Financial Condition Report 2022

Zurich Insurance Company Ltd

Zurich Insurance Company Ltd

Contents

The information published in this report is consistent with the information published in the Annual Reports 2022 of Zurich Insurance Group and Zurich Insurance Company Group, as well as the regulatory reporting of Zurich Insurance Company Ltd for the year 2022, including the regulatory reporting to the Swiss Financial Market Supervisory Authority FINMA (FINMA) on the Swiss Solvency Test, in accordance with Art. 25 ISA and Art. 53 ISO. While the financial statements and the information therein were subject to audit by the statutory auditor of Zurich Insurance Company Ltd, Ernst & Young Ltd (see Appendix 2), there was no external audit or review of this report.

Please further note that while this report has been filed with FINMA, FINMA has not reviewed the report.

Zurich Insurance Company Ltd (continued)

Overview

Business profile

Zurich Insurance Company Ltd (ZIC or the Company) is the main operating carrier of Zurich Insurance Group (Zurich or the Group). Zurich is a leading multi-line insurer serving people and businesses – in more than 200 countries and territories. With about 60,000 employees, it provides a wide range of property and casualty, and life insurance products and services. ZIC writes direct property and casualty insurance business mainly in Switzerland, Canada, Hong Kong and Japan.

Total gross written premiums and policy fees

CHF 16.8bn

Net income after taxes

CHF 2.4bn

Net investment result

CHF 2.8bn

System of governance and enterprise risk management

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

The Enterprise Risk Management framework supports achievement of Zurich's strategy and helps protect capital, liquidity, earnings and reputation across all of its entities, including ZIC.

Risk profile

Zurich identifies, assesses, manages, monitors and reports risks that have an impact on the achievement of its strategic objectives by applying its proprietary Total Risk Profiling™ (TRP) methodology. The methodology allows Zurich to assess risks in terms of severity and likelihood and supports the definition and implementation of mitigating actions.

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

Financial condition

ZIC maintained its strong rating level in 2022. As of January 2023, the insurance financial strength rating of ZIC was 'AA/Stable' by Standard and Poor's Global Ratings, 'Aa3/positive' by Moody's, and 'A+(Superior)/ Stable by A.M. Best.

Shareholders' equity (statutory accounts)

CHF 24.4bn

Swiss Solvency Test ratio as of January 1, 2023

SST 270%

Standard and Poor's financial strength rating as of January 2023

AA/Stable

Acronyms

AEL	annual expected losses
AG	Aktiengesellschaft (stock company)
AGM	Annual General Meeting
APAC	Asia Pacific
Board	Board of Directors
BEL	best estimate liability
bn	billion
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHF	Swiss franc
CRO	Chief Risk Officer
DAC	deferred acquisition costs
EMEA	Europe, Middle East & Africa
ERM	Enterprise Risk Management
EUR	euro
EY	Ernst & Young Ltd
ExCo	Executive Committee
FCR	Financial Condition Report
FINMA	Swiss Financial Market Supervisory Authority FINMA
GBP	Great Britain pound
Group	Zurich Insurance Group Ltd and its subsidiaries
IFRS	International Financial Reporting Standards
ICR	issuer credit rating
ISA	Swiss Insurance Supervision Act
ISO	Swiss Insurance Supervision Ordinance
Ltd	company limited by shares
MCBS	market-consistent balance sheet
Nat Cat	natural catastrophes
NZIA	Net-Zero Insurance Alliance
P&C	Property and Casualty
PML	probable maximum losses
SFCR	Solvency and Financial Condition Report
SST	Swiss Solvency Test
TRP	Total Risk Profiling™
UK	United Kingdom
UPR	unearned premium reserves
U.S.	United States
USD	United States dollar
WAQS	Whole Account Quota Share
Z-ECM	Zurich Economic Capital Model
ZIC Group	Zurich Insurance Company Ltd and its subsidiaries
ZIC	Zurich Insurance Company Ltd
Zurich	Zurich Insurance Group Ltd and its subsidiaries

Introduction

How to read the report

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

The report focuses on the 2022 financial year, and should be read in conjunction with the ZIC Group's Annual Report 2022 (available on www.zurich.com/investor-relations/results-and-reports/other-statutory-filings). Wherever applicable, this report also makes reference to the Zurich Insurance Group's Financial Condition Report or the Zurich Insurance Group's Annual Report (available on www.zurich.com/investor-relations) or the ZIC Group's Annual Report for more information.

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

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

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

The report presents information following the structure given in FINMA's circular. It covers Zurich's business activities, performance, corporate governance and risk management, climate-related financial risks, risk profile, valuation, capital management and solvency. Quantitative information supporting the presentation of the information refers to different frameworks applicable or mandatory to the Company:

- 'Business activities' information is presented on a ZIC Group consolidated IFRS basis.
- Performance results are presented with Swiss statutory reporting standards as the basis for ZIC results. The disclosure is complemented with information in the quantitative reporting templates (see Appendix 1) based on the Swiss statutory reporting standards applicable to ZIC.
- The 'risk profile' section presents information for the ZIC Group under IFRS for insurance and credit risk, and a net economic asset value-based analysis of the market risk.
- 'Valuation' presents the market-consistent balance sheet (MCBS) of the ZIC Group following the SST principles. The SST MCBS is compared with the IFRS balance sheet of the ZIC Group as of December 31, 2022.
- Finally, the 'solvency' section shows the regulatory capital adequacy of the Company, supported by the results of the SST.

In accordance with the ZIC Group's Annual Report 2022, the reference currency is the U.S. dollar, except for disclosures presented in accordance with Swiss statutory reporting standards for which CHF is the reference currency (i.e., section on 'Performance overview of ZIC' and related quantitative reporting templates in Appendix 1).

Risk and capital are managed at the Group, region and business unit level according to Zurich's risk and capital management framework. The principles of the Zurich's Enterprise Risk Management described in the section 'Governance' and risk management and in the section 'Risk profile' are equally applicable to ZIC Group. There is no material difference between how risk and capital are managed at the Group and the ZIC Group. The same applies to the approach to sustainability and climate-related financial risks, which is very closely aligned between the Group and ZIC Group.

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

Introduction (continued)

1 Executive summary

Business activities

ZIC Group is the main operating carrier of Zurich. Zurich is a leading multi-line insurer that serves its customers in global and local markets. With about 60,000 employees, it provides a wide range of property and casualty, and life insurance products and services in more than 200 countries and territories. Zurich's customers include individuals, small businesses, and mid-sized and large companies, as well as multinational corporations. The Group is headquartered in Zurich, Switzerland, where it was founded in 1872. The holding company, Zurich Insurance Group Ltd (ZURN), is listed on the SIX Swiss Exchange and has a level I American Depositary Receipt (ZURVY) program, which is traded over-the-counter on OTCQX.

Performance: ZIC's financial results overview in 2022

ZIC reported a net income after taxes of CHF 2.4 billion in 2022, a 5 percent decrease compared to 2021. This decrease was mainly driven by a higher loss from net other financial income and expenses of CHF 358 million, higher administrative and other expense of CHF 335 million as well as a lower net investment result of CHF 281 million. This decrease was partially offset by higher net earned premiums and policy fees of CHF 612 million and lower net insurance benefits and losses of CHF 218 million.

Total gross written premiums and policy fees increased by CHF 927 million or 6 percent to CHF 16.8 billion for the year ended December 31, 2022. Direct gross written premiums and policy fees increased by CHF 222 million to CHF 5.5 billion mainly due to ongoing growth in Switzerland and Canada. Assumed gross written premiums and policy fees increased by CHF 705 million to CHF 11.4 billion mainly due to an increase in the Group internal reinsurance volume in 2022.

Corporate governance and risk management

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

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

Events in 2022 clearly demonstrated a world where risks increased in dynamism and interconnectivity. It was a year marked by the resurfacing of historic and intertwined challenges previously considered to have been vanquished – war in Europe, high inflation, energy crises and escalating tensions between major geopolitical powers.

Despite the volatile environment, the Group has continued to remain financially robust and operationally resilient to continue to serve our customers. While there are significant external challenges, our solid risk management provides optimism that the Group can continue to build on its success in the years to come.

This position has been reached through diligent and patient preparation, which has allowed us to adapt quickly to identify, assess and manage the threats arising from today's uncertain and rapidly changing world. Risk management has been at the center of this preparation, equipping all our employees with the right level of information and discipline to continue to actively take risks within the Group's risk appetite and tolerance.

This has been underpinned by a culture, driven by risk management experts, where risk-reward trade-offs are transparent, understood and appropriately managed.

Our integrated Enterprise Risk Management (ERM) framework has continued to support effective risk identification and assessment to help protect our capital, liquidity, earnings and reputation. This has been supplemented by the ongoing application of our Total Risk Profiling™ methodology, which has helped to maintain our focus on the risks that matter.

Sustainability and climate-related financial risks

Sustainability and climate-related financial risks

A sustainable company must care for the planet. As climate change is one of the most pressing challenges of our time, the Group considers the impact it has on our business as an insurer, an investor, and an employer. The Group continues to report in line with the recommendation of the Financial Stability Board's Taskforce on Climate-related Financial Disclosure (TCFD). As part of the Integrated Sustainability Disclosure (ISD), which is part of the Annual Report, it outlines the Group's understanding of potential climate risk impacts to its insurance and investment activities and an assessment of the resilience of its strategy of transitioning to a climate-neutral world. Additionally, impacts on own operations are assessed and disclosed in the ISD as well (see Group's Annual Report on pages 131–169).

Introduction (continued)

Risk analysis on short- medium- and long-term

The Group analyzes risks on short, medium-, and long-term. The current year analysis is based on the analysis of specific climate-related Key Performance Indicators (KPIs). For the underwriting portfolio, for example, natural catastrophe modelling is used, covering annual expected losses (AEL[1]), probable maximum losses (PML[2]) as well as monetary losses attributable to insurance pay-outs from natural catastrophes. Additionally, short-term risks are covered within the regular planning cycle which focuses on 1 to 3-year time frame. On the medium- and long-term, in 2021, the Group performed for the first time its portfolio-level climate risk scenario analysis. In 2022, we reviewed the risk analyses performed in 2021 and updated them where needed.

In the tables below you can find a summary of the different types of risk analysis performed within each time frame, for underwriting, investment management and own operations.

Risk and opportunities presented by climate change on short-, medium- and long-term

1. Underwriting (Table 1)		
Current year	Analysis	Natural catastrophe modelling AEL: AEL provides a view on the expected loss due to natural catastrophes per year, averaged over many years. PML: PML is a tail metric that looks at severe, unexpected but still possible outcomes of natural catastrophes at a defined probability of occurrence. Monetary losses: Amount of monetary losses attributable to insurance payouts from natural catastrophes.
	Period	1 year
	Scope	Property and Casualty business
	Reference	Group Annual Report pages 132, 135–137, 154–156
Short-term	Analysis	Captured in regular planning time frame
Medium- to long term 2030/2050	Analysis	Climate-risk scenario analysis
	Period	Quantification is performed to underpin our medium-term assessment (to 2030), impacts to 2050 are analyzed qualitatively.
	Scope	The in-depth analyses performed consider: Analysis of the Group by: Lines of business / Region / Industry/sector ↓ Set of nine clusters with potentially high exposure to physical and transition risk representing: 49% of P&C / 37% of Life ↓ Each cluster was analyzed in depth for: Impact on demands / Impact on losses
	Impact	Please see heatmap Group Annual Report on page 141
	Conclusion	The Group's strategy is resilient under the different scenarios
	Reference	Group Annual Report pages 132 and 138–145

1 AEL provides a view on the expected loss due to natural catastrophes per year, averaged over many years.
2 PML is a tail metric that looks at severe, unexpected but still possible outcomes of natural catastrophes at a defined probability of occurrence.

Introduction (continued)

2. Investment Management (Table 2)		
Current year	Analysis	Monitoring climate-related KPIs enables to understand how risks and opportunities unfolded during the year. The progress over the years helps to better understand how well the risk mitigation strategy is working and whether the presented opportunities could be captured. Please refer to table 4 for more information on the KPIs used.
Short-term	Analysis	Captured in regular planning time frame
Medium- to long term 2030/2050	Analysis	Climate-risk scenario analysis
	Period	Quantification is performed on a long-term period (by 2050).
	Scope	The in-depth analyses performed consider: proprietary investment portfolio listed equities / corporate credit / real estate / sovereign debt 36% of our proprietary investment portfolio (listed equities, corporate credit, real estate): Within each asset class, between 70% and 100% of holding -based on number of securities– are covered, representing significant contribution to our market risk position. Sovereign debt: Independent analysis
	Impact	Please see heatmaps Group Annual Report on pages 147 and 149
	Conclusion	The Group's strategy is resilient under the different scenarios
	Reference	Group Annual Report pages 132, 138–139, 146–150 and 154–156

3. Own Operations (Table 3)		
Current year	Analysis	Monitoring climate-related KPIs enables to understand how risks and opportunities unfolded during the year. The progress over the years helps to better understand how well the risk mitigation strategy is working and whether presented opportunities could be captured. Please refer to table 4 for more information on the KPIs used.
Short-term	Analysis	Captured in regular planning time frame
Medium- to long term 2030/2050	Analysis	Climate-risk scenario analysis
	Period	Quantification is performed on medium (2030) and long term (2050).
	Scope	The in-depth analyses performed consider: Own operations All offices with 250 employees + / All data centers / Suppliers representing 75% of MPS
	Impact	The assessment identified the number of employees or percentage of locations (relative to the overall total) exposed to the qualitative hazard levels for our offices, data centers and supplier locations.
	Conclusion	The analysis indicates the in-force remediating strategies are suitable, though the evolution of certain perils in certain areas may require some action.
	Reference	Group Annual Report pages 151–152 and 154–156

The outcome of the analysis of the underwriting portfolio (see Group's Annual Report on pages 140–141) remains unchanged compared to 2021, as the business mix did not change significantly in 2022. The Group monitors this closely and have prioritized strategic actions in our underwriting portfolio to work upon. On the investment side, the scope of the scenario analysis was extended to additional asset classes, covering a bigger portion of the balance sheet (see Group's Annual Report on pages 146–150). In terms of own operations, the Group reviewed further risks, including the impact of climate change on distributed workforce and supply chain (see Group's Annual Report on pages 151–152). By performing these updates, the Group was able to conclude that the current strategy is resilient under the different modelled scenarios. More specifically:

Underwriting: The Group undertook a materiality assessment in 2022 to build on the observations from the 2021 in-depth scenario analysis of the underwriting portfolio. The materiality assessment compared shifts in business mix (e.g., changes in line of business, industry and region mix), year on year, as well as any change in climate scenarios that might result in a different outcome for the scenario analysis. It was concluded that there was no material change to the in-depth analysis of our underwriting portfolio. As such, the findings of the 2021 climate risk scenario analysis still stand.

Introduction (continued)

In addition, the Group undertook action on those areas that have been identified as most critical in the 2021 Group's Annual Report, with priority given to four areas:

- Retail and commercial motor;
- Property, including catastrophe management;
- Sustainable energy; and
- Construction.

Investment Management: Scenarios indicate climate change-related risk to asset valuation would not pose a major risk to our capital position. The climate risk assessment was expanded in 2022 by including corporate credit and real estate next to the listed equities that were assessed in 2021.

Furthermore, in response to carbon risks, the Group made a long-term commitment to decarbonize the investment portfolio to net-zero greenhouse gas emissions by 2050, consistent with a maximum temperature rise of 1.5°C above preindustrial temperatures.

Own Operations: In 2022, the Group conducted an additional assessment to consider climate risks for the workforce around the world. The results of this analysis show that remediating strategies currently in force are sufficient to mitigate climate risk.

Concluding, our scenario-based climate risk assessment has strengthened our understanding of the potential impacts of climate risk on our business. The heatmaps demonstrate the materiality of the climate risk on the portfolio across different lines of business and sectors represented in the underwriting an investment portfolio. The assessment suggests that the customer-focused approach and diversified portfolios, supported by strong risk management practices, provide the resilience and flexibility to adapt to the impacts observed.

Governance principles and risk-management processes to support resilience

Sustainability, and therefore climate-related topics, are integrated into the existing governance structure and is an executive-level responsibility. The overall governance principles are described in the Corporate Governance Report (see Group's Annual Report on pages 28–73). Within the ISD, more details on how these overall governance principles are translated into the topic of sustainability are provided (see Group's Annual Report on pages 129–130), and finally the TCFD report contains very specific aspects to climate-related governance principles (see Group's Annual Report on page 154). This funnel structure is used to demonstrate the Group's integrated governance principles and shows that sustainability is included in the regular governance principles. Further information on sustainability risk and its governance is set out in the risk review (see Group's Annual Report on pages 198–229). On the reporting side, the procedures and governance of the ISD has been aligned with the financial reporting processes and governance.

Outcomes of scenario-based climate risk assessments were discussed with management as part of strategy setting processes and presented to the Board. The Group considers impacts from climate change as drivers for other risks, such as market or natural catastrophe risks, that are managed within existing risk management framework. The approach to managing climate risk is embedded in the multi-disciplinary Group-wide risk management framework, following the same objectives of informed and disciplined risk taking. The risk management framework is based on a governance process that sets forth clear responsibilities for taking, managing, monitoring, and reporting risk (see Group's Annual Report on pages 154–156).

Quantifying our risks and impact

As mentioned above, the Group uses three different heatmaps to quantify the impact of climate risk on its portfolio under different scenarios. Next to these heatmaps, further strategic KPIs have been selected to measure the impact of climate-related risk, as well of the efficiency of our mitigation strategy. For underwriting and investment management, as well as for own operations, specific targets have been chosen to guide the Group's strategy and actions. Please see below for an overview of the most important targets and KPIs, for a full overview of the complete targets and the progress made so far, please refer to the ISD (see Group's Annual Report on pages 157–169).

Introduction (continued)

<table>
<tr><th colspan="4">4. Metrics and Targets (Table 4)</th></tr>
<tr><th></th><th>Underwriting</th><th>Investment Mangement</th><th>Own operations</th></tr>
<tr><td rowspan="2">Materiality</td><td>Analysis
Quantification of climate risk on our underwriting portfolio under two scenarios (Current policies vs. Net-zero 2050). See Group Annual Report page 141.</td><td>Analysis
Quantification of climate risk on our listed equity and corporate bond portfolio under two scenarios (Current policies vs. Net-zero 2050). See Group Annual Report pages 147 and 149.</td><td>Analysis
Quantification of climate risk on our own operations under two scenarios (Delayed transition vs. Net-zero 2050).
See Group Annual Report page 151.</td></tr>
<tr><td>Quantification
6 grades, from high risk to high growth</td><td>Quantification
6 grades between very high to low risk</td><td>Quantification
A risk is considered material if it is likely to lead to business disruption</td></tr>
<tr><td rowspan="2">Other KPIs and targets</td><td>Targets
See roadmap Group Annual Report page 120 and page 157. Targets include:
– Phase out of thermal coal
– Targets in line with Net-Zero Insurance Alliance (NZIA) Target setting protocol under development (Group Annual Report page 121)</td><td>Targets
See roadmap Group Annual Report pages 119–120 and page 157. Targets include:
– Reduce emission intensity of our listed equity, corporate bond and real estate portfolio
– Engage and support investee companies to set targets in line with the Paris Agreement
– Increase proportion of green and socially responsible companies and buildings in our portfolio</td><td>Targets
See roadmap Group Annual Report pages 119–120 and page 158. Targets include:
– Reduction of total emissions
– Reduction of scope 1+2 emissions
– Reduction of scope 3 emissions</td></tr>
<tr><td>Metrics
Risk management is quantified by measuring:
– Engagement target of our portfolio.
Opportunities quantified by measuring:
– Revenues generated from sustainable solutions, e.g.,:
  – Energy efficiency products
  – Zurich Resilience Services
– Involvement in the target setting Protocol of the NZIA to define a methodology for setting Science Based Targets for the underwriting portfolio

See Group Annual Report pages 158–161 and 171 to 174</td><td>Metrics
Risk management is quantified by measuring:
– Engagement target of our portfolio to set targets in line with the Paris Agreement
– Absolute and relative emissions of our investment portfolio, including real estate
Opportunities are quantified by measuring:
– Our impact investment portfolio, including the amount of CO2e avoided and the number of people benefitted.
– Climate solutions, including green certified buildings in real estate portfolio

See Group Annual Report pages 158–168</td><td>Metrics
Risk management is quantified by measuring:
– Reduction of total emissions
– Reduction of scope 1+2 emissions
– Reduction of scope 3 emissions

See Group Annual Report pages 169</td></tr>
</table>

Introduction (continued)

Please find below an overview of the FINMA circular requirements on climate-related risk disclosures and respective references to the Group's Annual Report.

FINMA Circular reference		Disclosure details/splits	Disclosure reference
The main features of the governance structure at the insurance company to enable it to identify, evaluate, manage, monitor and report on climate-related financial risks	13.3	Overall governance	Group Annual Report pages 30–108
		Sustainability related governance	Group Annual Report pages 129–130
		Climate-risk related governance	Group Annual Report pages 154
Description of the short-, medium- and long-term climate-related financial risks and their impact on the insurance company's business and risk strategy and any effects on existing risk categories	13.4	Approach & Scenario used Conclusion	Group Annual Report pages 138 Group Annual Report pages 153
		Underwriting	Group Annual Report pages 139 Group Annual Report pages 140–145
		Investment Management	Group Annual Report pages 139 Group Annual Report pages 146–150
		Own Operations	Group Annual Report pages 151–152
Risk management structures and processes in place to identify, evaluate and manage climate-related financial risks	13.5		Group Annual Report pages 154–156 Group Annual Report pages 228–229
Quantitative information (targets and key data) on climate-related financial risks including the methodology used.	13.6	Roadmap	Group Annual Report pages 119–121 and 157–158
		Underwriting	Group Annual Report pages 158–161
		Investment management	Group Annual Report pages 158–168
		Own operations	Group Annual Report pages 169
Insurance companies must disclose the criteria and methods used to evaluate the materiality of climate-related financial risks.	13.7		Group Annual Report pages 141, 147, 149 and 154–169

Risk profile

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

Taking and managing risk is an integral part of the insurance business. Zurich takes risks in order to support the achievement of its strategy and serve its customers in global and local markets. Risk management contributes to enhancing the value of Zurich by embedding disciplined and conscious risk taking, where risk-reward trade-offs are transparent and understood, and risks are appropriately rewarded.

To foster transparency about risk, the Group regularly reports on its risk profile at business, legal entity, and Group levels. The Group has procedures to refer risk topics to senior management and the Board of Directors in a timely manner. In determining the Group's exposure to risks resulting from digital transformation, the Group assesses risks in cyber, information technology, data security and risks arising from emerging technologies and innovation.

The ZIC solvency position is disclosed on the basis of the SST ratio. The Group's SST internal model is approved by the Swiss Financial Supervisory Authority (FINMA). Zurich's goal is to maintain capital consistent with a 'AA' financial strength rating for the Group. The Group applies the Zurich Economic Capital Model (Z-ECM) as an internal metric. Z-ECM provides a key input into the Group's planning process as an assessment of the Group's economic risk profile.

Valuation for SST purposes

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

Introduction (continued)

A market-consistent valuation is based on, and does not contradict to, the most recent information that can be obtained from trading in liquid and transparent financial markets, and reflects the price at which independent, knowledgeable and willing business partners would normally purchase or sell the assets or transfer the liabilities in an arm's length transaction. The market-consistent value principles and valuation methods applied by the Group to determine the SST market-consistent balance sheet are detailed in sections E.1, E.2.4 to E.2.5 of this report.

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

During 2022, the ZIC Group's SST risk-bearing capital decreased by USD 8.5 billion to USD 42.3 billion as of January 1, 2023, compared to USD 50.8 billion as of January 1, 2022.

Capital management

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

As of December 31, 2022, International Financial Reporting Standards (IFRS) shareholders' equity of USD 27.3 billion and subordinated debt of USD 8.9 billion were part of the capital available in the ZIC SST available financial resources (AFR). Further adjustments usually include items such as intangible assets, deferred tax assets and liabilities, allowing for discounting of liabilities and the value of in-force business, and market-consistent valuation of external debt according to the methodology under SST.

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

The Group has interactive relationships with three global rating agencies: S&P Global Ratings (S&P), Moody's, and AM Best. The insurance financial strength rating (IFSR) of the Group's main operating entity, Zurich Insurance Company Ltd (ZIC), is an important element of Zurich's competitive position, while the Group's credit ratings also affect the cost of debt capital.

On January 13, 2023, Moody's changed ZIC's rating outlook from Aa3 stable to positive, positioning the company as one of the first European insurers to approach the Aa2 level.

According to Moody's, "the change in outlook to positive reflects Zurich's improved profitability that has become stronger and less volatile, supported by a more balanced business mix with reduced risk in its commercial insurance business and diminished exposure to interest rate and credit risk expected on completion of its life insurance back-book sales."

As of January 2023, the IFSR of ZIC was rated 'AA/Stable' by Standard and Poor's Global Ratings, 'Aa3/positive by Moody's, and 'A+ (Superior)/Stable' by AM Best. The AM Best issuer credit rating (ICR) was 'aa–/positive'.

Solvency

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

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

The SST ratio as of January 1, 2023, stands at 270 percent (unaudited). It is filed with FINMA at the end of April 2023 and is subject to review by FINMA. ZIC met the regulatory solvency requirements in Switzerland throughout 2022.

In the SST ratio calculations as of January 1, 2023, no allowances have been made for the sale of part of the German life and pension back book which is subject to regulatory approval and is expected to be completed in 2023.

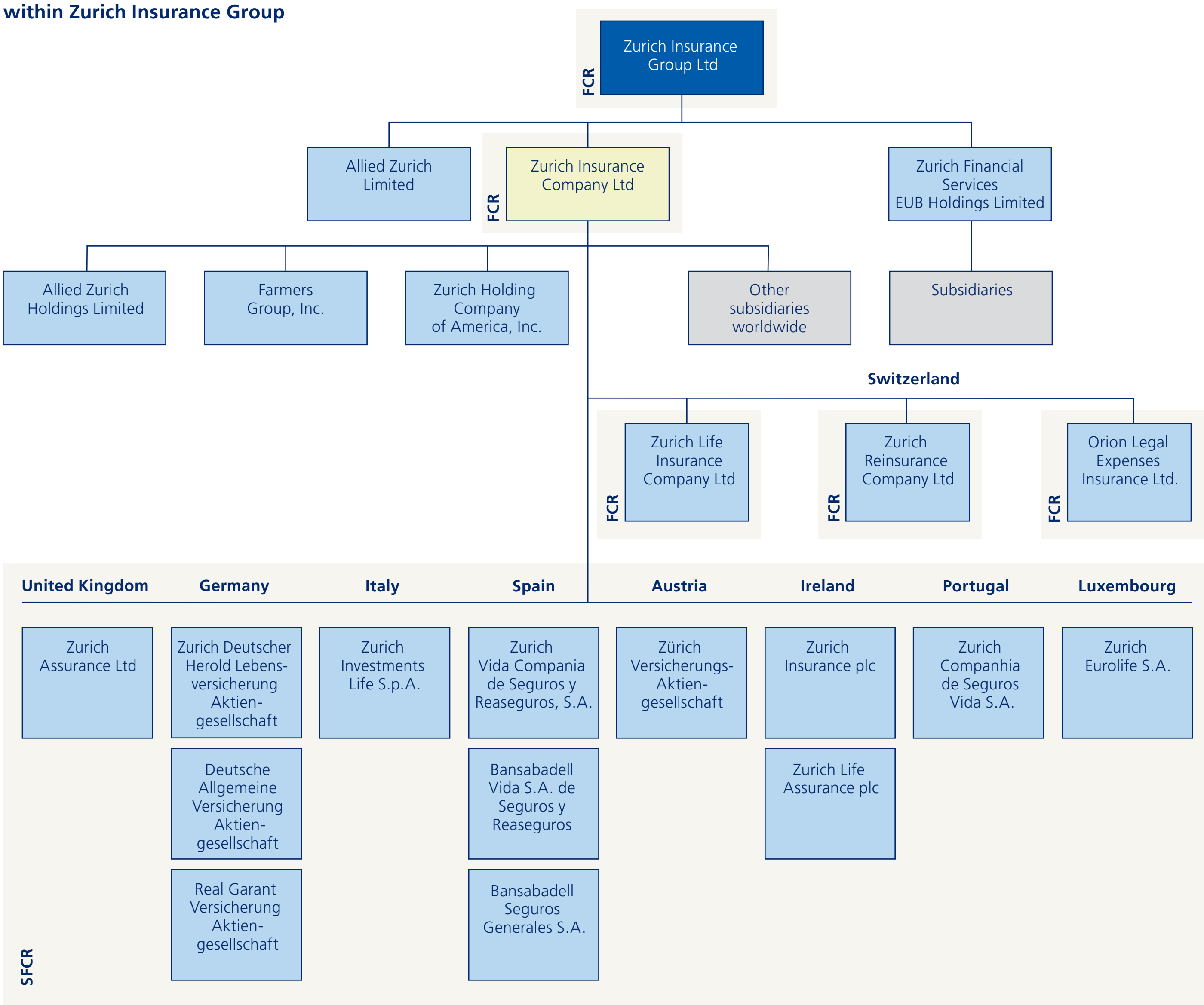
2 Approval of the Financial Condition Report

This Report was reviewed and signed-off by the Board of Directors of ZIC on April 6, 2023.

A. Business activities

A.1 Company structure and major subsidiaries

Public reporting on solvency and financial condition within Zurich Insurance Group



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

Subsidiary Group of subsidiaries Current disclosure

Note: The purpose of the chart above is to provide a simplified overview of the Group's major subsidiaries (as of December 31, 2022), with special focus on the public reporting of their solvency and financial condition. Please note that this is a simplified representation showing entities that must publish such a report and therefore it may not comprehensively reflect the detailed legal ownership structure of the entities included in the overview. The ordering of the legal entities under each country is not indicative of ownership; these are independent legal entities.

A. Business activities (continued)

ZIC Group is a corporation domiciled in Zurich, Switzerland and is the principal operating insurance company of Zurich. With about 60,000 employees, it provides a wide range of property and casualty, and life insurance products and services in more than 200 countries and territories. Zurich's customers include individuals, small businesses, and mid-sized and large companies, as well as multinational corporations. The Group is headquartered in Zurich, Switzerland, where it was founded in 1872. The holding company, Zurich Insurance Group Ltd (ZURN), is listed on the SIX Swiss Exchange and has a level I American Depositary Receipt (ZURVY) program, which is traded over-the-counter on OTCQX.

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

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

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

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

Significant acquisition and divestment transactions operated in 2022 impacting the ZIC Group structure are detailed in the note 5 of the audited consolidated financial statement in ZIC Group's Annual report 2022 on pages 62–64.

Also, a list of the **significant subsidiaries of ZIC Group** can be found in note 28 of the audited consolidated financial statements of ZIC Group's Annual Report 2022 on pages 139–141.

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

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

- Customers, by providing solutions to customers' changing needs and continuing the transformation into a truly customer led company,
- Simplification, by reducing unnecessary complexity to make better use of resources, and
- Innovation, continuously adapting to make sure Zurich continues to meet customers' expectations and needs.

Zurich's strategy is to become the insurer of choice by fostering loyalty among our customers and link customer loyalty to financial performance. This involves multi-channel customer engagement as well as improving digital capabilities around customer data to enable understanding our customers' changing needs. Zurich will invest in simplification and automation capabilities, such as robotic process automation and process mining to improve customer experience and efficiency, while delivering cost savings. Zurich will focus on innovation through collaboration, including themes on sustainability, commercial insurance and customer experience.

For additional information on the **Group's strategy**, see pages 17–21 of the Group's Annual Report 2022.

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

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

A. Business activities (continued)

Group structure

ZIC Group consists of ZIC and its subsidiaries.

The operational group structure reflects both, ZIC Group's businesses and geographical regions. ZIC Group pursues a customer-centric strategy, with the P&C and Life businesses which are managed through a regional structure. For details on the activities of the various businesses refer to note 27 of the ZIC Group's audited consolidated financial statements on pages 124–125 of ZIC Group Annual Report 2022.

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

Group structure

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

Operating insurance branches of ZIC

as of December 31, 2022		Segment
Bahrain		
Zurich Insurance Company Ltd (Bahrain Branch)	Bahrain	Property & Casualty
Canada		
Zurich Insurance Company Ltd, Canadian Branch	Canada	Property & Casualty
Hong Kong		
Zurich Insurance Company Ltd, Hong Kong Branch	Hong Kong	Property & Casualty
Israel		
Zurich Insurance Company Ltd, Israel Branch	Israel	Property & Casualty
Italy		
Zurich Insurance Company Limited – Rappresentanza Generale per l'Italia	Italy	Property & Casualty
Japan		
Zurich Insurance Company Limited	Japan	Property & Casualty
Qatar		
Zurich Insurance Company Ltd. QFC Branch	Qatar	Property & Casualty
Singapore		
Zurich Insurance Company Ltd Singapore Branch	Singapore	Property & Casualty
Switzerland		
Zürich Versicherungs-Gesellschaft AG, Regionalsitz Zürich	SWITZERLAND	Property & Casualty
Zürich Versicherungs-Gesellschaft AG, Regionalsitz Bern/Mittelland	SWITZERLAND	Property & Casualty
Zürich Versicherungs-Gesellschaft AG, Regionalsitz Zentral- und Nordwestschweiz	SWITZERLAND	Property & Casualty
Zurigo Compagnia di Assicurazioni SA, Sede regionale per il Ticino	SWITZERLAND	Property & Casualty
Zurich Compagnie d'Assurances SA, siège régional pour la Suisse romande	SWITZERLAND	Property & Casualty
United Arab Emirates		
Zurich Insurance Company Ltd. (DIFC Branch)	United Arab Emirates	Property & Casualty

A. Business activities (continued)

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

Ernst & Young Ltd (EY), Maagplatz 1, in 8005 Zurich, were re-elected as ZIG's external auditors for the financial year 2022 by the AGM on April 6, 2022.

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

For additional information on the Group's external auditors, refer to page 71 of the Group's Annual Report 2022.

A.4 Significant unusual events

For significant events during 2022 and thereafter until March 10, 2023, please refer to the Group's Annual Report 2023, as well as to the news releases available at https://www.zurich.com/en/media/news-releases.

On January 1, 2023 the Group adopted IFRS 17 'Insurance contracts' and IFRS 9 'Financial Instruments'. For more information including the transitional effects on shareholders' equity from the adoption of IFRS 17, refer to note 2 of the Group's consolidated financial statements on pages 260–265.

The Group continues to closely monitor and deal with the evolution of the COVID-19 pandemic, though most of the impacts on the Group's business are known and reflected in management's best estimates.

During 2022, most economies saw a continued rise in inflation further intensified by the war in Ukraine. Central banks have responded by tightening monetary policy, triggering a significant sell-off in equity and bond markets. Investment valuation and interest rates incorporate these market conditions as of December 31, 2022. The Group's exposure to Russia and Ukraine through its property & casualty operations and its investments portfolio is immaterial.

B. Performance

B.1 Most important markets

In 2022, the most important markets for ZIC according to premium income (direct business, excluding subsidiaries) were Switzerland, Japan and Canada.

B.2 Performance overview of ZIC (legal entity)

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

ZIC reported a net income after taxes of CHF 2.4 billion in 2022, a 5 percent decrease compared to 2021. This decrease was mainly driven by a higher loss from net other financial income and expenses of CHF 358 million, higher administrative and other expense of CHF 335 million as well as a lower net investment result of CHF 281 million. This decrease was partially offset by higher net earned premiums and policy fees of CHF 612 million and lower net insurance benefits and losses of CHF 218 million.

Total gross written premiums and policy fees increased by CHF 927 million or 6 percent to CHF 16.8 billion for the year ended December 31, 2022. Direct gross written premiums and policy fees increased by CHF 222 million to CHF 5.5 billion mainly due to ongoing growth in Switzerland and Canada. Assumed gross written premiums and policy fees increased by CHF 705 million to CHF 11.4 billion mainly due to an increase in the Group internal reinsurance volume in 2022.

The net insurance reserves decreased by CHF 670 million compared with the year ended December 31, 2021, mainly due to the release of net insurance reserves reflecting the termination of the Whole Account Quota Share (WAQS) reinsurance treaty with Zurich American Insurance Company in 2018, which is in run-off since then, due to the decrease of internally assumed life reinsurance treaties as well as due to the impact of the foreign currency translation as a result of the decrease of the British pound and Euro in 2022. This decrease was partially offset by an increase in the reserves for unearned premiums due to the continuing business growth in Switzerland and Canada.

The net investment result decreased by CHF 281 million to CHF 2.8 billion, mainly due to higher net investment losses following the overall deterioration in the financial markets during 2022, partially offset by higher income on investments in subsidiaries and associates.

Shareholder's equity decreased by CHF 847 million to CHF 24.4 billion for the year ended December 31, 2022, from CHF 25.3 billion for the year ended December 31, 2021. This decrease reflects the dividend payment to Zurich Insurance Group Ltd of CHF 3.2 billion in 2022, which was approved at the Annual General Meeting on April 6, 2022, partially offset by the net income after taxes of CHF 2.4 billion.

B. Performance (continued)

Direct Swiss Business

The underwriting result increased slightly by CHF 6 million to CHF 258 million in 2022. The gross written premiums and policy fees increased by CHF 156 million, mainly in the illness business (CHF 77 million). Further, the result in the line of business fire, natural hazards, and property damage was impacted by a positive prior year development, partially offset by a negative result impact in the line of business general third party liability.

Direct Non-Swiss Business

The net underwriting result decreased by CHF 121 million to a gain of CHF 152 million in 2022. Net earned premiums and policy fees increased by CHF 60 million, whereas the net technical expenses increased by CHF 202 million, with the following contribution from the ZIC branches:

Japan

The underwriting result in Japan decreased by CHF 9 million with the gross written premiums decreasing by CHF 80 million and the gross insurance benefits and losses decreasing by CHF 39 million, both mainly due to the FX-development.

Canada

Canada is the main contributor to the decrease in the foreign direct business. In 2022, its underwriting result decreased from a profit of 107 million in 2021 to a profit of CHF 8 million in 2022. Technical income increased by CHF 106 million to CHF 545 million in 2022, with growth in net earned premiums of CHF 90 million, especially in the property and liability business. The technical expense increased by CHF 206 million in 2022, mainly due to higher gross claims paid as well as higher underwriting costs, both due to the business growth.

Italy

The underwriting result in ZIC's Italy branch, which mainly writes motor business, decreased to CHF 4 million.

Hong Kong

The underwriting result in Hong Kong increased by CHF 6 million to CHF 14 million in 2022 following higher gross written premiums.

Other branches and businesses

In Liechtenstein, the underwriting result decreased by CHF 15 million compared to 2021 mainly as a result of higher net insurance benefits and losses following the business growth. ZIC's business in Singapore reported a negative underwriting result of CHF 8 million compared to a loss of CHF 6 million in 2021.

The direct business in the Bermuda branch was in run-off in 2021. As of July 1, 2022, all the business of the Bermuda branch was transferred to the Company's Swiss unit.

Indirect Business

ZIC acts as an internal reinsurer to the other subsidiaries of the Group. Reinsurance programs are structured to support and enable the Group's risk management, capital management, underwriting and customer strategy. In the indirect business, the underwriting result improved by CHF 671 million in 2022, from a loss of CHF 304 million to a profit of CHF 367 million in 2022, mainly due to an improved underwriting result in the Group internally assumed life reinsurance business and casualty business, partially offset by a decrease in the motor and personal accident business.

A major part of the Company's indirect business was written in Bermuda (gross written premiums in 2021 amounted to CHF 3.0 billion). As of July 1, 2022, all this business has been transferred into ZIC's Swiss unit, without any impact on the result of the Company. As a result of the transfer of both direct and indirect business as of December 31, 2022, the Bermuda branch no longer exists.

Detailed financial results are disclosed in ZIC Group's Annual Report 2022. In particular, additional information on **Overall performance** of ZIC, are provided in the Management Report section in ZIC Group's Annual Report 2022 on pages 156–157.

For information on **Investment performance** of ZIC Group, please see notes 5 and 6 of ZIC Group's Annual Report 2022 on page 164.

C. Corporate governance and risk management

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

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

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

All Directors of Zurich Insurance Group Ltd equally serve as members of the ZIC Board. Mr. Liès has served as Chairman of that Board since the Annual General Meeting (AGM) of April 4, 2018. Further information about the composition of the Board, as well as changes during 2022 and since January 1, 2023, are disclosed in the Corporate Governance Report section in the Group's Annual Report on pages 40–55.

The ZIC **Executive Committee** (ExCo) is headed by Mario Greco who also serves as Group CEO for Zurich Insurance Group Ltd. The ZIC ExCo composition is equivalent to Zurich Insurance Group Ltd ExCo. Information about the composition of the ExCo, as well as changes during 2022 and since January 1, 2023, are disclosed in the Corporate Governance Report section in the Group's Annual Report on pages 40–65.

C.2 Corporate governance and risk management

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

All information in relation to the ZIC corporate governance and risk management is available in the Risk Review of ZIC Group's Annual Report 2022 and include notably the following information:

- The major **risk management objectives** at ZIC Group are described in the Risk Review in ZIC Group's Annual Report 2022 on page 3.
- The Group's **ERM framework** is the structure to manage risks within the organization. It is comprised of six components: risk governance and risk culture, risk appetite and tolerance, risk identification and risk assessment, risk response, risk monitoring, and risk reporting, as further detailed in ZIC Group's Annual Report 2022 on pages 3–5.
- The **internal control system** implemented by the Group is considered essential for managing operational risk. The Board has overall responsibility for the Group's risk management and internal control frameworks. The objectives of the Group's internal control system are to provide reasonable assurance that Zurich's consolidated financial statements and disclosures are materially correct, support reliable operations, and ensure legal and regulatory compliance. The internal control system is designed to mitigate rather than eliminate risks that could impact the achievement of business objectives. For additional information on risk management and internal controls, please see page 226 of the Group's Annual Report 2022.
- The **Group compliance** function is a control function responsible for enabling the business to manage its compliance risks, being a trusted advisor, providing independent challenge, monitoring and assurance and assisting management to promote compliance culture and ethics. For additional information on Group Compliance and its operational controls, please see page 69 of the Group's Annual Report 2022.
- The Group's **internal audit function**, Group Audit, is tasked with providing independent and objective assurance on the adequacy and effectiveness of the Group's risk management, internal control and governance processes to the Board, the Audit Committee, the Group CEO and management and to the boards and audit committees of subsidiary companies. For additional information on Group Audit, please see page 70 of the Group's Annual Report 2022.

D. Risk profile

The Group's ERM framework sets forth clear responsibilities for identifying, assessing, managing, monitoring and reporting risks.

The Group's risk appetite and tolerance statement reflects Zurich's willingness and capacity to take risks in pursuit of value creation and sets boundaries within which the businesses act. Zurich protects its capital, liquidity, earnings and reputation by monitoring that risks are taken within agreed risk appetite levels and tolerance limits. The Group regularly assesses and, as far as possible, quantifies material risks to which it is exposed.

Additional qualitative and quantitative information about ZIC Group risk profile, can be found in the Risk Review of the ZIC Group Annual Report 2022, for each of the following risk categories:

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

For additional information on sustainability risk, please see pages 228–229 of the Group's Annual Report 2022.

E. Valuation

E.1 Overarching market-consistent valuation principle

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

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

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

In summary, the following valuation methods apply:

MCBS valuation principles

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

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

For more information on fair value measurement, see notes 6, 7 and 23 of the consolidated financial statements in the ZIC Group's Annual Report 2022, pages 65–67; 68–71; 110–116. The summary of accounting policies underlying IFRS valuations, as well as significant judgments and assumptions, are included in notes 3 and 4 of the consolidated financial statements in the ZIC Group's Annual Report 2022, pages 50–61.

E. Valuation (continued)

E.2 Market-consistent balance sheet following SST principles

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

As of December 31, 2022, the Group had USD 22.1 billion of assets held for sale and USD 21.3 billion of liabilities held for sale based on agreements signed to sell portfolios of Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft and Zurich Insurance plc (Spain Medical Malpractice and UK Employers' Liability portfolios). These assets and liabilities are presented separately in the audited balance sheet and shown under 1.12 Other assets and 2.8 Other Liabilities. This reclassification is not applicable in the SST MCBS, therefore, presentation differences arise in multiple line items (e.g., Fixed-income securities, Loans, and Technical provisions: gross).

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

E. Valuation (continued)

Asset valuation MCBS vs IFRS

In USD millions, as of December 31	2021 (SST)	**2022 (SST)**	Evolution 2021–2022 (SST)	**2022 (IFRS)**	Difference 2022 (IFRS – SST)
Market-consistent value of investments					
Real estate	14,449	14,798	349	14,798	–
Participations	68	92	24	92	–
Fixed-income securities	131,243	100,279	(30,965)	85,141	15,137
Loans	7,792	8,124	332	4,566	3,558
Mortgages	6,594	5,331	(1,263)	5,497	(165)
Equities	8,061	4,812	(3,249)	5,785	(972)
Other investments	32,670	27,676	(4,994)	27,696	(20)
Collective investment schemes	5,235	4,265	(970)	4,265	–
Alternative investments	11,134	9,758	(1,377)	9,777	(20)
Structured products	–	–	–	–	–
Other investments	16,300	13,653	(2,647)	13,653	–
Total Investments	**200,878**	**161,113**	**(39,765)**	**143,574**	**17,538**
Market-consistent value of other assets					
Financial investments from unit-linked life insurance	144,667	122,633	(22,033)	122,462	171
Receivables from derivative financial instruments	938	770	(168)	766	4
Deposits made under assumed reinsurance contracts	510	971	461	960	11
Cash and cash equivalents	8,695	7,597	(1,098)	7,547	49
Reinsurers' share of best estimate of provisions for insurance liabilities	22,458	20,434	(2,025)	25,667	(5,234)
Direct insurance: life insurance business (excluding unit linked life insurance)	5,089	4,433	(656)	6,505	(2,073)
Reinsurance: life insurance business (excluding unit linked life insurance)	316	297	(19)	307	(9)
Direct insurance: non-life insurance business	11,021	10,569	(452)	11,706	(1,137)
Direct insurance: health insurance business	–	–	–	–	–
Reinsurance: non-life insurance business	6,059	5,135	(924)	7,150	(2,015)
Reinsurance: health insurance business	–	–	–	–	–
Direct insurance: other business	–	–	–	–	–
Reinsurance: other business	1	–	(1)	–	–
Direct insurance: unit-linked life insurance business	(27)	(0)	27	–	(0)
Reinsurance: unit-linked life insurance business	–	–	–	–	–
Fixed assets	2,736	2,563	(173)	2,223	340
Deferred acquisition costs	–	–	–	20,710	(20,710)
Intangible assets	–	–	–	11,516	(11,516)
Receivables from insurance business	10,691	11,748	1,057	11,719	29
Other receivables	3,669	4,622	953	4,620	1
Other assets	1,174	913	(261)	23,460	(22,547)
Unpaid share capital	–	–	–	–	–
Accrued assets	3,459	3,692	233	5,446	(1,754)
Total other assets	**198,997**	**175,943**	**(23,054)**	**237,097**	**(61,155)**
Total market-consistent value of assets	**399,875**	**337,055**	**(62,819)**	**380,672**	**(43,616)**

E. Valuation (continued)

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

In USD millions, as of December 31	2021 (SST)	**2022 (SST)**	Evolution 2021–2022 (SST)	**2022 (IFRS)**	Difference 2022 (IFRS – SST)
BEL: Best estimate liabilities (including unit linked life insurance)					
Best estimate of provisions for insurance liabilities	**(173,495)**	**(138,356)**	**35,139**	**(160,051)**	**21,695**
Direct insurance: life insurance business (excluding unit linked life insurance)	(99,179)	(70,081)	29,098	(72,135)	2,053
Reinsurance: life insurance business (excluding unit linked life insurance)	(1,863)	(1,452)	410	(1,445)	(8)
Direct insurance: non-life insurance business	(68,156)	(62,205)	5,950	(80,561)	18,356
Direct insurance: health insurance business	–	–	–	–	–
Reinsurance: non-life insurance business	(3,698)	(4,018)	(320)	(5,132)	1,114
Reinsurance: health insurance business	–	–	–	–	–
Direct insurance: other business	(592)	(591)	1	(771)	180
Reinsurance: other business	(7)	(7)	–	(7)	–
Best estimate of provisions for unit-linked life insurance liabilities	**(140,771)**	**(119,034)**	**21,737**	**(123,069)**	**4,035**
Direct insurance: unit-linked life insurance business	(140,770)	(119,034)	21,736	(123,069)	4,035
Reinsurance: unit-linked life insurance business	(1)	–	1	–	–
Market consistent value of other liabilities					
Non-technical provisions	(2,672)	(2,076)	596	(2,545)	469
Interest-bearing liabilities	(5,860)	(6,616)	(757)	(6,924)	307
Liabilities from derivative financial instruments	(532)	(1,167)	(635)	(1,167)	–
Deposits retained on ceded reinsurance	(883)	(692)	191	(857)	166
Liabilities from insurance business	(3,953)	(4,271)	(318)	(4,270)	(1)
Other liabilities	(11,669)	(11,659)	10	(33,432)	21,773
Accrued liabilities	(5,043)	(5,254)	(212)	(12,142)	6,887
Subordinated debts	(12,966)	(10,371)	2,595	(8,899)	(1,472)
Total BEL plus market-consistent value of other liabilities	(357,843)	(299,496)	58,348	(353,355)	53,860
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	**42,031**	**37,559**	**(4,472)**	**27,316**	**10,243**

E.2.1 Evolution of assets in 2022

Total investments

The market value of **Total Investments** decreased by USD 39.8 billion from USD 200.9 billion in 2021 to USD 161.1 billion in 2022.

This is mostly driven by a decrease of USD 31.0 billion in **Fixed-income securities** from USD 131.2 billion in 2021 to USD 100.3 billion in 2022, primarily resulting from reduction in market valuation due to increasing yields and widening credit spreads of USD 21.8 billion. The reduction in market value was mainly driven by the larger fixed income portfolios held by the Group in Germany (USD 6.0 billion), Switzerland (USD 4.0 billion), the U.S. (USD 2.6 billion) and Italy (USD 2.6 billion). Unfavorable currency translation resulted in a further reduction of USD 4.4 billion due to U.S. dollar appreciation against other major currencies, mainly EUR and GBP. Lastly, the disposal of a part of the life and pension back book in Italy to the Portuguese insurance company GamaLife – Companhia de Seguros de Vida, S.A. completed on November 30, 2022, contributed to a reduction of the fixed-income portfolio by USD 4.7 billion.

Other investments decreased by USD 5.0 billion from USD 32.7 billion in 2021 to USD 27.7 billion in 2022, primarily resulting from a reduction in market value of USD 3.7 billion. The reduction in market value was driven by rising rates and widening of credit spreads affecting mortgage-backed securities and private debt in the U.S. as well as negative market performance affecting fund investments. Further, unfavorable currency movements of USD 0.6 billion were observed.

Equities decreased by USD 3.2 billion from USD 8.1 billion in 2021 to USD 4.8 billion in 2022, mainly due to unfavorable equity market conditions resulting in a decrease of USD 1.5 billion, net sales of USD 1.4 billion primarily in Germany and Switzerland, as well as the disposal of the life and pension back book in Italy, partially offset by net purchases in the U.S. Further, unfavorable currency movements of USD 0.2 billion were observed

Mortgages decreased by USD 1.3 billion from USD 6.6 billion in 2021 to USD 5.3 billion in 2022, due to net sales in Germany, the disposal of the life and pension back book in Italy of USD 0.5 billion, negative market revaluation, and unfavorable currency translation impacts.

Total Other Assets

The market-consistent value of **total other assets** decreased by USD 23.1 billion from 199.0 billion in 2021 to USD 175.9 billion in 2022.

Financial investments from unit-linked life insurance decreased by USD 22.0 billion from USD 144.7 billion in 2021 to USD 122.6 billion in 2022. This was mainly driven by decrease in value of equity investments, reflecting the general downward trends in global equity markets since the start of the year due to the war in the Ukraine resulting in higher inflation, rising energy costs, and significant tightening in the central bank interest rate policy which led to a marked slowdown in global growth below long-term average. The macroeconomic situation resulted in decreases in value of equities, government, and corporate bonds. Decreases of USD 16 billion were mainly observed in the larger portfolios in the UK, Ireland, Germany, and the U.S. They were partly offset by an increase in Brazil of USD 1.8 billion due to post pandemic recovery driven by commodity exports. Unfavorable currency translation resulted in a reduction of USD 8.0 billion, mainly from appreciation of USD against GBP and EUR.

The market value of **Reinsurers' share of best estimate of provisions** for insurance liabilities decreased by USD 2.0 billion from USD 22.5 billion in 2021 to USD 20.4 billion in 2022 mostly driven by the Non-Life business.

- **Reinsurance: non-life insurance business** decreased by USD 0.9 billion from USD 6.1 billion in 2021 to USD 5.1 billion in 2022, mainly due a decrease of reserves transitioned into payments of USD 0.6 billion, in addition to a decrease of USD 0.4 billion due to higher interest rates.
- **Direct insurance non-life insurance business** decreased by USD 0.5 billion from USD 11.0 billion in 2021 to USD 10.6 billion in 2022, mainly due to an increase in interest rates causing a decrease of USD 1.1 billion and an unfavorable FX impact of USD 0.2 billion, partially offset by an increase of ceded technical provisions of USD 0.9 billion, mainly driven by crop business in Zurich North America.
- **Direct insurance: life insurance business (excluding unit linked life insurance)** decreased by USD 0.7 billion from USD 5.1 billion in 2021 to USD 4.4 billion in 2022, mainly in Australia due to the discounting impact from significantly higher interest rates and to a lesser extent in Spain due to a refinement in the calculation methodology for reinsurance.

E. Valuation (continued)

E.2.2 Evolution of liabilities in 2022

Best estimate of provisions for insurance liabilities

The market-consistent value of **best estimate liabilities (including unit linked life insurance)** decreased by USD 56.9 billion from USD 314.3 billion in 2021 to USD 257.4 billion in 2022.

- **Direct insurance: life insurance business (excluding unit linked life insurance)** decreased by USD 29.1 billion from USD 99.2 billion in 2021 to USD 70.1 billion in 2022. The decrease is mainly driven by Germany due to policyholder sharing of market value losses as a result of higher interest rates. Increased interest rates also reduced liabilities in Switzerland, Spain, and the UK albeit to a lesser extent. The disposal of a part of life and pension back book in Italy contributed to a further reduction in liabilities by USD 5.2 billion. Favorable currency translation resulted in a reduction of USD 3.1 billion due to USD appreciation against GBP and EUR.
- **Direct insurance unit-linked life insurance business** decreased by USD 21.7 billion from USD 140.8 billion in 2021 to USD 119.0 billion in 2022. The decrease is mainly driven by significant increase in interest rates which reduced market value of liabilities (and assets) in the UK, Germany, and Ireland. Favorable currency translation resulted in a reduction of USD 7.7 billion due to USD appreciation against GBP and EUR.
- **Direct insurance: non-life insurance business** decreased by USD 6.0 billion from USD 68.2 billion in 2021 to USD 62.2 billion in 2022, primarily driven by higher interest rates causing a decrease of USD 6.1 billion and currency translation effects of USD 1.8 billion. Decreases were partly offset by a USD 2.0 billion reserve increase related to Zurich North America multi-peril (crop) (USD 0.9 billion) and volume-driven increase in the UK (USD 0.5 billion)

Total other liabilities

The market-consistent value of Total Other liabilities has decreased by USD 1.5 billion from USD 43.6 billion in 2021 to USD 42.1 billion in 2022.

Subordinated debt decreased by USD 2.6 billion from USD 13.0 billion in 2021, to USD 10.4 billion in 2022 mainly due to redemptions and repurchases of USD 1.7 billion in Switzerland and of USD 0.6 billion in the UK, partly offset by new issuances of USD 1.1 billion in Ireland and USD 0.3 billion in Switzerland, as well as market movements of USD 1.5 billion.

Interest-bearing liabilities increased by USD 0.8 billion from USD 5.9 billion in 2021 to USD 6.6 billion in 2022, mainly driven by an increase of USD 1.7 billion in the cash pool liabilities between ZIG and ZIC to fund the share buyback program. Further new issuances of USD 0.4 billion in Switzerland and USD 0.3 billion in Australia were offset by redemptions of senior debt of USD 0.7 billion in Switzerland as well as market movements of USD 0.8 billion.

E.2.3 Changes in MCBS valuation methodology in 2022

In 2022, there were no significant changes to the MCBS valuation methodology.

E. Valuation (continued)

E.2.4 Market-consistent value of assets

Market-consistent value of investments

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

SST – IFRS valuation difference

in USD millions, as of December 31, 2022

Total value of investments (IFRS)		**143,574**
Fixed-income securities	Bonds held-to-maturity measured at fair value in MCBS	87
Loans	Other loans measured at fair value in MCBS	216
Mortgages	Mortgage loans measured at fair value in MCBS	(450)
Equities	Own shares are not recognised in SST	(1,003)
Other Investments	Other investments measured at fair value in MCBS	(20)
	The reclassification to held for sale is not applicable in MCBS	18,708
Total market-consistent value of Investments (SST)		**161,113**

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

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

SST – IFRS valuation difference

in USD millions, as of December 31, 2022

Total value of financial investments from unit-linked life insurance (IFRS)		**122,462**
Financial investments from unit-linked life insurance	The reclassification to held for sale is not applicable in MCBS	171
Total market-consistent value of financial investments from unit-linked life insurance (SST)		**122,633**

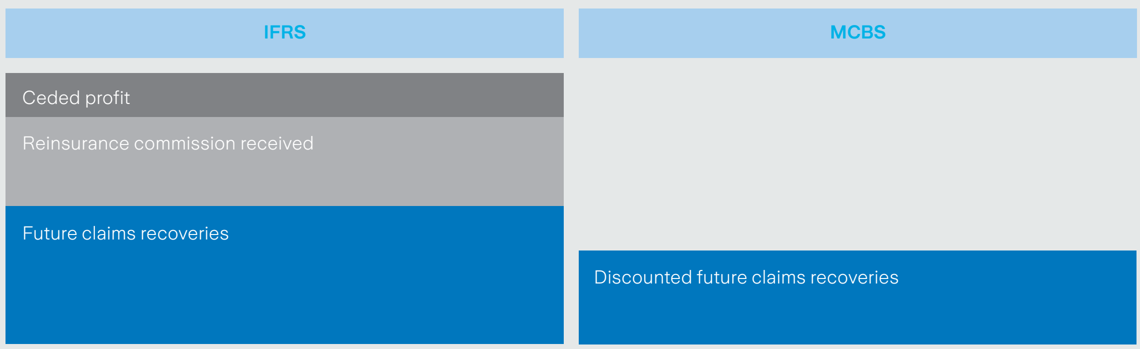
Market-consistent value of reinsurers' share of best estimate of provisions for insurance liabilities

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

Reinsurers' share of best estimate unearned premium reserve

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

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



E. Valuation (continued)

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

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

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

SST – IFRS valuation difference

in USD millions, as of December 31, 2022

Total Best estimate of Reinsurers' share of best estimate of insurance liabilities (IFRS)		**25,667**
Reinsurers' share of best estimate	Valuation differences	(6,523)
of insurance liabilities	The reclassification to held for sale is not applicable in MCBS	1,289
Total Best estimate of Reinsurers' share of best estimate of insurance liabilities (SST)		**20,434**

Market-consistent value of other assets

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

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

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

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

The reclassification of assets of USD 22.1 billion as held for sale, presented within other assets under IFRS, is not applicable in MCBS.

SST – IFRS valuation difference

in USD millions, as of December 31, 2022

Total value of other assets (IFRS) (excluding Financial investments from unit-linked life insurance & Reinsurers' share of best estimate of provisions for insurance liabilities)		**88,968**
	Deposits made under assumed reinsurance contracts: Valuation differences	11
	Fixed assets: Real estate held for own use is at fair value in MCBS	340
	Deferred acquisition costs: Value set to zero in MCBS	(21,655)
	Deferred origination costs: Value set to zero in MCBS	(431)
	Deferred tax assets: Value set to zero in MCBS	(2,179)
	Goodwill and other intangible assets: Value set to zero in MCBS	(11,582)
	The reclassification to held for sale is not applicable in MCBS	(20,592)
Other assets	Other	(4)
Total market-consistent value of other assets (SST) (excluding Financial investments from unit-linked life insurance & Reinsurers' share of best estimate of provisions for insurance liabilities)		**32,875**

E. Valuation (continued)

E.2.5 Market-consistent value of liabilities

Best estimate of non-life insurance liabilities

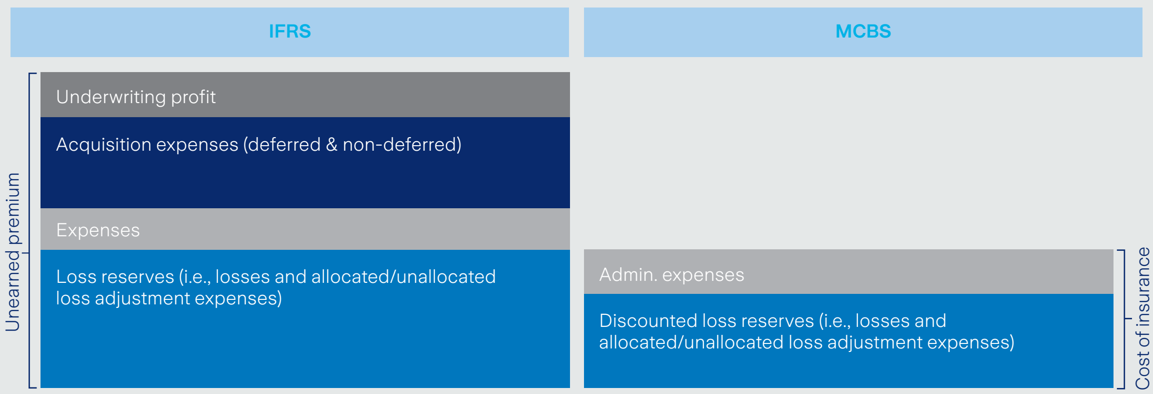
Best estimate of unearned premium reserves

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

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

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

Illustrative breakdown of Unearned Premium Reserve (UPR)



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

Best estimate of loss reserves

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

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

SST – IFRS valuation difference

in USD millions, as of December 31, 2022

Total Best estimate of non-Life insurance liabilities (IFRS)		**(85,693)**
Non-Life insurance liabilities	Valuation differences	20,759
	The reclassification to held for sale is not applicable in MCBS	(1,289)
Total Best estimate of non-Life insurance liabilities (SST)		**(66,223)**

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

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

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

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

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

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

SST – IFRS valuation difference

in USD millions, as of December 31, 2022

Total Best estimate of life insurance liabilities (IFRS)		**(196,649)**
Life insurance liabilities	Valuation differences	21,812
Unit-linked life insurance business	Valuation differences	4,193
	The reclassification to held for sale is not applicable in MCBS	(19,924)
Total Best estimate of life insurance liabilities (SST)		**(190,568)**

E. Valuation (continued)

Market-consistent value of other liabilities

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

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

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

Deposits retained on ceded reinsurance are valued at the IFRS carrying value, provided this is a reasonable proxy for fair value (i.e., the balances are subject to only insignificant risk of changes in value and settlement is expected to occur generally within three months and no more than twelve months). Otherwise, the value is based on fair value using the IFRS valuation principles, however, excluding own credit risk.

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

- The market-consistent valuation of non-controlling interests is determined based on the MCBS of the underlying entities and presented separately as a liability position, whereas in IFRS non-controlling interests are presented within equity;
- Lease liabilities are measured as the present value of future lease payments for the remaining lease term, discounted at risk-free rates without consideration of own credit risk.

Further, the reclassification of liabilities for USD 21.3 billion as held for sale, presented within other liabilities under IFRS, is not applicable in MCBS.

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

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

SST – IFRS valuation difference

in USD millions, as of December 31, 2022

Total value of other liabilities (IFRS)		**(70,236)**
	Non-technical provisions: Long-Term incentive plan is not recorded in ZIC SST, nor own shares	472
	Interest-bearing liabilities: Valuation differences	307
	Deposit retained on ceded reinsurance: Valuation differences	166
	Deferred taxes (other than deferred tax on Swiss real estate transfers attributable to shareholders): Valued set to zero in MCBS	2,288
	Deferred front-end fees: Value set to zero in MCBS	4,560
	The reclassification to held for sale is not applicable in MCBS	21,629
	Subordinated debts: Valuation differences	(1,472)
Other liabilities	Other	180
Total make-consistent value of other liabilities (SST)		**(42,106)**

F. Capital management

F.1 Capital management objectives

The Group's capital management framework forms the basis for actively managing capital within Zurich. The Group uses a number of different capital models, taking into account economic, regulatory, and rating agency constraints.

The Group's capital management program comprises various actions to optimize shareholders' total return and to meet capital needs, while enabling Zurich to take advantage of growth opportunities.

For additional information regarding the **Capital structure**, please see note 19 of the ZIC Group consolidated financial statements on page 172.

For more details on **Capital management framework** and **Capital management program**, see the Risk Review in the ZIC Group's Annual Report 2022 on page 6.

For details on **issuances and redemptions of debt**, see notes 18 of the ZIC Group consolidated financial statements on pages 94–95.

F.2 Regulatory capital adequacy

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

Additional information related to Regulatory solvency regimes are disclosed in ZIC Group's Annual Report 2022 on page 7.

G. Solvency

G.1 Swiss Solvency Test ratio

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

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

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

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

SST ratio and underlying components

USD millions	January 1st, 2022	**January 1st, 2023**
Target capital	30,055	20,287
Risk-bearing capital	50,845	42,340
Risk margin	9,267	7,291
Target capital less Risk margin	**20,788**	**12,996**
Risk-bearing capital less Risk margin	41,578	35,049
SST ratio	**200%**	**270%**

Based on the approved SST internal model, the SST ratio as of January 1, 2023 stands 270 percent, 70 percentage points higher compared to the SST ratio as of January 1, 2022. Strong operational capital generation net of incremental capital for growth and net of external dividend accrual contributed 8 percentage points to the ZIC SST ratio. Favorable market movements led to an increase in the ratio, largely due to higher market yield environment. The overall effect of the market movements including the market driven impact of the affiliated credit risk model was a 75 percentage points increase in the ratio. Capital actions reduced the SST ratio by 15 points, including adverse effects of USD 1.8 billion share buyback program announced in August 2022 and expected to be completed by the end of 2023 and the reduction in outstanding subordinated debt in 2022. Life model and assumption changes had an unfavorable impact of 4 points. Management actions mainly due to equity sales contribute 7 points to the SST ratio.

G. Solvency (continued)

Solvency

in USD millions	January 1st, 2022	Adjustments Previous year	**January 1st, 2023**
Derivation of risk-bearing capital			
Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	42,031		37,559
Deductions	(3,510)		(5,590)
Core capital	**38,521**		**31,969**
Supplementary capital	12,323		10,371
Risk-bearing capital	**50,845**		**42,340**
Derivation of target capital			
Underwriting risk	11,968		11,369
Market risk	11,464		9,203
Diversification effects	(4,202)		(3,788)
Credit risk[1]	9,226		5,265
Risk margin and other effects on target capital[2]	1,598		(1,764)
Target capital	**30,055**		**20,287**
SST ratio[3]	**200%**		**270%**

1 Credit risk includes investment credit risk, reinsurance and receivables.
2 Risk margin accounts for USD 7,291 million, other effects on target capital include diversification effects between credit risk and other risk types, and other risk models.
3 SST ratio is defined in the SST Circular 2017/3 as a ratio of risk-bearing capital less risk margin to target capital less risk margin.

Target capital by risk type

in USD millions	January 1st, 2022	Adjustments previous period	**January 1st, 2023**
Insurance risk derivation of target capital			
Premium and reserve risk (including UPR risk)	7,260		7,388
Nat Cat	4,913		4,280
Life insurance liabilities	3,839		3,299
Business risk	4,904		4,219
Diversification	(8,948)		(7,817)
Total	**11,968**		**11,369**
Market risk derivation of target capital			
Equity risk	4,121		2,691
Interest rate risk	4,682		3,384
Exchange rate risk	2,420		1,826
Credit spread risk	7,896		5,364
Other	14,653		10,174
Diversification	(16,601)		(11,931)
Total (including investment credit risk)	**17,171**		**11,507**
thereof			
Market risk (excluding investment credit risk)	11,464		9,203
Investment credit risk	8,988		5,142
Credit risk derivation of target capital			
Investment credit risk	8,988		5,142
Reinsurance credit risk & receivables	931		785
Diversification	(693)		(661)
Total	**9,226**		**5,265**

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Appendix 1: Quantitative templates

Income Statement Zurich Insurance Company Ltd Total and Direct Swiss Business

In CHF millions, for the years ended December 31

		Total		Accident	
		2021	**2022**	2021	**2022**
1	Gross written premiums and policy fees	15,919	16,847	445	451
2	Premiums ceded to reinsurers	(3,896)	(4,136)	(6)	(9)
3	Net written premiums and policy fees (1 + 2)	12,023	12,711	439	442
4	Change in reserves for unearned premiums, gross	(366)	(525)	(1)	–
5	Change in reserves for unearned premiums, ceded	50	133	–	–
6	Net earned premiums and policy fees (3 + 4 + 5)	11,707	12,319	438	442
7	Other income[1]	958	1,127	27	30
8	**Total technical income (6+7)**	**12,666**	**13,446**	**465**	**472**
9	Claims paid, annuities and loss adjustment expenses, gross	(9,353)	(9,925)	(330)	(344)
10	Claims paid, annuities and loss adjustment expenses, ceded	1,629	2,046	5	6
11	Change in insurance reserves, gross	(259)	770	–	13
12	Change in insurance reserves, ceded	128	(528)	8	4
13	Change in actuarial provisions for unit-linked contracts	–	–	–	–
14	**Insurance benefits and losses, net of reinsurance (9 + 10 + 11 + 12 + 13)**	**(7,855)**	**(7,637)**	**(317)**	**(321)**
15	Underwriting & policy acquisition costs, gross	(3,456)	(3,576)	(52)	(44)
16	Underwriting & policy acquisition costs, ceded	598	611	–	–
17	Underwriting & policy acquisition costs, net of reinsurance (15 + 16)	(2,858)	(2,965)	(52)	(44)
18	Administrative and other expense[1]	(1,733)	(2,068)	(48)	(55)
19	**Total technical expense (14 + 17 + 18) (non-life insurance only)**	**(12,446)**	**(12,670)**	**(417)**	**(420)**
20	Investment income	3,574	4,174		
21	Investment expenses	(482)	(1,364)		
22	**Net investment result (20 + 21)**	**3,092**	**2,810**		
23	Net investment result on unit-linked investments	–	–		
24	Other financial income	605	808		
25	Other financial expense	(791)	(1,352)		
26	**Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)**	**3,126**	**3,042**		
27	Interest expense on debt and other interest expense	(540)	(584)		
28	Other income	–	–		
29	Other expense	–	–		
30	Extraordinary income/expense	–	–		
31	**Net income before taxes (26 + 27 + 28 + 29 + 30)**	**2,586**	**2,457**		
32	Direct tax expenses	(103)	(105)		
33	**Net income after taxes (31 + 32)**	**2,483**	**2,353**		

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

Appendix 1: Quantitative templates (continued)

											Direct Swiss business
	Illness		Motor vehicle		Transport		Fire, natural hazards, property damage		General third-party liability		Other branches
2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**
558	635	1,044	1,065	31	30	380	421	318	337	138	132
–	–	1	–	(5)	(6)	(10)	(25)	(33)	(39)	(32)	(37)
558	636	1,045	1,065	26	25	370	396	285	297	105	95
(2)	–	(13)	(9)	–	–	(2)	(9)	(13)	2	(4)	2
–	–	–	–	1	–	1	4	–	–	8	8
557	636	1,032	1,056	27	25	369	391	271	300	109	104
34	42	63	71	2	2	23	28	19	23	8	9
590	**678**	**1,095**	**1,127**	**29**	**27**	**391**	**419**	**291**	**322**	**118**	**113**
(489)	(566)	(695)	(716)	(11)	(16)	(223)	(228)	(129)	(134)	(89)	(63)
–	–	–	1	2	1	(1)	(1)	–	–	20	12
(19)	6	40	9	(3)	2	(9)	62	12	(65)	32	(9)
–	–	–	(1)	(1)	1	(6)	(1)	2	6	(3)	(6)
–	–	–	–	–	–	–	–	–	–	–	–
(508)	**(561)**	**(656)**	**(707)**	**(13)**	**(12)**	**(239)**	**(168)**	**(115)**	**(192)**	**(40)**	**(67)**
(53)	(57)	(202)	(184)	(10)	(9)	(109)	(112)	(79)	(80)	(23)	(19)
–	–	–	–	1	1	1	1	–	–	2	3
(53)	(57)	(202)	(184)	(8)	(8)	(109)	(111)	(78)	(79)	(21)	(16)
(61)	(78)	(114)	(131)	(3)	(4)	(41)	(52)	(35)	(41)	(15)	(16)
(622)	**(696)**	**(971)**	**(1,021)**	**(25)**	**(23)**	**(389)**	**(331)**	**(228)**	**(313)**	**(75)**	**(99)**

Appendix 1: Quantitative templates (continued)

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

In CHF millions, for the years ended December 31

		Direct non-Swiss business, total	
		2021	**2022**
1	Gross written premiums and policy fees	2,357	2,423
2	Premiums ceded to reinsurers	(1,177)	(1,224)
3	Net written premiums and policy fees (1 + 2)	1,180	1,198
4	Change in reserves for unearned premiums, gross	(99)	(72)
5	Change in reserves for unearned premiums, ceded	12	26
6	Net earned premiums and policy fees (3 + 4 + 5)	1,093	1,153
7	Other income[1]	142	162
8	**Total technical income (6+7)**	**1,235**	**1,315**
9	Claims paid, annuities and loss adjustment expenses, gross	(909)	(987)
10	Claims paid, annuities and loss adjustment expenses, ceded	404	422
11	Change in insurance reserves, gross	(116)	(137)
12	Change in insurance reserves, ceded	98	36
13	Change in actuarial provisions for unit-linked contracts	–	–
14	**Insurance benefits and losses, net of reinsurance (9 + 10 + 11 + 12 + 13)**	**(522)**	**(665)**
15	Underwriting & policy acquisition costs, gross	(572)	(579)
16	Underwriting & policy acquisition costs, ceded	389	378
17	Underwriting & policy acquisition costs, net of reinsurance (15 + 16)	(182)	(201)
18	Administrative and other expense[1]	(257)	(297)
19	**Total technical expense (14 + 17 + 18) (non-life insurance only)**	**(961)**	**(1,163)**
20	Investment income		
21	Investment expenses		
22	**Net investment result (20 + 21)**		
23	Net investment result on unit-linked investments		
24	Other financial income		
25	Other financial expense		
26	**Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)**		
27	Interest expense on debt and other interest expense		
28	Other income		
29	Other expense		
30	Extraordinary income/expense		
31	**Net income before taxes (26 + 27 + 28 + 29 + 30)**		
32	Direct tax expenses		
33	**Net income after taxes (31 + 32)**		

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

Appendix 1: Quantitative templates (continued)

													Indirect business
							Marine, aviation,						
	Personal accident		Health		Motor		transport		Property		Casualty		Miscellaneous
2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**
284	345	35	37	1,406	1,449	251	308	3,811	4,044	2,242	2,412	2,619	2,758
(6)	(7)	–	–	(24)	(29)	(77)	(83)	(1,749)	(1,774)	(463)	(487)	(315)	(416)
279	338	35	37	1,382	1,420	174	225	2,062	2,270	1,780	1,925	2,304	2,342
(9)	(20)	3	(1)	(10)	(61)	12	(8)	(82)	(190)	(83)	(108)	(63)	(51)
–	–	–	–	(2)	1	(2)	3	(6)	33	(6)	18	45	40
270	319	38	36	1,370	1,360	184	219	1,973	2,113	1,691	1,834	2,286	2,330
17	23	2	2	85	97	15	21	229	271	135	161	158	184
287	**342**	**40**	**38**	**1,455**	**1,457**	**199**	**240**	**2,203**	**2,384**	**1,826**	**1,996**	**2,444**	**2,515**
(282)	(259)	(24)	(26)	(905)	(925)	(113)	(141)	(1,886)	(2,018)	(1,542)	(1,532)	(1,724)	(1,971)
1	1	–	–	19	17	29	27	690	1,064	153	240	308	256
317	144	3	7	194	(39)	(34)	(24)	(129)	382	22	(46)	(569)	466
–	–	–	–	(9)	(10)	(1)	24	137	(744)	(54)	224	(44)	(63)
–	–	–	–	–	–	–	–	–	–	–	–	–	–
37	**(115)**	**(21)**	**(19)**	**(702)**	**(956)**	**(119)**	**(114)**	**(1,189)**	**(1,316)**	**(1,420)**	**(1,114)**	**(2,030)**	**(1,311)**
(93)	(110)	(10)	(10)	(464)	(465)	(62)	(64)	(724)	(768)	(578)	(610)	(425)	(464)
–	–	–	–	1	1	3	7	119	137	40	40	40	42
(92)	(109)	(10)	(10)	(463)	(464)	(59)	(57)	(605)	(632)	(538)	(570)	(385)	(422)
(31)	(42)	(4)	(5)	(153)	(178)	(27)	(38)	(415)	(496)	(244)	(296)	(285)	(339)
(86)	**(266)**	**(35)**	**(34)**	**(1,318)**	**(1,598)**	**(206)**	**(209)**	**(2,209)**	**(2,444)**	**(2,203)**	**(1,981)**	**(2,700)**	**(2,072)**

Appendix 1: Quantitative templates (continued)

Market-Consistent Balance Sheet

in USD millions, for the years ended December 31	2021	Adjustments previous period	2022
Market-consistent value of investments			
Real estate	14,449	–	14,798
Participations	68	–	92
Fixed-income securities	131,243	–	100,279
Loans	7,792	–	8,124
Mortgages	6,594	–	5,331
Equities	8,061	–	4,812
Other investments	32,670	–	27,676
Collective investment schemes	5,235	–	4,265
Alternative investments	11,134	–	9,758
Structured products	–	–	–
Other investments	16,300	–	13,653
Total Investments	**200,878**	**–**	**161,113**
Market-consistent value of other assets			
Financial investments from unit-linked life insurance	144,667	–	122,633
Receivables from derivative financial instruments	938	–	770
Deposits made under assumed reinsurance contracts	510	–	971
Cash and cash equivalents	8,695	–	7,597
Reinsurers' share of best estimate of provisions for insurance liabilities	22,458	–	20,434
Direct insurance: life insurance business (excluding unit linked life insurance)	5,089	–	4,433
Reinsurance: life insurance business (excluding unit linked life insurance)	316	–	297
Direct insurance: non-life insurance business	11,021	–	10,569
Direct insurance: health insurance business	–	–	–
Reinsurance: non-life insurance business	6,059	–	5,135
Reinsurance: health insurance business	–	–	–
Direct insurance: other business	–	–	–
Reinsurance: other business	1	–	–
Direct insurance: unit-linked life insurance business	–	–	(0)
Reinsurance: unit-linked life insurance business	–	–	–
Fixed assets	2,736	–	2,563
Deferred acquisition costs	–	–	–
Intangible assets	–	–	–
Receivables from insurance business	10,691	–	11,748
Other receivables	3,669	–	4,622
Other assets	1,174	–	913
Unpaid share capital	–	–	–
Accrued assets	3,459	–	3,692
Total other assets	**198,997**	**–**	**175,943**
Total market-consistent value of assets	399,875	–	337,055

Appendix 1: Quantitative templates (continued)

Market-Consistent Balance Sheet

in USD millions, for the years ended December 31	2021	Adjustments previous period	2022
BEL: Best estimate liabilities (including unit linked life insurance)			
Best estimate of provisions for insurance liabilities	**(173,495)**	**–**	**(138,356)**
Direct insurance: life insurance business (excluding unit linked life insurance)	(99,179)	–	(70,081)
Reinsurance: life insurance business (excluding unit linked life insurance)	(1,863)	–	(1,452)
Direct insurance: non-life insurance business	(68,156)	–	(62,205)
Direct insurance: health insurance business	–	–	–
Reinsurance: non-life insurance business	(3,698)	–	(4,018)
Reinsurance: health insurance business	–	–	–
Direct insurance: other business	(592)	–	(591)
Reinsurance: other business	(7)	–	(7)
Best estimate of provisions for unit-linked life insurance liabilities	**(140,771)**	**–**	**(119,034)**
Direct insurance: unit-linked life insurance business	(140,770)	–	(119,034)
Reinsurance: unit-linked life insurance business	(1)	–	–
Market consistent value of other liabilities			
Non-technical provisions	(2,672)	–	(2,076)
Interest-bearing liabilities	(5,860)	–	(6,616)
Liabilities from derivative financial instruments	(532)	–	(1,167)
Deposits retained on ceded reinsurance	(883)	–	(692)
Liabilities from insurance business	(3,953)	–	(4,271)
Other liabilities	(11,669)	–	(11,659)
Accrued liabilities	(5,043)	–	(5,254)
Subordinated debts	(12,966)	–	(10,371)
Total BEL plus market-consistent value of other liabilities	(357,843)	–	(299,496)
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	42,031	–	37,559

Appendix 2: Report of the statutory auditor on the Group consolidated financial statements 2022

The Financial Condition Report is not audited.

The consolidated financial statements of ZIC Group, which comprise the consolidated income statements, consolidated statements of comprehensive income, consolidated balance sheet, consolidated statements of cash flows, consolidated statements of changes in equity and notes to the consolidated financial statements for the year ended December 31, 2022 are audited. Please refer to the report of the statutory auditor of ZIC Group and ZIC on pages 144–153 and pages 176–184, respectively, which can be found at: www.zurich.com/investor-relations/results-and-reports/other-statutory-filings.

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Zurich Insurance Company Ltd
Mythenquai 2
8002 Zurich, Switzerland

www.zurich.com