Financial Condition Report 2021

Zurich Insurance Group

Zurich Insurance Group

Contents

The information published in this report is consistent with the information published in the Annual Report 2021 of Zurich Insurance Group and the regulatory reporting of Zurich Insurance Group 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 Group 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.

Overview

Business profile

Zurich Insurance Group (Zurich or the Group) 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.

Total revenues

USD 55.5bn[1]

Business operating profit

USD 5.7bn[2]

Investment portfolio

USD 211.3bn[3]

System of governance and enterprise risk management

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

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

Risk profile

The Group Swiss Solvency Test (SST) ratio increased to 212% as of January 1, 2022 from 182% as of January 1, 2021. The development of the SST ratio in 2021 reflects strong underlying capital generation and an improved economic environment, in particular higher interest rates and higher equity valuation.

Swiss Solvency Test ratio as of January 1, 2022

SST 212%

Financial condition

The Group maintained its strong rating level in 2021. As of December 31, 2021, the insurance financial strength rating 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.

Shareholders' equity

USD 37.9bn

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

AA/Stable

1 Total revenues excluding net investment result on unit-linked investments.
2 Business operating profit (BOP) indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables.
3 Market value of the investment portfolio (economic view).

Acronyms

AC	Audit Committee
AG	Aktiengesellschaft (stock company)
AGM	Annual General Meeting
APAC	Asia Pacific
APE	annual premium equivalent
BEL	best estimate liability
bn	billion
Board	Board of Directors
BOP	business operating profit
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHF	Swiss franc
CIO	Chief Investment Officer
COO	Chief Operating Officer
CRNHR	cost of residual non-hedgeable risks
CRO	Chief Risk Officer
DAC	deferred acquisition costs
EMEA	Europe, Middle East & Africa
ERM	Enterprise Risk Management
ESG	environmental, social and governance
EUR	euro
EV	embedded value
EY	Ernst & Young Ltd
ExCo	Executive Committee
FC	frictional costs
FCR	Financial Condition Report
FGI	Farmers Group, Inc.
FINMA	Swiss Financial Market Supervisory Authority FINMA
FMIA	Financial Market Infrastructure Act
GBP	Great Britain pound
ICR	issuer credit rating
IFRS	International Financial Reporting Standards
IFSR	insurance financial strength rating
ISA	Swiss Insurance Supervision Act
ISO	Insurance Supervision Ordinance
Ltd	Limited
MCBS	market-consistent balance sheet
Nat Cat	natural catastrophes
NBM	new business margin
NBV	new business value
NCI	non-controlling interest
PH div	policyholder dividends
P&C	property and casualty
PRA	Prudential Regulation Authority
PVNBP	present value new business premium
SFCR	Solvency and Financial Condition Report
SIX	Swiss stock exchange
SST	Swiss Solvency Test
TRP	Total Risk Profiling™
UK	United Kingdom
UPR	unearned premium reserve
U.S.	United States
USD	United States dollar
Z-ECM	Zurich Economic Capital Model
ZIC	Zurich Insurance Company Ltd
ZIG	Zurich Insurance Group Ltd (holding company)

Introduction

How to read the report

The financial condition report of the Zurich Insurance Group, consisting of Zurich Insurance Group Ltd and its subsidiaries (Zurich or the Group), 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 Annual Report 2021 of the Group (available on www.zurich.com/investor-relations). Wherever applicable, this report makes reference to the Group's Annual Report 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 Group:

- 'Business activities'-related information and 'Performance' section are presented based on International Financial Reporting Standards (IFRS).
- The 'Capital management' and the 'Risk profile' sections make reference to the Swiss Solvency Test (SST).
- 'Valuation' presents the market-consistent balance sheet (MCBS) of the Group following Swiss Solvency Test (SST) principles. The SST MCBS is compared with the IFRS balance sheet as of December 31, 2021.
- Finally, the 'Solvency' section shows the regulatory capital adequacy, supported by the results of the SST.

In accordance with the Group's Annual Report, the reference currency is the U.S. dollar. SST ratios are calculated as of January 1, following FINMA requirements.

FINMA mandates the disclosure of quantitative templates for insurance groups that are presented in Appendix 1.

1 Executive summary

Business activities

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.

Company results

The Group's full-year results demonstrated a strong performance with a reported business operating profit (BOP) of USD 5.7 billion compared with USD 4.2 billion in 2020. Growth was driven by an underlying improvement across all businesses and reduced claims from COVID-19. Net income attributable to shareholders amounted to USD 5.2 billion.

The Group's Property & Casualty (P&C) business saw a 50 percent increase in BOP driven by a stronger underwriting result due to a combination of top-line growth and improved combined ratio. Gross written premiums rose 11 percent on a like-for-like basis, with robust growth in both commercial and retail insurance. Commercial insurance benefited from higher premium rates and net new business, while growth in retail was primarily driven by net new business. The combined ratio of 94.3 percent was 4.1 percentage points lower than in the prior year, driven by lower COVID-19 and catastrophe losses, as well as underlying improvement as higher premium rates fed into the results.

The Group's Life business BOP increased 27 percent compared to the prior year. Excluding COVID-19 effects, Life BOP grew 26 percent driven by the Group's continued focus on protection and capital-light saving products.

Farmers BOP was 8 percent higher compared to the prior year. A 12 percent increase in BOP at Farmers Management Services was partially offset by higher mortality claims related to COVID-19 in Farmers Life. Gross written premiums of the Farmers Exchanges[1] increased 20 percent. Excluding the contribution of the MetLife U.S. P&C transaction, which closed at the beginning of April 2021, gross written premiums rose 7 percent.

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.

Introduction (continued)

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.

The operational structure reflects the businesses operated by the Group and how these are strategically run to offer different products and services to specific customer groups. The Group is managed by regions, and in addition, Commercial Insurance, Zurich Global Ventures (formerly Global Business Platforms) and Farmers in the U.S. Global Business Platforms was created on January 1, 2021 to globally accelerate customer centricity and the development of digital services in furtherance of the insurance business.

The Executive Committee (ExCo) is headed by the Group CEO. Seven members of the ExCo represent the Group's businesses: the CEOs of the regions (CEO North America, CEO EMEA (Europe, Middle East & Africa) and Bank Distribution, CEO Latin America, CEO Asia Pacific), CEO Commercial Insurance, CEO Zurich Global Ventures (formerly CEO Global Business Platforms) and the CEO of Farmers Group, Inc. Three members of the ExCo represent Group Functions and Operations: the Group Chief Information and Digital Officer, the Group Chief Risk Officer (Group CRO) and the Group Chief Financial Officer (Group CFO). On the investment side, Investment Management manages the Group's own assets and the assets of policyholders and is headed by the Group Chief Investment Officer (Group CIO).

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 of Directors (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 Group's solvency position is 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 Supervisory Authority FINMA (FINMA). Zurich's goal is to maintain capital consistent with a 'AA' financial strength rating for the Group, which translates into an SST ratio target of 160 percent or above. The Group continues to apply the Zurich Economic Capital Model (Z-ECM) as an internal metric. Z-ECM provides a key input into the Group's planning process as an assessment of the Group's economic risk profile.

The Group regularly reports on its risk profile at entity 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 for SST purposes

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 Group's SST risk-bearing capital increased by USD 0.6 billion to USD 52.4 billion as of January 1, 2022, compared to USD 51.9 billion as of January 1, 2021.

Capital management

Zurich manages capital to maximize long-term 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 37.9 billion and subordinated debt of USD 9.8 billion were part of the capital available in the 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 ZIC, 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 212 percent (unaudited). It is filed with FINMA at the end of April 2022 and is subject to review by FINMA. Zurich 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.

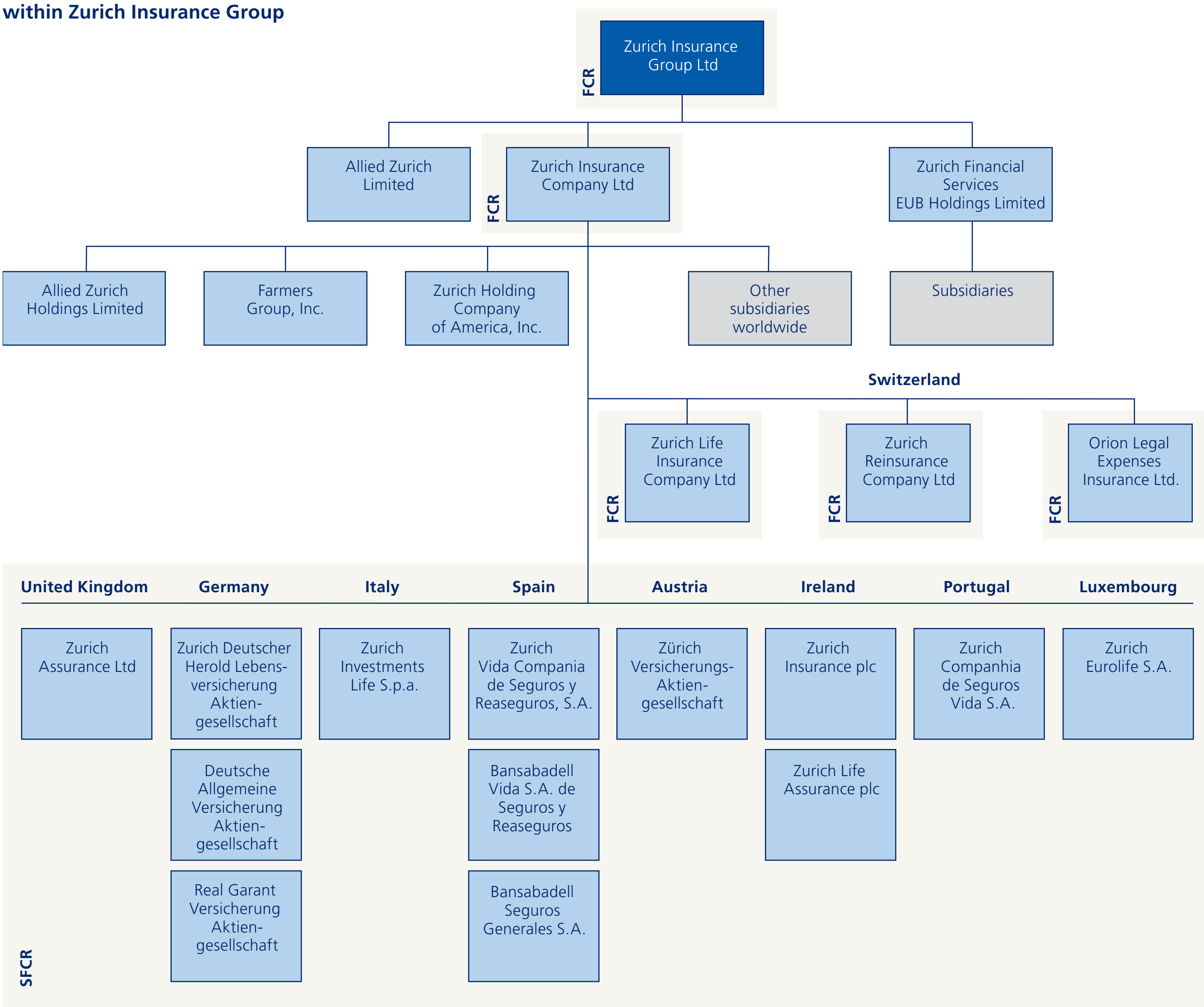
2 Approval of the Financial Condition Report

This Report was reviewed and signed-off by the Board of Directors of Zurich Insurance Group Ltd 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

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.

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 consists of Zurich Insurance Group Ltd (holding entity 'ZIG') and its subsidiaries. Zurich Insurance Company Ltd ('ZIC') is the principal operating insurance company of ZIG. ZIC and its subsidiaries are collectively referred to as 'Zurich Insurance Company Group' or 'ZIC Group.'

The subsidiaries of ZIC in scope of the public disclosure requirements under Swiss regulation are:

- 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 accessible through Zurich's website https://www.zurich.com/investor-relations/results-and-reports/other-statutory-filings.

For additional information on the Group structure, please see the Corporate Governance report in the Group's Annual Report 2021 on pages 43 and 44.

Also, a list of the **significant subsidiaries of the Group** can be found in note 28 of the audited consolidated financial statements of the Group's Annual Report 2021 on pages 339–341.

Significant acquisitions and divestments in 2021 impacting the Group structure are detailed in note 5 of the audited consolidated financial statement in the Group's Annual report 2021 on pages 259–261.

For information about **significant shareholders** within the meaning of Article 120 para 1 FMIA, please see the Corporate Governance report section of the Group's Annual Report 2021 on page 47.

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

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

Zurich's strategy to deliver long-term competitive advantage focuses on continuing to increase profitability and consolidating the Group's position as a leading global underwriter for P&C and life insurance. The Group will continue to expand customer relationships and simplify the business. At the operating level, Zurich will continue to reduce complexity and improve accountability. Zurich 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. The Farmers Exchanges will continue to focus on improving customer satisfaction and retention rates.

For additional information on the **Group's strategy**, see pages 18–20 of the Group's Annual Report 2021.

For details on the **activities of the various businesses** refer to note 27 of the audited consolidated financial statements in the Group's Annual Report 2021, on pages 323–338.

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

Financial highlights

in USD millions, for the years ended December 31	2021	2020	Change[1]
Business operating profit	**5,742**	4,241	35%
Net income attributable to shareholders	**5,202**	3,834	36%
P&C business operating profit	**3,121**	2,080	50%
P&C gross written premiums and policy fees	**40,123**	35,518	13%
P&C combined ratio	**94.3%**	98.4%	4.1 pts
Life business operating profit	**1,812**	1,423	27%
Life gross written premiums, policy fees and insurance deposit	**28,353**	27,616	3%
Life new business annual premium equivalent (APE)[2]	**3,824**	3,625	5%
Life new business margin, after tax (as % of APE)[2]	**29.1%**	25.1%	4.0 pts
Life new business value, after tax[2]	**959**	788	22%
Farmers business operating profit	**1,617**	1,501	8%
Farmers Management Services management fees and other related revenues	**4,265**	3,703	15%
Farmers Management Services managed gross earned premium margin	**6.6%**	6.8%	(0.1 pts)
Farmers Life new business annual premium equivalent (APE)[2]	**78**	75	4%
Average Group investments[3]	**203,121**	204,639	(1%)
Net investment result on Group investments[3]	**7,085**	6,950	2%
Net investment return on Group investments[3,4]	**3.5%**	3.4%	0.1 pts
Total return on Group investments[3,4]	**(0.8%)**	6.4%	(7.2 pts)
Shareholders' equity	**37,881**	38,278	(1%)
Swiss Solvency Test ratio[5]	**212%**	182%	31 pts
Return on common shareholders' equity (ROE)[6]	**16.4%**	13.0%	3.4 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[6]	**14.0%**	11.0%	3.0 pts

1 Parentheses around numbers represent an adverse variance.
2 New business value and new business margin are calculated after the effect of non-controlling interests, whereas APE is presented before non-controlling interests.
3 Including investment cash.
4 Calculated on average Group investments.
5 Swiss Solvency Test (SST) ratio calculated based on the Group's internal model approved by the Swiss Financial Market Supervisory Authority FINMA. The SST ratio as of January 1 has to be filed with FINMA by end of April each year and is subject to review by FINMA.
6 Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

The Group reported very strong growth in profit for 2021, with business operating profit (BOP) increasing 35 percent. Growth came from a strong underlying performance together with a reduced impact from the COVID-19 pandemic, which more than offset higher weather and natural catastrophe losses.

Net income attributable to shareholders (NIAS) increased by 36 percent in 2021, driven by the growth in business operating profit and higher net realized gains on equities and real estate, which more than offset slightly higher charges for other items.

Detailed financial results are disclosed in the Group's Annual Report 2021. In particular, additional information on overall performance, is provided in the 'Financial overview' section in the Group's Annual Report 2021 on pages 221–227.

For information on **investment performance**, please see Note 6 of the consolidated financial statements of the Group's Annual Report 2021 on pages 262–264.

C. Corporate governance and risk management

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

Zurich's governance structure and independent and diverse Board composition ensure effective corporate governance and strategic oversight, and foster integration of environmental, social and governance (ESG) factors in the business, enabling Zurich to create sustainable value for our shareholders, customers, employees and other stakeholders.

Information about the composition of the **Board** and **Executive Committee (ExCo)** are disclosed in the Corporate governance report section in the Group's Annual Report, on pages 41, 50–59, 66–73. Changes to the composition of the Board and ExCo in 2021 and since January 1, 2022 are disclosed on page 41.

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. All information in relation to the Group Corporate governance and Risk management is available in the Corporate governance report and Risk review of the Group's Annual Report 2021, and include notably the following information:

- The major **Risk management objectives** at Zurich are described in the Risk review in the Group's Annual Report 2021, on page 187.
- The Group Enterprise **Risk Management Framework** is based on a governance framework that sets forth clear responsibilities for identifying, assessing, managing, monitoring and reporting risks, as further detailed in the Group's Annual Report 2021, on pages 187–188.
- 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 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 the **Group's risk profile**, can be found in the Risk review in the Group's Annual Report 2021, for each of the following risk categories:

- Insurance risk, see as pages 195–201;
- Market risk, including investment credit risk, see pages 202–208;
- Other risks related to reinsurance assets and receivables, see pages 208–209;
- Operational risks, including digital, data, third-party and resilience, see pages 210–211;
- Liquidity risk, see page 212;
- Strategic risk and risks to the Group's reputation, see page 213;
- Sustainability risk, see pages 213–214.

E. Valuation

E.1 Overarching market-consistent valuation principle

The following section presents the Group's market-consistent balance sheet (MCBS) which is essential in determining the 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 the 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 Group's Annual Report 2021, pages 262 to 264, 265 to 268, 309 to 315. 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 Group's Annual Report 2021, pages 247 to 258.

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.

E. Valuation (continued)

As of December 31, 2021, the 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.

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)	7,588	474
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)**	**190,959**	**9,919**
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	11,106	8,719	(2,387)	8,698	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	3,815	3,672	(142)	3,582	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	**194,607**	**199,025**	**4,418**	**244,931**	**(45,905)**
Total market-consistent value of assets	**407,941**	**399,903**	**(8,037)**	**435,889**	**(35,986)**

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)	(0)	(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	(0)	(1)	(1)	(1)	–
Market consistent value of other liabilities					
Non-technical provisions	(3,781)	(2,672)	1,110	(2,643)	(28)
Interest-bearing liabilities	(6,252)	(5,803)	449	(5,395)	(408)
Liabilities from derivative financial instruments	(481)	(532)	(52)	(532)	–
Deposits retained on ceded reinsurance	(826)	(883)	(56)	(970)	87
Liabilities from insurance business	(4,015)	(3,954)	60	(3,943)	(11)
Other liabilities	(12,043)	(10,758)	1,285	(22,000)	11,242
Accrued liabilities	(4,640)	(5,045)	(405)	(15,038)	9,992
Subordinated debts	(9,335)	(10,447)	(1,112)	(9,782)	(665)
Total BEL plus market-consistent value of other liabilities	(362,018)	(354,360)	7,658	(398,008)	43,649
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	**45,923**	**45,543**	**(379)**	**37,881**	**7,662**

E.2.1 Evolution of assets since 2021

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 4.4 billion from USD 194.6 billion in 2020 to USD 199.0 billion in 2021.

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 2.4 billion from USD 11.1 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 2021

Best estimate of provisions for 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 has decreased by USD 1.3 billion from USD 41.4 billion in 2020, to USD 40.1 billion in 2021.

Other liabilities decreased by USD 1.3 billion from USD 12 billion in 2020 to USD 10.8 billion in 2021 mainly 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.

Subordinated debt increased by USD 1.1 billion from USD 9.3 billion in 2020 to USD 10.4 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. Valuation (continued)

E.2.3 Changes in MCBS valuation methodology

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.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)		**190,959**
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
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

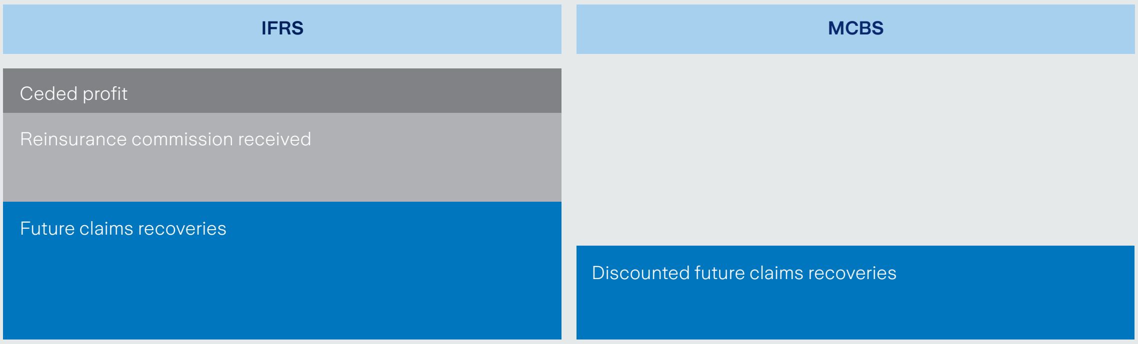
Similar to IFRS, the calculation of the best estimate for reinsurance assets and insurance liabilities is performed on a gross basis in MCBS (i.e., no offsetting of assets with liabilities). However, the MCBS valuation is based on the actuarial discounted best estimate of future cash flows, taking into 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.

E. Valuation (continued)

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)



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.

E. Valuation (continued)

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

The reclassification of assets of 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)		**76,410**
	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)		**31,900**

E.2.5 Market-consistent value of liabilities

Best estimate of non-life insurance liabilities

Best estimate of unearned premium reserves

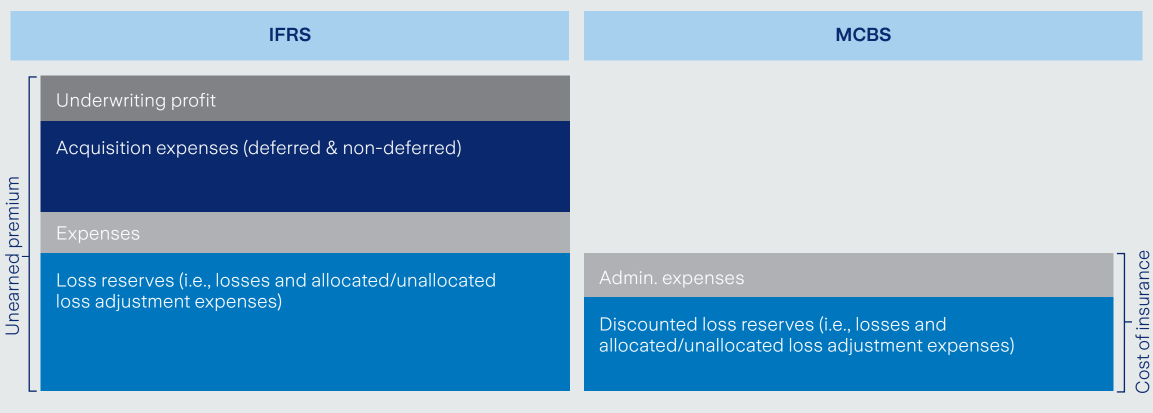
Under IFRS, the unearned premium reserve (UPR) represents the portion of the premiums written related to the unexpired coverage period. The UPR typically relates to one year of premiums invoiced, which is also the case for

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)



E. Valuation (continued)

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.

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)**

E. Valuation (continued)

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.

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)		**(60,304)**
Interest bearing liabilities	Valuation differences	(408)
Deposit liabilities from ceded reinsurance	Valuation differences	97
Subordinated liabilities	Valuation differences	(665)
	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
Other Liabilities	The reclassification to held for sale is not applicable in MCBS	11,323
	Other	89
Total maket-consistent value of other liabilities (SST)		**(40,094)**

F. Capital management

F.1 Capital management objectives

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

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

For additional information regarding the **Capital structure**, please see the Corporate governance report section in the Group's Annual Report 2021 on pages 45–46.

For more details on **Capital management framework** and **Capital management program**, see the Risk review in the Group's Annual Report 2021 on page 190.

For more information regarding the **Insurance financial strength rating**, please see the Risk review in the Group's Annual Report 2021 on page 194.

For details on **Issuances and redemptions of debt**, see notes 18 and 29 of the consolidated financial statements in the Group's Annual Report 2021 on pages 291–292 and page 342.

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.

For more information on regulatory solvency regimes applicable to the Group and the Group's subsidiaries, see the Risk Review in the Group's Annual Report 2021 on page 191.

G. Solvency

G.1 Swiss Solvency Test ratio

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. The risk-bearing capital consist of core capital and supplementary capital as outlined further below.
- 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.

SST ratio and underlying components

in USD millions	January 1st, 2021	**January 1st, 2022**
Target capital	31,148	27,765
Risk-bearing capital	51,857	52,412
Risk margin	5,849	5,685
Target capital less Risk margin	**25,299**	**22,080**
Risk-bearing capital less Risk margin	46,008	46,727
SST ratio	**182%**	**212%**

Based on the approved SST internal model, the SST ratio as of January 1, 2022 stands at 212 percent, 30 percentage points higher compared to the SST ratio as of January 1, 2021. Strong operational capital generation net of incremental capital for growth contributed 16 percentage points to the ZIG SST ratio, partially offset by 3 percentage points negative impact of excess catastrophes and COVID-19 losses. Favorable market movements led to a 32 percentage points increase in the ratio, largely due to higher yield curve environment and favorable equity markets. Capital actions including the accrual of the full year 2021 dividend and acquisition of the MetLife U.S. P&C business reduced the SST ratio by 19 points. De-risking to reduce the equity exposure had a positive impact of 4 points.

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	45,923		45,543
Deductions	(3,402)		(3,578)
Core capital	**42,522**		**41,965**
Supplementary capital	9,335		10,447
Risk-bearing capital	**51,857**		**52,412**
Derivation of target capital			
Underwriting risk	11,501		11,994
Market risk	13,749		11,479
Diversification effects	(4,284)		(4,209)
Credit risk[1]	10,353		9,238
Risk margin and other effects on target capital[2]	(172)		(737)
Target capital	**31,148**		**27,765**
SST ratio[3]	**182%**		**212%**

1 Credit risk includes investment credit risk, reinsurance and receivables credit risk.
2 Risk margin accounts for USD 5'685 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		7,262
Nat Cat	4,527		4,914
Life insurance liabilities	3,893		3,848
Business risk	5,368		4,941
Diversification	(9,404)		(8,970)
Total	**11,501**		**11,994**
Market risk derivation of target capital			
Equity risk	4,985		4,122
Interest rate risk	5,225		4,694
Exchange rate risk	2,452		2,435
Credit spread risk	9,120		7,914
Other	16,503		14,616
Diversification	(18,278)		(16,591)
Total (including investment credit risk)	**20,006**		**17,190**
thereof			
Market risk (excluding investment credit risk)	13,749		11,479
Investment credit risk	10,122		8,999
Credit risk derivation of target capital			
Investment credit risk	10,122		8,999
Reinsurance credit risk & receivables	980		933
Diversification	(749)		(694)
Total	**10,353**		**9,238**

G. Solvency (continued)

G.2 Additional information on risk-bearing capital

The risk-bearing capital under SST consists of core capital derived from the MCBS as described in section E.2 less deductions for proposed dividends and capital repayments and supplementary capital, which includes eligible debt. The below table provides a reconciliation between the IFRS shareholders' equity and SST risk-bearing capital.

Reconciliation from IFRS equity to the SST risk-bearing capital

in USD millions, as of December 31, 2021	
Shareholders' equity	**37,881**
Dividend accrual	(3,578)
Effect of intangible assets and related liabilities[1]	(23,280)
Eligible subordinated debt	9,782
Economic valuation and other adjustments	31,608
Risk bearing capital	**52,412**

1 Net effect of intangible assets and related liabilities gross of non-controlling interests.

The below table summarizes the development of the Group's risk-bearing and target capital during the annual period ending December 31, 2021. In 2021, the solvency of the Group returned to a pre-pandemic level. The main drivers of the Group's SST ratio increase in 2021 were strong underlying capital generation and improved market conditions.

Development SST ratio, risk-bearing capital, risk margin and target capital

in USD millions	SST ratio	Risk-bearing capital	Target capital incl. risk margin
January 1st, 2021	**182%**	**51,857**	**31,148**
Economic profit/business growth	13%	4,714	840
Market movement	32%	1,994	(3,142)
Assumption and model changes	–	(1,792)	(677)
Capital actions	(19%)	(4,322)	(37)
Other	4%	(39)	(367)
January 1st, 2022	**212%**	**52,412**	**27,765**

Additionally, information on **Stress scenarios and sensitivity of SST ratio** to key market and insurance risks can be found in the Risk review in the Group's Annual Report 2021 on pages 192–194.

The risk-bearing capital is allocated to the operating segments defined in accordance with IFRS. For details on the **Activities of the various businesses** refer to note 27 of the audited consolidated financial statements in the Group's Annual Report 2021 on pages 323–338.

The following table presents risk-bearing capital by segment and describes the major changes during 2021.

Split of SST risk-bearing capital by segment

in USD millions, as of December 31, 2021	Property & Casualty	Life	Farmers	Group Functions and Operations	Non-Core Business	Total
Prior year	**26,993**	**26,889**	**6,083**	**(8,679)**	**569**	**51,857**
Economic profit	2,592	1,732	1,229	(858)	19	4,714
Market movement	2,424	(979)	123	419	8	1,994
Assumption and model changes	(179)	(801)	(698)	(103)	(11)	(1,792)
Capital actions	(2,374)	(782)	(2,370)	1,191	14	(4,322)
Other	(271)	332	54	(126)	(26)	(39)
Current year	**29,184**	**26,391**	**4,422**	**(8,156)**	**572**	**52,412**

G.3 Additional information on Life business

Life business includes all business within the Life segment as well as Farmers Life, a writer of individual Life insurance business in the U.S. which is included in the Farmers segment, and life insurance and reinsurance businesses that the Group does not consider core to its operations and are managed to achieve a beneficial run-off within the Non-Core Businesses (NCB) segment. The SST risk-bearing capital for the Life segment, Farmers Life and NCB Life was USD 31'489 million as of December 31, 2021.

The table below provides a reconciliation between the SST risk-bearing capital to the Economic value (a shareholder view) for Life businesses. Economic value follows the Embedded value (EV) principles using a 'bottom-up' market consistent approach. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets. Options and guarantees are valued using market consistent models calibrated to observable market prices. However, unlike EV, the Economic value is gross of frictional costs (FC) and costs of residual non-hedgeable risks (CRNHR).

Key adjustments to SST risk-bearing capital to move to Economic value are:

- USD 4,941 million decrease from deducting shareholder taxes;
- USD 1,284 million increase from moving from SST to economic contract boundaries for selected businesses;
- USD 2,712 million decrease from including future non-contractually guaranteed/discretionary surplus distributions expected to be awarded to policyholders in excess of those contractually specified or legally required in Switzerland and Germany.

Economic value was USD 25,121 million as of December 31, 2021, gross of risk margin. The fully diversified contribution to the Group risk margin from the Life business was USD 4.5 billion. The risk margin represents the cost of holding capital under the SST regime until existing liabilities are extinguished. A cost of capital of 6% has been applied when deriving the risk margin.

Split of SST risk-bearing capital by segment

Movement of Economic Value based on SST risk-bearing capital

in USD millions, for the year ended December 31, 2021	Total Life business
Economic value prior year gross of non-controlling interest	**27,323**
Non-controlling interest	(1,740)
Economic value prior year	**25,583**
Removing future discretionary benefits from liabilities	2,739
Moving from economic to SST contract boundaries	(949)
Adding back shareholder taxes	5,239
SST risk-bearing capital prior year	**32,612**
Economic profit	1,851
thereof new business value[1]	1,550
Market movements	(912)
Experience variance, assumption, model changes	(1,518)
Other	366
Capital actions	(908)
SST risk-bearing capital current year	**31,489**
Deducting shareholder taxes	(4,941)
Moving from SST to economic contract boundaries	1,284
Including future discretionary benefits in liabilities	(2,712)
Economic value current year	**25,121**
Non-controlling interest	1,495
Economic value current year gross of non-controlling iterest	**26,617**

All metrics are reported net of non-controlling interests, unless indicated otherwise.
1 New business value (NBV) on SST basis, gross of shareholder taxes, frictional costs (FC) and costs of residual non-hedgeable risks (CRNHR), based on contractual rather than economic contract boundaries and excluding future discretionary benefits in excess of those contractually specified or legally required.

G. Solvency (continued)

The new business written during the year generated NBV of USD 1,070 million (net of taxes, FC, CRNHR, on economic contract boundaries and allowing for future discretionary benefits) with the following contribution by regions :

New business by geographical region for the covered business

in USD millions, for the years ended December 31	Present value new business premium (PVNBP)[1,3]		Annual premium equivalent (APE)[2,3]		New business value[4]		New business margin[4] % of APE	
	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
Regions								
North America	1,065	1,156	108	120	44	24	41.0%	19.8%
Latin America	6,075	5,804	1,005	1,041	142	164	23.0%	25.5%
Europe, Middle East & Africa	21,839	22,822	2,300	2,465	500	668	22.7%	28.6%
Asia Pacific	2,530	2,057	213	198	101	103	47.9%	52.7%
Farmers Life	1,052	1,002	75	78	121	111	161.6%	142.0%
Total covered business	**32,561**	**32,842**	**3,700**	**3,902**	**909**	**1,070**	**28.3%**	**31.7%**

1 PVNBP is measured as new single premiums plus the present value of new annual premiums.
2 APE is measured as new annual premiums plus 10 percent of new single premiums.
3 PVNBP and APE are shown gross of non-controlling interests.
4 New business value and new business margin are shown net of non-controlling interests.

Analysis of new business value[1] for the covered business

in USD millions	Total	North America	Europe, Middle East & Africa	Latin America	Asia Pacific	Farmers Life
New business value 2020	**909**	**44**	**500**	**142**	**101**	**121**
Change in volumes and business mix	129	(10)	127	17	(8)	2
Economic and operating variances	16	(10)	20	9	10	(13)
Foreign currency translation effects	16	–	20	(5)	–	–
New business value 2021	**1,070**	**24**	**668**	**164**	**103**	**111**

1 New business value is reported net of non-controlling interests.

Analysis of new business margin[1] for the covered business

in USD millions	Total	North America	Europe, Middle East & Africa	Latin America	Asia Pacific	Farmers Life
New business margin 2020	**28.3%**	**41.0%**	**22.7%**	**23.0%**	**47.9%**	**161.6%**
New business margin 2021	**31.7%**	**19.8%**	**28.6%**	**25.5%**	**52.7%**	**142.0%**

1 New business margin (% of APE) is reported net of non-controlling interests.

Annual Premium Equivalent (APE) was USD 3,902 million, an increase of USD 202 million compared to 2020. Main APE movements include the following:

- increase in Ireland, driven by strong growth from domestic sales in unit-linked and corporate life pension businesses, partially due to tax incentives;
- increase in Spain, resulting from strong growth in individual and corporate life protection businesses;
- decrease in Germany, where lower sales of traditional business have been largely offset by higher sales of unit-linked products without guarantees and
- decrease in the Isle of Man, mainly driven by a large corporate life transaction in the previous period.

New business value (NBV) was USD 1,070 million, an increase of USD 161 million compared to prior year mainly due to higher sales and improved business mix, in comparison to depressed volumes in the previous period due to COVID-19 restrictions. This was partially offset by negative operating variances. Main NBV movements were the following:

– increase due to combined business mix and volume effects, with main impacts from Spain, Switzerland, Ireland and Italy;
– increase due to modeling changes mainly in Germany and Switzerland;
– decrease due to operating variances which includes the effect of regular operating assumption updates, with main impact from group risk protection in Switzerland;
– increase due to economic variances, with main impact from Switzerland driven by the adoption of the FINMA curve for the NBV calculation, resulting in higher rates at longer durations, partially offset by lower inflation and
– increase due to FX adjustments, mainly from a strengthening of currencies in Europe partially offset by a deterioration of currencies in Latin America, both against USD.

New business margin increased by 3.5 percentage points to 31.7 percent. This resulted from improved business mix, favorable economic variances and positive modeling refinements partially offset by negative operating variances.

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Appendix 1: Quantitative templates

Income statement Group and segments (IFRS)

in USD millions, for the years ended December 31

	Total	
	2020	**2021**
Gross written premiums	48,221	53,185
Policy fees	2,334	2,592
Gross written premiums and policy fees	**50,555**	**55,777**
Less premiums ceded to reinsurers	(9,988)	(10,970)
Net written premiums and policy fees	**40,567**	**44,806**
Net change in reserves for unearned premiums	(623)	(1,776)
Net earned premiums and policy fees	**39,944**	**43,031**
Farmers management fees and other related revenues	3,703	4,265
Net investment result on Group investments	**6,950**	**7,085**
Net investment income on Group Investments	4,903	5,047
Net cap gains/losses & imp. on Group investments	2,047	2,038
Net investment result on unit-linked investments	7,389	14,388
Net gains/(losses) on divestments of businesses	57	(185)
Other income	957	1,283
Total revenues	**59,001**	**69,867**
Insurance benefits and losses, gross of reinsurance	35,899	34,470
Less ceded insurance benefits and losses	(8,158)	(6,186)
Insurance benefits and losses, net of reinsurance	27,741	28,284
PH div & particip. in profits, net	8,325	15,195
Underwriting and policy acqu. costs, net	8,555	9,213
Administrative and other operating expense	8,006	8,794
Interest expense on debt	399	469
Interest credited to policyholders and other interest	581	591
Total benefits, losses and expenses	**53,606**	**62,546**
Net income before income taxes	**5,395**	**7,321**
Income tax expense	(1,323)	(1,895)
– attributable to policyholders	(46)	(275)
– attributable to shareholders	(1,277)	(1,621)
Net income after taxes	4,071	5,425
Attributable to minority interests	238	223
Attributable to shareholders	3,834	5,202

Appendix 1: Quantitative templates (continued)

Property & Casualty		Life		Farmers		Group Functions and Operations		Non-Core Businesses/ Eliminations	
2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
35,518	40,123	11,980	11,791	659	992	(7)	359	71	(79)
–	–	1,973	2,205	337	359	–	–	24	27
35,518	**40,123**	**13,953**	**13,995**	**996**	**1,351**	**(7)**	**359**	**94**	**(52)**
(8,601)	(9,244)	(1,225)	(1,507)	(174)	(175)	–	(194)	13	149
26,918	**30,879**	**12,727**	**12,489**	**822**	**1,176**	**(7)**	**165**	**107**	**98**
(522)	(1,418)	(104)	(190)	(1)	(161)	2	(11)	2	4
26,396	**29,461**	**12,624**	**12,299**	**821**	**1,015**	**(5)**	**154**	**109**	**102**
–	–	–	–	3,703	4,265	–	–	–	–
2,881	**3,171**	**3,629**	**3,775**	**200**	**198**	**(9)**	**97**	**249**	**(155)**
1,740	1,688	2,753	2,987	189	176	163	155	58	41
1,140	1,483	876	788	11	22	(172)	(58)	191	(196)
–	–	6,794	13,909	163	203	–	–	433	276
–	–	56	(151)	–	–	1	(33)	–	–
573	836	513	486	89	73	133	123	(351)	(235)
29,849	**33,468**	**23,615**	**30,317**	**4,976**	**5,754**	**121**	**341**	**439**	**(13)**
24,562	23,520	10,287	9,968	650	865	(3)	246	403	(129)
(7,025)	(4,927)	(981)	(1,105)	(105)	(130)	–	(139)	(47)	115
17,536	18,593	9,306	8,863	545	735	(3)	107	356	(14)
15	23	7,691	14,660	173	213	–	12	446	287
6,288	6,886	2,112	2,129	145	175	4	25	5	(2)
2,860	3,152	2,112	2,167	2,558	2,902	462	509	14	64
10	4	16	10	–	12	495	532	(122)	(89)
278	279	297	315	108	111	121	124	(223)	(237)
26,988	**28,937**	**21,534**	**28,144**	**3,530**	**4,149**	**1,078**	**1,308**	**476**	**8**
2,861	**4,531**	**2,081**	**2,173**	**1,446**	**1,605**	**(957)**	**(967)**	**(37)**	**(21)**

Appendix 1: Quantitative templates (continued)

Income statement Group and major international markets (IFRS)

in USD millions, for the years ended December 31

	Total	
	2020	2021
Gross written premiums	48,221	53,185
Policy fees	2,334	2,592
Gross written premiums and policy fees	**50,555**	**55,777**
Less premiums ceded to reinsurers	(9,988)	(10,970)
Net written premiums and policy fees	**40,567**	**44,806**
Net change in reserves for unearned premiums	(623)	(1,776)
Net earned premiums and policy fees	**39,944**	**43,031**
Farmers management fees and other related revenues	3,703	4,265
Net investment result on Group investments	**6,950**	**7,085**
Net investment income on Group Investments	4,903	5,047
Net cap gains/losses & imp. on Group investments	2,047	2,038
Net investment result on unit-linked investments	7,389	14,388
Net gains/(losses) on divestments of businesses	57	(185)
Other income	957	1,283
Total revenues	**59,001**	**69,867**
Insurance benefits and losses, gross of reinsurance	35,899	34,470
Less ceded insurance benefits and losses	(8,158)	(6,186)
Insurance benefits and losses, net of reinsurance	27,741	28,284
PH div & particip. in profits, net	8,325	15,195
Underwriting and policy acqu. costs, net	8,555	9,213
Administrative and other operating expense	8,006	8,794
Interest expense on debt	399	469
Interest credited to policyholders and other interest	581	591
Total benefits, losses and expenses	**53,606**	**62,546**
Net income before income taxes	**5,395**	**7,321**
Income tax expense	(1,323)	(1,895)
– attributable to policyholders	(46)	(275)
– attributable to shareholders	(1,277)	(1,621)
Net income after taxes	4,071	5,425
Attributable to minority interests	238	223
Attributable to shareholders	3,834	5,202

Appendix 1: Quantitative templates (continued)

Europe, Middle East & Africa Property & Casualty		North America Property & Casualty		Europe, Middle East & Africa Life		Farmers		Other	
2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
15,839	17,845	16,036	18,232	7,420	6,948	659	992	8,268	9,168
–	–	–	–	1,388	1,573	337	359	608	659
15,839	**17,845**	**16,036**	**18,232**	**8,808**	**8,521**	**996**	**1,351**	**8,876**	**9,827**
(3,109)	(3,549)	(5,970)	(6,302)	(659)	(703)	(174)	(175)	(76)	(241)
12,730	**14,296**	**10,066**	**11,930**	**8,149**	**7,818**	**822**	**1,176**	**8,800**	**9,586**
(387)	(578)	(250)	(685)	(16)	(11)	(1)	(161)	31	(341)
12,343	**13,718**	**9,816**	**11,246**	**8,133**	**7,807**	**821**	**1,015**	**8,831**	**9,245**
–	–	–	–	–	–	3,703	4,265	–	–
899	**913**	**1,641**	**1,784**	**2,988**	**3,139**	**200**	**198**	**1,221**	**1,050**
498	524	981	888	2,226	2,278	189	176	1,009	1,182
401	389	661	896	762	861	11	22	212	(131)
–	–	–	–	5,330	12,606	163	203	1,897	1,579
–	–	–	–	(59)	(151)	–	–	116	(33)
355	486	37	205	384	336	89	73	91	182
13,598	**15,117**	**11,495**	**13,236**	**16,777**	**23,737**	**4,976**	**5,754**	**12,155**	**12,023**
10,124	10,775	12,393	10,622	7,493	6,928	650	865	5,238	5,281
(1,826)	(1,412)	(5,632)	(3,430)	(501)	(459)	(105)	(130)	(94)	(755)
8,298	9,363	6,761	7,192	6,993	6,469	545	735	5,143	4,526
8	9	7	12	6,196	13,380	173	213	1,941	1,581
2,440	2,788	2,538	2,825	791	909	145	175	2,641	2,517
1,633	1,610	342	596	1,300	1,236	2,558	2,902	2,173	2,450
9	4	–	–	–	–	–	12	390	453
173	174	65	60	230	228	108	111	6	18
12,561	**13,947**	**9,712**	**10,684**	**15,510**	**22,222**	**3,530**	**4,149**	**12,293**	**11,544**
1,037	**1,170**	**1,783**	**2,551**	**1,266**	**1,515**	**1,446**	**1,605**	**(138)**	**479**

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	11,106		8,719
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	0		–
Reinsurance: other business	1		1
Direct insurance : unit-linked life insurance business	(24)		(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	3,815		3,672
Other assets	1,097		1,174
Unpaid share capital	–		–
Accrued assets	3,365		3,459
Total other assets	**194,607**		**199,025**
Total market-consistent value of assets	407,941		399,903

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	(6,252)		(5,803)
Liabilities from derivative financial instruments	(481)		(532)
Deposits retained on ceded reinsurance	(826)		(883)
Liabilities from insurance business	(4,015)		(3,954)
Other liabilities	(12,043)		(10,758)
Accrued liabilities	(4,640)		(5,045)
Subordinated debts	(9,335)		(10,447)
Total BEL plus market-consistent value of other liabilities	(362,017)		(354,360)
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	45,923		45,543

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 Zurich Insurance Group Ltd and its subsidiaries (the 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 in the Group's Annual Report 2021 on pages 344–353.

https://www.zurich.com/en/investor-relations/results-and-reports

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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 forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

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