likelihood 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 inherent to the insurance business; such risk-taking needs to be made in an informed and disciplined way and within a pre-determined risk appetite and tolerance. This is the primary objective of Zurich's approach to risk management. Our integrated risk management framework enables the achievement of the Group's strategy by supporting effective risk identification and assessment that help protect capital, liquidity, earnings, and reputation.

The ZIC Group's solvency position has been disclosed on the basis of the Swiss Solvency Test (SST) ratio. 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. 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.

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.

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.

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 2021, the ZIC Group's SST risk-bearing capital increased by USD 0.6 billion to USD 50.8 billion as of January 1, 2022, compared to USD 50.2 billion as of January 1, 2021.

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, 2021, International Financial Reporting Standards (IFRS) shareholders' equity of USD 37.5 billion and subordinated debt of USD 9.8 billion were part of the capital available in the ZIC Group's SST risk-bearing capital. 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.

Zurich strives to simplify the Group's legal entity structure to reduce complexity and increase fungibility of capital.

The insurance financial strength rating (IFSR) of the Group's main operating entity, Zurich Insurance Company Ltd (ZIC) was upgraded by S&P to AA on March 15, 2021, because "ZIC's financial performance has sustainably improved" while also "improving its balance sheet resilience and capital-allocation discipline".

On October 1, 2021, AM Best revised the issuer credit rating (ICR) outlook of Zurich Insurance Group Ltd and its main subsidiaries to positive from stable. This "reflects Zurich's consolidated balance sheet strength, which AM Best assesses as very strong, as well as its strong operating performance, very favorable business profile and appropriate enterprise risk management".

As of December 31, 2021, the IFSR of Zurich Insurance Company Ltd, the main operating entity of the Group, was 'AA/Stable' by S&P Global Ratings, 'Aa3/Stable' by Moody's, and 'A+ (Superior)/Stable' by AM Best. AM Best ICR was 'aa-/positive'.

Introduction (continued)

Solvency

The Swiss Solvency Test (SST) adopts a risk-based and total balance sheet approach. Insurance companies 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 the 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.

The SST ratio as of January 1, 2022 stands at 200 percent (unaudited). It is filed with FINMA at the end of April 2022 and is subject to review by FINMA. ZIC met the regulatory solvency requirements in Switzerland throughout 2021.

In the SST ratio calculations as of January 1, 2022, no allowances have been made for the redemption of USD 1 billion of subordinated debt and issuance of USD 300 million of subordinated debt in January 2022. Further, no allowances have been made for the sale of part of the Italian life and pension back book which is subject to regulatory approval and is expected to be completed in 2022.

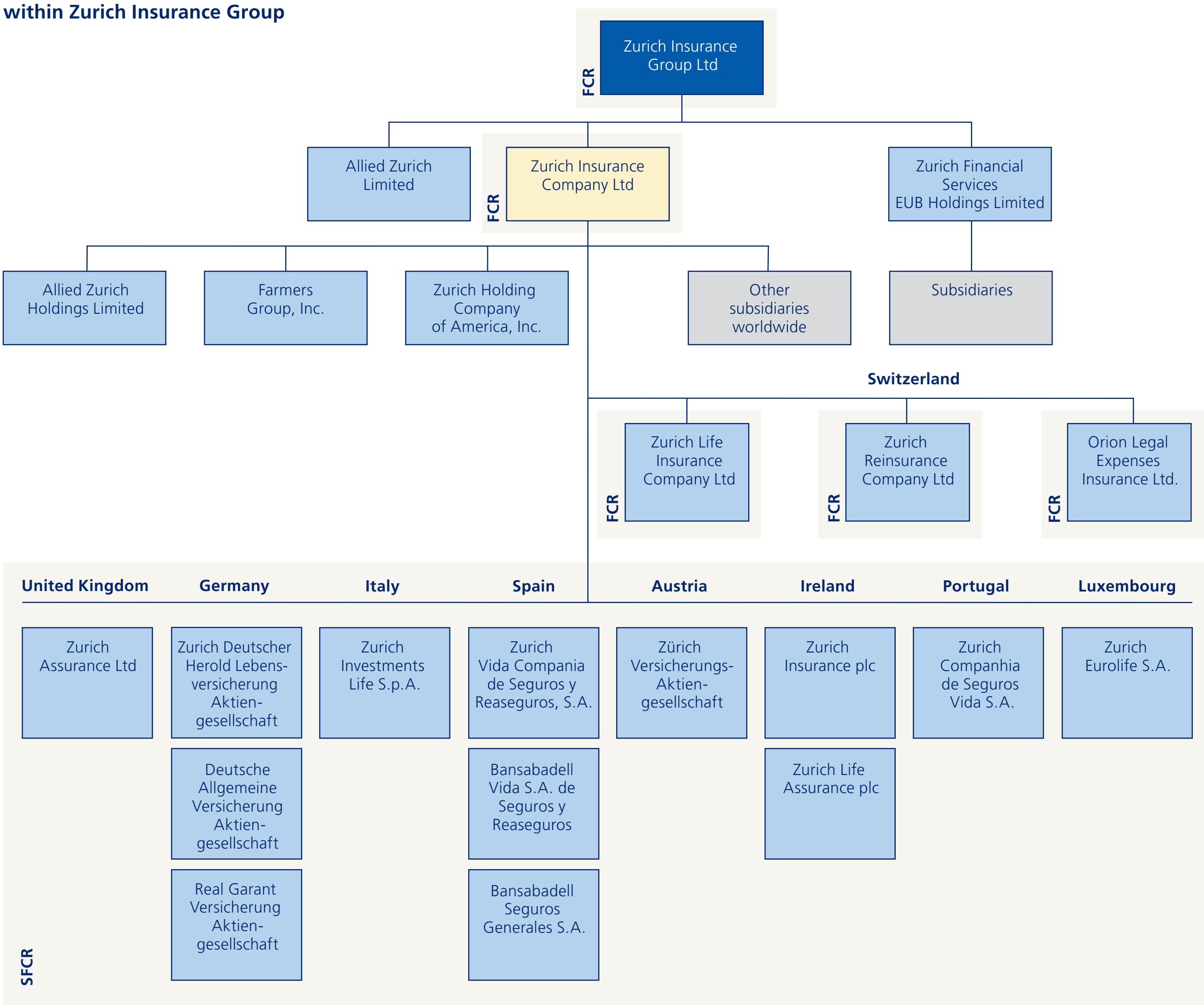
2 Approval of the Financial Condition Report

This Report was reviewed and signed-off by the Board of Directors of ZIC on April 20, 2022.

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, 2021), 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.

ZIC Group is a corporation domiciled in Zurich, Switzerland and is the principal operating insurance company of Zurich. With about 56,000 employees, it provides a wide range of property and casualty, and life insurance products and services in more than 210 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 also acts as the holding company for the subsidiaries of the Group, except for the Group's property loans and banking activities. ZIC 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 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 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/investor-relations/results-and-reports/other-statutory-filings.

Significant acquisition and divestment transactions operated in 2021 impacting the ZIC Group structure are detailed in the note 5 of the audited consolidated financial statement in ZIC Group's Annual report 2021 on pages 59–61.

Also, a list of the **significant subsidiaries of ZIC Group** can be found in note 28 of the audited consolidated financial statements of ZIC Group's Annual Report 2021 on pages 137–139.

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 providing solutions to customers changing needs and encouraging a transformation into a truly customer led company,
- Simplifies, by reducing unnecessary complexity to make better use of resources;
- 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 2021, pages 18 to 20.

ZIC 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 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 121–136 of ZIC Group Annual Report 2021.

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

as of December 31, 2021		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
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

Ernst & Young Ltd (EY), Maagplatz 1, in 8005 Zurich, were appointed as the Group's external auditor for the financial year 2021, following the shareholders' approval of the Board's proposal to elect EY, at the AGM on April 7, 2021.

EY replaced PricewaterhouseCoopers AG, which together with its predecessor organizations had served as external auditor since 1983. This rotation is in accordance with the Group's updated policy on the rotation of the external audit mandate which adopts best practices from the European Union and requires a tender of the mandate every ten years going forward.

EY assumes all auditing functions which are required by law and the Articles of Association (www.zurich.com/investor-relations/our-shares/articles-of-association). EY is responsible for auditing the Group's financial statements and for auditing Zurich's compliance with specific regulatory requirements.

For additional information on the Group's external auditors, refer to page 79 of the Group's Annual Report 2021.

A.4 Significant unusual events

For significant events during 2021 and thereafter until March 11, 2022, please refer to the Group's Annual Report 2021, 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 continues to evolve globally with new variants of the virus emerging, and so do the impacts on the insurance industry and the global economy. Though most of the impacts of the pandemic on the Group's businesses, especially in the P&C business, are already known and management's best estimate of claims is reflected in the loss reserves and loss adjustment expenses, some uncertainties remain. The Group is closely monitoring and actively dealing with the potential for further exposure from (i) claims litigation on policy coverage, (ii) regulator and market-led test cases or legislative developments in certain jurisdictions that could impact the scope of intended coverage, (iii) potential second-order impact on health which could have mortality or morbidity effects, and (iv) other extended macroeconomic impacts around the pandemic, including governmental actions. While expected to be very remote, any extreme outcomes on the foregoing could have a material adverse impact on the Group's business, financial condition, results of operations or growth.

The aggression of the Russian government on Ukraine and the resulting war has the potential to impact the valuation of assets and liabilities presented in this FCR. The Group's direct exposure to Russia and Ukraine through its P&C operations and investment portfolio is immaterial. However, the Group is closely monitoring the indirect effects of this situation due to increased volatility in the financial markets and the impact it may have on the Group's operations and financial results.

B. Performance

B.1 Most important markets

In 2021, the most important markets for ZIC according to premium income (direct business, excluding subsidiaries) were Switzerland, Japan and Canada.

B.2 Performance overview of ZIC

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 perspective, under local reporting requirements (Swiss Code of Obligations and relevant supervisory law) and in Swiss francs. Based on this perspective, ZIC presents performance information, differentiating between the direct Property & Casualty business written by ZIC 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's subsidiaries. ZIC provides this information in Appendix 1. A discussion of the main factors affecting performance is outlined below.

ZIC reported a net income after taxes of CHF 2.5 billion in 2021, a 5 percent increase compared to 2020. This increase was mainly driven by a higher net earned premium of CHF 744 million, partially offset by a lower net investment result of CHF 360 million and lower other income of CHF 214 million.

Total gross written premiums and policy fees increased by CHF 924 million or 6 percent to CHF 15.9 billion in 2021. Direct gross written premiums and policy fees increased by CHF 476 million to CHF 5.3 billion mainly due to ongoing growth in Canada and Switzerland. Assumed gross written premiums and policy fees increased by CHF 448 million to CHF 10.6 billion mainly due to an increase in the Group internal reinsurance volume in 2021.

The net insurance reserves increased by CHF 591 million compared with prior year, mainly driven by the reserve strengthening for Group internally assumed life reinsurance business as well as by the reserve increase following natural catastrophe losses in North America and in Europe, 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 360 million to CHF 3.1 billion, mainly due to lower income on investments in subsidiaries and associates, partially offset by a higher net investment result on equity securities following the overall improvement in the equity securities markets during 2021.

Shareholder's equity decreased by CHF 117 million to CHF 25.3 billion in 2021 from CHF 25.4 billion in 2020. This decrease reflects the dividend payment to Zurich Insurance Group Ltd of CHF 2.6 billion in 2021, which was approved at the Annual General Meeting on April 7, 2021, partially offset by the net income after taxes of CHF 2.5 billion.

Direct Swiss Business

The underwriting result increased slightly by CHF 13 million to CHF 251 million in 2021, as a result of higher gross written premiums and lower insurance benefits and losses. The result was positively impacted by lower losses due to the COVID-19 pandemic, which were partially offset by the negative impact from the weather events, mainly in the motor business.

Direct Non-Swiss Business

The net underwriting result increased by CHF 202 million to a gain of CHF 273 million in 2021, as net earned premiums and policy fees increased and net technical expenses decreased, with the following contribution from the ZIC branches:

Japan

Whereas the technical income decreased by CHF 8 million to CHF 419 million, the underwriting result improved from CHF 122 million in 2020 to CHF 143 million in 2021 with the major portfolios of accident & health and motor continuing to perform well.

Canada

Canada is the main contributor to the improvement in the foreign direct business in 2021, its underwriting result increased from a loss of CHF 67 million in 2020 to a profit of CHF 107 million in 2021. Technical income increased by CHF 144 million to CHF 439 million in 2021, with growth in earned premium especially in the property and liability business. The insurance benefits and losses decreased by CHF 60 million in 2021, mainly in the property and liability business due to less attritional losses compared to the previous year.

Italy

The underwriting result in ZIC's Italy branch decreased slightly to CHF 8 million with its main activity in motor business.

Hong Kong

The underwriting result in Hong Kong decreased by CHF 6 million to CHF 8 million in 2021 following higher net insurance benefits and losses.

Bermuda

All the direct business in the Bermuda branch was in run-off in 2021. The underwriting result decreased from a profit of CHF 6 million in 2020 to a net loss of CHF 2 million in 2021, due to a one-off positive effect of release of reserves for prior year claims in the energy business in the previous year.

Other branches and businesses

In Liechtenstein, the underwriting result improved by CHF 16 million compared to 2020 mainly as a result of a decrease in net insurance benefits and losses due to less COVID-19 claims. ZIC's business in Singapore improved by CHF 9 million due to an increase in gross written premiums mainly in its property business.

Indirect Business

ZIC acts as an internal reinsurer to the other subsidiaries of the 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 improved by CHF 473 million in 2021, from a loss of CHF 777 million to a loss of CHF 304 million, mainly due to an improved underwriting result in the motor business.

Detailed financial results are disclosed in ZIC Group's Annual Report 2021. In particular, additional information on **Overall performance** of ZIC, are provided in the Management Report section in ZIC Group's Annual Report 2021 on pages 154–155.

For information on **Investment performance** of ZIC Group, please see notes 5 and 6 of ZIC Group's Annual Report 2021 on page 162.

C. Corporate governance and risk management

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

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

The **Board of Directors** (Board), under the leadership of the Chairman, is responsible for determining the Group's overall strategy and supervising senior management. It holds the ultimate decision-making authority for ZIC and ZIC Group.

All Directors of Zurich Insurance Group Ltd equally serve as members of the ZIC Board. Mr. Liès has served as Chairman of that Board since the Annual General Meeting (AGM) of April 4, 2018. Further information about the composition of the Board, as well as changes during 2021 and since January 1, 2022, are disclosed in the Corporate governance report section in the Group's Annual Report on pages 41 and 50–59.

The ZIC **Executive Committee** (ExCo) is headed by Mario Greco who also serves as Group CEO for Zurich Insurance Group Ltd. The ZIC ExCo composition is equivalent to Zurich Insurance Group Ltd ExCo. Information about the composition of the ExCo, as well as changes during 2021 and since January 1, 2022, are disclosed in the Corporate governance report section in the Group's Annual Report on pages 41 and 66–73.

C.2 Corporate governance and risk management

Zurich manages and takes risks in an informed and disciplined manner and within a pre-determined risk appetite and tolerance. The principles of corporate governance and risk management described in the Group's Annual Report are equally applicable to the ZIC Group.

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

- The major **Risk management objectives** at ZIC Group are described in the Risk review in ZIC Group's Annual Report on page 3.
- The Group's Enterprise **Risk Management Framework** is based on a governance process that sets forth clear responsibilities for identifying, assessing, managing, monitoring and reporting risks, as further detailed in ZIC Group's Annual Report 2021 on pages 3–4.
- The **Internal control system** implemented by the Group is considered essential for managing operational risk. The Board 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. For additional information on Risk management and internal controls, please see page 211 of the Group's Annual Report 2021.
- The **Group 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. For additional information on Compliance and its operational controls, please see page 77 of the Group's Annual Report 2021.
- The Group's **internal audit function**, Group Audit, is tasked with providing independent and objective assurance on the adequacy and effectiveness of the Group's risk management, internal control and governance processes to the Board, the Audit Committee, the Group CEO and management and to the boards and audit committees of subsidiary companies. For additional information on Group Audit, please see pages 77–78 of the Group's Annual Report 2021.

D. Risk profile

The Group's Enterprise Risk Management Framework is based on a governance framework that sets forth clear responsibilities for identifying, assessing, managing, monitoring and reporting risks.

The Group's risk appetite and tolerance statement 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, as far as possible, quantifies material risks to which it is exposed.

Additional qualitative and quantitative information about ZIC Group **Risk profile**, can be found in the Risk review of the ZIC Group Annual Report 2021, 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;

For additional information on sustainability risk, please see pages 213–214 of the Group's Annual Report 2021.

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 2021, pages 62 to 64; 65 to 68; 107 to 113. 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 2021, pages 47 to 58.

E. Valuation (continued)

E.2 Market-consistent balance sheet following SST principles

The Swiss Solvency Test requires 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.

As of December 31, 2021, the ZIC Group had USD 11.3 billion of assets held for sale and USD 11.4 billion of liabilities held for sale based on agreements to sell parts of the business of Zurich Insurance plc, Zurich International Life Limited, Zurich Investments Life S.p.A. and Zurich Insurance plc (Spain). These assets and liabilities are presented separately in IFRS and shown under 'Other assets' and 'Other Liabilities' in the table below. Such reclassification is not applicable in the SST MCBS, where the assets and liabilities are shown in the individual MCBS line items according to their original presentation.

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

E. Valuation (continued)

Asset valuation MCBS vs IFRS

In USD millions, as of December 31	2020 (SST)	**2021 (SST)**	Evolution 2020–2021 (SST)	**2021 (IFRS)**	Difference 2021 (IFRS – SST)
Market-consistent value of investments					
Real estate	14,749	14,449	(300)	14,070	379
Participations	43	68	25	68	–
Fixed-income securities	141,199	131,243	(9,956)	124,203	7,040
Loans	10,282	7,792	(2,489)	6,571	1,221
Mortgages	6,205	6,594	389	6,106	488
Equities	8,261	8,061	(200)	8,540	(479)
Other investments	32,594	32,670	76	32,353	317
Collective investment schemes	5,101	5,235	134	4,930	306
Alternative investments	10,891	11,134	243	11,124	11
Structured products	–	–	–	–	–
Other investments	16,602	16,300	(301)	16,300	–
Total Investments	**213,333**	**200,878**	**(12,455)**	**191,911**	**8,967**
Market-consistent value of other assets					
Financial investments from unit-linked life insurance	136,217	144,667	8,450	142,840	1,827
Receivables from derivative financial instruments	1,763	938	(825)	938	–
Deposits made under assumed reinsurance contracts	594	510	(84)	444	66
Cash and cash equivalents	11,300	8,695	(2,606)	8,673	21
Reinsurers' share of best estimate of provisions for insurance liabilities	23,753	22,458	(1,294)	25,680	(3,222)
Direct insurance: life insurance business (excluding unit linked life insurance)	5,928	5,089	(840)	6,934	(1,846)
Reinsurance: life insurance business (excluding unit linked life insurance)	366	316	(50)	312	4
Direct insurance: non-life insurance business	11,334	11,021	(314)	10,768	252
Direct insurance: health insurance business	–	–	–	–	–
Reinsurance: non-life insurance business	6,147	6,059	(88)	7,665	(1,606)
Reinsurance: health insurance business	–	–	–	–	–
Direct insurance: other business	–	–	(0)	–	–
Reinsurance: other business	1	1	–	1	–
Direct insurance : unit-linked life insurance business	(24)	(27)	(4)	–	(27)
Reinsurance: unit-linked life insurance business	–	–	–	–	–
Fixed assets	3,080	2,736	(344)	2,436	301
Deferred acquisition costs	–	–	–	20,438	(20,438)
Intangible assets	–	–	–	11,478	(11,478)
Receivables from insurance business	9,817	10,691	874	10,685	7
Other receivables	3,807	3,669	(138)	3,578	91
Other assets	1,097	1,174	77	13,112	(11,938)
Unpaid share capital	–	–	–	–	–
Accrued assets	3,365	3,459	94	4,600	(1,142)
Total other assets	**194,793**	**198,997**	**4,204**	**244,902**	**(45,905)**
Total market-consistent value of assets	**408,126**	**399,875**	**(8,251)**	**436,813**	**(36,939)**

E. Valuation (continued)

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

In USD millions, as of December 31	2020 (SST)	**2021 (SST)**	Evolution 2020–2021 (SST)	**2021 (IFRS)**	Difference 2021 (IFRS – SST)
BEL: Best estimate liabilities (including unit linked life insurance)					
Best estimate of provisions for insurance liabilities	**(188,009)**	**(173,495)**	**14,515**	**(194,250)**	**20,756**
Direct insurance: life insurance business (excluding unit linked life insurance)	(112,081)	(99,179)	12,902	(108,056)	8,877
Reinsurance: life insurance business (excluding unit linked life insurance)	(2,109)	(1,863)	246	(1,890)	28
Direct insurance: non-life insurance business	(69,646)	(68,156)	1,490	(78,944)	10,788
Direct insurance: health insurance business	–	–	–	–	–
Reinsurance: non-life insurance business	(3,504)	(3,698)	(194)	(4,550)	852
Reinsurance: health insurance business	–	–	–	–	–
Direct insurance: other business	(663)	(592)	71	(803)	211
Reinsurance: other business	(7)	(7)	–	(7)	–
Best estimate of provisions for unit-linked life insurance liabilities	**(132,636)**	**(140,771)**	**(8,135)**	**(143,454)**	**2,683**
Direct insurance: unit-linked life insurance business	(132,636)	(140,770)	(8,134)	(143,453)	2,683
Reinsurance: unit-linked life insurance business	–	(1)	(1)	(1)	–
Market consistent value of other liabilities					
Non-technical provisions	(3,781)	(2,672)	1,110	(3,183)	511
Interest-bearing liabilities	(6,863)	(5,860)	1,003	(5,452)	(408)
Liabilities from derivative financial instruments	(481)	(532)	(52)	(532)	–
Deposits retained on ceded reinsurance	(826)	(883)	(56)	(970)	87
Liabilities from insurance business	(4,014)	(3,953)	60	(3,943)	(11)
Other liabilities	(13,018)	(11,669)	1,349	(22,708)	11,039
Accrued liabilities	(4,636)	(5,043)	(407)	(14,997)	9,954
Subordinated debts	(11,932)	(12,966)	(1,034)	(9,782)	(3,184)
Total BEL plus market-consistent value of other liabilities	(366,196)	(357,843)	8,353	(399,271)	41,427
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	**41,930**	**42,031**	**102**	**37,542**	**4,489**

E. Valuation (continued)

E.2.1 Evolution of assets since 2020

Total investments

The market value of investments decreased by USD 12.5 billion from USD 213.3 billion in 2020, to USD 200.9 billion in 2021.

This is mostly driven by a decrease of USD 10 billion in **Fixed-income securities** from USD 141.2 billion in 2020, to USD 131.2 billion in 2021, primarily resulting from unfavorable currency translation effects of USD 6.5 billion due to the weakening of Swiss franc and EUR against the USD. Furthermore, market valuation decreased by USD 6.8 billion due to increasing yields in Europe and the U.S. Decreases were mainly driven by Germany (USD 2.2 billion), Italy (USD 1.5 billion), Chile (USD 0.6 billion) and Spain (USD 0.5 billion). Net purchases contributed to a USD 3.2 billion increment mostly in U.S. (USD 1.7 billion), in Australia (USD 0.8 billion) and in Switzerland (USD 0.3 billion).

Loans decreased by USD 2.5 billion from USD 10.3 billion in 2020, to USD 7.8 billion in 2021, because of unfavorable currency movements of USD 0.5 billion and maturities as well as decreases in fair value mostly in Germany and in Australia.

Total Other Assets

The market-consistent value of **total other assets** increased by USD 4.2 billion from USD 194.8 billion in 2020 to USD 199.0 billion in 2020.

Financial investments from unit-linked life insurance increased by USD 8.5 billion from USD 136.2 billion in 2020 to USD 144.7 billion in 2021. The increase is mainly driven by favorable equity performance and new business in Ireland, new business in Italy and good equity performance in Germany, Isle of Man and the U.S., partially offset by currency translation effects of USD 6.5 billion.

Cash and cash equivalents decreased by USD 2.6 billion from USD 11.3 billion in 2020 to USD 8.7 billion in 2021 driven by the acquisition of MetLife U.S. P&C business by Farmers Group, Inc, a subsidiary of the Group and Farmers Exchanges as well as dividend payments.

The market value of **Reinsurers' share of best estimate of provisions for insurance liabilities** decreased by USD 1.3 billion from USD 23.8 billion in 2020 to USD 22.5 billion in 2021 mostly driven by the Life business.

- **Direct insurance: life insurance business (excluding unit linked life insurance)** decreased by USD 0.8 billion from USD 5.9 billion in 2020 to USD 5.1 billion in 2021, mainly in the UK and in Australia, the latter due to reinsurance re-pricing.
- **Direct insurance non-life insurance business** decreased by USD 0.3 billion from USD 11.3 billion in 2020, to USD 11 billion in 2021, mainly due to the increase in interest rates.

Receivables from derivative financial instruments decreased from USD 1.8 billion in 2020 to USD 0.9 billion in 2021, mainly driven by interest rate and currency risk derivatives in Europe.

E.2.2 Evolution of liabilities since 2020

Best estimate of insurance liabilities

The market-consistent value of **Best estimate liabilities** (including unit linked life insurance) decreased by USD 6.4 billion from USD 320.6 billion in 2020 to USD 314.3 billion in 2021.

– **Direct insurance: life insurance business (excluding unit linked life insurance)** decreased by USD 12.9 billion from USD 112.1 billion in 2020, to USD 99.2 billion in 2021. The decrease is mostly driven by the significant increase in interest rates, which reduced market value liabilities (and related assets, as mentioned above), impacting mostly Germany, Chile, Italy, and Switzerland and to a lesser extent by currency translation effects.
– **Direct insurance unit-linked life insurance business** increased by USD 8.1 billion from USD 132.6 billion in 2020 to USD 140.8 billion in 2021. The increase is mainly driven by favorable equity performance and new business acquired in Ireland, new business in Italy and good equity performance in Germany, Isle of Man, and the U.S., partially offset by currency translation of USD 6.2 billion.
– **Direct insurance: non-life insurance business** decreased by USD 1.5 billion from USD 69.6 billion in 2020, to USD 68.2 billion in 2021, primarily driven by currency translation effects of USD 1.7 billion and by increase in interest rates of USD 1.3 billion. The remaining change in liabilities is an increase driven by CAT events, loss reserves for litigation risk in the U.S., adverse development of large claims and business growth across portfolios in various markets, including the U.S.

Total other liabilities

The market-consistent value of other liabilities decreased by USD 2 billion from USD 45.6 billion in 2020 to USD 43.6 billion 2021.

Other liabilities decreased by USD 1.3 billion from USD 13 billion in 2020 to USD 11.7 billion in 2021 due to a reduction in collateral obligations from derivative trading due to changes in interest rates and as well as expiry of some interest rate swaptions. Further, lease liabilities decreased due to repayments and changes in discount rates.

Non-technical provisions decreased by USD 1.1 billion from USD 3.8 billion in 2020 to USD 2.7 billion in 2021 mainly driven by a reduction in defined benefit retirement plans within the UK due to the increase in the discount rate following the increase in yields on AA-rated corporate bonds.

Interest-bearing liabilities decreased by USD 1 billion from USD 6.9 billion in 2020 to USD 5.9 billion in 2021 as a result of a drop in cash pool liabilities of USD 0.5 billion, favorable currency translation effect of USD 0.2 billion due to the weakening of Swiss franc and EUR against the USD as well as a USD 0.2 billion redemption in senior debt in ZIC.

Subordinated debts increased by USD 1 billion from USD 11.9 billion in 2020 to USD 13 billion in 2021 due to new issuances of USD 2.2 billion partially offset by a USD 0.5 billion redemption and favorable currency translation effects of USD 0.5 billion due to the weakening of Swiss franc and EUR against the USD. The subordinated debt position in 2021 does not incorporate the redemption of USD 1 billion of subordinated debt and issuance of USD 300 million of subordinated debt in January 2022.

E.2.3 Changes in MCBS valuation methodology in 2021

In 2021, the Group amended its valuation methodology to apply the Prudential Regulation Authority (PRA) risk-free yield curve applicable under Solvency II in the UK for GBP. Additionally, due to the decommissioning of selected interbank offered rates (IBOR), Zurich moved to alternative rates for GBP (PRA risk-free yield curve based on SONIA) and JPY (TONA). Further, the Group reviewed the valuation of life investment and insurance liabilities to exclude material expected renewals at the end of the current policy term or at next renewal date from the valuation of best estimate life investment and insurance liabilities, if Zurich is not contractually or legally required to accept renewal and extend cover (even if such renewals are foreseeable). If no definitive fixed contract term is specified, the contracts are assumed to cease when Zurich has the right to unilaterally cancel or refuse renewal of the policy at next premium review date. Both changes did not have material impact on the valuations.

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, 2021

Total value of investments (IFRS)		**191,911**
Fixed income securities	Bonds held-to-maturity measured at fair value in MCBS	525
Mortgages	Mortgage loans measured at fair value in MCBS	260
Loans	Other loans measured at fair value in MCBS	1,219
Equities	Own shares are not recognised in SST	(952)
Other Investments	Other investments measured at fair value in MCBS	11
	The reclassification to held for sale is not applicable in MCBS	7,904
Total market-consistent value of Investments (SST)		**200,878**

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, 2021

Total value of financial investments from unit-linked life insurance (IFRS)		**142,840**
Financial investments from unit-linked life insurance	The reclassification to held for sale is not applicable in MCBS	1,827
Total market-consistent value of financial investments from unit-linked life insurance (SST)		**144,667**

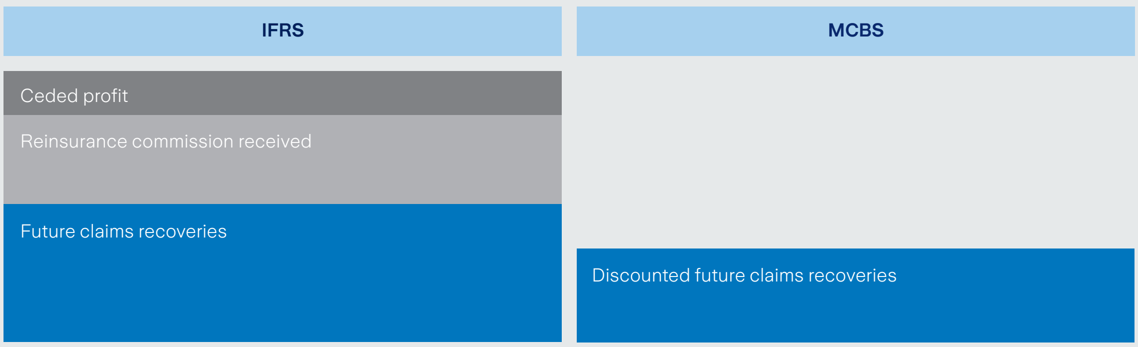
Market-consistent value of reinsurers' share of best estimate of provisions for insurance liabilities

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 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, 2021

Total Best estimate of Reinsurers' share of best estimate of insurance liabilities (IFRS)		**25,680**
Reinsurers' share of best estimate of insurance liabilities	Valuation differences	(4,793)
	The reclassification to held for sale is not applicable in MCBS	1,570
Total Best estimate of Reinsurers' share of best estimate of insurance liabilities (SST)		**22,458**

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 11.3 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, 2021

Total value of other assets (IFRS) (excluding Financial investments from unit-linked life insurance & Reinsurers' share of best estimate of provisions for insurance liabilities)		**76,382**
	Deferred acquisition costs: Value set to zero in MCBS	(20,438)
	Deferred origination costs: Value set to zero in MCBS	(441)
	Deferred tax assets: Value set to zero in MCBS	(1,198)
	Goodwill and other intangible assets: Value set to zero in MCBS	(11,478)
	Valuation differences of Deposits made under assumed reinsurance contracts	66
	Property and equipment: Real estate held for own use is at fair value in MCBS	301
	The reclassification to held for sale is not applicable in MCBS	(11,328)
Other assets	Other	6
Total market-consistent value of other assets (SST) (excluding Financial investments from unit-linked life insurance & Reinsurers' share of best estimate of provisions for insurance liabilities)		**31,871**

E. Valuation (continued)

E.2.5 Market-consistent value of liabilities

Best estimate of non-life 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.

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 all unearned premiums (invoiced and not invoiced) as a volume metric 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 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, 2021

Total Best estimate of non-Life insurance liabilities (IFRS)		**(83,494)**
Non-Life insurance liabilities	Valuation differences	13,170
	The reclassification to held for sale is not applicable in MCBS	(1,530)
Total Best estimate of non-Life insurance liabilities (SST)		**(71,854)**

Best estimate of life investment and insurance liabilities (including unit-linked life 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, 2021

Total Best estimate of life insurance liabilities (IFRS)		**(253,399)**
Life insurance liabilities	Valuation differences	16,693
Direct insurance: unit-linked life insurance business	Valuation differences	4,499
	The reclassification to held for sale is not applicable in MCBS	(9,605)
Total Best estimate of life insurance liabilities (SST)		**(241,812)**

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 11.3 billion as held for sale under IFRS is not applicable in MCBS.

SST – IFRS valuation difference

in USD millions, as of December 31, 2021

Total value of other liabilities (IFRS)		**(61,566)**
Interest bearing liabilities	Valuation differences	(408)
Deposit liabilities from ceded reinsurance	Valuation differences	97
Subordinated liabilities	Valuation differences	(3,184)
Non-technical provisions (total)	Long-Term incentive plan is not recorded in ZIC SST, nor own shares	511
	Deferred taxes (other than deferred tax on Swiss real estate transfers attributable to shareholders): Valued set to zero in MCBS	4,649
Accrued liabilities	Deferred front-end fees: Value set to zero in MCBS	5,124
	The reclassification to held for sale is not applicable in MCBS	11,323
Other Liabilities	Other	(125)
Total maket-consistent value of other liabilities (SST)		**(43,578)**

F. Capital management

F.1 Capital management objectives

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' on page 24.

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.

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

For additional information regarding the **Capital structure**, please see note 20 of the ZIC Group consolidated financial statements on page 170.

For more details on **Capital management framework** and **Capital management program**, see the Risk Review in the ZIC Group's Annual Report 2021 on page 6.

For more information regarding the **Insurance financial strength rating**, please see the Risk Review in the ZIC Group's Annual Report 2021 on page 7.

For details on **issuances and redemptions of debt**, see notes 18 and 29 of the ZIC Group consolidated financial statements on pages 91–92 and page 140.

F.2 Regulatory capital adequacy

The Group endeavors to manage its capital so that its regulated entities meet local regulatory capital requirements. In each country in which the Group 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, the Group 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.

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.
- 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 through calculation 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.

ZIC Group calculates its solvency figures on a legal entity view and takes into account the affiliated credit default risk allowing for limited liability towards ZIC's subsidiaries. Additionally, the cost of all future capital requirements needed to support the current insurance portfolio in case the firm would stop writing any new business and go into a run-off is accounted for as risk margin.

SST ratio and underlying components

USD millions	January 1st, 2021	**January 1st, 2022**
Target capital	32,020	30,055
Risk-bearing capital	50,238	50,845
Risk margin	9,568	9,267
Target capital less Risk margin	**22,453**	**20,788**
Risk-bearing capital less Risk margin	40,671	41,578
SST ratio	**181%**	**200%**

Based on the approved SST internal model, the SST ratio as of January 1, 2022 stands at 200 percent. It increased by 19 percentage points compared to SST ratio as of January 1, 2021. Strong operational capital generation net of incremental capital for growth contributed 19 percentage points to the ZIC SST ratio, partially offset by 3 percentage points negative impact of excess catastrophes and COVID-19 losses. Favorable market movements led to an increase in the ratio, largely due to higher yield curve environment and favorable equity markets. The overall effect of the market movements including the impact of the affiliated credit risk model was a 19 percentage points increase in the ratio. Capital actions including the accrual of the full year 2021 dividend and acquisition of the MetLife U.S. P&C business reduced the ratio by 21 percentage points. De-risking to reduce the equity exposure had a positive impact of 4 points and assumptions and model changes increased slightly the SST ratio by almost 1 point.

Solvency

in USD millions	January 1st, 2021	Adjustments Previous year	**January 1st, 2022**
Derivation of risk-bearing capital			
Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	41,930		42,031
Deductions	(2,939)		(3,510)
Core capital	**38,991**		**38,521**
Supplementary capital	11,248		12,323
Risk-bearing capital	**50,238**		**50,845**
Derivation of target capital			
Underwriting risk	11,473		11,968
Market risk	13,751		11,464
Diversification effects	(4,279)		(4,202)
Credit risk[1]	10,343		9,226
Risk margin and other effects on target capital[2]	732		1,598
Target capital	**32,020**		**30,055**
SST ratio[3]	**181%**		**200%**

1 Credit risk includes investment credit risk, reinsurance and receivables.
2 Risk margin accounts for USD 9'267 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	January 1st, 2021	Adjustments previous period	**January 1st, 2022**
Insurance risk derivation of target capital			
Premium and reserve risk (including UPR risk)	7,117		7,260
Nat Cat	4,527		4,913
Life insurance liabilities	3,885		3,839
Business risk	5,326		4,904
Diversification	(9,382)		(8,948)
Total	**11,473**		**11,968**
Market risk derivation of target capital			
Equity risk	4,984		4,121
Interest rate risk	5,214		4,682
Exchange rate risk	2,433		2,420
Credit spread risk	9,101		7,896
Other	16,545		14,653
Diversification	(18,260)		(16,601)
Total (including investment credit risk)	**20,017**		**17,171**
thereof			
Market risk (excluding investment credit risk)	13,751		11,464
Investment credit risk	10,113		8,988
Credit risk derivation of target capital			
Investment credit risk	10,113		8,988
Reinsurance credit risk & receivables	977		931
Diversification	(748)		(693)
Total	**10,343**		**9,226**

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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	
		2020	2021	2020	2021
1	Gross written premiums and policy fees	14,995	15,919	416	445
2	Premiums ceded to reinsurers	(3,804)	(3,896)	(6)	(6)
3	Net written premiums and policy fees (1 + 2)	11,192	12,023	409	439
4	Change in reserves for unearned premiums, gross	(283)	(366)	–	(1)
5	Change in reserves for unearned premiums, ceded	55	50	–	–
6	Net earned premiums and policy fees (3 + 4 + 5)	10,963	11,707	410	438
7	Other income[1]	1,173	958	33	27
8	**Total technical income (6+7)**	**12,136**	**12,666**	**442**	**465**
9	Claims paid, annuities and loss adjustment expenses, gross	(9,469)	(9,353)	(137)	(330)
10	Claims paid, annuities and loss adjustment expenses, ceded	1,901	1,629	3	5
11	Change in insurance reserves, gross	(1,019)	(259)	(175)	–
12	Change in insurance reserves, ceded	621	128	(1)	8
13	Change in actuarial provisions for unit-linked contracts	–	–	–	–
14	**Insurance benefits and losses, net of reinsurance (9 + 10 + 11 + 12 + 13)**	**(7,966)**	**(7,855)**	**(310)**	**(317)**
15	Underwriting & policy acquisition costs, gross	(3,266)	(3,456)	(41)	(52)
16	Underwriting & policy acquisition costs, ceded	519	598	–	–
17	Underwriting & policy acquisition costs, net of reinsurance (15 + 16)	(2,747)	(2,858)	(41)	(52)
18	Administrative and other expense[1]	(1,892)	(1,733)	(52)	(48)
19	**Total technical expense (14 + 17 + 18) (non-life insurance only)**	**(12,604)**	**(12,446)**	**(404)**	**(417)**
20	Investment income	4,297	3,574		
21	Investment expenses	(845)	(482)		
22	**Net investment result (20 + 21)**	**3,452**	**3,092**		
23	Net investment result on unit-linked investments	–	–		
24	Other financial income	978	605		
25	Other financial expense	(966)	(791)		
26	**Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)**	**2,996**	**3,126**		
27	Interest expense on debt and other interest expense	(523)	(540)		
28	Other income	–	–		
29	Other expense	–	–		
30	Extraordinary income/expense	–	–		
31	**Net income before taxes (26 + 27 + 28 + 29 + 30)**	**2,472**	**2,586**		
32	Direct tax expenses	(112)	(103)		
33	**Net income after taxes (31 + 32)**	**2,361**	**2,483**		

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

Appendix 1: Quantitative templates (continued)

											Direct Swiss business
							Fire, natural hazards,				
	Illness		Motor vehicle		Transport		property damage	General third-party liability			Other branches
2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
478	558	1,017	1,044	29	31	381	380	279	318	113	138
–	–	–	1	(3)	(5)	(2)	(10)	(24)	(33)	(30)	(32)
478	558	1,016	1,045	26	26	380	370	255	285	83	105
1	(2)	(7)	(13)	(1)	–	(4)	(2)	3	(13)	8	(4)
–	–	–	–	–	1	(3)	1	(8)	–	11	8
479	557	1,009	1,032	25	27	373	369	251	271	102	109
37	34	80	63	2	2	30	23	22	19	9	8
516	**590**	**1,088**	**1,095**	**27**	**29**	**403**	**391**	**273**	**291**	**111**	**118**
(370)	(489)	(572)	(695)	(10)	(11)	(216)	(223)	(144)	(129)	(103)	(89)
–	–	–	–	–	2	(2)	(1)	1	–	10	20
(146)	(19)	93	40	(2)	(3)	(50)	(9)	34	12	(52)	32
–	–	–	–	2	(1)	10	(6)	4	2	6	(3)
–	–	–	–	–	–	–	–	–	–	–	–
(516)	**(508)**	**(479)**	**(656)**	**(10)**	**(13)**	**(258)**	**(239)**	**(105)**	**(115)**	**(139)**	**(40)**
(41)	(53)	(185)	(202)	(8)	(10)	(100)	(109)	(70)	(79)	(21)	(23)
–	–	–	–	–	1	–	1	–	–	2	2
(41)	(53)	(185)	(202)	(7)	(8)	(100)	(109)	(69)	(78)	(19)	(21)
(60)	(61)	(128)	(114)	(4)	(3)	(48)	(41)	(35)	(35)	(14)	(15)
(618)	**(622)**	**(793)**	**(971)**	**(21)**	**(25)**	**(406)**	**(389)**	**(210)**	**(228)**	**(172)**	**(75)**

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	
		2020	**2021**
1	Gross written premiums and policy fees	2,082	2,357
2	Premiums ceded to reinsurers	(1,082)	(1,177)
3	Net written premiums and policy fees (1 + 2)	1,000	1,180
4	Change in reserves for unearned premiums, gross	(111)	(99)
5	Change in reserves for unearned premiums, ceded	40	12
6	Net earned premiums and policy fees (3 + 4 + 5)	929	1,093
7	Other income[1]	163	142
8	**Total technical income (6+7)**	**1,092**	**1,235**
9	Claims paid, annuities and loss adjustment expenses, gross	(1,055)	(909)
10	Claims paid, annuities and loss adjustment expenses, ceded	453	404
11	Change in insurance reserves, gross	85	(116)
12	Change in insurance reserves, ceded	(79)	98
13	Change in actuarial provisions for unit-linked contracts	–	–
14	**Insurance benefits and losses, net of reinsurance (9 + 10 + 11 + 12 + 13)**	**(596)**	**(522)**
15	Underwriting & policy acquisition costs, gross	(500)	(572)
16	Underwriting & policy acquisition costs, ceded	337	389
17	Underwriting & policy acquisition costs, net of reinsurance (15 + 16)	(163)	(182)
18	Administrative and other expense[1]	(263)	(257)
19	**Total technical expense (14 + 17 + 18) (non-life insurance only)**	**(1,021)**	**(961)**
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	
2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
284	284	32	35	1,325	1,406	273	251	3,768	3,811	2,013	2,242	2,504	2,619
(5)	(6)	–	–	(30)	(24)	(74)	(77)	(1,751)	(1,749)	(496)	(463)	(301)	(315)
280	279	32	35	1,296	1,382	199	174	2,017	2,062	1,517	1,780	2,203	2,304
4	(9)	(1)	3	17	(10)	(6)	12	(145)	(82)	(57)	(83)	16	(63)
–	–	–	–	1	(2)	(2)	(2)	23	(6)	4	(6)	(11)	45
284	270	30	38	1,313	1,370	191	184	1,896	1,973	1,464	1,691	2,208	2,286
22	17	2	2	104	85	21	15	295	229	157	135	196	158
306	**287**	**33**	**40**	**1,417**	**1,455**	**212**	**199**	**2,190**	**2,203**	**1,622**	**1,826**	**2,403**	**2,444**
(350)	(282)	(26)	(24)	(998)	(905)	(120)	(113)	(1,868)	(1,886)	(1,715)	(1,542)	(1,784)	(1,724)
2	1	–	–	19	19	37	29	737	690	239	153	402	308
332	317	11	3	82	194	7	(34)	(510)	(129)	(278)	22	(451)	(569)
(1)	–	–	–	(7)	(9)	(20)	(1)	378	137	493	(54)	(164)	(44)
–	–	–	–	–	–	–	–	–	–	–	–	–	–
(18)	**37**	**(15)**	**(21)**	**(903)**	**(702)**	**(97)**	**(119)**	**(1,263)**	**(1,189)**	**(1,261)**	**(1,420)**	**(1,997)**	**(2,030)**
(92)	(93)	(8)	(10)	(439)	(464)	(64)	(62)	(701)	(724)	(492)	(578)	(503)	(425)
–	–	–	–	2	1	7	3	113	119	26	40	31	40
(92)	(92)	(8)	(10)	(437)	(463)	(57)	(59)	(589)	(605)	(467)	(538)	(472)	(385)
(36)	(31)	(4)	(4)	(167)	(153)	(34)	(27)	(475)	(415)	(254)	(244)	(316)	(285)
(145)	**(86)**	**(27)**	**(35)**	**(1,507)**	**(1,318)**	**(189)**	**(206)**	**(2,327)**	**(2,209)**	**(1,982)**	**(2,203)**	**(2,784)**	**(2,700)**

Appendix 1: Quantitative templates (continued)

Market-Consistent Balance Sheet

in USD millions, for the years ended December 31	2020	Adjustments previous period	2021
Market-consistent value of investments			
Real estate	14,749	–	14,449
Participations	43	–	68
Fixed-income securities	141,199	–	131,243
Loans	10,282	–	7,792
Mortgages	6,205	–	6,594
Equities	8,261	–	8,061
Other investments	32,594	–	32,670
Collective investment schemes	5,101	–	5,235
Alternative investments	10,891	–	11,134
Structured products	–	–	–
Other investments	16,602	–	16,300
Total Investments	**213,333**	**–**	**200,878**
Market-consistent value of other assets			
Financial investments from unit-linked life insurance	136,217	–	144,667
Receivables from derivative financial instruments	1,763	–	938
Deposits made under assumed reinsurance contracts	594	–	510
Cash and cash equivalents	11,300	–	8,695
Reinsurers' share of best estimate of provisions for insurance liabilities	23,753	–	22,458
Direct insurance: life insurance business (excluding unit linked life insurance)	5,928	–	5,089
Reinsurance: life insurance business (excluding unit linked life insurance)	366	–	316
Direct insurance: non-life insurance business	11,334	–	11,021
Direct insurance: health insurance business	–	–	–
Reinsurance: non-life insurance business	6,147	–	6,059
Reinsurance: health insurance business	–	–	–
Direct insurance: other business	–	–	–
Reinsurance: other business	1	–	1
Direct insurance : unit-linked life insurance business	–	–	(27)
Reinsurance: unit-linked life insurance business	–	–	–
Fixed assets	3,080	–	2,736
Deferred acquisition costs	–	–	–
Intangible assets	–	–	–
Receivables from insurance business	9,817	–	10,691
Other receivables	3,807	–	3,669
Other assets	1,097	–	1,174
Unpaid share capital	–	–	–
Accrued assets	3,365	–	3,459
Total other assets	**194,793**	**–**	**198,997**
Total market-consistent value of assets	408,126	–	399,875

Appendix 1: Quantitative templates (continued)

Market-Consistent Balance Sheet

in USD millions, for the years ended December 31	2020	Adjustments previous period	2021
BEL: Best estimate liabilities (including unit linked life insurance)			
Best estimate of provisions for insurance liabilities	**(188,009)**	**–**	**(173,495)**
Direct insurance: life insurance business (excluding unit linked life insurance)	(112,081)	–	(99,179)
Reinsurance: life insurance business (excluding unit linked life insurance)	(2,109)	–	(1,863)
Direct insurance: non-life insurance business	(69,646)	–	(68,156)
Direct insurance: health insurance business	–	–	–
Reinsurance: non-life insurance business	(3,504)	–	(3,698)
Reinsurance: health insurance business	–	–	–
Direct insurance: other business	(663)	–	(592)
Reinsurance: other business	(7)	–	(7)
Best estimate of provisions for unit-linked life insurance liabilities	**(132,636)**	**–**	**(140,771)**
Direct insurance: unit-linked life insurance business	(132,636)	–	(140,770)
Reinsurance: unit-linked life insurance business	(0)	–	(1)
Market consistent value of other liabilities			
Non-technical provisions	(3,781)	–	(2,672)
Interest-bearing liabilities	(6,863)	–	(5,860)
Liabilities from derivative financial instruments	(481)	–	(532)
Deposits retained on ceded reinsurance	(826)	–	(883)
Liabilities from insurance business	(4,014)	–	(3,953)
Other liabilities	(13,018)	–	(11,669)
Accrued liabilities	(4,636)	–	(5,043)
Subordinated debts	(11,932)	–	(12,966)
Total BEL plus market-consistent value of other liabilities	(366,196)	–	(357,843)
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	41,930	–	42,031

Appendix 2: Report of the statutory auditor on the Group consolidated financial statements 2021

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, 2021 are audited. Please refer to the report of the statutory auditor of ZIC Group and ZIC on pages 142–151 and pages 174–181, respectively, which can be found at: www.zurich.com/investor-relations/results-and-reports/other-statutory-filings.

Disclaimer and cautionary statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives of Zurich Insurance Group Ltd or the Zurich Insurance Group (the Group). Forward-looking statements include statements regarding the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding the Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Insurance Group Ltd or the Group to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of a global economic downturn, in the financial services industries in particular; (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; (viii) increased litigation activity and regulatory actions; and (ix) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of Zurich Insurance Group Ltd and its Group and on whether the targets will be achieved. Specifically in relation with the COVID-19 related statements, such statements were made on the basis of circumstances prevailing at a certain time and on the basis of specific terms and conditions (in particular applicable exclusions) of insurance policies as written and interpreted by the Group and may be subject to regulatory, legislative, governmental and litigation-related developments affecting the extent of potential losses covered by a member of the Group or potentially exposing the Group to additional losses if terms or conditions are retroactively amended by way of legislative or regulatory action. Zurich Insurance Group Ltd undertakes no obligation to publicly update or revise any of these

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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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Zurich Insurance Company Ltd
Mythenquai 2
8002 Zurich
Switzerland
www.zurich.com