Financial Condition Report 2021

Zurich Life Insurance Company Ltd

Zurich Life Insurance Company Ltd

Contents[1]

1 The information published in this report is consistent with the information published in the Annual Report 2021 of Zurich Life Insurance Company Ltd, as well as the regulatory reporting of the Zurich Life Insurance Company Ltd for the year 2021, including the regulatory reporting to the Swiss Financial Market Supervisory Authority FINMA (FINMA) on the Swiss Solvency Test, in accordance with art. 25 ISA and art. 53 ISO. While the financial statements and the information therein were subject to audit by the statutory auditor of Zurich Life Insurance Company Ltd, Ernst & Young Ltd. (see Appendix 2), there was no external audit or review of this report. Please further note that, while this report has been filed with FINMA, FINMA has not reviewed the report. The SST calculation for the year ended December 31, 2021 has been filed with FINMA in the 2021 SST reporting in April 2022. In line with the normal timeline for FINMA reporting, the ZLIC 2021 SST reporting remains subject to regulatory review.

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

Overview

Business profile

Zurich Life Insurance Company Ltd (ZLIC), a life insurance company domiciled in Zurich, Switzerland, is operating primarily in Switzerland. ZLIC is 100 percent owned by Zurich Insurance Company Ltd (ZIC), which in turn is fully owned by Zurich Insurance Group Ltd (ZIG).

Gross written premiums (GWP) and policy fees

CHF 1.5 billion

Net income after taxes

CHF 266 million

Total investments

CHF 18.4 billion

System of governance

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

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

Risk profile

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

ZLIC uses its Total Risk Profiling™ process to monitor both external and internal risks to our strategy and financial plan. ZLIC's key risks in 2021 were focusing on uncertainties related to asset market volatility and investment returns, reserve adequacy, and data security. The significant risks for ZLIC, as measured by Swiss Solvency Test economic capital metrics, are: market, insurance and credit risk.

Financial condition

Total shareholders' equity (according to Swiss local statutory reporting)

CHF 1.5 billion

Swiss Solvency Test ratio as of January 1, 2022

226%

Acronyms

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

Introduction

Introduction

The Zurich Life Insurance Company Ltd (ZLIC) financial condition report is prepared in compliance with Art. 26 Swiss Insurance Supervision Act (ISA) and FINMA's Circular 2016/2 'Disclosure - insurers' and is not audited. The report focuses on the 2021 financial year, and should be read in conjunction with the audited ZLIC Annual Report 2021 (available on: http://www.zurich.com/en/investor-relations/results-and-reports/other-statutory-filings). Wherever applicable, this report makes reference to the Zurich Insurance Group Financial Condition Report or the Zurich Insurance Group Annual Report. Refer to these reports for more information.

ZLIC is part of the Zurich Insurance Group, which maintains a strong capital position. As of December 31, 2021, the Insurer Financial Strength Rating (IFSR) of ZIC was rated 'AA/Stable' by Standard and Poor's, 'Aa3/ Stable' by Moody's and 'A+/Stable' by A.M. Best. Furthermore, Zurich Insurance Group's unaudited estimated SST ratio was 212 percent as of January 1, 2022.

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

1. Executive summary

The Financial Condition Report was produced in accordance with FINMA Circular 2016/2 'Disclosure - insurers': Fundamental principles in reporting the financial position. The management summary provides general insights and focuses on important developments in 2021, but also gives background information and explanations where necessary.

Business activities

ZLIC serves two main customer segments (individual life insurance called 'Retail', and Corporate Life & Pensions) operating primarily in Switzerland. In 2021 the portfolios from the Hong Kong and Japan branch have been transferred to local insurance companies held by Zurich Insurance Company (Hong Kong) and ZLIC (Japan). The UAE branch is in run-off and the branches in Hong Kong and Japan are in the process of being liquidated.

Performance

ZLIC reported a net income after taxes of CHF 266 million in 2021, which is an increase of 111 percent compared with the previous year's result of CHF 126 million. Key drivers were favorable gains on portfolio transfers. ZLIC maintained a strong capital position with a total shareholders' equity of CHF 1,495 million and CHF 1,399 million as of December, 31, 2021 and 2020 respectively.

Gross written premiums and policy fees decreased by 21 percent to CHF 1,468 million compared with 2020. Key drivers were the portfolio transfers of Japan and Hong Kong business, as well as lower insured salaries and fewer purchases of additional pension benefits in Switzerland.

Corporate governance & risk management

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

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

- As the first line of defense, business management engages in risk-taking through business activities and is responsible for day-to-day risk management.
- The second line of defense consists of the two control functions, risk management and compliance. Both functions provide independent assurance. The risk management function oversees the overall risk management framework and supports the active management of ZLIC's risks. Issues and topics close and or above ZLIC's risk limits are escalated to the Management Board and the Board. ZLIC's risk appetite statement establishes risk limits. Compliance supports ZLIC in establishing and assessing principles, processes, and control structures that support adherence to legal, regulatory and internal requirements. For certain Compliance risks, Compliance provides specialized assistance to the risk owner(s) through risk-specific policies, risk evaluations, process and control analysis and advice, training and awareness, designing controls and monitoring operations.
- Internal audit (the third line of defense) provides independent assurance regarding the effectiveness of the ERM framework, risks and controls.

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

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

Introduction (continued)

Risk profile and solvency

FINMA established the Swiss Solvency Test (SST) to quantitatively measure risk. ZLIC files the SST ratio annually with FINMA. ZLIC's largest risk is market risk, which constitutes approximately 43 percent of the total CHF 3.9 billion undiversified target capital. Credit migration and default risks contribute a further 16 percent. Morbidity is a further important risk for ZLIC in portfolios in Switzerland and Japan. All parts of ZLIC face expense risk and there is also longevity risk related to Swiss annuities. Once a year, ZLIC's key risks including operational risks are also assessed in a Total Risk Profiling TM (TRP) analysis. Mitigation actions are defined and tracked, where necessary.

For reporting SST, assets and liabilities are valued on a market-consistent basis and are then stressed to calculate the risk-bearing capital in ZLIC's market-consistent balance sheet (MCBS). In 2021 the risk-bearing capital for ZLIC decreased by CHF 0.2 billion compared with 2020.

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

The ZLIC SST ratio as of January 1, 2022 grew to 226 percent, up from 223 percent one year earlier. Despite a continued low-interest rate environment, ZLIC's capitalization remains strong as measured by SST. The SST ratio was again supported by strong value creation from new and in force business, more than offsetting the effect of the CHF 400 million approved dividend. Japan is conservatively still consolidated in Q4 2021 SST results without allowance for the dividend in kind in amount of CHF 116m being proposed in addition to the CHF 400 million dividend for April 2022.

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

Dividend

In 2021, ZLIC paid a dividend of CHF 170 million. The ZLIC Annual General Meeting held on April 5, 2022 approved a cash dividend of CHF 400m as well as the dividend in kind of ZLIC's subsidiary in Japan where ZIC takes over the status of the sole shareholder. According to the applicable SST valuation requirements, ZLIC's SST ratio as of January 1, 2022 published in this report reflects the dividend payment of CHF 400m, but does not yet reflect the dividend in kind of the subsidiary in Japan. It will be reflected in the FCR report next year and is expected to have a favorable effect on the SST ratio.

Outlook

The key priorities in 2022 will be on addressing customer needs by promoting a balanced product mix, further leveraging appropriate distribution channels, enhancing investments in essential infrastructure, and establishing a strong customer service culture to allow ZLIC to deliver sustainable, profitable growth in a changing and more competitive business environment. ZLIC's management will continue to carefully monitor and act upon legal and regulatory requirements.

2. Approval of the Financial Condition Report

The 2021 ZLIC FCR was reviewed by the Management Board and then approved by the Board of Directors on April 12, 2022.

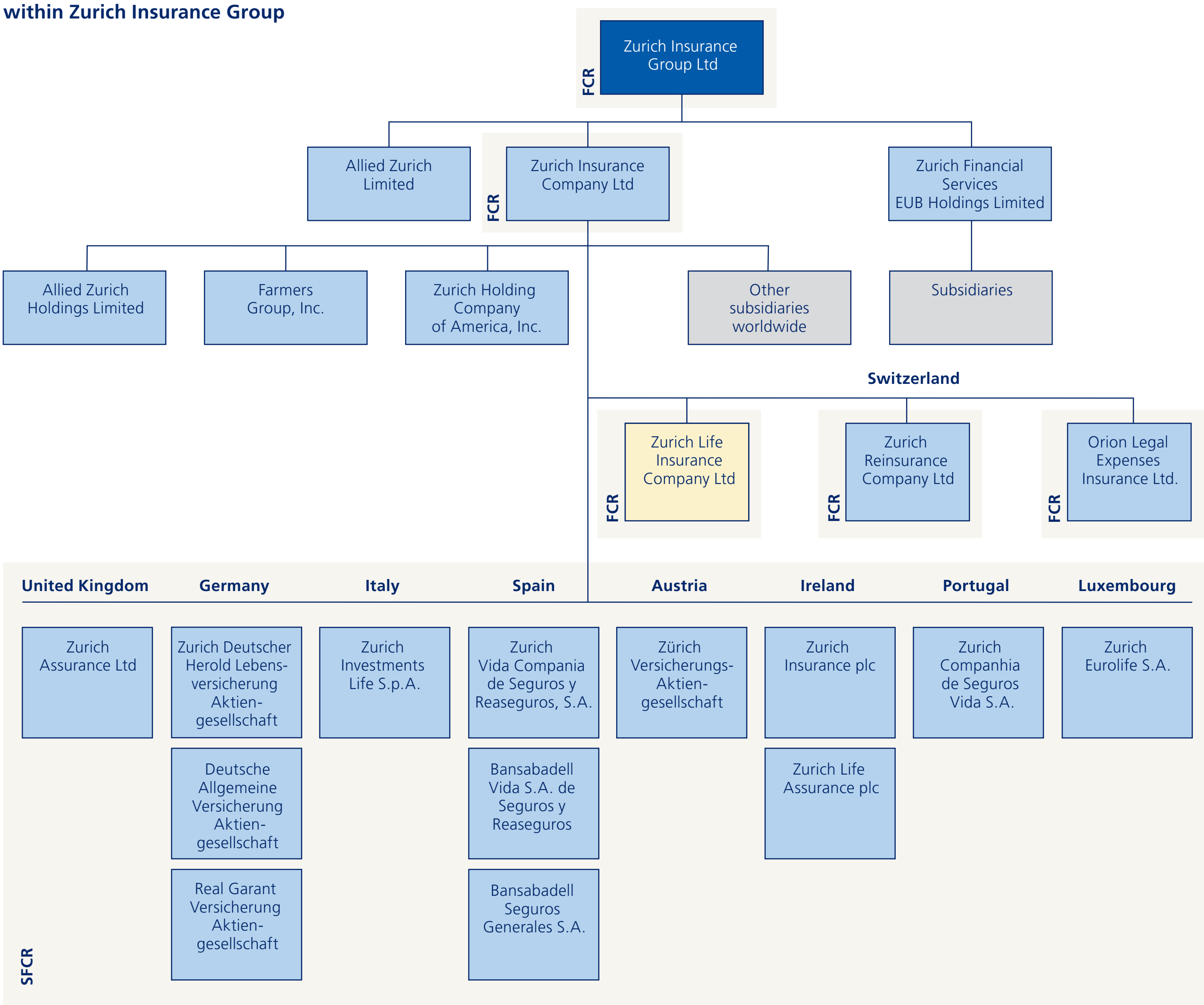
A. Business activities

A.1 Legal structure and major subsidiaries and branches

ZLIC is a life insurance provider serving both retail and corporate customers, primarily in Switzerland as well as through its branch in UAE. ZLIC is part of the Zurich Insurance Group ('Zurich' or 'the Group').

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

Public reporting on solvency and financial condition within Zurich Insurance Group



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

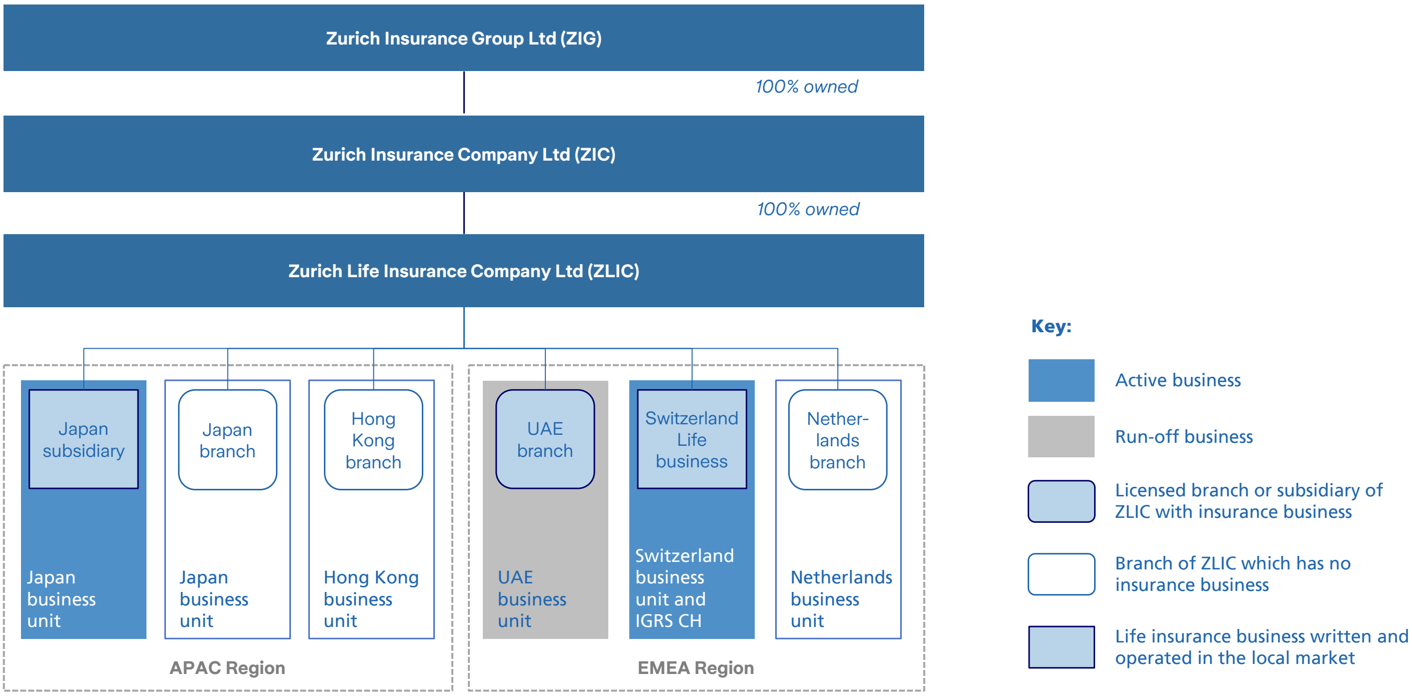
Subsidiary Group of subsidiaries Current disclosure

Note: The purpose of the chart above is to provide a simplified overview of the Group's major subsidiaries (as of December 31, 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.

A. Business activities (continued)

ZLIC entity structure

The chart below shows the simplified ZLIC entity structure as of December 31, 2021.



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

- Switzerland generated a GWP of CHF 1.3 billion in 2021, which represents roughly 91 percent of the overall ZLIC GWP for 2021.
- Japan generated a GWP of CHF 0.1 billion in 2021, which represents roughly 8 percent of the overall ZLIC GWP for 2021.
- Hong Kong generated a GWP of CHF 0.02 billion in 2021, which represents roughly 1 percent of the overall ZLIC GWP for 2021.

Significant subsidiaries and shareholdings

ZLIC holds 100 percent ownership and voting rights of a subsidiary in Japan, Zurich Life Insurance Japan Company Ltd, with carrying value equal to the paid-in capital of CHF 116 million as of December 31, 2021. ZLIC has no other significant subsidiaries with a carrying value of more than CHF 5 million.

Significant indirect subsidiaries

ZLIC has no significant indirect subsidiaries as of December 31, 2021.

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

ZLIC does not currently hold any special-purpose vehicles.

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

ZLIC strategy is derived from and consistent with the Group strategy. The ZLIC strategy is reviewed on an annual basis. In 2021 ZLIC confirmed the strategic focus areas and retains the main aspects as outlined below:

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

Switzerland:
ZLIC is a top-five life insurer in the Swiss market in terms of risk and cost premiums and savings contributions which account for approximately 91 percent of ZLIC's total business. ZLIC operates both an Individual Life and a Group Life business. Retail products include pure risk, endowment, annuities, unit-linked and hybrid products. Group Life propositions cover risk-only solutions and joint foundations business in the second pillar plus International Group Risks solutions for Swiss Multinationals and NGOs.

In line with its business strategy, ZLIC in Switzerland continued to improve operationally through simplification, process management and digitalization. All relevant customer touchpoints were monitored on an ongoing basis and the customer service in Group Life has been certified under the ISAE 3402 standard [type 1, type 2 following in 2022].

Furthermore, ZLIC in Switzerland also continued to focus on intelligent protection and capital efficient solutions and on maintaining a strict underwriting discipline throughout all product lines. On the distribution side, automated interfaces were developed and are planned to be rolled out to all agencies to facilitate interaction with customers. The sales support model has been aligned to further identify and improve cross-selling opportunities. At the same time, ZLIC in Switzerland continued to strengthen distribution relationships with banks and partnerships while seeking to establish alternative distribution channels to realize upselling potential.

From an operational perspective, ZLIC in Switzerland successfully finalized the Group Life end-to-end platform aimed at increasing efficiency and customer satisfaction while improving crucial reporting capabilities. With the new set-up, ZLIC can operate more effectively in the future.

Japan:
The insurance business of ZLIC's Japan branch was transferred on April 1, 2021 to ZLIC's Japan subsidiary through portfolio transfer. It was later resolved by both the Zurich Insurance Company Ltd (ZIC) and Zurich Insurance Group (ZIG) Boards that ZIC will take over the status of the sole shareholder of ZLIC's Japan subsidiary in 2022. A dividend in kind is therefore planned for April 2022.

Hong Kong:
ZLIC's Hong Kong Retail business, in run-off since December 31, 2013 has been transferred in a portfolio transfer to Zurich Life Hong Kong, a ZIC subsidiary, on September 1, 2021.

Sourcing agreement between ZLIC and ZIC (sourcing provider)
ZIC and ZLIC maintain a comprehensive outsourcing agreement with ZIC acting as service-provider towards ZLIC. ZLIC has outsourced all business, management and control functions' services (excluding non-transferable tasks, board duties and branch business) to ZIC.

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

ZLIC's external auditors for 2021 were Ernst & Young Ltd. ZLIC's Annual Report 2021 including the auditor's opinion is available at https://www.zurich.com/en/investor-relations/%20results-and-reports/other-statutory-filings.

A.4 Significant unusual events

For significant events during 2021 and thereafter, please refer to the Annual Report 2021 of Zurich Life Insurance Company and Zurich Insurance Group, respectively, as well as to the news releases available at https://www.zurich.com/en/media/news-releases.

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 ZLIC's businesses are already known and management's best estimate of claims is reflected in the loss reserves and loss adjustment expenses, some uncertainties remain. ZLIC is closely monitoring and actively dealing with the potential for further exposure from (i) potential second-order impacts on health which could have mortality or morbidity effects, and (ii) other extended macroeconomic impacts around the pandemic, including governmental actions.

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. ZLIC's direct exposure to Russia and Ukraine through its Life operations and investment portfolio is immaterial. However, ZLIC is closely monitoring the indirect effects of this situation due to increased volatility in the financial markets and the impact it may have on ZLIC's operations and financial results.

B. Performance

B.1 Underwriting performance

B.1.1 Gross written premiums and policy fees

Gross written premiums and policy fees decreased by 21 percent to CHF 1,468 million compared with 2020. Key drivers were the portfolio transfers of Japan and Hong Kong business, as well as lower insured salaries and fewer purchases of additional pension benefits in Switzerland.

Gross written premiums and policy fees by type of business

in CHF millions, for the years ended December 31	2020	2021
Group insurance	732	643
Individual insurance	757	409
Unit-linked insurance	372	416
Gross written premiums and policy fees	**1,861**	**1,468**

Gross written premiums and policy fees by country

in CHF millions, for the years ended December 31	2020	2021
Switzerland	1,387	1,336
Hong Kong	36	22
Japan	438	110
Gross written premiums and policy fees	**1,861**	**1,468**

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

Total claims paid, annuities and loss adjustment expenses, gross, decreased by CHF 324 million to CHF 1,704 million from CHF 2,028 million in 2020. Key drivers were the portfolio transfers of Japan and Hong Kong business, as well as the decrease in claims paid due to less surrenders and less maturities in Switzerland.

Claims paid, annuities and loss adjustment expenses, gross

in CHF millions, for the years ended December 31	2020	2021
Maturity benefits	(550)	(537)
Death benefits	(160)	(142)
Annuity payments	(390)	(378)
Disability and health benefits	(291)	(212)
Surrenders	(637)	(436)
Claims paid, annuities and loss adjustment expenses, gross	**(2,028)**	**(1,704)**

B. Performance (continued)

B.2 Investment performance

B.2.1 Investment income

Investment income decreased by CHF 252 million or 30 percent to CHF 587 million in 2021 from CHF 839 million in 2020. This was mainly driven by less realized capital gains on real estate in 2021 compared with the previous year, where several buildings were sold and gains were realized.

Investment income

in CHF millions, for the years ended December 31	Current income		Realized capital gains		Write-ups		Totals	
	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
Real estate	131	127	303	2	–	–	434	128
Investments in subsidiaries and associates	–	–	–	–	–	–	–	–
Debt securities	85	99	15	37	122	97	222	233
Policyholders' loans and other loans	3	2	–	–	–	–	3	2
Mortgage loans	34	32	–	–	–	–	35	32
Equity securities	9	21	63	87	62	72	134	180
Mixed investments funds	5	5	–	–	–	–	5	5
Other investments	6	5	–	2	–	–	6	7
Investment income	**273**	**290**	**381**	**128**	**184**	**169**	**839**	**587**

B.2.2 Investment expenses

Investment expenses decreased by CHF 16 million or 16 percent to CHF 83 million in 2021 from CHF 99 million in 2020. This was mainly driven by fewer write-downs across all investment categories in 2021 compared with 2020.

Investment expenses

in CHF millions, for the years ended December 31	Realized capital losses		Write-downs		Totals	
	2020	**2021**	2020	**2021**	2020	**2021**
Real estate	(3)	–	(7)	(2)	(10)	(2)
Investments in subsidiaries and associates	–	–	–	(5)	–	(5)
Debt securities	(4)	(1)	(4)	–	(8)	(1)
Policyholders' loans and other loans	(1)	(3)	–	–	(1)	(3)
Mortgage loans	–	–	–	–	–	–
Equity securities	(7)	(17)	(10)	(3)	(17)	(20)
Mixed investments funds	–	–	(4)	–	(4)	–
Other investments	–	–	–	–	–	–
Other investment expenses	n.a.	n.a.	n.a.	n.a.	(58)	(53)
Investment expenses	**(16)**	**(21)**	**(25)**	**(9)**	**(99)**	**(83)**

B.3 Performance of other activities

B.3.1 Administrative and other expenses

Administrative and other expenses of CHF 170 million remained stable compared with the previous year. In 2021 higher gains and losses on foreign currencies, on which a net gain of CHF 78 million resulted in 2021 compared with a net gain of CHF 54 million in 2020. Personnel expenses decreased by CHF 26 million, which is mainly driven by the portfolio transfer of the Japanese branch in 2021.

Administrative and other expenses

in CHF millions, for the years ended December 31	2020	**2021**
Administration and other general expenses	(137)	(194)
Personnel expenses	(81)	(55)
Gains and losses on foreign currency derivatives	173	47
Foreign currency transaction gains and losses	(119)	31
Amortization and impairment of software and equipment	(4)	–
Administrative and other expenses	**(170)**	**(170)**

B.3.2 Other income

In 2021 the other income (CHF 105 million) was mainly driven by a release of other provision of CHF 60 million and portfolio transfer income of CHF 14 million. No significant other income has been realized in 2020 (CHF 7 million).

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

Net income before taxes

The net income before taxes increased by 123 million compared with 2020. Main driver for this movement is a gain in other financial income of CHF 167 million. Further the technical result increased by CHF 112 million or 20 percent, compared with 2020, while the investment result decreased by CHF 161 million or 21 percent.

Gross written premiums and policy fees

Gross written premiums and policy fees decreased by 21 percent to CHF 1,468 million compared with 2020. Key drivers were the portfolio transfers of Japan and Hong Kong business as well as lower insured salaries and fewer purchases of additional pension benefits in Switzerland.

Investment income

The net investment result decreased mainly due to less realized capital gains on real estate and equity securities in 2021 compared with the previous year. This was partly offset by higher investment income on debt and equity securities in 2021.

Unit-linked business

The investment result on unit-linked investments increased by 75 million to CHF 118 million in 2021 from CHF 43 million in 2020. This was mainly driven by higher write-ups compared to the previous year and a higher unit-linked asset portfolio due to the growth of the unit-linked business in Switzerland.

C. Corporate governance and risk management

C.1 Corporate governance

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

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

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

- As the first line of defense, business management engages in risk-taking through business activities and is responsible for day-to-day risk management.
- The second line of defense forms the risk management and the compliance function: Both functions provide independent assurance. The risk management function oversees the overall risk management framework and supports the active management of ZLIC's risks. Issues / topics close to and or above ZLIC's risk limits are escalated to the Management Board and the Board. ZLIC's risk appetite statement establishes risk limits. Compliance supports ZLIC in establishing and assessing principles, processes, and control structures that support adherence to legal, regulatory and internal requirements. For certain Compliance risks, Compliance provides specialized assistance to the risk owner(s) through risk-specific policies, risk evaluations, process and control analysis and advice, training and awareness, designing controls and monitoring operations.
- Internal audit (the third line of defense) provides independent assurance regarding the effectiveness of the ERM framework, risks and controls.

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

C.1.1 Board of Directors (Board)

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

- ZLIC strategy and business development: The Board regularly reviews and discusses ZLIC's business portfolio including its target market, customer and intermediary strategy. The Board regularly discusses and approves major developments, pertaining, for example, to acquisitions and disposals of businesses and assets, investments, new business opportunities, mergers, joint ventures, cooperations and restructurings of books of business, as necessary.
- Finance: The Board approves the financial and operating plan annually and establishes guidelines for capital allocation and financial planning. The Board also reviews and approves the annual and quarterly financial statements and supervises the compilation of the annual report.
- Structure and organization of ZLIC: The Board determines and regularly reviews the basic principles of the structure and major changes within the management. The Board also reviews the corporate governance documentation (Articles of Association, Organizational Rules, Audit and Risk Committee Charter) which is under its competence.
- Risk appetite statement: The Board signs-off the risk appetite statement annually.

Audit & Risk Committee (ARC)

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

C. Corporate governance and risk management (continued)

Composition of Board and Audit & Risk Committee (as of December 31, 2021)

Name	Residence	Position held
Christian Felderer	Zurich, Switzerland	Chairman of the Board (independent) Member of the Audit & Risk Committee
Helene Westerlind	Bäch, Switzerland	Member of the Board Chairman of the Audit & Risk Committee
Barry John Perkins	Zurich, Switzerland	Member of the Board
Justine Kelly	Richterswil. Switzerland	Member of the Board

Changes to composition of Board and Audit & Risk Committee in 2021

The composition of the Board and the ARC of ZLIC changed during 2021 as follows:

- Elections of Justine Kelly and Michael Koller per April 9, 2021 as members of the Board.
- Michael Koller resigned as member of the Board per September 10, 2021.
- Urban Angehrn resigned as member of the Board and Chairman per July 15, 2021.
- Christian Felderer replaced Urban Angehrn in his role as the Vice Chairman of the Board of Directors as of July 15, 2021 and was officially appointed as the Chairman of the Board with Circular Resolution of the Board of Directors on August 30, 2021.

C.1.2 Executive management

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

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

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

The tasks of the Management Board include:

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

Composition of Management Board (as of December 31, 2021)

Name	Residence	Position held
Juan José Beer	Möriken-Wildegg, Switzerland	CEO
Andreas Henke	Zurich, Switzerland	CFO
Sandro Meyer	Horgen, Switzerland	Head CLP & Life Technical Functions
Andreas Fischer	Wollerau, Switzerland	Chief Investment Officer
Erik Erixon	Richterswil, Switzerland	Chief Life Actuary Switzerland

Changes to composition of the Management Board in 2021

- Election of Andreas Fischer per March 5, 2021.
- Tim Howell resigned per December 31, 2021.

C.2 Risk management

C.2.1 Risk management framework

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

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

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

The Zurich Risk Policy (ZRP) is the Group's main risk governance document and therefore fully applies to ZLIC. It sets standards for effective risk management throughout the Group. The policy describes Zurich's risk management framework, provides a standardized set of risk types and defines Group's appetite for risks at Group level. Risk-specific policy manuals provide guidelines and procedures to implement the principles of the Zurich Risk Policy. Ongoing assessments verify that requirements are met. The ZRP and its manuals are attested annually by ZLIC Management.

An Own Risk and Solvency Assessment (ORSA) for ZLIC is completed annually. The ZLIC ORSA was submitted to the regulator at the beginning of 2022. To ensure the Board is adequately involved in the ORSA process, the ZLIC CRO provides a quarterly update, thus allowing the Board to challenge findings and consider its views in its decision-making process.

C.2.2 Risk management organization

The ZLIC CRO leads the ZLIC Risk Management function, which aims to ensure that risks are identified, measured, managed, monitored and reported throughout the entity. The ZLIC CRO is responsible for oversight of risks across the legal entity.

ZLIC's risk function is vertically integrated and is led by the appointed ZLIC CRO. The ZLIC CRO has a functional reporting line to the EMEA head of risk and an administrative reporting line to the ZLIC CEO. The ZLIC CRO regularly provides risk updates to the management team and the Audit & Risk Committee of the Board of Directors of ZLIC.

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

C.2.3 Risk assessment and reporting

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

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

C.3 Internal control system

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

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

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

ZLIC enhances the scope of the internal control system based on a risk-based approach and taking into account the Group's requirements. In particular, this includes controls over statutory and regulatory reporting, compliance-related controls to ensure legal and regulatory compliance as well as operational key controls. The scope of the internal control system takes into consideration the inherent risk to the operation, for example, due to processes, systems and people.

C.4 Compliance

ZLIC is committed to complying with all applicable laws, regulations, and its stated corporate values.

Compliance is a second-line of defense function responsible for:

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

ZLIC's Compliance function is vertically integrated and is led by the appointed ZLIC Chief Compliance Officer. The ZLIC Chief Compliance Officer has direct access to the chairman of the Audit & Risk Committee of ZLIC. The ZLIC CEO acts as matrix manager of ZLIC's Chief Compliance Officer. In addition, a vertically integrated reporting line to Group compliance EMEA layer is installed. The ZLIC Chief Compliance Officer regularly provides compliance updates to the management team and the Audit & Risk Committee of ZLIC.

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

ZLIC's Compliance function provides an independent compliance view on the key compliance risks to the business and performs independent risk-based assurance activities.

ZLIC's Compliance function also contributes to the Internal Control System by overseeing the embedment of group-relevant and local-relevant Compliance Risks and advising the business functions on possible control activities. In addition, Compliance executes independent testing of compliance risk-related controls.

ZLIC's Compliance function implements Group compliance policies and issues additional compliance policies for ZLIC if required. ZLIC's Compliance function supports a strong compliance culture within ZLIC through training and awareness initiatives in line with Zurich's code of conduct.

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

C.5 Internal audit

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

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

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

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

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

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

The ARC assesses the independence of GA and reviews its activities, plans and organization, the quality of its work and its cooperation with the external auditors. As required by the IIA International Standards, an independent qualified assessor reviews the quality of GA at least every five years. This review was conducted most recently in 2021. The results confirmed that GA's practices comply with all IIA standards.

C.6 Actuarial function

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

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

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

D. Risk profile

D.1 Introduction and ZLIC's key risks

ZLIC is fully integrated into Zurich's Group-wide risk assessment process. For more information on ZLIC's approach to risk management, please refer to the risk review section in the Zurich Insurance Group Annual Report 2021, which describes the Group's risk management framework and risk governance, reports on capital management and capital adequacy, and presents an analysis of the main risks. As mentioned in chapter A.1, ZLIC's financial strength is enhanced by being part of Zurich Insurance Group.

ZLIC uses two sources for the identification and assessment of risks. One is the risk and capital model as required by SST. This model quantifies financial risks which threaten the capital of the company over a one-year time horizon. The other source is the TRP which identifies all risks that threaten capital, earnings and reputation over a three-year planning horizon. The TRP process is applied to identify, evaluate, control and monitor these risks. Mitigation actions are defined for key risks. The TRP is completed annually with management's participation. Tracking the actions taken, and providing updates on risks, is carried out quarterly. Risk management is responsible for managing these tasks on an ongoing and timely way as part of its regular quarterly activities.

The significant risks for ZLIC, as measured by capital metrics, are market risk, life insurance risk, and credit risk as shown in the following table.

The figures shown are based on the SST standard model used by ZLIC. The current information on solvency shown in the report corresponds to the information submitted to FINMA in April 2022 and is subject to regulatory review.

Capital required for various types of risk:

Target capital by risk type

in CHF millions, for the years ended December 31	2020	**2021**	Change
Derivation of target capital			
Insurance risk	1,608	1,633	25
Market risk	1,881	1,725	(155)
Credit risk	658	642	(16)
Diversification effects	(1,042)	(1,017)	25
Risk margin and other effects on target capital	1,174	1,207	34
Target capital	**4,278**	**4,190**	**(88)**

The figures shown in the table above include diversification within each risk type. The respective movements are explained in section G. Risk margin is a material component of the target capital, making allowance for the cost of holding capital over the duration of the in-force portfolio till it runs off, in respect of insurance risks and the unhedgeable portion of market risk.

ZLIC uses its assessment processes and tools, including the TRP process, to reduce the risks of strategic business decisions. Critical key risks identified and assessed during the TRP conducted in the fourth quarter 2021 included:

– Asset market volatility and investment returns (Market risk)
– Reserve adequacy (Life insurance risk)
– Data security

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

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

D. Risk profile (continued)

D.2 Life Insurance risk

The risks associated with life insurance include:

Life liability risk

- Mortality risk – when, on average, the death incidence among policyholders is higher than expected.
- Longevity risk – when, on average, annuitants live longer than expected.
- Morbidity risk – when, on average, the incidence of sickness or disability among policyholders is higher or recovery rates from disability are lower than expected.

Life business risk

- Lapse risk – on average, policyholders discontinue or reduce contributions, or withdraw benefits prior to the maturity of contracts at a rate that is different from expected.
- Expense risk – expenses incurred in acquiring and administering policies are higher than expected.
- New business risk – volumes of new business are insufficient to cover fixed acquisition expenses.

In the course of doing business ZLIC may be exposed to making greater-than-expected current and future payments resulting from taking on those risks. Life insurance risk exposure stems primarily from changes in the expected value of provisions.

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

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

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

D.3 Market risk

Market risk is the expected loss of value due to changes in financial market conditions given a certain likelihood of these changes. Risk factors include:

- Equity market prices
- Real estate market prices
- Interest rate risk
- Credit and swap spread changes
- Defaults of issuers
- Currency exchange rates

ZLIC manages the market risk of assets relative to liabilities on an economic total balance sheet basis. This is done to achieve the maximum risk-adjusted excess return on assets relative to the liability benchmark, while taking into account ZLIC's risk tolerance and local regulatory constraints.

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

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

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

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

ZLIC's real estate portfolio is substantial and almost all located in Switzerland. ZLIC's Swiss real estate portfolio is managed by Zurich Invest AG (ZIAG). Apart from adhering to ZRP rules and the FINMA investment directive, ZIAG carries out an annual revaluation of the property portfolio and also takes into account any subsequent impairment.

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

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

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

D.4 Credit risk

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

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

- Investments: The creditworthiness of counterparties in third-party investments is monitored on a regular basis by a forward-looking risk measure (duration times spread).
- Other credit risk comprises reinsurance credit risk, receivables credit risk and intragroup credit risk.

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

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

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

D.5 Operational risk

Operational risk is the risk of financial loss or gain, adverse reputational, legal or regulatory impact, resulting from inadequate or failed processes, people, systems or from external events, including external fraud, catastrophes, or failure in outsourcing arrangements.

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

– Identification and assessment of operational risks. Risks identified and assessed above a certain threshold must be mitigated and escalated. Plans for mitigating actions are documented and tracked on an ongoing basis. In the assessments, sources of information are used such as the TRP process, risk & control assessments, ZRP manual attestations, audit findings and operational event data.
– Operational event management (OEM): The ZRP requires documentation and evaluation of operational events above a threshold in a Groupwide database. To avoid recurring operational loss events, near misses and complaints, mitigating actions are put in place.
– Reporting: Regular reports on the risk profile, current risk issues, adherence to risk policy manuals and actions to make improvements are prepared. There are procedures in place for referring risk issues to the Management Board.
– Internal control system: Operational risks are managed by the internal control system which maintains operation of regular controls in all processes, IT applications and on entity level.

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

The Management Board actively and continuously monitors risks arising from intra-group outsourcing. External outsourcing agreements are reviewed according to a supplier compliance-assurance process defined in the ZRP manual for third party.

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

Key operational risks comprise threats to achieving the overarching strategic goals of ZLIC.

D.6 Liquidity risk

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

ZLIC holds a liquidity risk in a group internal cash pool. This pool allows ZLIC to retrieve liquidity overnight. Ownership of the cash provided to the pool lies with ZLIC and its rights over this money are secured.

D.7 Other material risks

D.7.1 Strategic risk

Strategic risks can arise from:

- Inadequate risk-reward assessment of strategic plans
- Improper execution of strategic plans
- Unexpected changes to underlying assumptions, including on the external environment

The annual ZLIC TRP supports the decision-making process in identifying, assessing and managing strategic risks.

D.7.2 Reputation risk

Reputational risk is the risk that arises from potential damage to the company's reputation as a result of a negative perception by the public (e.g., customers, business partners, shareholders, governments). Effectively managing each risk type supports preventing adverse reputational outcomes.

ZLIC aims to preserve its reputation by adhering to applicable laws and regulations and by following the core values and principles of the Group's code of conduct that promote integrity and good business practice. Zurich's code of conduct applies to all its employees. Employees must complete an annual training session to make them aware of our guidelines and approach, and employee surveys are regularly carried out, offering another way to identify potential risks to Zurich's reputation.

Reputation risk can also occur in isolation. Specific reputation risks are evaluated as part of the TRPs, and if necessary, addressed with appropriate mitigating measures. We have identified no significant reputation risks as of December 31, 2021.

E. Valuation

E.1 Overarching valuation principles

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

To summarize, the following valuation hierarchy applies for assets:

MCBS valuation principles

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

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

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

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

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

E. Valuation (continued)

E.2 Market-consistent balance sheet following SST principles

Asset valuation MCBS vs Swiss local stat.

in CHF millions, for the years ended December 31	2020 (SST)	**2021 (SST)**	Difference to 2020 (SST)	**2021 (Swiss local stat.)**	Difference SST to Swiss local stat.
Market-consistent value of investments					
Real estate	3,178	3,346	168	2,045	1,300
Shareholdings	0	–	–	119	(119)
Fixed-income securities	14,250	13,722	(529)	12,349	1,373
Loans	175	133	(42)	117	16
Mortgages	2,284	2,135	(149)	1,967	167
Equities	735	759	24	1,028	(270)
Other investments	1,484	1,754	270	737	1,016
Collective investment schemes	454	517	63	121	396
Alternative investments	584	620	36	–	620
Structured products	–	–	–	–	–
Other investments	446	616	170	616	0
Total investments	**22,105**	**21,847**	**(258)**	**18,363**	**3,484**
Market-consistent value of other assets					
Financial investments from unit-linked life insurance	1,065	1,104	39	1,080	24
Receivables from derivative financial instruments	673	471	(203)	114	356
Deposits made under assumed reinsurance contracts	–	–	–	–	–
Cash and cash equivalents	1,927	1,787	(139)	1,849	(61)
Reinsurers' share of best estimate of provisions for insurance liabilities	149	194	45	108	86
Direct insurance: life insurance business (excluding unit-linked life insurance)	149	194	45	108	86
Reinsurance: life insurance business (excluding unit linked life insurance)	–	–	–	–	–
Direct insurance: non-life insurance business	–	–	–	–	–
Direct insurance: health insurance business	–	–	–	–	–
Reinsurance: non-life insurance business	–	–	–	–	–
Reinsurance: health insurance business	–	–	–	–	–
Direct insurance: other business	–	–	–	–	–
Reinsurance: other business	–	–	–	–	–
Direct insurance: unit-linked life insurance business	–	–	0	–	–
Reinsurance: unit-linked life insurance business	–	–	–	–	–
Fixed assets	11	9	(2)	–	9
Deferred acquisition costs	–	–	–	–	–
Intangible assets	–	–	–	11	(11)
Receivables from insurance business	349	396	47	36	360
Other receivables	105	97	(9)	78	19
Other assets	22	20	(2)	–	20
Unpaid share capital	–	–	–	–	–
Accrued assets	810	892	83	174	718
Total other assets	**5,111**	**4,970**	**(141)**	**3,450**	**1,521**
Total market-consistent value of assets	**27,217**	**26,817**	**(399)**	**21,812**	**5,005**

E. Valuation (continued)

Assets

The MCBS value of assets remains steady at CHF 27 billion. Likewise, the value of investment assets remains steady at CHF 22 billion, and the value of non-investment assets, including assets for unit-linked business and receivables from derivatives, remains steady at CHF 5 billion. Asset allocation was also largely stable, with allocation to fixed income and mortgages decreasing slightly and allocation to other investments and real estate increasing slightly.

While assets are valued in a market-consistent manner in MCBS for SST calculations, assets are carried at amortized cost, at cost value less impairment, at the lower of cost or market value, or at nominal value less impairment under Swiss local statutory reporting. These differences in approach can lead to material differences between the asset values as determined using IFRS, Swiss local statutory reporting or MCBS. This effect is observed in the differences in values of real estate, equities, mortgages, derivatives – in particular swaptions – and fixed income securities. Further differences are coming from the Japan subsidiary, which grew significantly following the transfer of insurance business in April 2021. Contributions to the MCSB from the Japan subsidiary are directly reflected in MCBS, while for local statutory reporting it is solely contributing through participation. The aggregate value of investment and respective hedging assets is CHF 3.8 billion greater for SST than for Swiss local statutory reporting at year-end 2021.

Reinsurers’ share of best estimate provisions for insurance liabilities (reinsurance assets) is usually considerably higher for Swiss local statutory reporting due to allowance for future net reinsurance payments in SST but not from a Swiss local statutory reporting perspective: On a market-consistent basis, projected best estimate cash flows in favor of the reinsurer largely offset projected recoveries from the reinsurer. This is different for year-end 2021 reporting because the Japan subsidiary contributions are directly reflected in MCBS, while for local statutory reporting the Japan subsidiary is solely contributing through participation. The latter is also the main driver of differences in receivables from insurance business as well as accrued assets. There are further minor classification and valuation differences between the SST and the Swiss local statutory reporting valuation approach for non-investment assets. Overall, the differences in the remaining non-investment assets result in a CHF 1.2 billion higher SST valuation for year-end 2021 than for Swiss local statutory reporting, almost all of which relates again to different treatment of the Japan subsidiary.

Overall, the value of assets is CHF 5.0 billion greater on the market-consistent SST basis than on the amortized cost value basis used for Swiss local statutory reporting, increasing compared with last year by CHF 1.5 billion mainly due to different treatment of the Japan subsidiary as explained above.

E. Valuation (continued)

Liability valuation MCBS vs Swiss local stat.

in CHF millions, for the years ended December 31	Q4 2020 (SST)	**Q4 2021 (SST)**	Difference to 2020 (SST)	**Q4 2021 (Swiss local stat.)**	Difference SST to Swiss local stat.
BEL: Best estimate liabilities (including unit linked life insurance)					
Best estimate of provisions for insurance liabilities	**(15,816)**	**(14,606)**	**1,210**	**(16,864)**	**2,258**
Direct insurance: life insurance business (excluding unit linked life insurance)	(15,814)	(14,604)	1,210	(16,863)	2,258
Reinsurance: life insurance business (excluding unit linked life insurance)	(1)	(1)	(0)	(1)	(0)
Direct insurance: non-life insurance business	–	–	–	–	–
Direct insurance: health insurance business	–	–	–	–	–
Reinsurance: non-life insurance business	–	–	–	–	–
Reinsurance: health insurance business	–	–	–	–	–
Direct insurance: other business	(1)	(1)	0	(1)	0
Reinsurance: other business	–	–	–	–	–
Best estimate of provisions for unit-linked life insurance liabilities	**(865)**	**(917)**	**(52)**	**(1,063)**	**146**
Direct insurance: unit-linked life insurance business	(865)	(917)	(52)	(1,063)	146
Reinsurance: unit-linked life insurance business	–	–	–	–	–
Market consistent value of other liabilities					
Non-technical provisions	(6)	(14)	(8)	(134)	120
Interest-bearing liabilities	(179)	(218)	(39)	(235)	17
Liabilities from derivative financial instruments	(10)	(10)	1	(7)	(3)
Deposits retained on ceded reinsurance	(553)	(646)	(93)	(35)	(611)
Liabilities from insurance business	(134)	(150)	(16)	(153)	3
Other liabilities	(701)	(1,077)	(377)	(1,167)	89
Accrued liabilities	(876)	(1,030)	(154)	(130)	(900)
Subordinated debts	(542)	(542)	(0)	(530)	(12)
Total BEL plus market-consistent value of other liabilities	(19,681)	(19,209)	472	(20,317)	1,108
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	**7,535**	**7,608**	**73**	**1,495**	**6,113**

Insurance liabilities

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

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

E. Valuation (continued)

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

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

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

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

The market value of insurance liabilities decreased by CHF 1 billion to CHF 16 billion. This includes a CHF 0.5 billion reduction to the value of insurance liabilities from expected cash flows that occurred during the year. The present value of the liabilities is further decreased by CHF 0.2 billion in future profits in relation to new business both in Japan and Switzerland. Further decrease by a CHF 0.5 billion in liabilities comes from higher discounting as interest rates increased, among other smaller items. The unit-linked liabilities remained steady.

In contrast to the market-consistent view, valuation for Swiss local statutory reporting embeds a degree of prudence in demographic assumptions, and zeroizes future profits. The valuation interest rate for Swiss local statutory reporting reserving is also set cautiously but is nevertheless reflective of the actual yield on the investment portfolio, which is higher than the current FINMA yield curve used for SST valuation. Nevertheless, the overall Swiss local statutory reporting reserving basis is more conservative than the best-estimate approach used for SST, and as such the overall value of best-estimate insurance liabilities is CHF 2.4 billion lower for SST than for Swiss local statutory reporting as of December 31, 2021, down from CHF 2.7 billion at December 31, 2020, with the decrease driven mostly by the different treatment of the Japan subsidiary.

Other liabilities

These liabilities include various positions valued at market value. They range from cash pooling liabilities and subordinated debt, to collateral payables from hedging activities, and tax provisions. For SST the total other liabilities increased by CHF 1 billion to CHF 4 billion. The CHF 0.7 billion growth was driven primarily by growth in repurchase obligations as well as increase in accrued liabilities for the business in Japan. Overall other liabilities for SST are CHF 1.3 billion higher than other liabilities for Swiss local statutory reporting, primarily because of the different treatment of the Japan subsidiary but also due to SST provisions for deferred real estate taxes, partially offset by non-technical statutory provisions not relevant for best estimate SST valuation.

F. Capital management

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

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

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

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

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

ZLIC is subject to the SST and tied asset regulations, and Swiss law on solvency more generally. Statutory shareholder equity, SST and tied assets are thus considered when planning capital or cash repatriations to the Group.

Internal target ratios and/or thresholds, as defined in ZLIC's Risk Appetite Statement, are considered when assessing and defining the potential to allow cash to be lent to or for dividends to be paid to ZLIC's parent company.

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

The following table shows the composition of shareholder's equity as of December 31, 2021 and 2020 respectively (according to Swiss local statutory reporting), and before appropriation of available earnings. The CHF 0.1 billion increase in equity capital in 2021 was driven by the excess of the CHF 0.3 billion net income after taxes over the CHF 0.2 billion dividend paid.

Shareholders' equity

in CHF millions, as of December 31	2020	**2021**	Change
Share capital	60	60	–
Legal reserve	41	41	–
General free reserve	878	878	–
Retained earnings:			–
Beginning of year	*556*	*420*	*(137)*
Dividend paid	*(263)*	*(170)*	*93*
Net income after taxes	*126*	*266*	*140*
Retained earnings, end of year	420	516	96
Total shareholders' equity	**1,399**	**1,495**	**96**

The Swiss local statutory shareholders' equity is CHF 6.3 billion lower than SST risk-bearing capital. As explained in further detail in the previous section, this difference is primarily due to the CHF 5.0 billion difference in asset valuation, together with CHF 0.5 billion eligible subordinated debt not treated as a liability under SST, and CHF 1.1 billion lower liabilities under SST, partially offset by the 0.4 billion proposed cash dividend reducing SST risk-bearing capital but not local statutory shareholder's equity.

G. Solvency

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

ZLIC is part of the Zurich Insurance Group which maintains a strong capital position. As of December 31, 2021, the IFSR of ZIC was 'AA/Stable' by Standard & Poor's, 'Aa3/Stable' by Moody's and 'A+/Stable' by A.M. Best. Furthermore, Zurich Insurance Group's unaudited estimated SST ratio was 212 percent as of January 1, 2022.

Breakdown of target capital into essential components

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

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

For the years ended December 31, 2021 and 2020 respectively, the break-down in target capital was as follows:

Solvency

in CHF millions, for the years ended December 31	2020	**2021**	Change
Derivation of risk-bearing capital			
Assets	27,217	26,817	(399)
Liabilities	(19,681)	(19,209)	472
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	7,535	7,608	73
Deductions (proposed dividends)	(170)	(400)	(230)
Core capital	**7,365**	**7,208**	**(157)**
Supplementary capital (eligible subordinated debt)	542	542	0
Risk-bearing capital	**7,907**	**7,750**	**(157)**
Derivation of target capital			
Insurance risk	1,608	1,633	25
Market risk	1,881	1,725	(155)
Credit risk	658	642	(16)
Diversification effects	(1,042)	(1,017)	25
Risk margin and other effects on target capital	1,174	1,207	34
Target capital	**4,278**	**4,190**	**(88)**
SST ratio			
(Risk-bearing capital – MVM)/(target capital – MVM) (in %)	**223%**	**226%**	**3%**

G. Solvency (continued)

The values shown here already reflect diversification within each risk type with regard to individual risk drivers. The item Risk margin and other effects on target capital consists of the market value margin, accounting for CHF 1,372 million as of January 1, 2022, up from CHF 1,333 million as of January 1, 2021, as well as run-off expenses and the reduction in target capital for the expected financial result. The SST ratio is defined in the SST Circular 2017/3 as the ratio of risk-bearing capital less risk margin to target capital less risk margin.

Comments on the SST ratio

The ZLIC SST ratio of 226 percent as of January 1, 2022 grew from 223 percent at January 1, 2021. Despite a continued low-interest rate environment, ZLIC's capitalization remains strong as measured by SST. The SST ratio was supported by strong value creation from new business, positive economic variance, almost offset by the dividend as well as morbidity and expense assumption updates in Japan and Switzerland.

Risk-bearing capital as well as target capital reduced. The CHF 0.2 billion decrease in risk-bearing capital was driven by value creation from new business and positive economic variance, more than offset by the dividend payment and operating assumption changes while the CHF 0.1 billion reduction in target capital is largely driven by application of model changes in the market risk model and further offsetting effects from morbidity and expense assumption updates versus foreign currency impacts.

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

Breakdown of market risk into essential components

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

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

Solvency – Market risk

in CHF millions, for the years ended December 31	2020	Adjustments previous period	**2021**	Change
Market risk derivation of target capital				
Interest rate risk	797		671	(126)
Spread risk	848		817	(31)
Exchange rate risk	471		425	(46)
Equity risk	615		561	(54)
Real estate risk	657		471	(186)
Volatility risk	0		2	1
Diversification	(1,509)		(1,222)	287
Total of market risk target capital	**1,881**		**1,725**	**(155)**

Market risk decreased during 2021, primarily due to model changes, as well as lower yield curves. The lower exchange rate risk reflects the balance of foreign exchange rate hedging activity in Switzerland and the exposure of future profits earned in currencies other than Swiss francs to fluctuations in exchange rates partially offset by reduced diversification benefits.

Credit risk remained steady at CHF 0.6 billion, with the small decrease coming mainly from the removal of the Hong Kong branch in the context of liquidation.

Breakdown of life insurance risk into essential components

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

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

Solvency – Insurance risk

in CHF millions, for the years ended December 31	2020	Adjustments previous period	**2021**	Change
Insurance risk derivation of target capital				
Life insurance liabilities				
Mortality	129		123	(6)
Longevity	392		368	(24)
Morbidity incidence	1,067		1,132	65
Morbidity recovery	1,922		1,950	28
Business risk				
Expenses	567		612	45
Lapses	110		97	(13)
Option take-up	4		0	(4)
Diversification	(2,583)		(2,650)	(66)
Total of insurance risk target capital	**1,608**		**1,633**	**25**

Insurance risk remained relatively steady at CHF 1.6 billion. There were offsetting effects from the increase in morbidity and expense risk and corresponding increase in diversification.

Breakdown of risk-bearing capital into essential components

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

Market-Consistent Balance Sheet

in CHF millions as of December 31	2020	**2021**	Change
Assets	27,217	26,817	(399)
Liabilities	(19,681)	(19,209)	472
Deductions (proposed dividends)	(170)	(400)	(230)
Core capital	**7,365**	**7,208**	**(157)**
Eligible subordinated debt	542	542	0
Risk-bearing capital	**7,907**	**7,750**	**(157)**

Appendix 1: Quantitative templates

Income statement Solo

in CHF millions, for the years ended December 31		Total			
				Individual Life	
		2020	**2021**	2020	**2021**
1	Gross written premiums and policy fees	1,861	1,468	288	278
2	Premiums ceded to reinsurers	(369)	(119)	(1)	(1)
3	Net written premiums and policy fees	1,492	1,349	286	276
4	Change in reserves for unearned premiums, gross	7	4	9	8
5	Change in reserves for unearned premiums, ceded	(1)	–	–	–
6	Net earned premiums and policy fees	1,497	1,353	295	284
7	Other income	7	105	2	19
8	**Total technical income**	**1,504**	**1,458**	**297**	**303**
9	Claims paid, annuities and loss adjustment expenses, gross	(2,028)	(1,704)	(669)	(707)
10	Claims paid, annuities and loss adjustment expenses, ceded	105	34	–	–
11	Change in insurance reserves, gross	32	206	13	(98)
12	Change in insurance reserves, ceded	172	39	–	–
13	Change in actuarial provisions for unit-linked contracts	(105)	(209)	(2)	(3)
14	Insurance benefits and losses, net of reinsurance	(1,823)	(1,635)	(659)	(809)
15	Underwriting & policy acquisition costs, gross	(237)	(158)	(13)	(26)
16	Underwriting & policy acquisition costs, ceded	156	47	–	–
17	Underwriting & policy acquisition costs, net of reinsurance	(81)	(110)	(13)	(26)
18	Administrative and other expense	(170)	(170)	(36)	(32)
19	**Total technical expense**		**–**		**–**
20	Investment income	839	587	148	117
21	Investment expenses	(99)	(83)	(20)	(17)
22	**Net investment result**	**740**	**504**	**128**	**100**
23	Net investment result on unit-linked investments	43	118	–	–
24	Other financial income	(1)	167	–	35
25	Other financial expense	(4)	(5)	(1)	(1)
26	**Operating result**	**207**	**327**	**(285)**	**(430)**
27	Interest expense on debt and other interest expense	(46)	(43)		
28	Other income	–	–		
29	Other expense	–	–		
30	Extraordinary income/expense	–	–		
31	**Net income before taxes**	**161**	**284**		
32	Direct tax expenses	(35)	(18)		
33	**Net income after taxes**	**126**	**266**		

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

Appendix 1: Quantitative templates (continued)

Swiss business								Foreign business	
Group Life		Unit-linked		Other		Total		Total	
2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
716	632	356	407	–	–	1,360	1,316	500	152
(32)	(31)	–	–	–	–	(34)	(32)	(335)	(87)
684	601	356	407	–	–	1,327	1,284	165	65
1	(1)	–	–	–	–	10	6	(3)	(2)
(1)	–	–	–	–	–	(1)	–	–	–
685	600	356	407	–	–	1,336	–	161	–
4	44	2	28	–	–	7	92	–	14
688	**643**	**358**	**435**	**–**	**–**	**1,343**	**1,382**	**161**	**76**
(783)	(844)	(81)	(97)	–	–	(1,533)	(1,648)	(495)	(56)
37	13	–	–	–	–	37	13	69	21
31	167	(11)	(14)	–	–	32	55	–	151
(8)	(1)	–	–	–	–	(8)	(1)	180	40
–	–	(79)	(218)	–	–	(82)	(222)	(23)	13
(723)	(666)	(172)	(330)	–	–	(1,554)	(1,804)	(270)	169
(29)	(49)	(45)	(50)	–	–	(87)	(125)	(150)	(33)
6	6	–	–	–	–	6	6	150	42
(22)	(43)	(45)	(50)	–	–	(81)	–	–	–
(89)	(77)	(44)	(46)	–	–	(169)	(155)	–	(15)
	–		**–**	**–**	**–**		**–**		**–**
424	266	216	171	–	–	789	554	50	34
(50)	(39)	(26)	(25)	–	–	(96)	(82)	(3)	(1)
374	**227**	**191**	**146**	**–**	**–**	**692**	**472**	**48**	**32**
–	–	7	115	–	–	7	115	36	3
–	80	–	51	–	–	(1)	166	(1)	1
(2)	(2)	(1)	(1)	–	–	(4)	(5)	–	–
225	**162**	**293**	**321**	**–**	**–**	**233**	**53**	**(26)**	**274**

Appendix 1: Quantitative templates (continued)

Market-consistent balance sheet: Market-consistent value of assets

In CHF millions, as of December 31	2020	Adjustments previous period	2021
Market-consistent value of investments			
Real estate	3,178		3,346
Shareholdings	–		–
Fixed-income securities	14,250		13,722
Loans	175		133
Mortgages	2,284		2,135
Equities	735		759
Other investments	1,484		1,754
Collective investment schemes	454		517
Alternative investments	584		620
Other investments	446		616
Total investments	**22,105**		**21,847**
Market-consistent value of other assets			
Financial investments from unit-linked life insurance	1,065		1,104
Receivables from derivative financial instruments	673		471
Cash and cash equivalents	1,927		1,787
Reinsurers' share of best estimate of provisions for insurance liabilities	149		194
Direct insurance: life insurance business (excluding unit-linked life insurance)	149		194
Direct insurance : unit-linked life insurance business.	(0)		–
Fixed assets	11		9
Receivables from insurance business	349		396
Other receivables	105		97
Other assets	22		20
Accrued assets	810		892
Total other assets	**5,111**		**4,970**
Total market-consistent value of assets	**27,217**		**26,817**

Appendix 1: Quantitative templates (continued)

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

In CHF millions, as of December 31	2020	Adjustments previous period	2021
Best estimate of liabilities (BEL)			
Best estimate of provisions for life insurance liabilities	**(15,816)**		**(14,606)**
Best estimate of provisions for unit-linked life insurance liabilities	**(865)**		**(917)**
Market-consistent value of other liabilities			
Non-technical provisions	(6)		(14)
Interest-bearing liabilities	(179)		(218)
Liabilities from derivative financial instruments	(10)		(10)
Deposits retained on ceded reinsurance	(553)		(646)
Liabilities from the insurance business	(134)		(150)
Other liabilities	(701)		(1,077)
Accrued liabilities	(876)		(1,030)
Subordinated debts	(542)		(542)
Total BEL plus market-consistent value of other liabilities	**(19,681)**		**(19,209)**
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	**7,535**		**7,608**

Solvency

in CHF millions, for the years ended December 31	2020	Adjustments previous period	2021	Change
Derivation of risk-bearing capital				
Assets	27,217		26,817	(399)
Liabilities	(19,681)		(19,209)	472
Deductions (proposed dividends)	(170)		(400)	(230)
Core capital	**7,365**		**7,208**	**(157)**
Supplementary capital (eligible subordinated debt)	542		542	–
Risk-bearing capital	**7,907**		**7,750**	**(157)**
Derivation of target capital				
Insurance risk	1,608		1,633	25
Market risk	1,881		1,725	(155)
Credit risk	658		642	(16)
Diversification effects	(1,042)		(1,017)	25
Risk margin and other effects on target capital	1,174		1,207	34
Target capital	**4,278**		**4,190**	**(88)**
SST ratio				
(Risk-bearing capital – MVM)/(target capital – MVM) (in %)	223%		226%	3%

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

The Financial Condition Report is not audited.

The consolidated financial statements of Zurich Life Insurance Company Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements for the year ended December 31, 2021, are audited. Please refer to the report of the statutory auditor in the ZLIC Annual Report 2021, page 18: https://www.zurich.com/en/investor-relations/results-and-reports/other-statutory-filings.

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

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