ZURICH®

Half Year Report 2023

Report for the six months ended June 30, 2023

Zurich Insurance Group

Contents

Message from the Chairman and Group CEO	**2**
Financial review	**4**
Financial overview	4
Consolidated financial statements	12
Additional information	**100**
Shareholder information	101
Glossary	102
Contact information	104
Financial calendar	104

Welcome

About us

Zurich Insurance Group (Zurich) is a leading multi-line insurer serving people and businesses in more than 200 countries and territories. Founded 150 years ago, Zurich is transforming insurance. In addition to providing insurance protection, Zurich is increasingly offering prevention services such as those that promote wellbeing and enhance climate resilience.

Reflecting its purpose to 'create a brighter future together,' Zurich aspires to be one of the most responsible and impactful businesses in the world. It is targeting net-zero emissions by 2050 and has the highest-possible ESG rating from MSCI. In 2020, Zurich launched the Zurich Forest project to support reforestation and biodiversity restoration in Brazil.

The Group has about 60,000 employees and is headquartered in Zurich, Switzerland. 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. Further information is available at www.zurich.com.

Message from the Chairman and Group CEO

Dear Shareholder,

Zurich Insurance Group (Zurich) delivered strong results in the first six months of the year, matching operating profit at the record high reported in the first half 2022,[1] achieving the highest ever business operating profit after tax return on equity, and laying robust foundations for the 2023–2025 financial cycle.

Zurich has made a strong start to the new financial cycle. Group business operating profit of USD 3.7 billion in the first six months of 2023 was at the same high level as in the prior year, with 3 percent growth when measured in local currencies.

Net income after tax attributable to shareholders (NIAS) increased 6 percent to USD 2.5 billion, mainly due to a more favorable net impact from capital gains and losses. NIAS also included USD 0.1 billion of costs incurred related to the repurposing of some of Zurich's own use real estate portfolio. Earnings per share grew 8 percent in U.S. dollars.[2] We've achieved a business operating profit after tax return on equity[3] of 22.9 percent, our highest ever, and among the highest in the industry, while minimizing volatility, maintaining a strong balance sheet and taking advantage of the growth opportunities available to us.

Strong top-line growth has become a more significant driver. The Life business delivered a strong performance during the first half of the year, with growth in both BOP and new business premiums. In Property & Casualty (P&C), the Group achieved price increases of about 6 percent in the first half of the year, supported by a commercial insurance rate change of 7 percent and a recovery in retail. Farmers Exchanges[4] and Farmers Management Services are expected to benefit from similar trends, with rate increases also driving growth.

Property & Casualty

P&C business operating profit (BOP) of USD 2,247 million was 6 percent lower than in the previous year. Adjusting for currency movements and the non-recurrence of a one-off gain in the prior year, BOP rose 3 percent, supported by higher investment income.

In P&C Commercial Insurance, rates increased 7 percent in the first six months of the year, with increases in North America at 9 percent, driven by further acceleration in the property portfolio. P&C retail improved its profitability in the first half compared with the second half of 2022, thanks to pricing actions taken last year as well as additional premium rate increases. The Group anticipates these effects to continue through the second half of 2023 and beyond.

Gross written premiums grew 10 percent on a like-for-like[5] basis, adjusting for currency movements, with growth in both retail and commercial insurance across all regions. In U.S. dollars, the Group's gross written premiums rose 8 percent.

The combined ratio increased 1.3 percentage points year-over-year to 92.9 percent as we continue to maintain a cautious approach to reserving to minimize volatility.

Life

Life BOP rose 11 percent to USD 939 million, despite U.S. dollar appreciation against other major currencies. On a like-for-like[5] basis, Life BOP improved by 18 percent.

The improvement was driven by profitable growth in Latin America, favorable experience in North America, as well as increased BOP in Europe, Middle East & Africa (EMEA) due to higher amortization of contractual service margin[6] (CSM), strong fee result, and the non-recurrence of transition adjustments seen in 2022. This more than compensated for a reduction in Asia Pacific's BOP, which was affected by an unfavorable year-on-year fluctuation in claims experience.

Michel M. Liès
Chairman of the Board of Directors

Mario Greco
Group Chief Executive Officer

Message from the Chairman and Group CEO (continued)

Life new business premiums increased 13 percent in U.S. dollar terms, and 17 percent on a like-for-like[5] basis. Growth was mainly driven by retail savings sales in Spain, protection sales in Japan, which rebounded from a low level in the prior year, and higher sales in Brazil through the Group's joint venture with Banco Santander.

Farmers

Farmers BOP rose 1 percent compared with the prior year. An increase in fee income at Farmers Management Services (FMS) of 2 percent, driven by an increase in gross earned premiums at the Farmers Exchanges,[4] was offset by an underwriting loss in Farmers Re and transaction costs in Farmers Life.

The Farmers Exchanges,[4] which are owned by their policyholders, reported gross written premium growth of 1 percent in the first half of the year. The reduction in the commercial rideshare business volumes in the first quarter dampened the benefit of increased rates following a continued focus on improving the underwriting performance. On an underlying basis, excluding the commercial ride share business, gross written premiums increased by 5 percent. Gross earned premiums increased by 4 percent over the same period. Excluding catastrophe losses, the Farmers Exchanges'[4] combined ratio improved by 1.1 percentage points to 94.1 percent.

Farmers Life new business premiums decreased by 7 percent compared with the prior year. This was mainly driven by the adverse impact of higher discount rates, which were only partially offset by higher sales volumes of the universal life product. New business CSM increased by 5 percent to USD 55 million, benefiting from strong sales as well as modeling changes.

Capital position

As of June 30, 2023, Zurich's Swiss Solvency Test (SST) ratio was estimated at 263 percent[7] and remains well in excess of the Group's target for an SST ratio of 160 percent or above. This compares with 267 percent as of January 1, 2023. The reduction was driven by a modest negative impact from model and assumption updates.

Share buyback completed

On June 8, 2023, Zurich announced it had completed its public share buyback program of up to CHF 1.8 billion. Through the program launched on November 21, 2022, Zurich repurchased 4,104,413 of its shares for a total purchase value of CHF 1.8 billion at an average purchase price of CHF 438.55 per share. These shares are being cancelled by using the capital band introduced at the Annual General Meeting in April 2023.

We have high expectations for the Group's performance, and we set targets accordingly. More importantly, we deliver. Our 2023–2025 targets are our most ambitious yet, but our agility, flexibility and focus on delivering results make us confident that we can achieve them.

We are very grateful to you for your continued engagement and support.

Yours sincerely,

Michel M. Liès
Chairman of the Board of Directors

Mario Greco
Group Chief Executive Officer

[1] The Group adopted new International Financial Reporting Standards, IFRS 17, as of January 2023. The comparative figures have been restated for IFRS 17. The restatement does not apply to Farmers Exchanges' figures. Further information about IFRS 17 at Zurich can be found here: www.zurich.com/en/investor-relations/calendar/ifrs-event

[2] Diluted earnings per share in USD.

[3] Business operating profit (after tax) return on common shareholders' equity, adjusted for net unrealized gains/losses (BOPAT ROE).

[4] Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims services and ancillary services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services.

[5] Like-for-like comparisons represent the change in local currencies and after adjusting for acquisitions and disposals.

[6] Contractual Service Margin (CSM) is a separate component of the insurance liability representing unearned profits from in-force Life contracts (excluding short-term and investment contracts), before the effect of non-controlling interests and taxes.

[7] Estimated Swiss Solvency Test (SST) ratio as of June 30, 2023, calculated based on the Group's internal model approved by the Swiss Financial Market Supervisory Authority FINMA. The SST ratio as of January 1 has to be filed with FINMA by end of April each year and is subject to review by FINMA.

Financial overview

Contents

Financial highlights	5
Operating update	**6**
Property & Casualty (P&C)	6
Life	8
Farmers	10
Farmers Exchanges	10
Group Functions and Operations	11
Non-Core Businesses	11

The information contained within the financial overview is unaudited and is based on the consolidated results of the Group for the six months ended June 30, 2023 and June 30, 2022. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated, with the consequence that the rounded amounts may not always add up to the rounded total. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts. This document should be read in conjunction with the annual results 2022 of the Group and in particular with its consolidated financial statements for the year ended December 31, 2022.

In addition to the figures stated in accordance with International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business metrics and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the glossary. These should be viewed as complementary to, and not as substitutes for, the IFRS figures. For a reconciliation of BOP to net income attributable to shareholders (NIAS), see note 16 (table 16.4) of the unaudited consolidated financial statements for the six months ended June 30, 2023.

Certain comparatives have been revised as a result of reclassifications and other adjustments. For details refer to note 1 of the unaudited consolidated financial statements.

Financial overview (continued)

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2023	Restated 2022	Change[1]
Business operating profit	**3,720**	3,738	(0%)
Net income attributable to shareholders	**2,492**	2,344	6%
P&C business operating profit	**2,247**	2,379	(6%)
P&C insurance revenue	**20,163**	18,648	8%
P&C combined ratio	**92.9%**	91.6%	(1.3 pts)
Life Business operating profit	**939**	847	11%
Life contractual service margin (CSM)[2]	**11,211**	10,496	7%
Life present value of new business premiums (PVNBP)[3]	**8,242**	7,283	13%
Life new business CSM (NB CSM)[4]	**536**	625	(14%)
Life new business margin (as % of PVNBP)[5]	**6.5%**	8.6%	(2.1 pts)
Farmers business operating profit	**993**	982	1%
Farmers Management Services fee income	**2,251**	2,218	2%
Farmers Management Services managed gross earned premium margin	**6.7%**	6.7%	0.0 pts
Farmers Life present value of new business premiums (PVNBP)[3]	**408**	436	(7%)
Farmers Life new business CSM (NB CSM)[4]	**55**	52	5%
Average Group investments[6]	**142,494**	169,107	(16%)
Net investment result on Group investments[6]	**2,569**	770	nm
Net investment return on Group investments[6,7]	**1.8%**	0.5%	1.4 pts
Total return on Group investments[6,7]	**2.7%**	(10.8%)	13.5 pts
Shareholders' equity	**23,843**	26,047	(8%)
Swiss Solvency Test ratio[2,8]	**263%**	262%	1 pts
Return on common shareholders' equity (ROE)[9]	**20.3%**	17.7%	2.6 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[9]	**22.9%**	21.2%	1.7 pts

1 Parentheses around numbers represent an adverse variance.
2 As of June 30, 2023 and December 31, 2022, respectively.
3 Present value of new business premiums (PVNBP) is gross of reinsurance and before the effect of non-controlling interests.
4 New business CSM is net of external reinsurance and before the effect of non-controlling interests.
5 Calculated as new business CSM divided by PVNBP.
6 Including investment cash and derivatives.
7 Calculated on average Group investments.
8 Estimated Swiss Solvency Test (SST) ratio, calculated based on the Group's internal model approved by the Swiss Financial Market Supervisory Authority FINMA.
9 Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses).

Overall Group business operating profit (BOP) was stable at USD 3.7 billion in the first half of 2023, with 3 percent growth in local currencies dampened by the appreciation of the U.S. dollar against major currencies.

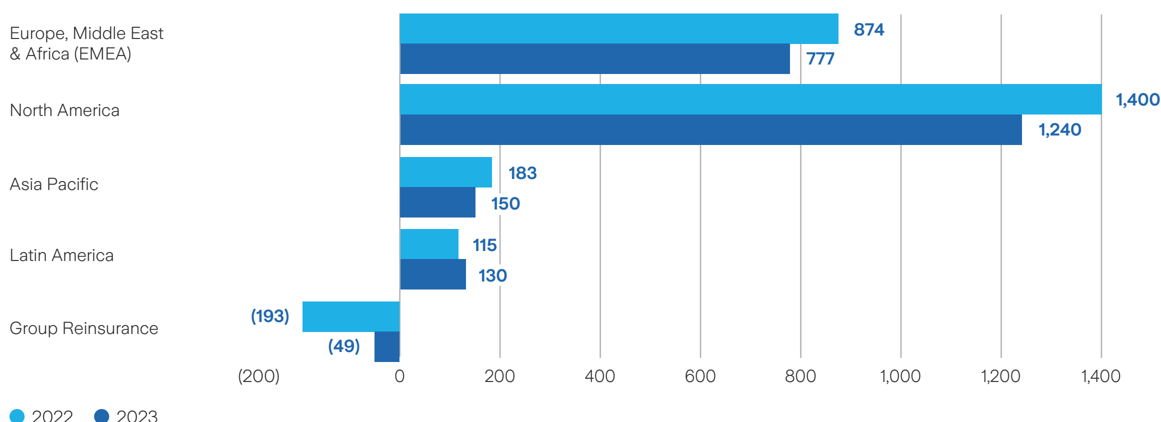
Net income attributable to shareholders (NIAS) increased by 6 percent in the first half of 2023, mainly due to an improved net impact of capital gains and losses.

Operating update

Property & Casualty (P&C)

in USD millions, for the six months ended June 30	Total		
		Restated	
	2023	2022	Change
Insurance revenue	20,163	18,648	8%
Insurance service result	1,854	2,016	(8%)
Net investment result	765	676	13%
Fee result	51	12	327%
Other result	(357)	(258)	(38%)
Business operating profit	**2,247**	**2,379**	**(6%)**
Loss ratio	64.1%	63.6%	(0.5 pts)
Expense ratio	28.8%	28.0%	(0.8 pts)
Combined ratio	**92.9%**	**91.6%**	**(1.3 pts)**

P&C business operating profit (BOP)
in USD millions, for the six months ended June 30



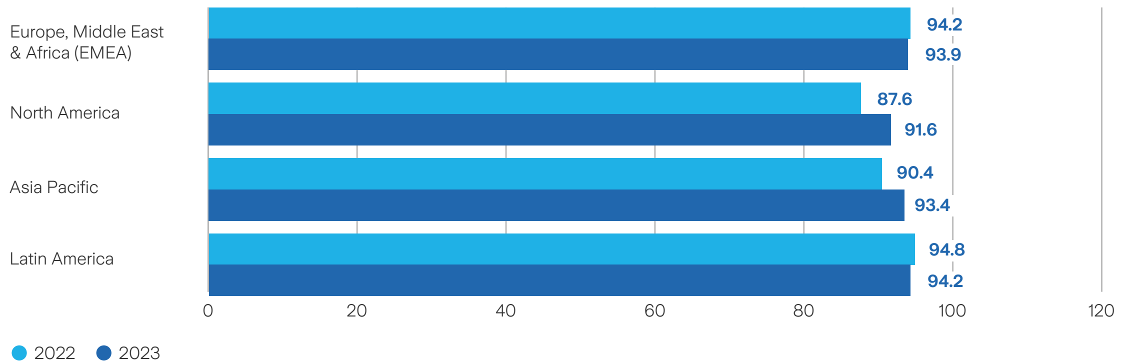
Insurance revenue in Property & Casualty (P&C) for the six months of 2023 rose 10 percent on a like-for-like basis and 8 percent in U.S. dollar terms, benefiting from the earn-through of growth in gross written premiums, supported by higher premium rates of 6 percent on a Group basis.

First-half business operating profit fell by 6 percent to USD 2.2 billion compared to prior year, which benefited from a lower combined ratio and a non-recurring gain from a real estate transaction. This was partially offset by an increase of the investment result in the first half of 2023.

The net investment result was USD 88 million above the prior year, mainly due to investment income of USD 197 million primarily driven by higher yields and realized capital gains of USD 73 million from the Group's hedge fund portfolio compared with a loss of USD 45 million in the previous year. This was partially offset by an increase in the insurance finance expenses of USD 227 million compared with the previous year due to an increase in the unwind of the discount.

The contribution of other items, which include the net non-technical result, fee results and non-controlling interests, decreased by USD 60 million compared to the previous year, mainly reflecting the absence of a one-off gain from a real estate transaction in 2022. This was partially offset by a higher fee result by USD 39 million and lower technical non-qualifying expenses by USD 34 million.

Operating update (continued)



The combined ratio of 92.9 percent in the first half of 2023 deteriorated 1.3 percentage points compared with the prior-year period. The loss ratio increased by 0.5 percentage points to 64.1 percent. The expense ratio of 28.8 percent in the first half of 2023 was 0.8 percentage points higher than in the previous year.

In EMEA, the combined ratio improved by 0.3 percentage points, mainly due to improvements of the loss and expense ratios.

In North America, the combined ratio deteriorated by 4.0 percentage points, mainly driven by elevated catastrophe losses and increased commission expenses.

The Asia Pacific combined ratio deteriorated 3.0 percentage points, mainly driven by higher commission expenses and less favorable prior year development compared to the previous year.

The Latin America combined ratio improved 0.6 percentage points due to an improved loss experience.

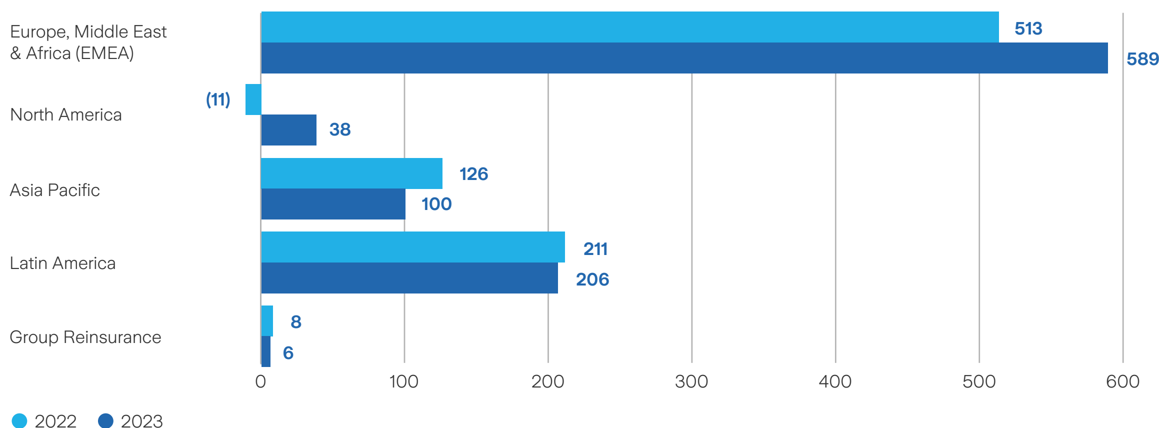
Operating update (continued)

Life

in USD millions, for the six months ended June 30	2023	Restated 2022	Change
Insurance service result	1,060	659	61%
Net investment result	270	316	(15%)
Fee result	126	41	nm
Business operating profit	**939**	**847**	**11%**
Assets under management[1,2]	246,498	232,441	6%
Contractual service margin[2]	11,211	10,496	7%

1 Assets under management comprise balance sheet Group investments and unit-linked investments plus assets that are managed by third parties, on which fees are earned.
2 As of June 20, 2023 and December 31, 2022, respectively.

Life business operating profit (BOP)
in USD millions, for the six months ended June 30



The Group's Life business delivered a business operating profit of USD 939 million for the first half of 2023, 11 percent higher than in the prior-year period, with growth in local currencies partially offset by appreciation of the U.S. dollar against major currencies.

In EMEA, business operating profit improved by 15 percent to USD 589 million on a reported basis. This was driven by higher CSM amortization and fee result, as well as the non-recurrence of adverse one-off movements seen in 2022.

In North America, which excludes Farmers Life, BOP increased by USD 49 million due to a more favorable net impact of experience adjustments and onerous contracts.

In Asia Pacific, BOP decreased by 21 percent to USD 100 million on a reported basis. This was driven by an unfavorable fluctuation in claims experience and currency movements.

In Latin America, BOP of USD 206 million was 3 percent below prior year on a reported basis, driven by adverse currency movements, while it was 15 percent higher year on year in local currencies.

Assets under management (AuM) increased 6 percent in the first half of 2023 to USD 246 billion, driven by a combination of positive net inflows, favorable market movements and currency movements.

The contractual service margin (CSM) increased by 7 percent to USD 11 billion on a reported basis. This was driven by a combination of favorable economic variances, currency movements and underlying CSM accretion.

Operating update (continued)

NB CSM, PVNBP and NBM by Segment[1]

in USD millions, for the six months ended June 30	Present value of new business premiums (PVNBP)[2]		New business contractual service margin (NB CSM)[3]		New business margin (as % of PVNBP) (NBM)[4]	
	2023	Restated 2022	2023	Restated 2022	2023	Restated 2022
Europe, Middle East & Africa (EMEA)	4,779	4,387	317	388	6.6%	9.0%
North America	182	278	4	6	2.4%	2.1%
Asia Pacific	1,298	974	165	147	12.7%	15.3%
Latin America	1,984	1,644	51	85	2.6%	5.2%
Total	**8,242**	**7,283**	**536**	**625**	**6.5%**	**8.7%**

1 For long-term life insurance contracts. Does not include short-term life insurance contracts which are accounted for with premium allocation approach (PAA), and investment contracts which are accounted for with IFRS 9.
2 Present value of new business premiums (PVNBP) is gross of reinsurance and before the effect of non-controlling interests.
3 New business CSM is net of external reinsurance and before the effect of non-controlling interests.
4 Calculated as new business CSM divided by PVNBP.

In the first half, PVNBP increased 13 percent on a reported basis and 17 percent on a like-for-like basis. Growth in local currencies was partially offset by the appreciation of the U.S. dollar against major currencies.

In EMEA, PVNBP grew 11 percent on a like-for-like basis, compared with the same period in 2022. This growth reflects large sales volumes of a retail savings product in Spain, written by the Group's joint venture with Banco Sabadell. This more than offset the adverse impact of lower sales volumes in Italy and Switzerland and higher discount rates in the region.

In North America, new business premiums was 35 percent lower on a like-for-like basis compared with the prior-year period, driven by lower sales in the corporate business.

In Asia Pacific, new business premiums grew 43 percent on a like-for-like basis. This was driven by higher protection sales in Japan, which rebounded from a low level in the prior year.

In Latin America, new business premiums increased 27 percent on a like-for-like basis, benefiting from higher sales in Brazil through the Group's joint venture with Banco Santander.

New business written in in the first half of 2023 added USD 536 million of CSM. New business CSM was 10 percent lower on a like-for-like basis compared with the comparative period in 2022. This was due to a reduced new business margin of 6.5 percent in the first half of 2023 compared with 8.6 percent in the prior-year period. The reduction was mainly driven by a less favorable business mix.

PVNBP and NB CSM do not include short-term life insurance and investment contracts, which are accounted for with the PAA method and IFRS 9, respectively. Insurance revenues from short-term life insurance, which is mainly related to protection business in Latin America, grew 8 percent on a like-for-like basis. Fee revenues from investment contracts, which are mainly written in EMEA, grew 30 percent on a like-for-like basis compared with the prior year, which was affected by negative market performance.

Operating update (continued)

Farmers

in USD millions, for the six months ended June 30	2023	Restated 2022	Change
Farmers Management Services (FMS)	934	863	8%
Farmers Re	(30)	2	nm
Farmers Life	90	117	(23%)
Total business operating profit	**993**	**982**	**1%**

Farmers Management Services (FMS) business operating profit increased by 8 percent compared to the prior year. This was mainly driven by the higher earned premium base of the Farmers' Exchanges as well as favorable market impacts on investments backing employee benefit liabilities.

Farmers Re reported a business operating profit of USD (30) million for the first half of 2023, driven by a higher combined ratio at a higher reinsurance participation percentage of 8.5 percent compared to 1.75 percent in the prior year. The increase in the combined ratio was mainly driven by elevated catastrophe losses at the Farmers Exchanges.

Farmers Life business operating profit of USD 90 million was 23 percent below the prior year, impacted by transaction costs related to the reinsurance agreement announced in May.

Farmers Exchanges

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.

Financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Re.

in USD millions, for the six months ended June 30	2023	2022	Change
Gross written premiums	13,572	13,503	1%
Gross earned premiums	13,101	12,642	4%

The Farmers Exchanges reported GWP growth of 1 percent in the first half of the year. The reduction in the commercial rideshare business volumes in the first quarter dampened the benefit of increased rates following a continued focus on improving the underwriting performance. Gross earned premiums increased by 4 percent over the same period.

Operating update (continued)

Group Functions and Operations

in USD millions, for the six months ended June 30	2023	Restated 2022	Change
Holding and Financing	(271)	(209)	(29%)
Headquarters	(147)	(142)	(4%)
Zurich Global Ventures[1]	(14)	(30)	53%
Total business operating profit	**(432)**	**(381)**	**(13%)**

1 Includes Zurich Global Employee Benefit Solutions, new ventures and initiatives.

Group Functions and Operations reported net expenses of USD 432 million compared with USD 381 million in the prior-year period. This was mainly driven by higher interest rates in the Holding and Financing unit.

Non-Core Businesses

in USD millions, for the six months ended June 30	2023	Restated 2022	Change
Zurich Legacy Solutions	(6)	(71)	91%
Other run-off	(21)	(19)	(12%)
Total business operating profit	**(27)**	**(89)**	**70%**

The Group's Non-Core Businesses, which comprise run-off portfolios that are managed with the intention of proactively reducing risk and releasing capital, reported an operating loss of USD 27 million for the first half of 2023, compared with a loss of USD 89 million in the first half of 2022.

Consolidated financial statements

Contents

Consolidated income statements	13
Consolidated statements of comprehensive income	14
Consolidated balance sheets	16
Consolidated statements of cash flows	18
Consolidated statements of changes in equity	20
1. Basis of presentation	22
2. New accounting standards and amendments to published accounting standards	24
3. Summary of material accounting policies and critical accounting estimates and judgments	33
4. Acquisitions and divestments	47
5. Group investments	49
6. Insurance and reinsurance contracts	52
7. Insurance revenue	70
8. Fee result	71
9. Attorney-in-fact contracts, goodwill and other intangible assets	72
10. Provisions	74
11. Income taxes	75
12. Senior and subordinated debt	76
13. Commitments and contingencies, legal proceedings and regulatory investigations	77
14. Fair value measurement	79
15. Expected credit loss measurement	82
16. Segment information	85
17. Events after the balance sheet date	97
Review report of the auditors	98

Consolidated financial statements (continued)

Consolidated income statements

in USD millions, for the six months ended June 30	Notes	2023	Restated 2022
Insurance revenue	7	26,971	24,457
Insurance service expense		(22,562)	(19,989)
Net expenses from reinsurance contracts held		(1,449)	(1,697)
Insurance service result		2,959	2,771
Net investment income on Group investments		2,698	2,577
Net capital gains/(losses) and impairments on Group investments		(128)	(1,806)
Net investment result on Group investments	5	2,569	770
Net investment result on unit-linked investments		7,156	(13,640)
Change in liabilities for investment contracts and other funds		(3,130)	6,157
Re-/insurance finance income/(expenses)		(5,454)	7,291
Net investment result		1,141	578
Fee income	8	2,905	2,840
Fee business expenses	8	(1,815)	(1,917)
Fee result		1,090	924
Other revenues		96	228
Net gains/(losses) on divestment of businesses	4	(28)	(19)
Interest expense on debt		(229)	(223)
Other expenses		(1,424)	(1,179)
Other result		(1,585)	(1,193)
Net income before income taxes		3,605	3,080
of which: Attributable to non-controlling interests		266	235
Income tax (expense)/benefit	11	(935)	(577)
attributable to policyholders	11	(73)	253
attributable to shareholders	11	(861)	(830)
of which: Attributable to non-controlling interests		(88)	(75)
Net income after taxes		**2,670**	**2,503**
attributable to non-controlling interests		179	160
attributable to shareholders		2,492	2,344
in USD			
Basic earnings per share		17.06	15.78
Diluted earnings per share		16.96	15.68
in CHF			
Basic earnings per share		15.56	14.89
Diluted earnings per share		15.47	14.79

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated financial statements (continued)

Consolidated statements of comprehensive income

in USD millions, for the six months ended June 30

	Net income attributable to shareholders	Net unreal. gains/ (losses) on financial assets	Change in discount rate for insurance/ reinsurance contracts	Change in fair value of underlying items through OCI	Cumulative foreign currency translation adjustment
2022					
Comprehensive income for the period	2,344	(14,240)	5,062	7,170	(765)
Details of movements during the period					
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(18,409)	6,420	9,707	(765)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		164	–	–	–
Income tax (before foreign currency translation effects)		4,185	(1,256)	(2,711)	–
Foreign currency translation effects		(181)	(102)	174	
2023					
Comprehensive income for the period	2,492	819	114	(588)	(163)
Details of movements during the period			–	–	
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		623	19	(797)	(163)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		713	–	–	–
Income tax (before foreign currency translation effects)		(375)	(3)	165	–
Foreign currency translation effects		(141)	98	44	–

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated financial statements (continued)

Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
(2,774)	10	759	769	(2,004)	339	(22)	317
(3,047)	14	837	851	(2,196)			
164	–	–	–	164			
219	(3)	(191)	(195)	24			
(109)	–	113	113	4			
182	(2)	35	33	215	2,707	243	2,949
(319)	(3)	113	110	(209)			
713	–	–	–	713			
(214)	1	(19)	(19)	(232)			
1	–	(58)	(58)	(57)			

Consolidated financial statements (continued)

Consolidated balance sheets

Assets

in USD millions, as of	Notes	06/30/2023	Restated 12/31/22	Restated 01/01/22
Assets				
Cash and cash equivalents		**6,437**	**7,560**	**8,698**
Total Group Investments	5	141,027	140,111	191,680
Equity securities		13,505	13,130	18,578
Debt securities		105,079	103,740	150,329
Investment property		14,340	14,798	14,070
Mortgage loans		4,254	5,497	6,106
Other loans		3,743	2,855	2,529
Investments in associates and joint ventures		106	92	68
Investments for unit-linked contracts		134,353	122,546	142,975
Total investments		**275,380**	**262,657**	**334,655**
Insurance contract assets	6	641	676	720
Reinsurance contract assets	6	20,147	19,878	20,208
Receivables and other assets		8,518	8,716	8,064
Deferred tax assets		1,733	1,736	1,909
Assets held for sale[1]	4	24,103	21,142	11,504
Property and equipment		2,149	2,225	2,436
Attorney-in-fact contracts	9	2,650	2,650	2,650
Goodwill	9	4,522	4,420	4,344
Other intangible assets	9	3,846	3,835	3,858
Total assets		**350,126**	**335,497**	**399,044**

1 As of June 30, 2023, the Group had USD 24.1 billion of assets held for sale based on agreements signed to sell portfolios of Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft, Zurich Chile Seguros de Vida S.A., Zurich Insurance plc and Zurich Insurance Company Ltd (UK Branch) (see note 4). In 2022, the Group had USD 21.1 billion of assets 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) (see note 4).

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated financial statements (continued)

Liabilities and equity

in USD millions, as of	Notes	06/30/2023	Restated 12/31/2022	Restated 01/01/22
Liabilities				
Liabilities for investment contracts		56,085	50,557	60,430
Insurance contract liabilities	6	211,107	203,837	262,641
Reinsurance contract liabilities	6	361	367	150
Obligation to repurchase securities		1,323	1,069	1,381
Other liabilities[1]	10, 13	15,716	16,152	14,633
Deferred tax liabilities		2,467	2,047	2,903
Liabilities held for sale[2]	4	23,538	20,568	11,389
Senior debt	12	5,150	5,071	5,327
Subordinated debt	12	9,044	8,899	9,782
Total liabilities		**324,791**	**308,567**	**368,636**
Equity				
Share capital		10	11	11
Additional paid-in capital		1,222	1,158	1,449
Net unreal. gains/(losses) on financial assets		(6,463)	(7,949)	9,491
Change in discount rate for (re)insurance contract		5,384	5,270	(1,138)
Change in fair value of underlying items		1,716	2,041	(6,331)
Cumulative foreign currency translation adjustment		(10,156)	(10,433)	(9,633)
Revaluation reserves		270	272	265
Retained earnings		31,860	35,313	35,008
Shareholders' equity		23,843	25,683	29,121
Non-controlling interests		1,492	1,247	1,288
Total equity		**25,335**	**26,930**	**30,408**
Total liabilities and equity		**350,126**	**335,497**	**399,044**

1 Includes restructuring provisions, litigation and regulatory provisions (see note 10) and other provisions.
2 As of June 30, 2023, the Group had USD 23.5 billion of liabilities held for sale based on agreements signed to sell portfolios of Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft, Zurich Chile Seguros de Vida S.A., Zurich Insurance plc and Zurich Insurance Company Ltd (UK Branch) (see note 4). In 2022, the Group had USD 20.6 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) (see note 4).

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated financial statements (continued)

Consolidated statements of cash flows

in USD millions, for the six months ended June 30	2023	Restated 2022
Cash flows from operating activities		
Net income attributable to shareholders	2,492	2,344
Adjustments for:		
Net (gains)/losses on divestment of businesses	28	19
(Income)/expense from equity method accounted investments	–	1
Depreciation, amortization and impairments of fixed and intangible assets	434	374
Other non-cash items	433	56
Underwriting activities:	7,664	(13,619)
Insurance contracts assets/liabilities	3,861	(8,081)
Reinsurance contracts assets/liabilities	15	350
Liabilities for investment contracts	3,787	(5,887)
Investments:	(6,701)	13,812
Net capital (gains)/losses on total investments and impairments	(6,377)	16,130
Net change in derivatives	(66)	(407)
Net change in money market investments	(199)	377
Sales and maturities		
Debt securities	28,785	25,216
Equity securities	25,745	27,726
Other	3,767	3,692
Purchases		
Debt securities	(28,123)	(26,514)
Equity securities	(26,859)	(28,401)
Other	(3,374)	(4,006)
Net changes in sale and repurchase agreements	214	1,410
Movements in receivables and payables	773	(251)
Net changes in other operational assets and liabilities	(1,131)	(1,102)
Deferred income tax, net	(5)	(224)
Net cash provided by/(used in) operating activities	4,200	2,821

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated financial statements (continued)

in USD millions, for the six months ended June 30	2023	Restated 2022
Cash flows from investing activities		
Additions to tangible and intangible assets	(175)	(252)
Disposals of tangible and intangible assets	60	7
(Acquisitions)/disposals of equity method accounted investments, net	(15)	–
Dividends from equity method accounted investments	–	4
Net cash provided by/(used in) investing activities	(131)	(241)
Cash flows from financing activities		
Dividends paid	(3,891)	(3,596)
Net movement in treasury shares	(1,551)	(220)
Issuance of debt	306	1,038
Repayment of debt	(311)	(1,504)
Lease principal repayments	(105)	(107)
Net cash provided by/(used in) financing activities	(5,552)	(4,390)
Foreign currency translation effects on cash and cash equivalents	111	(442)
Change in cash and cash equivalents[1]	(1,372)	(2,251)
Cash and cash equivalents as of January 1	8,155	9,330
Cash and cash equivalents as of June 30	**6,783**	**7,079**
of which: Cash and cash equivalents	6,437	6,510
of which: Unit-linked[2]	346	569
Other supplementary cash flow disclosures[3]		
Other interest income received	2,591	2,675
Dividend income received	659	756
Other interest expense paid	(270)	(255)
Income taxes paid	(633)	(802)

1 Includes USD 80 million as of June 30, 2023 and USD 101 million as of June 30, 2022 of cash and cash equivalents reclassified to assets held for sale, which has been recognized in net changes in other operational assets and liabilities (see note 4).
2 These amounts are included within 'Investments for unit-linked contracts' on the balance sheet.
3 These amounts are primarily included in the operating activities of the cash flow statement.

Cash and cash equivalents

in USD millions, as of June 30	2023	2022
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,947	6,432
Cash equivalents	837	647
Total	**6,783**	**7,079**

For the periods ended June 30, 2023 and 2022, cash and cash equivalents held to meet local regulatory requirements were USD 390 million and USD 484 million, respectively.

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated financial statements (continued)

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital	Net unreal. gains/ (losses) on financial assets
Balance as of December 31, 2021 as previously reported	11	1,449	4,081
Effect of adoption IFRS 17[1]	–	–	5,409
Balance as of January 1, 2022 after the adoption of IFRS 17	11	1,449	9,491
Issuance of share capital	–	–	–
Dividends to shareholders	–	(233)	–
Share-based payment transactions	–	(117)	–
Treasury share transactions	–	–	–
of which: share buy-back program	–	–	–
Change in ownership interests with no loss of control	–	–	–
Cumulative foreign currency translation adj. hyperinflation	–	–	–
Total comprehensive income for the period, net of tax	–	–	(14,240)
Net income	–	–	–
Net unreal. gains/(losses) on financial assets	–	–	(14,240)
Change in discount rate for insurance/reinsurance contracts	–	–	–
Change in fair value of underlying items through OCI	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of June 30, 2022	11	1,099	(4,750)
Balance as of December 31, 2022 after the adoption of IFRS 17	11	1,158	(7,949)
Effect of adoption IFRS 9[2]	–	–	667
Effect of adoption IAS 29 and restatement under IFRIC 7[3]	–	–	–
Balance as of January 1, 2023 after the adoption of IFRS 9, IAS 29 and restatement under IFRIC 7	11	1,158	(7,282)
Issuance of share capital	–	–	–
Dividends to shareholders[4]	–	–	–
Share-based payment transactions	–	64	–
Treasury share transactions	–	–	–
of which: share buy-back program[5]	–	–	–
Change in ownership interests with no loss of control	–	–	–
Cumulative foreign currency translation adj. hyperinflation	–	–	–
Total comprehensive income for the period, net of tax	–	–	819
Net income	–	–	–
Net unreal. gains/(losses) on financial assets	–	–	819
Change in discount rate for insurance/reinsurance contracts	–	–	–
Change in fair value of underlying items through OCI	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of June 30, 2023	**10**	**1,222**	**(6,463)**

1 The Group adopted IFRS 17 'Insurance Contracts' retrospectively from January 1, 2022; therefore, the comparative figures as presented in this half-year report have been restated for the effect of the adoption of IFRS 17. Please see note 2 for details.
2 Impacts to retained earnings include the impact of deferred tax revaluations of USD 6 million, and exclude the effect of USD 522 million related to the overlay approach applied in 2022 for presentation of the comparative period balances applied to selected asset portfolios backing direct participating insurance contracts.
3 Effect of adoption of IAS 29 'Financial Reporting in Hyperinflation Economies' and Restatement under IFRIC 7 in Turkey.
4 As approved by the Annual General Meeting on April 6, 2023, the dividend of CHF 24 per share was paid out of retained earnings on April 14, 2023.
5 On June 7, 2023, Zurich Insurance Group Ltd completed its public share buyback program that was launched on November 21, 2022. Under the Program, Zurich repurchased 4,104,413 of its shares for a total purchase value of CHF 1.8 billion at an average purchase price of CHF 438.55 per share.

The notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated financial statements (continued)

	Change in discount rate for insurance/ reinsurance contracts	Change in fair value of underlying items through OCI	Cumulative foreign currency translation adjustment	Revaluation Reserves	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	–	–	(9,633)	265	41,707	37,881	1,289	39,170
	(1,138)	(6,331)	–	–	(6,700)	(8,760)	(2)	(8,762)
	(1,138)	(6,331)	(9,633)	265	35,008	29,121	1,288	30,408
	–	–	–	–	–	–	–	–
	–	–	–	–	(3,287)	(3,521)	(75)	(3,596)
	–	–	–	–	(42)	(158)	–	(158)
	–	–	–	–	120	120	–	120
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	–	–	166	–	(21)	146	11	157
	5,062	7,170	(765)	10	3,103	339	(22)	317
	–	–	–	–	2,344	2,344		
	–	–	–	–	–	(14,240)		
	5,062	–	–	–	–	5,062		
	–	7,170	–	–	–	7,170		
	–	–	(765)	–	–	(765)		
	–	–	–	10	–	10		
	–	–	–	–	759	759		
	–	–	–	–	–	–	(7)	(7)
	3,924	839	(10,232)	275	34,881	26,047	1,194	27,242
	5,270	2,041	(10,433)	272	35,313	25,683	1,247	26,930
	–	262	–	–	(553)	377	–	376
	–	–	226	–	(86)	139	–	139
	5,270	2,303	(10,208)	272	34,674	26,199	1,247	27,446
	–	–	–	–	–	–	–	–
	–	–	–	–	(3,877)	(3,877)	(14)	(3,891)
	–	–	–	–	(89)	(26)	–	(26)
	–	–	–	–	(1,380)	(1,380)	–	(1,380)
	–	–	–	–	(1,561)	(1,561)	–	(1,561)
	–	–	–	–	–	–	–	–
	–	–	215	–	5	219	17	236
	114	(588)	(163)	(2)	2,527	2,707	243	2,949
	–	–	–	–	2,492	2,492		
	–	–	–	–	–	819		
	114	–	–	–	–	114		
	–	(588)	–	–	–	(588)		
	–	–	(163)	–	–	(163)		
	–	–	–	(2)	–	(2)		
	–	–	–	–	35	35		
	–	–	–	–	–	–	–	–
	5,384	**1,716**	**(10,156)**	**270**	**31,860**	**23,843**	**1,492**	**25,335**

Consolidated financial statements (continued)

Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) is a provider of insurance products and related services. The Group operates in Europe, Middle East & Africa (EMEA), North America, Latin America and Asia Pacific through subsidiaries, as well as branch and representative offices.

Zurich Insurance Group Ltd, a Swiss corporation, is the holding company of the Group and its shares are listed on the SIX Swiss Exchange. Zurich Insurance Group Ltd was incorporated on April 26, 2000, in Zurich, Switzerland. It is recorded in the Commercial Register of the Canton of Zurich under its registered address at Mythenquai 2, 8002 Zurich.

1. Basis of presentation

General information

The unaudited consolidated financial statements for the six months ended June 30, 2023 of the Group have been prepared in accordance with International Accounting Standards 34, 'Interim Financial Reporting'. The accounting policies used to prepare the unaudited consolidated financial statements comply with International Financial Reporting Standards (IFRS) and are consistent with those set out in the notes to the consolidated financial statements in the 2022 Annual Report of the Group, including the adoption and implementation of new accounting standards and amendments for the financial year beginning January 1, 2023.

The Group adopted IFRS 17 'Insurance Contracts' retrospectively from January 1, 2022; therefore, the comparative figures as presented in this half-year report have been restated for the effect of the adoption of IFRS 17. The Group also adopted IFRS 9 'Financial Instruments' from January 1, 2023. As permitted by IFRS 9 transition provisions, the Group did not restate the comparative information for the effects of adoption of IFRS 9, except for the application of the classification overlay for certain financial assets backing participating insurance contracts (see note 2 for further information). The effects of the application of these standards are significant to the Group and are discussed further below in note 2.

The accounting policies applied by the reportable segments are the same as those applied by the Group. The Group accounts for intersegment revenues and transfers as if the transactions were with third parties at current market prices. Dividends, realized capital gains and losses as well as gains and losses on the transfer of net assets are eliminated within the segment, whereas all other intercompany gains and losses are eliminated at Group level. In the unaudited consolidated financial statements, intersegment revenues and transfers are eliminated.

The unaudited consolidated financial statements for the six months ended June 30, 2023 should be read in conjunction with the Group's 2022 Annual Report.

Certain amounts recorded in the unaudited consolidated financial statements reflect estimates and assumptions made by management about insurance and reinsurance contract assets and liabilities, investment valuations, interest rates and other factors.

All amounts in the unaudited consolidated financial statements, 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.

During 2023, though the rate of inflation slowed, most economies saw continued action of tightening of monetary policy and increasing interest rates by central banks. The bond markets improved, buoyed by rising yields and falling inflation and mixed experience in the equities market which generally remained flat but for certain sectors. Investment valuation and interest rates incorporate these market conditions as of June 30, 2023 and December 31, 2022, and recoverability of intangible assets has been tested where the value of these intangible assets, including goodwill, is sensitive to prevailing market conditions. For more information on investments and fair value, please refer to notes 5 and 14, respectively. For more information on intangible assets, please see note 9.

The Group considers various factors to determine whether an economy in a country where a foreign operation is situated is hyperinflationary. Any material translation adjustments resulting from initial application of hyperinflationary accounting is recognized directly in equity.

As of January 1, 2023, the Group initially adopted hyperinflationary accounting for its operations in Turkey. For the effect of the adoption and current year effect of IAS 29 'Financial Reporting in Hyperinflationary Economies,' please refer to the consolidated statements of changes in equity.

Consolidated financial statements (continued)

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the unaudited consolidated income statements were USD (51) million and USD (66) million for the six months ended June 30, 2023 and the twelve months ended December 31, 2022. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (101) million and USD (407) million for the six months ended June 30, 2023 and the year ended December 31, 2022, respectively.

Principal exchange rates

Table 1.1

USD per foreign currency unit	Consolidated balance sheets at end-of-period exchange rates		Consolidated income statements and cash flows at average exchange rates	
	06/30/23	12/31/22	**06/30/23**	06/30/22
Euro	1.0913	1.0684	1.0806	1.0939
Swiss franc	1.1175	1.0813	1.0966	1.0600
British pound	1.2708	1.2049	1.2330	1.2995
Brazilian real	0.2074	0.1894	0.1971	0.1975
Australian dollar	0.6658	0.6797	0.6759	0.7197
Japanese yen	0.0069	0.0076	0.0074	0.0082

Table 1.2 summarizes the closing discount rates, including the mid-point average illiquidity premium applied across products, used for the measurement of the Group's (re-) insurance contract assets and liabilities as of June 30, 2023 and December 31, 2022, respectively, by major currency:

Discount rates by major currency

Table 1.2

as of	**June 30, 2023**				December 31, 2022			
	US dollar	**Swiss franc**	**Euro**	**British pound**	US dollar	Swiss franc	Euro	British pound
1 year	5.64%	2.14%	4.09%	6.20%	5.33%	1.05%	3.27%	4.60%
5 years	4.15%	1.96%	3.24%	5.17%	4.21%	1.33%	3.23%	4.21%
10 years	3.79%	1.91%	2.98%	4.39%	4.01%	1.48%	3.19%	3.86%
20 years	3.64%	2.02%	2.76%	4.02%	3.89%	1.57%	2.86%	3.68%
40 years	3.25%	2.15%	2.88%	3.54%	3.08%	1.90%	2.91%	3.29%

Consolidated financial statements (continued)

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early adopted as of January 1, 2023 and relevant for the Group's operations

Table 2.1 shows new accounting standards or amendments to, and interpretations of, standards relevant to the Group that have been implemented for the financial year beginning January 1, 2023. The effects of the application of the new standards are discussed below. Amendments resulting from the amended standards did not have a material impact on the Group's consolidated financial statements.

Table 2.1

Standard/ Interpretation

Standard/Interpretation		Effective date
New standards/ interpretations		
IFRS 9	Financial Instruments	January 1, 2023
IFRS 17	Insurance Contracts	January 1, 2023
Amended standards		
IAS 1	Disclosure of Accounting Policies	January 1, 2023
IAS 8	Definition of Accounting Estimates	January 1, 2023
IAS 12	International Tax Reform – Pillar Two Model Rules	January 1, 2023

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' provides comprehensive guidance on accounting for (re-)insurance contracts issued including investment contracts with discretionary participation features and reinsurance contracts held. It has a significant impact on the measurement of these contracts and the presentation of the insurance revenue and insurance service result. The impact is more pronounced for long-duration life contracts, where the measurement under IFRS 17 includes the recognition of a separate component of the insurance liability, contractual service margin (CSM), representing unearned profits from in-force contracts. For short duration contracts, all the liabilities for incurred claims are discounted under IFRS 17, which allows for consistency in presentation of short and long tail businesses. IFRS 17 further introduces a risk adjustment for non-financial risk, a separate component of the liability covering the uncertainty in the amount and timing of future cash flows.

IFRS 17 introduces different measurement models in calculating (re-)insurance contract assets and liabilities reflecting the different extents of policyholder participation in investment or insurance entity performance: non-participating or indirect participating (general model or the building block approach (BBA)) and direct participating (the variable fee approach (VFA)). For short-duration contracts, IFRS 17 permits a simplified approach (the premium allocation approach (PAA)), which can be applied to contracts that have a coverage period of 12 months or less or for which such simplification would produce a measurement of the liability for remaining coverage that would not differ materially from the one that would be produced applying BBA.

The Group applied IFRS 17 retrospectively from January 1, 2022, to (re-)insurance contracts issued and reinsurance contracts held in accordance with the accounting policies outlined in note 3. The 2022 comparative figures as presented in this half year report have been restated for the adoption of IFRS 17. The relevant disclosures for insurance and reinsurance contracts are presented in note 6.

In October 2022, the IFRS Interpretations Committee published the final agenda decision clarifying the treatment of multi-currency groups of insurance contracts where the underlying cash flows are denominated in more than one currency. The Group amended its accounting policy to require each group of contracts to be denominated in a single predominant currency of the cash flows within the group of contracts, which is not necessarily the same as the functional currency of the reporting entity issuing such insurance contracts. The Group expects to complete the implementation of the amended accounting policy by December 31, 2023. The resulting impact is not expected to be material to the Group's financial statements.

Summary of IFRS 17 transition approach and effect

The Group determined the transition approach for groups of insurance contracts, depending on availability of reasonable and supportable historic information. The selected transition approach affected the measurement of the CSM on initial adoption of IFRS 17 as follows:

- Fully retrospective approach – the CSM is based on initial assumptions when groups of contracts were incepted and rolled forward to the date of transition as if IFRS 17 had always been applied;
- Modified retrospective approach – the CSM is calculated using modifications allowed by IFRS 17, taking into account the actual pre-transition fulfillment cash flows; and
- Fair value approach – the CSM at transition is calculated as the difference between the fair value of a group of contracts, without the consideration of the demand deposit floor requirement, and the respective fulfillment cash flows measured at the transition date.

Consolidated financial statements (continued)

When a fully retrospective approach was considered impracticable due to lack of historical data or application of hindsight, the Group chose between a modified retrospective approach or a fair value approach. The Group applied a retrospective transition approach whenever practical, resulting in a large proportion of CSM from groups of (re-)insurance contracts measured under either a fully retrospective or a modified retrospective approach.

In applying the modified retrospective and fair value approaches for certain groups of non-life and life (re-)insurance contracts prior to the transition date, the Group used the modifications allowed under IFRS 17, such as grouping contracts issued more than one year apart into a single group for measurement purposes or applying interest rates as of the transition date and setting the cumulative amount of (re-)insurance finance income or expense recognized in other comprehensive income to nil. All such contracts were accounted for under BBA. In addition, the Group applied a modification for certain groups of non-life insurance contracts with long-tail outstanding claims at the transition date. The unwinding of the discount on the liability for incurred claims was based on the locked-in discount rates as of the transition date instead of the locked-in accident year discount rates. Furthermore, where the Group applied a modification for certain groups of life direct participating insurance contracts that were accounted for under VFA where the Group holds the underlying items, the cumulative difference in OCI was set equal to the cumulative amount recognized in OCI on the underlying items as of the transition date.

In applying the fair value approach, the Group determined the fair value of a group of insurance contracts as the price that the Group would pay to (or receive from) an average market participant to transfer the group of insurance contracts at the transition date. The cost of capital within a range of 6–9 percent was used to determine the remuneration an average market participant would require to hold the required capital over the period of run-off of the insurance contracts in the group, depending on the appropriateness of the respective cost of capital for a specific portfolio or in a specific market. Other input parameters included the required capital and the target surplus, as well as non-attributable expenses from the perspective of an average market participant. The CSM for a group of contracts was determined as the difference between the fair value of the group of contracts and the fulfillment cash flows as of the transition date.

For the presentation of the effects from adoption of IFRS 17 as of the transition date (i.e., January 1, 2022), please refer to the 2022 Annual Report. Due to significant increases in interest rates during 2022 and other market movements, we observed a significant reduction in unrealized gains from debt securities, which contributed to the reduction in Group's shareholders' equity as published in the 2022 Annual Report. The effect on shareholders' equity applying IFRS 17 was much less pronounced due to offsetting effects between asset and liability valuations. Therefore, the difference in shareholders' equity reduced from USD 8.8 billion as of January 1, 2022 to USD 984 million as of December 31, 2022.

The following tables provide a summary of the movement in the CSM by transition approach from the transition date to December 31, 2022 (Table 2.2a for insurance contracts issued and Table 2.2b for reinsurance contracts held) and insurance revenue by transition approach for the twelve months ended December 31, 2022 (Table 2.3):

Table 2.2a

CSM by transition approach for groups of insurance contracts issued

in USD millions	Modified retrospective	Fair value	All other insurance contracts	Total
Contractual service margin as of January 1, 2022	10,426	1,949	4,131	16,506
Changes that relate to future services				
Changes in estimates that adjust the CSM	(957)	(152)	495	(614)
Contracts initially recognized in the period	–	–	1,263	1,263
Changes that relate to current services				
CSM recognized for services provided in P&L	(729)	(224)	(869)	(1,822)
Changes related to provision of insurance services	(1,686)	(376)	890	(1,173)
Foreign currency translation effects	(448)	(76)	(295)	(819)
Insurance finance (income)/expense	12	14	40	65
Other changes[1]	(570)	459	648	537
Total other changes	(1,005)	396	393	(217)
Contractual service margin as of December 31, 2022	**7,734**	**1,969**	**5,413**	**15,117**

1 Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

Consolidated financial statements (continued)

Table 2.2b

CSM by transition approach for groups of reinsurance contracts held

in USD millions	Modified retrospective	Fair value	All other insurance contracts	Total
Contractual service margin as of January 1, 2022	196	246	1,647	2,089
Changes that relate to future services				
Changes in estimates that adjust the CSM	33	46	304	384
Contracts initially recognized in the period	–	–	134	134
Changes that relate to current services				
CSM recognized in P&L to reflect the transfer of services	(25)	(47)	(118)	(190)
Changes related to provision of reinsurance services received	8	(1)	320	328
Foreign currency translation effects	(12)	(14)	(146)	(172)
Reinsurance finance income/(expense)	1	3	15	19
Other changes[1]	(23)	196	(138)	35
Total other changes	(34)	184	(268)	(117)
Contractual service margin as of December 31, 2022	**171**	**429**	**1,700**	**2,299**

1 Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

Table 2.3

Insurance revenue by transition approach measured under BBA and VFA

In USD millions for the twelve months ended December 31, 2022	2022	
	Contracts measured under BBA	Contracts measured under VFA
Contracts measured under the modified retrospective approach	511	2,777
Contracts measured under the fair value approach	1,339	161
All other contracts	4,133	529
Insurance revenue measured under BBA and VFA	**5,983**	**3,466**

On transition to IFRS 17, the Group applied transition modifications, including those affecting the amount of OCI recognized for groups of (re-)insurance contracts under the modified retrospective or fair value approaches. Table 2.4 below provides a reconciliation of the cumulative amounts included in OCI for available-for-sale financial assets measured at fair value through OCI (FVOCI) related to these groups of (re-)insurance contracts as of the transition date to December 31, 2022:

Table 2.4

Reconciliation of the cumulative amounts in OCI for financial assets measured at FVOCI

in USD millions	2022
Cumulative amount included in OCI for financial assets measured at FVOCI as of January 1, 2022	9,862
Gains/(losses) recognized in OCI in the period	(15,748)
Gains/(losses) previously recognized in OCI in previous periods reclassified in the period to P&L	218
Foreign currency translation effects	(520)
Other changes[1]	2,162
Cumulative amount included in OCI for financial assets measured at FVOCI as of December 31, 2022	**(4,026)**

1 Other changes are related to assets and 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), see note 4.

IFRS 9 'Financial Instruments'

The Group adopted the requirements of IFRS 9 'Financial Instruments,' including all the relevant amendments, from January 1, 2023. The Group assessed the business model for managing financial assets based on facts and circumstances as of January 1, 2023. The contractual characteristics test (also referred as the 'SPPI test') was conducted based on the contractual terms at initial recognition of the financial assets. The classification, measurement and impairment requirements were applied retrospectively by adjusting the opening balance sheet at the date of initial application. The Group applies IFRS 9 for all designated hedge relationships. As permitted by IFRS 9, the Group has not restated comparative periods except for the application of the IFRS 9 classification overlay, a transition option available under IFRS 17 in the comparative period presented on initial application of IFRS 17. The Group applied the IFRS 9 classification overlay for selected asset portfolios backing direct participating insurance contracts. Furthermore, the Group discontinued certain cash flow hedges of reinvestment risk arising from assets backing direct participating contracts as these derivatives are part of the underlying items held for these contracts. With the adoption of IFRS 17, these derivatives are presented as trading derivatives with the unrealized gains/losses included in the measurement of direct participating contracts.

The accounting policies for the recognition and measurement of financial assets and liabilities have been amended for the adoption of IFRS 9 and are presented in note 3 alongside comparative accounting policies.

Consolidated financial statements (continued)

Upon the adoption of IFRS 9, the Group made other presentation changes, including the reclassification of certain commercial real estate loans from mortgage loans to other loans, with the measurement basis continuing to be at amortized cost, to better reflect the nature of the instrument and the way the exposure is managed by the Group.

Table 2.5 below provides a summary of the effect of the adoption of IFRS 9, including presentation changes from 2022 impacted by the overlay approach and amended classification and measurement requirements on the Group's consolidated balance sheet.

Table 2.5

Classification of financial assets and liabilities at the date of initial application of IFRS 9

in USD millions as of	December 31, 2022 (IAS 39 carrying amount)	Impact of adoption of IFRS 17	IFRS 9 reclassification	Reversal of IAS 39 loss allowance and recognition of IFRS 9 ECL	IFRS 9 remeasurement	January 1, 2023 (IFRS 9 carrying amount)
Cash and cash equivalents	**7,560**	**–**	**–**	**–**	**–**	**7,560**
Equity securities:						
From FV through profit or loss (IAS 39)	3,540	–	–			
To FV through OCI debt securities	–	–	(38)			
To FV through profit or loss	–	–	(3,502)			
From available-for-sale (IAS 39)	9,590	–	–			
To FV through OCI not recycled	–	–	–			
To FV through profit or loss	–	–	(9,590)			
Equity securities (IAS 39)	**13,130**	**–**	**(13,130)**			
To FV through OCI not recycled (IFRS 9)						
From available-for-sale	–	–	–	–	–	–
To FV through profit or loss (IFRS 9)						
From FV through profit or loss	–	–	3,502	–	–	3,502
From available-for-sale	–	–	9,590	–	–	9,590
Equity securities (IFRS 9)	**–**	**–**	**13,092**	**–**	**–**	**13,092**
Debt securities:						
From FV through profit or loss (IAS 39)[1]	6,386	–	–			
To FV through OCI	–	–	(3,191)			
To FV through profit or loss	–	–	(3,195)			
From available-for-sale (IAS 39)	94,440	–	–			
To FV through OCI	–	–	(84,264)			
To FV through profit or loss	–	–	(5,984)			
To amortized cost	–	–	(4,192)			
From held-to-maturity (IAS 39)	2,838	–	–			
To FV through OCI	–	–	(1,806)			
To amortized cost	–	–	(1,032)			
Debt securities (IAS 39)	**103,664**	**–**	**(103,664)**			
To FV through OCI (IFRS 9)						
From FV through profit or loss (debt and equity)	–	–	3,229	–	–	3,229
From available-for-sale	–	–	84,264	–	–	84,264
From held-to-maturity	–	–	1,806	–	101	1,907
From other loans at amortized cost	–	–	20	–	(1)	19
To FV through profit or loss (IFRS 9)						
From FV through profit or loss	–	–	3,195	–	–	3,195
From available-for-sale	–	–	5,984	–	–	5,984
From held-to-maturity	–	–	–	–	(1)	(1)
To amortized cost (IFRS 9)						

Consolidated financial statements (continued)

Table 2.5

Classification of financial assets and liabilities at the date of initial application of IFRS 9

in USD millions as of	December 31, 2022 (IAS 39 carrying amount)	Impact of adoption of IFRS 17	IFRS 9 reclassification	Reversal of IAS 39 loss allowance and recognition of IFRS 9 ECL	IFRS 9 remeasurement	January 1, 2023 (IFRS 9 carrying amount)
From available-for-sale	–	–	4,192	–	483	4,674
From held-to-maturity	–	–	1,032	(3)	–	1,029
Debt securities (IFRS 9)	**–**	**–**	**103,721**	**(3)**	**583**	**104,301**
Investment property	**14,798**	**–**	**–**	**–**	**–**	**14,798**
Mortgage loans at amortized cost:						
From mortgage loans at amortized cost (IAS 39)	5,497	–	–			
To mortgage loans at amortized cost	–	–	(4,584)			
To other loans at amortized cost	–	–	(912)			
Mortgage loans at amortized cost (IAS 39)	**5,497**	**–**	**(5,497)**			
To mortgage loans at amortized cost (IFRS 9)						
From mortgage loans at amortized cost	–	–	4,584	2	–	4,587
Mortgage loans at amortized cost (IFRS 9)	**–**	**–**	**4,584**	**2**	**–**	**4,587**
Other loans:						
From other loans (IAS 39)	3,444	(590)	–			
To other loans at amortized cost	–	–	(2,835)			
To FV through OCI debt securities	–	–	(20)			
Other loans (IAS 39)	**3,444**	**(590)**	**(2,855)**			
To other loans at amortized cost (IFRS 9)						
From other loans	–	–	2,835	(6)	–	2,828
From mortgage loans at amortized cost	–	–	912	–	–	912
Other financial assets at amortized cost (IFRS 9)	**–**	**–**	**3,747**	**(6)**	**–**	**3,741**
Investments in associates and joint ventures	**92**	**–**	**–**	**–**	**–**	**92**
Investments for unit-linked contracts	**121,989**	**557**	**–**	**–**	**–**	**122,546**
Receivables in scope of IFRS 9	**16,813**	**(12,215)**	**–**	**(15)**	**–**	**4,583**
Other assets – derivative assets:						
From trading (IAS 39)	531	(49)	–			
To trading	–	–	(481)			
From hedge accounting (IAS 39)	304	–	–			
To trading	–	–	(203)			
To hedge accounting	–	–	(101)			
Derivative assets (IAS 39)	**835**	**(49)**	**(786)**			
To hedge accounting (IFRS 9) from hedge accounting	–	–	101	–	–	101
To trading (IFRS 9)						
From hedge accounting	–	–	203	–	–	203
From trading	–	–	481	–	–	481
Derivative assets (IFRS 9)	**–**	**–**	**786**	**–**	**–**	**786**
All other assets	**4,119**	**(787)**	**–**	**–**	**–**	**3,332**
Deferred taxes assets	**–**	**–**	**–**	**–**	**–**	**–**
Assets held for sale	**22,152**	**(1,010)**	**–**	**–**	**–**	**21,142**
Total financial assets	314,093	(14,094)	–	(22)	583	300,559
Liabilities for investment contracts:						
Amortized cost	518	–	–	–	–	518
Unit-linked	56,938	(6,899)	–	–	–	50,039
Liabilities for investment contracts	**57,456**	**(6,899)**	**–**	**–**	**–**	**50,557**
Obligation to repurchase securities	**1,069**	**–**	**–**	**–**	**–**	**1,069**

Consolidated financial statements (continued)

Classification of financial assets and liabilities at the date of initial application of IFRS 9

Table 2.5

in USD millions as of	December 31, 2022 (IAS 39 carrying amount)	Impact of adoption of IFRS 17	IFRS 9 reclassification	Reversal of IAS 39 loss allowance and recognition of IFRS 9 ECL	IFRS 9 remeasurement	January 1, 2023 (IFRS 9 carrying amount)
Other liabilities	**16,822**	**(1,834)**	**–**	**–**	**–**	**14,987**
Derivative liabilities:						
From trading (IAS 39)	393	–	–			
To trading	–	–	(393)			
From hedge accounting (IAS 39)	803	(31)	–			
To trading	–	–	(707)			
To hedge accounting	–	–	(65)			
Derivative liabilities (IAS 39)	**1,196**	**(31)**	**(1,165)**			
To hedge accounting (IFRS 9)						
From hedge accounting	–	–	65	–	–	65
To trading (IFRS 9)						
From hedge accounting	–	–	707	–	–	707
From trading	–	–	393	–	–	393
Derivative liabilities (IFRS 9)	**–**	**–**	**1,165**	**–**	**–**	**1,165**
Senior and subordinated debt	**13,970**	**–**	**–**	**–**	**9**	**13,979**
Liabilities held for sale	**21,295**	**(727)**	**–**	**–**	**–**	**20,568**
Total financial liabilities	111,808	(9,491)	–	–	9	102,325
Unrealized gains/(losses) on investments:						
Unrealized gains/(losses) on investments – FX	1,563	(1,601)	–	–	–	(38)
Unrealized gains/(losses) on assets held for sale – IFRS 5	(51)	153	–	5	(74)	34
Unrealized holding gains/(losses)	(3)	–	–	–	–	(3)
Unrealized gains/(losses) on investments (IAS 39)	**1,510**	**(1,448)**	**–**	**5**	**(74)**	**(7)**
From available-for-sale to FV through PL – FX	–	–	–	–	38	38
Held-to-maturity position with OCI component	–	–	–	–	1	1
Unrealized gains/(losses) on investments (IFRS 9)	**1,510**	**(1,448)**	**–**	**5**	**(34)**	**32**
Unrealized gains/(losses) on FVOCI equity securities (IAS 39)	**242**	**–**	**–**	**–**	**–**	**242**
Impact due to reclassification:						
From available-for-sale to FV through PL	–	–	–	–	(242)	(242)
Unrealized gains/(losses) on FVOCI equity securities (IFRS 9)	**242**	**–**	**–**	**–**	**(242)**	**–**
Unrealized gains/(losses) on FVOCI debt securities (IAS 39)	**(10,218)**	**(88)**	**–**	**–**	**–**	**(10,306)**
Impact/remeasurement due to reclassification:						
From FV through PL to FV through OCI	–	–	–	–	(177)	(177)
From available-for-sale to FV through PL	–	–	–	–	817	817
From available-for-sale to amortized cost	–	–	–	–	480	480
From held-to-maturity to FV through OCI	–	–	–	–	101	101
From other loans to FV through OCI	–	–	–	–	(236)	(236)
Unrealized gains/(losses) on FVOCI debt securities (IFRS 9)	**(10,218)**	**(88)**	**–**	**–**	**985**	**(9,321)**
Loss allowance on FVOCI debt securities	**–**	**–**	**–**	**86**	**–**	**86**
Cash flow hedges (IAS 39)	**134**	**(642)**	**–**	**–**	**–**	**(508)**
From cash flow hedge to FV hedge	–	–	–	–	497	497
From FV hedge to cash flow hedge	–	–	–	–	(4)	(4)

Consolidated financial statements (continued)

Classification of financial assets and liabilities at the date of initial application of IFRS 9

Table 2.5

in USD millions as of	December 31, 2022 (IAS 39 carrying amount)	Impact of adoption of IFRS 17	IFRS 9 reclassification	Reversal of IAS 39 loss allowance and recognition of IFRS 9 ECL	IFRS 9 remeasurement	January 1, 2023 (IFRS 9 carrying amount)
Cash flow hedges (IFRS 9)	**134**	**(642)**	**–**	**–**	**492**	**(15)**
Retained earnings (IAS 39)	**42,863**	**(7,028)**	**–**	**–**	**–**	**35,835**
Impact due to remeasurements:						
From FV through PL to FV through OCI debt securities[3]	–	–	–	–	181	181
From available-for-sale to FV through PL debt securities[3]	–	–	–	–	(1,149)	(1,149)
From held-to-maturity to FV through PL debt securities[3]	–	–	–	–	1	1
From available-for-sale to FV through PL equity securities[3]	–	–	–	–	5	5
Due to modification gains/losses	–	–	–	–	(8)	(8)
Held-to-maturity position with OCI component	–	–	–	–	1	1
Impact due to reversal of IAS 39 loss allowance	–	–	–	46	–	46
Impact due to IFRS 9 ECL recognition:						
From FV through profit or loss (IAS 39)	–	–	–	(2)	–	(2)
From other IAS 39 classification categories	–	–	–	(156)	–	(156)
Impact due to deferred tax					6	6
Impact due to hyperinflation[2]	–	–	–	–	(86)	(86)
Retained earnings (IFRS 9)	**42,863**	**(7,028)**	**–**	**(112)**	**(1,050)**	**34,674**
Total impact on shareholders' equity	34,530	(9,206)	–	(20)	151	25,455

1 Financial assets that were previously designated at FV through profit or loss under IAS 39 which have been mandatorily de-designated at transition to IFRS 9 amounted at 3.0 billion. The remaining assets with carrying amount of USD 194.2 million have been de-designated on a voluntarily basis.
2 Impacts from hyperinflation are due to adoption of hyperinflationary accounting for its operations in Turkey, see note 1 for details.
3 The reclassification of underlying investments backing insurance contract liabilities accounted under the variable fee approach resulted in a negative adjustment of USD 377.0 million on the opening balance of retained earnings as of January 1, 2023. The impact was mainly driven by the reclassification of underlying debt investments from AFS to FVPL.

Table 2.6 below provides a summary of how the IAS 39 loss allowance reconciles to the IFRS 9 ECL allowance by asset class.

Reconciliation from IAS 39 loss allowance to IFRS 9 ECL allowance

Table 2.6

in USD millions, as of January 1, 2023	IAS 39 loss allowance	Reversal of IAS 39 loss allowance	Credit impaired financial assets	IFRS 9 ECL recognition	IFRS 9 ECL allowance
Loss allowance on amortized cost debt securities	–	–	–	(3)	(3)
Loss allowance on mortgage loans at amortized cost	(10)	5	5	(2)	(2)
Loss allowance on other loans at amortized cost	(1)	–	1	(7)	(7)
Loss allowance on receivables in scope of IFRS 9	(44)	40	4	(56)	(56)
Loss allowance on FVOCI debt securities	–	–	–	(86)	(86)

The adoption of IFRS 9 resulted in reduction of USD 553 million of retained earnings as of January 1, 2023, excluding the effect of the overlay approach applied in 2022 of USD 522 million. The main effects of transition to IFRS 9 for the Group were as follows:

- Available-for-sale (AFS) equity instruments with a carrying amount of USD 9.6 billion as of December 31, 2022 are measured at fair value through profit or loss on transition to IFRS 9, as the Group decided not to apply the option to irrevocably designate equity instruments at fair value through OCI (without recycling). The release of cumulative unrealized capital gains/(losses) impacted the opening balance of retained earnings as of January 1, 2023 by USD 5.1 million.

Consolidated financial statements (continued)

- USD 84.3 billion of debt securities previously classified as AFS were determined to be managed under the core business model of the Group, 'held to collect contractual cash flows and for sale' (HtC&S). Debt securities previously reported as held-to-maturity (HTM) under IAS 39 with a carrying amount of USD 1.8 billion that passed the IFRS 9 contractual characteristics test were assigned to the HtC&S business model and were measured at fair value through OCI upon transition to IFRS 9. The fair value of the instruments was determined at transition date and unrealized capital gains/(losses) of USD 101.0 million were recorded in other comprehensive income.
- Certain AFS private debt portfolios with a carrying amount of USD 4.2 billion as of December 31, 2022 (for example, commercial real estate, infrastructure and other private debt) originally measured at fair value through OCI that passed the contractual cash flows characteristics test were classified under the 'held to collect contractual cash flows' (HtC) business model, and accordingly, were measured at amortized cost upon adoption of IFRS 9. The cumulative unrealized capital gains/(losses) in the AFS reserve amounting to USD (480.3) million as of December 31, 2022 were reversed against the carrying value of the debt instrument.
- The Group has assigned the HtC business model to positions classified as mortgages, other loans and receivables and other financial assets under IAS 39 with a carrying amount of USD 13.1 billion as of December 31, 2022. These positions met the contractual characteristics test, and therefore remain measured at amortized cost under IFRS 9.
- The Group has designated USD 122.6 billion of financial assets held for unit-linked investment and insurance contracts at fair value through profit or loss in order to eliminate or significantly reduce accounting mismatches that would arise from measuring assets and liabilities on different bases.
- Under the previous accounting policies, certain debt instruments were designated at fair value through profit or loss under the fair value option (FVO) to eliminate or reduce accounting mismatches that would otherwise arise from measuring financial assets and insurance liabilities on a different basis. To the extent the adoption of IFRS 17 and IFRS 9 resulted in the elimination of such mismatches, the Group has revoked the FVO designation of certain debt securities with a carrying amount of USD 3.2 billion. These securities are now predominantly managed under the HtC&S business model, and accordingly were measured at fair value through OCI if they pass the contractual characteristics test. The Group has also decided to revoke the designation at FVO of certain debt securities with a carrying amount of USD 194.2 million as of December 31, 2022, as their business model was determined as HtC&S. For these securities, the reversal of cumulative unrealized capital gains/(losses) had a positive impact on the opening balance of retained earnings as of January 1, 2023 of USD 177.1 million.
- USD 6.0 billion of debt securities previously classified as AFS were newly measured at fair value through profit or loss upon transition to IFRS 9 either because their contractual characteristics do not represent solely payments of principal and interest on the principal amount outstanding or as a result of FVO designation. Indeed, USD 4.0 billion of debt securities are designated at FVO in order to eliminate or significantly reduce accounting mismatches that would arise from measuring assets and liabilities on different bases at transition to IFRS 9. For these debt securities previously classified as AFS, the fair value was determined as of January 1, 2023, reducing the opening balance of the retained earnings by USD 360.5 million.
- As a result of the adoption of the expected credit losses model for all debt instruments not accounted for at fair value through profit or loss, the Group recognized a total transition effect of USD 111.6 million reduction to retained earnings. Specifically, the reversal of loss allowances recognized as of December 31, 2022 amounted to USD 45.7 million, and USD 157.3 million of expected credit losses were recognized as of January 1, 2023.
- The Group retrospectively applied IFRS 9 requirements for recognition of modification gains/(losses) on the refinancing of some financial liabilities which reduced the opening balance of retained earnings by USD 8.5 million.
- Derivatives assets/(liabilities) with fair value of USD 202.7 million and USD (707.0) million, respectively, were reclassified to derivatives held for trading as a result of the discontinuation of hedging relationships. Under the amended accounting policies, equity instruments held by the Group, including fund investments, are generally accounted for at fair value through profit or loss. As a result, fair value hedges related to foreign currency exposure no longer require hedge accounting and are replaced with economic hedges, as both changes in fair value of equity instruments and changes in fair value of derivative instruments are recorded in profit or loss. The Group also discontinued certain cash flow hedges of reinvestment risk arising from assets backing direct participating contracts as these derivatives are part of underlying items held for direct participating contracts.
- Upon transition to IFRS 9, deferred tax recognition impacted the opening balance of retained earnings by USD 5.9 million.

Amendments to IAS 12 'Income Tax'

The Group has adopted the amendments to IAS 12 'Income Tax' for the financial year beginning January 1, 2023. The amendments introduce a temporary exception to the accounting for deferred tax assets and liabilities as well as targeted disclosure requirements related to Pillar Two Income Taxes proposed by the OECD Framework on Base Erosion and Profit Shifting.

Consolidated financial statements (continued)

Standards, amendments and interpretations issued that are not yet effective or adopted by the Group

Table 2.7 shows new accounting standards or amendments to, and interpretations of, standards relevant to the Group, which are not yet effective or adopted by the Group. These standards, amendments and interpretations are expected to have no impact on the Group's consolidated financial statements.

Standard/ Interpretation

Table 2.7

		Effective date
Amended standards		
IFRS 16	Lease Liability in a Sale and Leaseback	January 1, 2024
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2024
IAS 1	Non-current Liabilities with Covenants	January 1, 2024
IAS 7/IFRS 7	Supplier Finance Arrangements	January 1, 2024

Consolidated financial statements (continued)

3. Summary of material accounting policies and critical accounting estimates and judgments

Material accounting policies applied in these consolidated financial statements are set out within note 3 of the consolidated financial statements in the 2022 Annual Report. These policies have been consistently applied to all years presented unless otherwise stated below.

Following the adoption of IFRS 17, the Group amended its accounting policies for insurance contracts issued and reinsurance contracts held. The amended accounting policies are outlined below and replace the accounting policies within note 3 section c) of the consolidated financial statements in the 2022 Annual Report.

Following the adoption of IFRS 9, the Group amended its accounting policies for Group investments, other financial assets, derivative financial instruments and hedge accounting. The amended accounting policies applicable for the period ended June 30, 2023 and the comparative accounting policies applicable for the prior period ended December 31, 2022 are outlined below.

Critical accounting estimates and judgments

The preparation of these consolidated financial statements requires critical accounting estimates that involve discretionary judgments and the use of assumptions which are susceptible to change due to inherent uncertainties. Because of the uncertainties involved, actual results could differ significantly from the assumptions and estimates made by management.

Such critical accounting estimates are of significance to the measurement of insurance contracts issued and reinsurance contracts held as well as the determination of fair value for financial assets and liabilities and expected credit losses.

a) Insurance contracts

Scope

The Group applies accounting policies outlined in this section to insurance contracts issued that transfer significant insurance risk from policyholders or other insurance companies to the Group and reinsurance contracts held that transfer significant insurance risk from the Group to third party reinsurers. The significant insurance risk transfer is determined by comparing the present value of benefits payable if an insured event occurred with the present value of benefits payable if the insured event did not occur. This assessment is made on a contract-by-contract basis at initial recognition and not subsequently reassessed unless the contract has been modified (see below). Investment contracts with discretionary participation features (DPF) are accounted for as insurance contracts if the reporting entity also issues insurance contracts. Furthermore, financial guarantee contracts and certain fixed fee service contracts (e.g., roadside assistance) issued by the insurance entities in the normal course of business are also accounted for as insurance contracts.

Separating components

The Group assesses its insurance contracts issued and reinsurance contracts held to determine whether they contain any of the following components which need to be separated and accounted for under another IFRS:

- Derivatives embedded in insurance contracts where the economic characteristics and risks of the derivative contract are not closely related to those of the host contract, and a separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- Investment components that are not highly interrelated with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction; or
- Distinct service components accounted for as service contracts such as unattached risk engineering service contracts, claims handling service contracts provided to policyholders within their layer of risk retention or captive fronting services.

Level of aggregation

Generally, a single contract is the smallest unit of account. However, under certain circumstances, a single contract contains components that are separated and treated as if they were stand-alone contracts, provided the criteria below are fulfilled:

- The insurance components are priced separately and are, or could be, sold separately in the same jurisdiction;
- The substance of the contract to be separated is the same as issuing multiple separate contracts; or
- There is no interdependency between the different risks covered and a lapse or cancellation of one insurance component does not cause a lapse or cancellation of another insurance component.

Consolidated financial statements (continued)

Similarly, for insurance and reinsurance contracts entered into with the same counterparty, the Group makes an evaluation of whether they are designed to achieve an overall commercial effect and therefore need to be combined and treated as one contract. The Group combines certain captive arrangements, where the policyholder and the captive reinsurer are the same counterparty, that are designed to achieve an overall commercial effect, which results in the net retention by the Group presented both on balance sheet and in profit or loss.

The level of aggregation is determined by dividing the business written into portfolios comprising of contracts subject to similar risks and managed together. Portfolios are further divided into annual cohorts with contracts issued not more than one year apart, which are divided into groups of contracts based on their expected profitability: (i) onerous contracts, if any; (ii) contracts with no significant possibility of becoming onerous, if any; and (iii) remaining contracts, if any. Depending on the characteristics of the portfolio, an annual cohort may be comprised of just one group. The Group chose to group together those contracts that would fall into different groups only because law or regulation specifically constrains its practical ability to set a different price or level of benefits for policyholders with different characteristics. The effect of such grouping is not material to the Group.

Initial recognition

The Group recognizes groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts;
- The date when the first payment from a policyholder becomes due (or when the first payment is received, if there is no due date); or
- An earlier date, facts and circumstances indicate that the group is onerous.

Insurance contracts acquired in a transfer of contracts or in a business combination are recognized on the date of acquisition.

Contract boundary

The measurement of a group of insurance contracts includes all future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay the premiums, or in which the Group has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

- The Group has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks, or
- Both of the following criteria are satisfied: (i) the Group has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and (ii) the pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

Insurance contract classification

The Group issues non-life products including a variety of motor, home and commercial products for individuals as well as small and large businesses on both local and global basis predominantly through its Property & Casualty (P&C) operations. The majority of such insurance contracts are short-term and either have a contract boundary of one year or less or qualify for the simplified (or the premium allocation approach, PAA) because the measurement of the liability for remaining coverage under PAA does not deviate significantly from the measurement that would apply under the general model (or the building block approach, BBA). Therefore, such contracts are measured under PAA. Some non-life entities also issue individual accident and health products with a long-term contract boundary which are accounted for under BBA. The proportion of contracts accounted for under BBA is not material in the context of P&C insurance contract liabilities.

Moreover, the Group issues life insurance products on both an individual and a group basis, including annuities, endowment and term insurance, unit-linked and traditional savings products, as well as private health, supplemental health and long-term care insurance. The majority of such insurance contracts are long-term and measured under BBA. Some life entities also issue short-term protection products that fulfill the eligibility criteria and are accounted for under PAA. The proportion of contracts accounted for under PAA is not material in the context of life insurance contract liabilities. Unit-linked insurance contracts and some traditional savings contracts issued in Switzerland, Germany, Italy, Portugal and Austria include policyholder participation features. Such contracts are classified as direct participating contracts and measured under the variable fee approach (VFA) if, at inception, all of the following criteria are met:

- The contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;

Consolidated financial statements (continued)

- The Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- The Group expects a substantial proportion of any change in the amounts to be paid to the policyholders to vary with the change in fair value of the underlying items.

Some participating contracts do not meet the above criteria to be measured under VFA because of either the Group's discretion over the cash flows to be paid to policyholders (either in their timing or in their amount), or absence of a clearly identifiable pool of underlying items. Those contracts are accounted for under BBA indirect participating and presented as contracts measured under BBA in note 6 of the consolidated financial statements. Furthermore, the Group applies BBA indirect participating measurement to certain contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders. For example, BBA indirect participating approach is applied to contracts where contractual cash flows are adjusted for inflation based on a market observable index of prices or rates.

Insurance acquisition cash flows (IACF)

Insurance acquisition costs are selling, underwriting and initiating costs typically incurred prior to or at the start of the coverage period of a contract that are directly attributable to the acquisition of portfolios of insurance contracts, including, for example, sales commissions, direct response marketing, premium taxes and in-house expenses directly attributable to sales and policy issuance activities.

The Group allocates IACF to groups of insurance contracts in a systematic and rational way, differentiating between groups of contracts that have been recognized as of the reporting date and groups of contracts that will be recognized in the future, including expected contract renewals. IACF allocated to groups of insurance contracts not yet recognized as of reporting date are recognized as an asset presented within the insurance contract asset or liability attributable to the portfolio of insurance contracts until they are included in the measurement of the group of contracts recognized. At each reporting date, the Group assesses the recoverability of the asset for IACF based on the expected fulfillment cash flows of the related groups of contracts, if facts and circumstances indicate that the asset may be impaired.

IACF are amortized in a systematic way over the coverage period using the same pattern as for insurance revenue recognition. For contracts accounted for under PAA, certain acquisition cash flows are expensed as incurred for contracts where the coverage period of each contract in the group does not exceed one year.

Measurement under PAA

For non-participating insurance contracts that are eligible for PAA, the measurement of insurance liability is simplified, whereby the liability for remaining coverage (unexpired risk) is accounted for separately from incurred claims (expired risk).

The liability for remaining coverage (LRC) is measured initially based on the premium received less any payments that relate to eligible IACF. Subsequently, the LRC is reduced by the amount recognized as insurance contract revenue for services provided less any amortization of IACF recognized as an expense in the period. Certain insurance contracts (e.g., extended warranty contracts) may include a significant financing component when the premium from the policyholder is due more than 12 months before the Group provides insurance coverage. In this case, the LRC is adjusted for the time value of money.

Where facts and circumstances indicate that a group of contracts is onerous at initial recognition, the Group performs additional analysis to determine if a net outflow is expected. The net outflow is recorded immediately in profit or loss, resulting in the recognition of a loss component for the liability for remaining coverage and the carrying amount of the liability for the group being equal to the fulfillment cash flows.

The liability for incurred claims (LIC) reflects a current, explicit, unbiased and probability-weighted estimate of the present value of the expected future cash outflows considering all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. It includes an explicit adjustment for non-financial risk (the risk adjustment, see below). The risk adjustment is recognized as and when the claims are incurred and subsequently released to profit or loss as part of insurance service result as the uncertainty associated with the amount and timing of claim payments is resolved.

Generally, the LIC is adjusted for the effect of time value of money and financial risk, unless the respective claims are expected to be paid within one year of being incurred. The Group selected the accounting policy to disaggregate the movement in the LIC resulting from changes in discount rates and presents this in OCI. The unwind of the discount on the LIC based on locked-in accident year discount rates is presented in profit or loss.

Any premium receivables or accrued premium or claims payables that remain outstanding as of the reporting date are presented as of part of the insurance contract assets or liabilities.

Consolidated financial statements (continued)

Measurement under BBA (including indirect participating BBA)

Each group of insurance contracts under BBA is measured as the sum of the fulfillment cash flows comprising (i) estimates of future cash flows; (ii) risk adjustment for non-financial risk (see below); and the contractual service margin (CSM). The estimates of the future cash flows represent a current, present value, probability-weighted estimate that is consistent with observable market information and is adjusted to reflect financial risk. The CSM represents the margin the Group is charging for the service it provides in addition to the compensation it requires for bearing risk.

On initial recognition, the CSM is measured as the difference between the expected present value of cash inflows and cash outflows, after adjusting for uncertainty and any cash flows received or paid before or on initial recognition.

Subsequently, at the end of each reporting period, each group of insurance contracts is measured as the sum of (i) the liability for remaining coverage reflecting the fulfillment cash flows related to future service; (ii) the CSM; and (iii) the liability for incurred claims reflecting the fulfillment cash flows related to past service. The liability for incurred claims is created when the Group has an obligation to pay valid claims for insured events that already occurred and other amounts related to past service.

The Group recognizes income and expenses for the following changes in the carrying amount of the LRC:

- Insurance revenue – for the reduction in the LRC due to services provided in the period, excluding any investment components;
- Insurance service expenses – for losses on groups of onerous contracts, and reversals of such losses; and
- Insurance finance income or expense – for the effect of time value of money and financial risk.

The Group recognizes income and expenses for the following changes in the carrying amount of the LIC:

- Insurance service expenses – for the increase in the liability because of claims and expenses incurred in the period, excluding any investment components;
- Insurance service expenses – for any subsequent changes in fulfillment cash flows relating to incurred claims and incurred expenses; and
- Insurance finance income or expense – for the effect of time value of money and financial risk.

Investment components represent amounts that the Group is required to repay to a policyholder under the terms of the insurance contract in all circumstances, regardless of whether an insured event occurs. Any cash flows related to investment components are not presented in profit or loss.

As part of the subsequent measurement, the fulfillment cash flows are updated to reflect current estimates, and the changes in the fulfillment cash flows are treated as follows:

- Experience adjustments that relate to current or past service are recognized immediately in profit or loss;
- Changes related to future service adjust the CSM measured using the discount rates specified below;
- Changes resulting from changes in discount rates are presented in OCI. The Group selected the accounting policy of disaggregating the movement in fulfillment cash flows between profit or loss and OCI; and
- Changes in estimates that arise as a result of changes in the application of discretion for groups of BBA indirect participating contracts, such as changes in the participation percentage for policyholder crediting, affect the future consideration that the Group will receive from the contract and adjust the CSM.

The CSM at the end of the reporting period is allocated over the current and remaining coverage period based on the coverage units. The coverage units represent the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under the contract and its expected coverage period. The Group has determined the sum assured (or annuity) in force as the main driver of coverage units for insurance contract service for non-participating contracts. The CSM allocated to coverage units provided in the period is recognized in profit or loss as insurance revenue.

The Group may provide an investment-return service in addition to insurance contract service under some traditional savings insurance contracts without direct participating features (e.g., endowment contracts). Such service is deemed to exist if and only if such contracts involve an investment component or the policyholder has a right to withdraw an amount. The Group expects the investment component or amount the policyholder has a right to withdraw to include an investment return and the Group expects to perform investment activity to generate that investment return. Whenever the Group provides both insurance contract and investment-return service to the policyholder, the coverage units are appropriately weighted to reflect both services to allocate the CSM over the current and remaining coverage period. The Group has determined the assets under management (or equivalent) as the main driver of coverage units for investment-return service.

Consolidated financial statements (continued)

The risk adjustment is released to profit or loss as part of insurance revenue as the uncertainty associated with the amount and timing of benefit payments is decreased or resolved.

Insurance finance income or expense recognized in profit or loss are determined by a systematic allocation of the expected total finance income or expense over the duration of the group of insurance contracts. Depending on the nature of the insurance contracts, it reflects the effect of time value of money and financial risk as follows:

- For groups of contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to the policyholder (e.g., term life contracts), the systematic allocation is determined using a risk-free rate, plus an illiquidity premium that is locked at the inception of the group of contracts; and
- For groups of contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders (e.g., savings contracts with policyholder participation based on an index or a rate or other indirect participating contracts), the systematic allocation is determined using a rate that allocates the remaining revised expected insurance finance income or expense over the remaining duration of the group of contracts at a constant rate (effective yield).

Measurement under variable fee approach (VFA)

Insurance contracts that fulfill all the participating contracts criteria specified above are measured under VFA. These criteria ensure that insurance contracts with direct participation features are contracts under which the Group's obligation to the policyholder is the net of:

- The obligation to pay the policyholder an amount equal to the fair value of the underlying items; and
- A variable fee that the Group will deduct from the above in exchange for the future service provided by the insurance contract, comprised of the amount of the Group's share of the fair value of the underlying items less fulfillment cash flows that do not vary based on the returns on underlying items.

The underlying items for unit-linked insurance contracts are the unit-linked assets typically held in pooled investment vehicles that meet the specific investment objective of the policyholders who fundamentally bear the credit, market and liquidity risk of the related investments. The underlying items for traditional savings contracts issued in Switzerland, Germany, Italy, Portugal and Austria are the net assets or a specified subset of the net assets of the issuing insurance entity. The net assets or a subset of the net assets typically include financial instruments held in the Group investment portfolio (debt securities, equity securities, investment properties, mortgage loans, and other assets).

Measurement under VFA reflects the nature of participating contracts; therefore, changes in the amount of the entity's share of the fair value of the underlying items relate to future service and adjust the CSM. Similarly, the change in the effect of time value of money and financial risks not arising from the underlying items (for example, the effect of financial guarantees) relates to future service and adjusts the CSM, except where risk mitigation applies. Risk mitigation applies in limited circumstances where the Group hedges the risks associated with such financial guarantees using derivative financial instruments under a documented risk management objective and strategy. In such cases, the changes in the effect of financial guarantees are recognized immediately in profit or loss in the same way as the changes in fair value of the derivative instruments. Other changes in the fulfillment cash flows are treated consistently with BBA measurement, i.e., they adjust CSM, if related to future service, or are recognized immediately in profit or loss, if related to current or past service. However, as opposed to BBA, all the adjustments are measured using current discount rates.

Where the underlying items are the net assets or a specified subset of the net assets of the issuing insurance entity, in addition to the participation in the returns from underlying financial assets, the policyholder participates in the risk and/or expense results. While the risk and expense results are included within the insurance service results, the policyholder participation thereon is included within the insurance finance income or expense.

Changes in the obligation to pay the policyholder an amount equal to the fair value of the underlying items do not relate to future service and do not adjust the CSM.

Under insurance contracts with direct participation features, the Group provides an investment-related service to the policyholder managing the underlying items on behalf of the policyholder, in addition to the insurance contract service. Therefore, the coverage units are appropriately weighted to reflect both services to allocate the CSM over the current and remaining coverage period. For these direct participating contracts and other savings contracts, sum assured in force and assets under management (or equivalent) are included to reflect the weighting for insurance and investment services and the pattern of delivery of those services.

For all the contracts with direct participation features where the Group holds the underlying items, the Group applies the accounting policy choice of disaggregating insurance finance income or expense for the period to include in profit or loss an amount that eliminates accounting mismatches with income or expense included in profit or loss on the underlying items held.

Consolidated financial statements (continued)

Reinsurance contracts held

The Group enters into reinsurance contracts in the normal course of business to limit the potential for losses arising from certain exposures. Reinsurance contracts do not relieve the Group as the originating insurer of its liability. Reinsurance contracts held are recorded separately unless the contract combination criteria specified above are fulfilled.

Similar to insurance contracts issued, reinsurance contracts held are accounted for under PAA, if the qualifying criteria for PAA are fulfilled, or BBA in all other cases. The following differences specifically apply to reinsurance contracts held:

- Classification: Reinsurance contracts held can never be classified as direct participating contracts.
- Level of aggregation: Reinsurance contracts held cannot be onerous; therefore, at initial recognition, the groups of reinsurance contracts held comprise (i) contracts in a net gain position, if any; (ii) contracts with no significant possibility of turning into a net gain position subsequently, if any; and (iii) remaining contracts, if any.
- Recognition of the CSM: Reinsurance contracts held cannot be onerous; therefore, for the groups of reinsurance contracts held accounted for under BBA, the CSM is recognized regardless of whether the reinsurance contract is a net gain or a net cost for the Group.
- Recognition of the risk of non-performance: The measurement of reinsurance contracts held includes the effect of non-performance risk of the reinsurer which considers the reinsurer's credit rating and the expected recovery period.
- Presentation: The Group presents the income or expense from a group of reinsurance contracts held, other than reinsurance finance income or expense, as a single amount in profit or loss.

Reinsurance contracts held are measured using assumptions that are consistent with the assumptions used for the underlying insurance contracts for the fulfillment cash flows. The risk adjustment for non-financial risk represents the amount of risk being transferred by the holder of the reinsurance contract to the issuer of that contract. Consistent with the underlying insurance contracts, the Group made an accounting policy choice of disaggregating the reinsurance finance income or expense between profit or loss and OCI.

If reinsurance contracts held cover underlying onerous insurance contracts, a loss recovery component is recognized only if the reinsurance contract held was entered into before or at the same time as the underlying onerous insurance contracts. The loss recovery component is measured by reference to the percentage of claims from underlying onerous insurance contracts expected to be recovered from the reinsurance contracts held.

Critical accounting estimates and judgments

Non-life contracts

The Group is required to establish a LIC for payment of losses and loss adjustment expenses that arise from the Group's non-life products. These liabilities represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the balance sheet date. The Group establishes its liabilities by product line, type and extent of coverage and year of occurrence. There are two categories of the LIC: liability for reported losses, and liability for incurred but not reported (IBNR) losses. Additionally, the LIC is held for loss adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

The Group's liability for reported losses and loss adjustment expenses is based on estimates of future payments to settle reported claims. The Group bases such estimates on the facts available at the time the liability is established, considering the estimated costs of bringing pending claims to final settlement. The liability takes into account inflation, as well as other factors that can influence the amount required to fulfil the Group's obligations, some of which are subjective and some of which are dependent on future events. In determining the level of the liability, the Group considers historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions, economic conditions and public attitudes may affect the ultimate cost of settlement and, as a result, the Group's estimation of the liability. Between the reporting and final settlement of a claim circumstances may change, which may result in changes to established liability. Items such as changes in law and interpretations of relevant case law, results of litigation or changes in medical costs, as well as costs of vehicle and home repair materials and labor rates can substantially impact ultimate settlement costs. Accordingly, the Group reviews and re-evaluates claims and their liabilities on a regular basis. Amounts ultimately paid for losses and loss adjustment expenses can vary significantly from the level of liabilities originally set.

The Group establishes the liability for IBNR losses to recognize the estimated cost of losses for events which have already occurred, but which have not yet been notified. This liability is established to recognize the estimated costs required to bring such claims to final settlement. As these losses have not yet been reported, the Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The Group uses reported claim trends, claim severities, exposure growth and other factors in estimating its IBNR liability. The liability is revised as additional information becomes available and as claims are actually reported.

Consolidated financial statements (continued)

The time required to learn of and settle claims is an important consideration in establishing the Group's LIC. Short-tail claims, such as those for motor and property damage, are normally reported soon after the incident and are generally settled within months. Long-tail claims, such as bodily injury, pollution, asbestos and product liability, can take years to develop and additional time to settle. For these claims, information concerning the event, such as the required medical treatment for bodily injury claims and the required measures to clean up pollution, may not be readily available. Accordingly, the reserving analysis of long-tail lines of business is generally more difficult and subject to greater uncertainties than for short-tail claims.

Since the Group does not establish a liability for catastrophes in advance of the occurrence of such events, these events may cause volatility in the levels of its LIC subject to the effects of reinsurance recoveries. This volatility may also be contingent upon political and legal developments after the occurrence of the event.

The Group uses a number of accepted actuarial methods to estimate and evaluate the amount of the LIC. The nature of the claims being reserved for, and the geographic location of the claims influence the techniques used by the Group's actuaries. Additionally, the Group's Corporate Center actuaries perform periodic reserve reviews of the Group's businesses throughout the world. Management considers the results of these reviews and adjusts its liabilities, where necessary.

The process of establishing the amount of the LIC is complex and deals with uncertainty, requiring the use of informed estimates and judgments considering the time value of money and the uncertainty about the amount and timing of the cash flows that arise from non-financial risk. Any changes in estimates or judgments are reflected in the results of operations in the period in which estimates and judgments are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The LIC is determined on the basis of the information available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Life contracts

The measurement of life insurance contracts involves a number of assumptions regarding mortality or longevity, lapses, surrenders, expenses, future policyholder participation (or profit sharing), discount rates and investment returns. These assumptions can vary by country, year of policy issuance and product type and are determined with reference to past experience adjusted for new trends, current market conditions and future expectations. As such, the amounts included in future cash flows may not represent the ultimate amounts paid out to policyholders. For example:

- The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty arises because of the potential for pandemics and wide-ranging lifestyle changes, such as changes in eating, smoking and exercise habits, which could result in earlier deaths for age groups in which the Group has significant exposure to mortality risk.
- For contracts that insure the risk of longevity, such as annuity contracts, an appropriate allowance is made for people living longer. Continuing improvements in medical care and social conditions could result in further improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.
- Under certain contracts, the Group has offered product guarantees (or options to take up product guarantees), including fixed minimum crediting interest rate or fixed minimum annuity benefits. In determining the value of these options and/or benefits, estimates have been made as to the percentage of policyholders that may exercise them. Changes in investment conditions could result in significantly more policyholders exercising their options and/or benefits than has been assumed.
- Estimates are made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions are determined with reference to current and historical customer data, as well as industry data. Assumptions also reflect expected earnings on the assets supporting the future policyholder benefits. The information used by the Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions and available experience studies based on internal and external data. These assumptions are subject to a review and governance process that involves significant effort; therefore, it is generally performed on an annual basis.

Consolidated financial statements (continued)

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts that arises from non-financial risk (insurance risk and other non-financial risk such as lapse risk). The risk adjustment is an explicit adjustment to the estimates of future cash flows to reflect the compensation the Group would require to make it indifferent between fulfilling a liability that has a range of possible outcomes arising from non-financial risk and fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts.

The Group estimates the risk adjustment using a confidence level approach, taking into account the Group's internal view of the level of capital required in order to continue operating on a going concern basis based on the Group's target Swiss Solvency Test (SST) ratio. The risk adjustment is calibrated as the value at risk (VaR) at the defined target confidence level minus the expected value of the future cash flows using the simulations of the distribution of the future cash flows. This distribution is based on the SST framework and model, with a few modifications considering the different purpose of the IFRS17 risk adjustment.

Separate target confidence levels apply to the distribution of cash flows of long-duration (predominantly life) and short-duration (predominantly non-life) (re-)insurance contracts. The confidence levels fall within the following ranges: 74–79 percent for short-duration and 90–95 percent for long-duration (re-)insurance contracts.

In line with the internal capital model used by the Group, these ranges are defined on a net of external reinsurance basis. The risk adjustment for the reinsurance contracts held is determined consistently with the risk adjustment for insurance contracts issued.

The Group disaggregates the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expense, and the latter between profit or loss and OCI, so that the movement in risk adjustment resulting from changes in discount rates is presented in OCI.

Critical accounting estimates and judgments

The risk adjustment is the measure of the compensation required by the Group for the uncertainty arising from non-financial risks. As such, it is based on subjective considerations that takes into account Zurich's internal view of the capital required in order to continue operating on a going concern basis.

To support the selection of the confidence levels, a quantitative analysis is performed. This quantitative analysis is aimed at defining ranges of justifiable percentiles for life and non-life businesses separately, determined by calculating with different sets of assumptions the financial compensation the Group requires on the SST capital defined accordingly with the internal capital targets to cover the non-financial risks over the outstanding run-off period of the insurance liabilities.

As any other risk capital model, the SST model is subject to simplification and application of expert judgments. These include, for example, assumptions on the shape of the distributions and on the geographical and risks dependency, amongst others. The full list of assumptions, simplifications and expert judgments applied in the model are outlined in the documentation regularly provided to FINMA. These are validated regularly by the Group to ensure the overall adequacy of the risk model.

The Group percentiles selected for life and non-life businesses are expected to fall within these ranges described above. However, an additional uplift factor may be applied locally to the risk adjustment for specific contracts or groups of contracts, where there is a higher level of uncertainty around the compensation required for bearing non-financial risks. For example, an uplift factor may be applied to a specific contract or group of contracts where key long-term best estimate assumptions used to project the fulfillment cashflows have been set based on expert judgment in the absence of credible experience data.

The key assumptions in the determination of the risk adjustment percentiles are:

- Assumed cost of capital rate: the long-term mean of the weighted average cost of capital is used;
- Level of group diversification: the risk adjustment allows for diversification of non-financial risks among the Group's reporting entities as well as diversification of non-financial risks with financial risks;
- Target capitalization under the Group's internal capital model: the Group's target capitalization under SST is used. Under SST, the Group has defined a minimum solvency ratio target requirement only (≥ 160% SST ratio); hence, assumptions are made on the level of capitalization that Zurich would be expected to maintain on a going concern basis over and above the minimum target;
- Level of segmentation: separate percentiles are defined for life and non-life businesses; and

Consolidated financial statements (continued)

– Credibility of demographic assumptions used in cashflow projection: an uplift may be applied to the risk adjustment in respect of a portfolio or product where the Group has concerns over the credibility of assumptions used.

Discount rates

The Group applies bottom-up discount rates for most groups of insurance contracts issued and reinsurance contracts held. Bottom-up discount rates are constructed using risk-free rates, plus an illiquidity premium, where applicable. Risk-free rates are determined by reference to the market interest rates (either swap rates or yields of highly liquid sovereign securities) in the currency of the underlying cash flows for the groups of (re-)insurance contracts. Whenever the expected timing of the cash flows exceeds the liquid part of the yield curve in the respective currency (the last liquid point), the risk-free interest rate is extrapolated to converge toward a long-term rate (the ultimate forward rate) using widely accepted extrapolation techniques (Smith-Wilson algorithm). The illiquidity premium is determined by reference to observable market spreads for illiquid instruments (e.g., corporate debt, etc.) adequately corrected to remove credit risk.

Derecognition and contract modification

The Group derecognizes an insurance contract when, and only when, the obligation specified in the insurance contract expires or is discharged or cancelled, or if the contract is modified in a way that requires derecognition of the original contract and recognition of the new contracts with modified terms. The exercise of a right included in the terms of a contract is not a modification.

When an insurance contract is extinguished, the entity is no longer at risk and is therefore no longer required to transfer any economic resources to satisfy the insurance contract. Typically, when the Group buys reinsurance, the underlying insurance contract(s) continue to be recognized as the respective obligations are not extinguished.

If the terms of an insurance contract are modified, for example, by agreement between the parties to the contract or by a change in regulation, the Group derecognizes the original contract and recognizes the modified contract as a new contract, if any of the conditions below are satisfied:

a) If any of the following apply if the modified terms had been included at contract inception:

- The modified contract would not be an insurance contract; or
- The Group would have separated different components from the host insurance contract resulting in a different insurance contract; or
- The modified contract would have had a substantially different contract boundary; or
- The modified contract would have been included in a different group of contracts.

b) The original contract met the definition of an insurance contract with direct participation features, but the modified contract no longer meets that definition, or vice versa; or

c) The entity applied the premium allocation approach in paragraphs to the original contract, but the modifications indicate that the contract no longer meets PAA eligibility criteria.

If a contract modification meets none of the above conditions, the changes in cash flows caused by the modification are treated as changes in estimates of fulfillment cash flows.

A reinsurance contract is derecognized when the contractual rights to the cash flows expire.

Treatment of accounting estimates

The Group prepares interim financial statements semi-annually and applies an accounting policy choice to apply a year-to-date approach regarding accounting estimates initially presented in the first semi-annual financial statements when preparing the annual financial statements. This accounting policy choice applies to all insurance contracts issued and reinsurance contracts held.

b) Group investments and other financial assets excluding derivative financial instruments

Classification, measurement and presentation of financial assets

The classification and measurement of Group investments is driven by the business model under which these assets are held and by their contractual cash flow characteristics. The combined effect of the business model and contractual terms assessment (also referred to as 'solely payment on principal and interests test', or the SPPI test) determines whether the debt instruments are measured at amortized cost, fair value with changes recognized in other comprehensive income (FVOCI) or fair value through profit or loss (FVPL).

Consolidated financial statements (continued)

The Group primarily holds financial assets to fund insurance liabilities. Specifically, financial assets and insurance liabilities are economically linked and jointly managed with the aim of matching the duration of the assets with the expected obligation toward policyholders. In order to ensure that the contractual cash flows from the financial assets are sufficient to settle insurance liabilities as they become due, the Group may undertake significant buying and selling activities on a regular basis to rebalance its asset portfolio and to meet day-to-day cash flow needs as they arise. Consequently, the majority of the financial assets, including government and supra-national bonds, mortgage and other asset backed securities (ABS/MBS), as well as syndicated loans and other corporate debt, are 'held to collect contractual cash flows and for sale' (HtC&S). Furthermore, the Group has identified specific portfolios that are managed with the aim of holding assets only to collect contractual cash flows over the life of the instrument. These financial assets are managed in the business model 'held to collect contractual cash flows' (HtC) and include certain private debt portfolios (for example, commercial real estate, infrastructure and other private debt), mortgage loans and other financial assets (bank deposits, lease and trade receivables), as well as high-quality government bonds held in the Zurich Italy Bank S.p.A.'s proprietary portfolio to cover structural excess liquidity.

Debt instruments with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) are measured at either amortized cost or FVOCI, unless they are managed on a fair value basis.

Debt instruments held under the HtC&S business model that pass the SPPI test are measured at FVOCI. Interest income is determined using the effective interest rate method and included in net investment income. The cumulative unrealized gains or losses recorded in OCI are net of the expected loss allowance and income taxes. When financial assets measured at fair value through OCI are derecognized, the cumulative gains or losses are reclassified from OCI to income as net capital gains/(losses) on investments. Loss allowances for expected credit losses and any subsequent changes are recorded in profit or loss within net capital gains/(losses).

Debt instruments held under the HtC business model that pass the SPPI test are carried at amortized cost using the effective interest rate method. Loss allowances for expected credit losses and individual credit impairments are recognized in profit or loss within net capital gains/(losses) with a corresponding reduction in the gross carrying amount of the financial asset.

Financial assets that fail the SPPI test are always measured at fair value through profit or loss (FVPL). Such assets include equities, fund investments, callable bonds with significant prepayment features, hybrid bonds with certain cash flows at the discretion of the issuer and some ABS/MBS that do not fulfill the SPPI criteria for contractually linked instruments. The significance of the prepayment feature is assessed at the date of the initial recognition of the financial asset as well as whenever additional purchases of the same instrument occur within the same portfolio.

In addition to financial assets that fail the SPPI test, the Group designates investments held for unit-linked insurance and investment contracts as well as some other investment portfolios backing specific portfolios of insurance contracts at fair value through profit or loss. This is done in order to eliminate or significantly reduce a measurement inconsistency that would otherwise arise from measuring assets or recognizing the gains and losses on these assets on a different basis to the liabilities. Realized and unrealized gains and losses arising from changes in the fair value of such investments are recognized in profit or loss, within net capital gains/(losses) on investments, in the period in which they arise. Interest income determined using the effective interest rate method and dividend income from financial assets at fair value through profit or loss are included in net investment income.

The Group did not make use of the option to present changes in fair value of certain equity instruments that are not held for trading in OCI with no subsequent reclassification of realized gains or losses to profit or loss.

The Group recognizes regular purchases and sales of financial assets on the trade date, which is the date on which the Group commits to purchase or sell the asset.

Group investments are grouped together based on their nature and considering the shared risk characteristics as follows:

- Equity securities and unconsolidated investment funds include equity instruments held that do not result in control or significant influence by the Group and fund investments, where the Group does not have control over the investment vehicle;
- Debt securities include government and supra-national bonds, corporate debt, ABS/MBS;
- Mortgage loans include predominantly retail residential mortgages; and
- Other loans mainly include private debt investments (such as infrastructure and commercial real estate loans and private placements) typically managed by third party asset managers and subject to a rating-based approach for credit risk monitoring, as well as lease receivables and non-unit-linked deposits held as part of Group investments.

Consolidated financial statements (continued)

Group investments further include investment property accounted for at fair value through profit or loss. Rental income from investment property is recognized on a straight-line basis over the lease term and included in net investment income net of operating rental expenses. Please refer to note 5 for further information on Group investments.

Cash on hand, deposits held at call with banks, cash collateral received and other highly liquid investments with maturities of three months or less from the date of acquisition that are readily convertible into cash and are subject to an insignificant risk of changes in fair value are included in cash and cash equivalents.

Trade receivables are presented as part of other assets.

Critical accounting estimates and judgments

In determining the fair values of investments in debt and equity instruments traded on exchanges and in over-the-counter (OTC) markets, the Group makes extensive use of independent, reliable and reputable third-party pricing providers, and only in rare cases places reliance on valuations that are derived from internal models.

In addition, the Group's policy is to ensure that independently sourced prices are developed by making maximum use of current observable market inputs derived from orderly transactions and by employing widely accepted valuation techniques and models. When third-party pricing providers are unable to obtain adequate observable information for a particular financial instrument, the fair value is determined either by requesting selective non-binding broker quotes or by using internal valuation models.

Valuations can be subject to significant judgment, especially when the fair value is determined based on at least one significant unobservable input parameter; such items are classified within level 3 of the fair value hierarchy. Refer to notes 5 and 14 for further information regarding the estimate of fair value.

Recognition of expected credit losses

Expected credit loss (ECL) is recognized for debt securities measured at amortized cost, debt securities measured at FVOCI, mortgage loans, lease and trade receivables, and reflects the difference between the contractual cash flows of the instrument and the cash flows the Group expects to receive. ECL is recognized on the following basis:

- 12-months ECL is recognized from the initial recognition of a debt instrument and reflects a portion of lifetime expected credit losses that would result from default events that are possible within 12 months after the reporting date (12-months ECL). The Group applies the low credit risk simplification to recognize 12-months ECL for all financial instruments that have an internal or external investment grade credit rating. Instruments for which 12-months ECL is recognized are referred to as stage 1; and
- Lifetime ECL is recognized in the event of a significant increase in credit risk (SICR) since initial recognition and reflects lifetime expected credit losses over the expected life of the financial instrument (lifetime ECL). The Group applies a permitted simplification to recognize lifetime ECL for all trade receivables. Instruments with lifetime ECL are referred to as stage 2. Lifetime ECL is also recognized for credit-impaired financial instruments, referred to as stage 3. Stage 3 includes instruments that are non-performing or for which a default event has occurred. The Group presents the gross carrying amount of such assets net of lifetime ECL.

At each reporting date, an assessment is conducted to determine whether a SICR has occurred since the initial recognition of a financial asset not covered by the low credit risk practical expedient and/or whether the financial asset has become credit impaired.

Critical accounting estimates and judgments

In the assessment for SICR, the Group considers all relevant reasonable and supportable information, including information about past events and current and future economic conditions, available either on an individual or on a collective basis.

When an external or internal rating is available, the Group applies the low credit risk practical expedient by assuming that no increase in credit risk has occurred since initial recognition for financial assets that have an external or internal rating equivalent to 'investment grade' (i.e., AAA to BBB-) at the reporting date. This approach is applied to government and supra-national bonds, mortgage and other asset backed securities, as well as corporate debt, including commercial real estate, infrastructure and other private debt.

For all debt instruments rated below investment grade, the Group determines SICR thresholds that vary depending on the credit rating at initial recognition and the residual life of the instruments. The SICR threshold is calibrated in a way that the lower the probability of default at inception, the higher relative credit deterioration is required to trigger a SICR. If the credit rating of the instrument at reporting date is equal or below the trigger level, the instrument is deemed to have experienced SICR.

Consolidated financial statements (continued)

Irrespective of the SICR assessment based on default probabilities, credit risk is generally deemed to have significantly increased if the contractual payments are more than 30 days past due. SICR is no longer observed if the rating at reporting date is above the trigger level indicated in the notching table and the rating has improved by at least 1 notch since the previous reporting date, in which case the instrument transitions back to stage 1.

For material exposures, the quantitative assessment is supplemented by a qualitative assessment of the issuer's credit quality through a forward-looking watch list that includes exposures with negative rating outlook and downward rating momentum and that are close to the thresholds for stage change. This is further complemented with fundamental research and expert opinion and presented to the Credit Valuation Committee (CVC) comprised of representatives of Group Investment Management, Group Risk and Group Finance. The CVC takes the final decision on the stage allocation.

The mortgage loan portfolio is predominantly comprised of residential and small commercial real estate loans. The exposures are grouped into homogenous buckets in terms of geographic location (mainly Switzerland, Germany, Chile) and property type (residential versus commercial). The forward-looking loan to value (LTV) is within the range of 40 – 67 percent for the Swiss portfolio and 10 – 25 percent for the German portfolio. The SCIR is assessed using the number of past due days, the actual affordability on the customer level as well as forward looking LTV, which is derived from the expected evolution in the property prices.

Forward-looking scenarios and measurement of expected credit losses

Expected credit losses reflect an unbiased, probability-weighted estimate based on possible default events either over the next 12 months or over the remaining life of a financial instrument. The ECL is calculated using a combination of the following main input parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

For originated residential and small commercial mortgage loan portfolios, the forward-looking parameters are derived from the evolution of the real estate prices by property type, as well as actual affordability of the loan for a customer. The Group records expected credit losses on mortgages; however, the ECL amount may be rather insignificant for mortgages with very low LTV.

For unrated exposures, for example, trade receivables, the ECL is measured using an expected loss rate provision matrix, based on historical observed default rates (adjusted and regularly updated for forward-looking estimates), depending on the past due status. For this purpose, the exposures are grouped into sub-portfolios that are homogeneous in terms of loss pattern, and specific loss rates depending on the number of days past due are assigned. From the provision matrix, the calculation of the ECL is determined by multiplying the gross carrying amount of the exposure by the given expected loss rate.

Critical accounting estimates and judgments

For rated debt securities, the Group determines the forward-looking inputs by evaluating a range of possible outcomes. A scenario-based approach is applied where three scenarios (downside scenario, base case and upside scenario) are modelled once a year considering potential development of relevant macroeconomic variables (GDP growth, 10-year interest rates and credit spreads) in the US and Eurozone over a 1-year horizon. If no internal nor external credit rating is available (e.g., due to timing constraints), the Group assigns a fallback rating which is used to derive the ECL parameters (i.e., exposures where the issuer is domiciled in a country with investment grade sovereign rating are assigned A- while B- is assigned to other exposures).

Each of the forward-looking scenarios applied is based on management assumptions about future macroeconomic conditions. Further, additional judgment is required to assign a weight to each scenario reflecting the probabilities that the respective set of macroeconomic variables will materialize. The economic scenarios are developed by Group Investment Management – Market Strategy and Macroeconomics who proposes the scenario weightings based on Group forward-looking expectations. The final decision on scenario weighting lies with the CVC where Group functions can challenge the selection and weights of different scenarios. Changes to the scenario weights and macroeconomic assumptions taken could have a significant effect on ECL – refer to note 15 for further details.

Exchange or modification of financial assets

The Group may enter into transactions involving the exchange of financial assets with one or multiple financial assets. Furthermore, the terms of financial assets may be modified subsequent to initial recognition. When the contractual terms of the financial asset(s) received in an exchange transaction or upon modification are significantly different from the original financial asset, the Group derecognizes the original asset. In certain cases, such exchange or modification results from the financial distress of the original debtor, in which case an exchange or modification of financial assets may involve recognition of purchased or originated credit-impaired (POCI) financial instruments. POCI financial instruments are initially recognized at fair value with interest income subsequently being accrued based on a credit-adjusted effective interest rate. Changes in lifetime ECL since initial recognition are recognized in profit or loss within net capital gains/(losses).

Consolidated financial statements (continued)

If an exchange or modification does not result in derecognition of the financial asset held, any modification gain or loss is recorded in profit or loss within net capital gains/(losses). Furthermore, the SICR assessment is performed by comparing the current risk of default with the risk of default at initial recognition based on the original and unmodified contractual terms.

Defaulted and credit-impaired financial assets

The Group considers the financial asset as defaulted when one or a combination of events with detrimental impact on the estimated cash flows of the financial asset have occurred (i.e., an incurred credit loss event). The Group places emphasis on counterparty specific factors, such as significant financial difficulty, default or delinquency on interest or principal payments. In addition, the Group usually considers that default does not occur later than when a financial asset is 90 days past due. Nevertheless, for certain exposures, such as the Swiss residential mortgage loans, historical evidence indicates that there is no correlation between default and payments being more than 90 days past due, but such correlation can be identified, for example, when payments are more than 180 days past due. Therefore, these latter exposures are considered defaulted when payment is overdue for more than 180 days. If one or more default events have occurred, the Group considers the financial assets as credit-impaired and recognizes individual credit impairment directly as a reduction of the gross carrying amount. In the rare case of default on mortgage loans, the Group may enter forbearance measures, including temporary postponement of contractual payments, to enable the recovery of the mortgage loan.

Financial assets and the related credit impairment allowances are partially or fully written off when the Group has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. The write-offs represent partial or full derecognition events.

Comparative accounting policies applicable prior to January 1, 2023

Prior to January 1, 2023, Group investments were accounted for at either (a) fair value through OCI; (b) fair value through profit or loss; or (c) amortized cost. The majority of Group investments were accounted for at fair value through OCI (available-for-sale financial assets) and included debt and equity securities as well as fund investments. Such assets were carried at fair value, with changes in fair value recognized in OCI, until the securities were either sold or impaired. Interest income determined using the effective interest rate method and dividend income from financial assets at fair value through OCI was included in net investment income. The cumulative unrealized gains or losses recorded in OCI were net of cumulative deferred income taxes, certain related life policyholder liabilities and deferred acquisition costs. When available-for-sale financial assets were sold, impaired or otherwise disposed of, the cumulative gains or losses were reclassified from OCI to profit or loss as net capital gains/(losses) on investments and impairments.

Group investments at fair value through profit or loss included debt and equity securities backing certain life insurance contracts with participation features, and financial assets evaluated on a fair value basis. The designation of these assets at fair value through profit or loss eliminated or significantly reduced a measurement inconsistency that would otherwise arise from measuring assets or recognizing the gains and losses on these assets on a different basis to the liabilities.

Group investments at amortized cost included debt securities for which the Group had the positive intention and ability to hold to maturity (held-to-maturity financial assets) as well as mortgage and other loans (loans and receivables). Such investments were carried at amortized cost using the effective interest rate method, less any charges for impairment. When an impairment was determined to have occurred, the carrying amount of held-to-maturity investments and loans and receivables was reduced through the use of an allowance account, and the movement in the impairment allowance was recognized in profit or loss as an impairment loss.

The Group assessed at each reporting date whether there was objective evidence that loss events had occurred that negatively affected the estimated future cash flows of a financial asset or a group of financial assets. A financial asset was considered impaired if there was objective evidence of impairment as a result of one or more occurred loss events that had an impact on the estimated future cash flows of the financial asset. The evaluation of whether an available-for-sale debt security was impaired required analysis of the credit standing of a particular issuer and involved management judgment. When assessing impairment of available-for-sale debt securities, the Group placed emphasis on issuer specific factors, such as significant financial difficulty, default or delinquency on interest or principal payments. A credit rating downgrade, worsened liquidity or decline in fair value below the weighted-average cost was not by itself considered a loss event, but rather incorporated in the impairment analysis along with other available information.

The Group determined that there was objective evidence of impairment of an available-for-sale equity security, if at the reporting date:

- Its fair value was below the weighted-average cost by an amount significantly exceeding the volatility threshold determined quarterly for the respective equity market (such as North America, Asia Pacific, UK, Switzerland and other European countries); or
- Its fair value had been below the weighted-average cost for a prolonged period of 24 consecutive months or longer.

Consolidated financial statements (continued)

c) Derivative financial instruments and hedge accounting

Derivative financial instruments are used by the Group to economically hedge risks. Derivative financial instruments are carried at fair value. The changes in fair value of derivative financial instruments are recognized in profit or loss, except where such derivative financial instruments are designated under a qualifying cash flow or net investment hedge relationship.

Derivative financial instruments that qualify for hedge accounting

In limited circumstances, derivative financial instruments are designated as hedging instruments for accounting purposes in:

- Fair value hedges, which are hedges of the exposure to changes in the fair value of a recognized asset or liability;
- Cash flow hedges, which are hedges of the exposure to variability in cash flows attributable to a particular risk either associated with a recognized asset or liability, or a highly probable forecast transaction that could affect profit or loss; or
- Net investment hedges, which are hedges of a net investment in a foreign operation.

All hedge relationships are formally documented, including the risk management objectives and strategy for undertaking the hedge, the identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the hedge effectiveness assessment is made including the analysis or sources of hedge ineffectiveness and description of how the hedge ratio is determined. Differences in critical terms, the effect of credit risk or differences in the time value of money could be sources of ineffectiveness. To a limited extent, ineffectiveness may also arise from the currency basis spread of cross currency swaps, or from the forward elements of forward contracts, if these are not excluded from the hedge designation.

At inception of a hedge, the hedge relationship is formally assessed to determine whether the hedging instruments are expected to be highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. Subsequently, the hedge effectiveness is assessed on a quarterly basis (or upon a significant change in circumstances) on a forward-looking basis. Any ineffectiveness is recorded in profit or loss.

Hedge accounting is not discontinued on a voluntary basis as long as the risk management objective is still being pursued and other qualifying criteria are fulfilled. If the qualifying criteria for the application of hedge accounting are no longer met for the entire hedging instrument (or a part of it), the hedge relationship is discontinued prospectively, in which case the hedging instrument and the hedged item are then subsequently reported independently in accordance with the respective accounting policy.

Comparative accounting policies applicable prior to January 1, 2023

The treatment of derivative financial instruments prior to January 1, 2023, was largely the same as outlined above with the following differences relating to derivative financial instruments that qualify for hedge accounting:

At inception of a hedge and on an ongoing basis, the hedge relationship was formally assessed to determine whether the hedging instruments are expected to be (prospective assessment) and have been (retrospective assessment) highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. If the qualifying criteria for the application of hedge accounting were no longer met, the hedge relationship was discontinued prospectively, in which case the hedging instrument and the hedged item were subsequently reported independently in accordance with the respective accounting policy.

Hedge accounting could be discontinued prospectively on a voluntary basis.

4. Acquisitions and divestments

Transactions in 2023

Divestments

Held for sale

As of June 30, 2023, the total assets and liabilities reclassified to held for sale were USD 24.1 billion and USD 23.5 billion, respectively, as per transactions below.

Zurich Chile Seguros de Vida S.A.

On May 8, 2023, Inversiones Suizo-Chilena S.A. entered into an agreement to sell the annuity book of Zurich Chile Seguros de Vida S.A of approximately USD 2.6 billion in reserves to Ohio National Seguros de Vida S.A., a Chilean life insurance company and indirect subsidiary of Constellation Insurance, Inc. The transaction is subject to regulatory approvals and is expected to complete in 2024. As of June 30, 2023, assets and liabilities reclassified to held for sale were USD 2.9 billion and USD 3.0 billion, respectively.

Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft

On June 24, 2022, Zurich Insurance Group agreed to sell its legacy traditional life insurance back book in Germany to Viridium Holding AG (Viridium), a leading specialist in the management of life insurance portfolios (run-off) in Germany. The transaction includes the transfer of approximately USD 20 billion of net reserves, mainly related to annuity and endowment products underwritten more than five years ago. The sale is subject to regulatory approvals and will not change the contractual obligations to customers and distribution partners. As of June 30, 2023, assets and liabilities reclassified to held for sale were USD 19.9 billion and USD 19.3 billion, respectively.

Spain Medical Malpractice portfolio

On December 9, 2021, Zurich Insurance plc entered into an agreement to sell its legacy medical malpractice portfolio in Spain ('Spain Medical Malpractice portfolio'). The transaction is subject to regulatory approval and is expected to be completed in 2024. As of June 30, 2023, assets and liabilities reclassified to held for sale were USD 82 million and USD 90 million, respectively.

UK Employers' liability portfolio

On December 14, 2018, Zurich Insurance plc entered into an agreement with Catalina Holdings (Bermuda) Ltd and certain of its subsidiaries to transfer a portfolio of pre-2007 United Kingdom legacy employers' liability policies to Catalina Worthing Insurance Limited ('UK Employers' Liability portfolio'), subject to regulatory and court approvals. With effect from January 1, 2022, the UK Employers' Liability portfolio was transferred to Zurich Insurance Company Ltd, UK Branch, under a Part VII transfer together with the rights and obligations of Zurich Insurance plc under the agreement. The transfer to Catalina Worthing Insurance Limited is expected to be completed in 2025. As of June 30, 2023, assets and liabilities reclassified to held for sale were USD 1.2 billion and USD 1.2 billion, respectively.

Other transactions

The Group has entered into an agreement with Resolution Life Group to reinsure the in-force individual life insurance book of Farmers New World Life Insurance Company (FNWL), a subsidiary of Farmers Group, Inc. On August 1, 2023, the Group completed the transaction for which it received after tax proceeds of USD 1.8 billion.

Transactions in 2022

Acquisitions

Deutsche Bank Italian Financial Advisors network acquisition

On August 4, 2021, Zurich Insurance Company Ltd reached an agreement to acquire the network of Financial Advisors of the Deutsche Bank Group in Italy. The terms of the agreement provide for the transfer of a business unit, mainly active in the financial advisory and investment products offering and distribution, consisting of approximately 1,085 financial advisors, 97 employees and EUR 16.5 billion of assets under management. The acquisition allows Zurich in Italy to further develop its financial and insurance distribution network in the Italian market. On October 14, 2022, the Group, through its subsidiary Zurich Italy Bank S.p.A., completed the acquisition for USD 328 million.

Table 4.1 shows the preliminary opening balance sheet line items as of the acquisition date, representing the fair value of tangible and intangible assets.

Consolidated financial statements (continued)

DB Italian Financial Advisors network balance sheet as of the acquisition date

Table 4.1

in USD millions, as of October 14, 2022	Total
Cash and cash equivalents	1,092
Total investments	78
Receivables and other assets	79
Property and equipment	21
Goodwill	211
Software	1
Other intangible assets	136
Assets acquired	**1,617**
Other liabilities	76
Deposits (only for banks)	1,214
Liabilities acquired	**1,289**
Net assets acquired	328
Cash consideration	**328**

In 2023, there was an adjustment to the purchase price allocation which resulted in a reduction of the purchase price to USD 316 million, resulting in the reduction in value of goodwill by USD 8 million and other intangibles by USD 4 million.

Divested

Joint Stock Company Insurance Company 'Zurich' (Zurich Russia)

On May 19, 2022, Zurich Insurance Group agreed to sell its business in Russia to 11 members of the unit's team. Under its new owners, the business will operate independently under a different brand, while Zurich will no longer conduct business operations in Russia. The sale of Zurich Russia was completed on July 8, 2022, with a pre-tax loss of USD 30 million recognized in profit or loss.

Zurich Investments Life S.p.A. portfolio

On January 2, 2022, Zurich Investments Life S.p.A. agreed to sell part of its life and pension back book, composed of both traditional and multi-class products, to the Portuguese insurance company GamaLife – Companhia de Seguros de Vida, S.A. On November 30, 2022, the Group completed the sale with a pre-tax loss of USD 230 million, of which USD 144 million was recognized already as of December 31, 2021, in profit or loss.

Zurich International Life portfolio

On December 22, 2020, Zurich International Life Limited (ZILL) entered into an agreement with Monument Re Limited to sell the closed book portfolio of ZILL's Singapore long-term life insurance business. On November 1, 2022, the Group completed the sale with a pre-tax gain of USD 2 million recognized in profit or loss.

Consolidated financial statements (continued)

5. Group investments

Group investments are those for which the Group bears part or all of the investment risk. They include investments related to insurance and investment contracts other than unit-linked insurance and investment contracts where the investment risk is borne by the holders of such contracts. Net investment result on Group investments includes returns on investment-related cash, which is included in cash and cash equivalents in the unaudited consolidated balance sheets.

Table 5.1

Net investment result on Group investments

in USD millions, for the six months ended June 30	Net investment income		Net capital gains/(losses)				Net investment result	
			Change of ECL allowance[1]		Other net capital gains/(losses)[1]			
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
Investment cash	18	–	–		–	–	18	–
Equity securities:								
Fair value through profit or loss	195	236	–		745	(401)	940	(165)
Available-for-sale		–				153		153
Total equity securities	195	236	–		745	(248)	940	(12)
Debt securities:								
Fair value through profit or loss[2]	176	–	–		66	(746)	242	(746)
Fair value through other comprehensive income	1,879		(3)		(677)		1,199	
Available-for-sale		2,051				(249)		1,802
Amortized cost	98		–		(3)		96	
Total debt securities	2,153	2,051	(3)		(614)	(995)	1,536	1,056
Investment property[3]	256	231	–		(224)	150	32	381
Mortgage loans at amortized cost	52	82	(1)		(2)	–	50	82
Other financial assets at amortized cost	120	72	(2)		4	23	123	95
Investments in associates and joint ventures	–	(1)	–		–	(3)	–	(4)
Derivative financial instruments	–	–	–		9	(721)	9	(721)
Investment result on Group investments, gross	2,795	2,671	(5)		(82)	(1,793)	2,708	878
Investment expenses on Group investments	(98)	(94)					(98)	(94)
Foreign currency gains/(losses)					(41)	(14)	(41)	(14)
Investment result on Group investments, net	**2,698**	**2,577**	**(5)**		**(123)**	**(1,806)**	**2,569**	**770**

1 No ECL balances are reported for 2022 as IFRS 9 was adopted as of January 1, 2023. Impairment losses reported under IAS 39 are included within Other net capital gains/(losses).
2 Net capital gains/(losses) related to debt securities designated at fair value through profit and loss amounted to USD (7) million and USD (747) million for the six months ended June 30, 2023 and 2022, respectively.
3 Rental operating expenses for investment property amounted to USD (64) million and USD (65) million for the six months ended June 30, 2023 and 2022, respectively.

Consolidated financial statements (continued)

Details of Group investments by classification category

Table 5.2

as of	06/30/23		12/31/22	
	USD millions	**% of total**	USD millions	% of total
Equity securities:				
Fair value through profit or loss	13,505	9.6	3,540	2.5
Available-for-sale			9,590	6.8
Total equity securities	13,505	9.6	13,130	9.4
Debt securities:				
Fair value through profit or loss[1]	8,764	6.2	6,386	4.6
Fair value through comprehensive income	90,842	64.4		
Available-for-sale			95,638	68.3
Amortized cost	5,473	3.9		
Held-to-maturity			1,716	1.2
Total debt securities	105,079	74.5	103,740	74.0
Investment property	14,340	10.2	14,798	10.6
Mortgage loans at amortized cost	4,254	3.0	5,497	3.9
Other financial assets at amortized cost	3,743	2.7	2,855	2.0
Investments in associates and joint ventures	106	0.1	92	0.1
Total Group investments	**141,027**	**100.0**	**140,111**	**100.0**

1 June 30, 2023 and December 31, 2022 includes USD 3.9 billion and USD 6.4 billion, respectively, for debt securities designated at fair value through profit and loss.

Investments with a carrying value of USD 5.5 billion and USD 5.6 billion are held to meet local regulatory requirements as of June 30, 2023 and December 31, 2022, respectively.

Net unrealized gains/(losses) on financial assets included in equity

Table 5.3

in USD millions, as of	Total	
	06/30/2023	12/31/2022
Equity securities:		
Available-for-sale		231
Total equity securities	–	231
Debt securities		
Fair value through other comprehensive income	(8,305)	
Available-for-sale		(10,801)
ECL allowance on fair value through other comprehensive income	93	
Total debt securities	(8,212)	(10,801)
Other	247	717
Total gross unrealized gains/(losses) on Group investments	(7,965)	(9,853)
Less amount of unrealized gains/(losses) on investments attributable to:		
Change in fair value of underlying investment	2,334	2,703
Change in discount rate for insurance/reinsurance contracts	6,923	6,784
Current and deferred income taxes	(595)	(236)
Non-controlling interests	(60)	(35)
Total net unrealized gains/(losses) on financial assets[1]	**637**	**(637)**

1 Net unrealized gains/(losses) on financial assets include net losses arising on cash flow hedges of USD (12) million and net gains of USD 15 million as of June 30, 2023 and December 31, 2022, respectively.

Securities lending, repurchase agreements and reverse repurchase agreements

Table 5.4

in USD millions, as of	Total	
	06/30/23	12/31/22
Securities lending agreements		
Securities lent under securities lending agreements[1]	–	1
Collateral received for securities lending	1	1
of which: Non-cash collateral[2]	1	1
Repurchase agreements		
Securities sold under repurchase agreements	1,314	1,081
Obligations to repurchase securities	1,323	1,069

1 The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 0 million and USD 1 million as of June 30, 2023 and December 31, 2022, respectively. The majority of these assets were debt securities.
2 The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 1 million and USD 1 million as of June 30, 2023 and December 31, 2022, respectively.

Under the terms of securities lending or repurchase agreements, the Group retains substantially all the risks and rewards of ownership of the transferred securities, and also retains contractual rights to the cash flows from these securities. These securities are therefore not derecognized from the Group's balance sheet. Cash received as collateral is recorded as an asset, and a corresponding liability is established. Interest expense is charged to profit or loss using the effective interest rate method over the life of the agreement.

Under a reverse repurchase agreement, the securities received are not recognized on the balance sheet, as long as the risk and rewards of ownership have not been transferred to the Group. The cash delivered by the Group is derecognized and a corresponding receivable is recorded within receivables and other assets. Interest income is recognized in profit or loss using the effective interest rate method over the life of the agreement.

Consolidated financial statements (continued)

6. Insurance and reinsurance contracts

Insurance and reinsurance contracts presented within this note include (re-)insurance contracts issued, including investment contracts with discretionary participation features, and reinsurance contracts held accounted for under the respective accounting policies outlined in note 3.

Portfolios of (re-)insurance contracts issued are presented separately from portfolios of reinsurance contracts held. Portfolios of (re-)insurance contracts issued are presented within insurance contract liabilities, unless such portfolios are in a net asset position, in which case they are reclassified and presented as insurance contract assets. Similarly, portfolios of reinsurance contracts held are presented within reinsurance contract assets, unless such portfolios are in a net liability position, in which case they are reclassified and presented as reinsurance contract liabilities.

Unless specifically indicated, the disclosures within this note exclude the impacts of hyperinflation and are presented separately for groups of (re-)insurance contracts issued and reinsurance contracts held depending on the measurement model applied (see note 3 for further details):

- Simplified or premium allocation approach (PAA) – for short-term (re-)insurance contracts issued and reinsurance contracts held that are eligible for PAA;
- General model or building block approach (BBA) – for non-participating and indirect participating (re-)insurance contracts issued and reinsurance contracts held; and
- Variable fee approach (VFA) – for direct participating insurance contracts issued.

A summary of key financial figures for (re-)insurance contracts issued and reinsurance contracts held are shown in Table 6.1a by asset and liability positions and by measurement model applied:

Table 6.1a

Overview of insurance contract issued and reinsurance contract held

in USD millions, as of	6/30/2023				12/31/2022			
	Measured under PAA	**Measured under BBA**	**Measured under VFA**	**Total**	Measured under PAA	Measured under BBA	Measured under VFA	Total
Insurance contract assets	–	(632)	(9)	(641)	–	(668)	(8)	(676)
Insurance contract liabilities	64,072	27,256	119,778	211,107	61,819	29,007	113,011	203,837
Insurance contract (assets)/liabilities	**64,072**	**26,625**	**119,770**	**210,467**	**61,819**	**28,339**	**113,002**	**203,161**
Reinsurance contract assets	(13,366)	(6,781)	–	(20,147)	(12,988)	(6,890)	–	(19,878)
Reinsurance contract liabilities	–	361	–	361	–	367	–	367
Reinsurance contract (assets)/liabilities	**(13,366)**	**(6,420)**	**–**	**(19,786)**	**(12,988)**	**(6,524)**	**–**	**(19,512)**

For (re-)insurance contracts accounted under PAA, the increase of USD 1.9 billion for the six months ended June 30, 2023 is driven primarily by an increase in the LRC of USD 1.2 billion and USD 0.7 billion from LIC movements driven by currency movements and growth of business. This is offset by net favorable reserve development emerged from reserves established in prior years amounting to USD 0.3 million, mainly related to the release of risk adjustment.

For insurance contracts accounted for under BBA, the decrease of USD 1.7 billion for the six months ended June 30, 2023 is driven primarily by the recognition of the sale of the annuity book by Inversiones Suizo-Chilena S.A. of USD 3.0 billion offset by currency movements of USD 0.6 billion and the insurance finance expense of USD 0.5 billion.

For insurance contracts accounted for under VFA, the increase of USD 6.8 billion for the six months ended June 30, 2023 was mainly due to changes in financial market conditions driven by a positive market performance on FVOCI assets of USD 4.6 billion and FVPL assets of USD 1.0 billion as well as currency movements of USD 3.5 billion.

Reinsurance contracts liabilities were relatively stable with largest drivers of the change being net inflows and amount released to profit and loss due to reinsurance services received offset by of the reinsurance finance income.

Consolidated financial statements (continued)

The CSM of the Group included in insurance contract (assets)/liabilities amounted to USD 16.0 billion and USD 15.1 billion as of June 30, 2023 and December 31, 2022, respectively, and the CSM included in reinsurance contract (assets)/liabilities amounted to USD (2.4) billion and USD (2.3) billion as of March 31, 2023 and December 31, 2022, respectively, as shown in Table 6.1b below. For transition related disclosures, please refer to note 2.

Overview of CSM

Table 6.1b

in USD millions, as of	6/30/2023			12/31/2022		
	Measured under BBA	**Measured under VFA**	**Total**	Measured under BBA	Measured under VFA	Total
CSM included in insurance contract assets	527	31	558	571	32	603
CSM included in insurance contract liabilities	5,920	9,447	15,367	5,775	8,739	14,514
CSM included in insurance contract (assets)/ liabilities	**6,447**	**9,478**	**15,925**	**6,346**	**8,771**	**15,117**
CSM included in reinsurance contract assets	(2,177)	–	(2,177)	(2,064)	–	(2,064)
CSM included in reinsurance contract liabilities	(235)	–	(235)	(235)	–	(235)
CSM included in reinsurance contract (assets)/ liabilities	**(2,413)**	**–**	**(2,413)**	**(2,299)**	**–**	**(2,299)**

Consolidated financial statements (continued)

Reconciliation of insurance contracts issued, measured under PAA – current period

Table 6.2a

in USD millions	Liability for remaining coverage		Liability for incurred claims			
	Excluding loss component	Loss component	Estimate of the present value of future cash flows	Risk adjustment	Assets for insurance acquisition cash flows[1]	Total[1]
Insurance contract liabilities, as of January 1, 2023	8,658	334	51,890	1,453	(542)	61,793
Insurance contract assets, as of January 1, 2023	–	–	–	–	–	–
Net insurance contracts as of January 1, 2023	8,658	334	51,890	1,453	(542)	61,793
Insurance revenue	(21,912)	–	–	–	–	(21,912)
Insurance service expenses						
Incurred claims and other incurred insurance service expenses	–	–	15,773	246	–	16,019
Amortization of insurance acquisition cash flows	3,179	–	–	–	–	3,179
Changes that relate to past service	–	–	(103)	(419)	–	(522)
Losses and reversal of losses on onerous contracts	–	(72)	–	–	–	(72)
Impairment and reversal of impairment of assets for insurance acquisition cash flows	–	–	–	–	(4)	(4)
Insurance service expenses	3,179	(72)	15,670	(173)	(4)	18,601
Total gross insurance service result	(18,733)	(72)	15,670	(173)	(4)	(3,311)
Cash in/(out)flows in the period						
Premiums received	23,747	–	–	–	–	23,747
Insurance acquisition cash flows	(3,516)	–	–	–	(208)	(3,724)
Claims and other insurance service expenses paid, including investment components	–	–	(15,945)	–	–	(15,945)
Net cash inflows/(outflows)	20,232	–	(15,945)	–	(208)	4,078
Allocation from assets for insurance acquisition cash flows to insurance contracts	(203)	–	–	–	203	–
Investment components	(163)	–	163	–	–	–
Insurance finance (income)/expense recognized in P&L	38	–	512	12	–	563
Insurance finance (income)/expense recognized in OCI	–	–	182	13	–	195
Acquisitions/(divestments) and transfers	1	–	(9)	–	–	(7)
Foreign currency translation effects	153	8	575	13	(25)	723
Other changes	(30)	2	69	(1)	–	39
Total changes not related to provision of insurance service	(204)	9	1,492	37	178	1,513
Insurance contract liabilities, as of June 30, 2023	9,953	272	53,107	1,317	(576)	64,072
Insurance contract assets, as of June 30, 2023	–	–	–	–	–	–
Net insurance contracts as of June 30, 2023	**9,953**	**272**	**53,107**	**1,317**	**(576)**	**64,072**

1 January 1, 2023 balances are impacted by hyperinflation, please see note 1 for details.

Consolidated financial statements (continued)

Table 6.2b

Reconciliation of insurance contracts issued, measured under PAA – prior period

in USD millions	Liability for remaining coverage		Liability for incurred claims			
	Excluding loss component	Loss component	Estimate of the present value of future cash flows	Risk adjustment	Assets for insurance acquisition cash flows	Total
Insurance contract liabilities, as of January 1, 2022	7,853	381	57,692	1,305	(512)	66,720
Insurance contract assets, as of January 1, 2022	–	–	–	–	–	–
Net insurance contracts as of January 1, 2022	7,853	381	57,692	1,305	(512)	66,720
Insurance revenue	(41,343)	–	–	–	–	(41,343)
Insurance service expenses						
Incurred claims and other incurred insurance service expenses	–	–	29,288	402	–	29,691
Amortization of insurance acquisition cash flows	6,077	–	–	–	–	6,077
Changes that relate to past service	–	–	(320)	(104)	–	(423)
Losses and reversal of losses on onerous contracts	–	(36)	–	–	–	(36)
Impairment and reversal of impairment of assets for insurance acquisition cash flows	–	–	–	–	45	45
Insurance service expenses	6,077	(36)	28,969	299	45	35,354
Total gross insurance service result	(35,266)	(36)	28,969	299	45	(5,989)
Cash in/(out)flows in the period						
Premiums received	43,239	–	–	–	–	43,239
Insurance acquisition cash flows	(6,534)	–	–	–	(177)	(6,711)
Claims and other insurance service expenses paid, including investment components	–	–	(28,881)	–	–	(28,881)
Net cash inflows/(outflows)	36,705	–	(28,881)	–	(177)	7,648
Allocation from assets for insurance acquisition cash flows to insurance contracts	(133)	–	–	–	133	–
Investment components	(280)	–	280	–	–	–
Insurance finance (income)/expense recognized in P&L	43	–	470	9	–	522
Insurance finance (income)/expense recognized in OCI	–	–	(5,117)	(123)	–	(5,240)
Acquisitions/(divestments) and transfers[1]	(12)	–	99	–	–	87
Foreign currency translation effects	(239)	(11)	(1,731)	(40)	4	(2,017)
Other changes[2]	(12)	–	109	3	(8)	91
Total changes not related to provision of insurance service	(634)	(11)	(5,891)	(151)	128	(6,558)
Insurance contract liabilities, as of December 31, 2022	8,658	334	51,890	1,453	(516)	61,819
Insurance contract assets, as of December 31, 2022	–	–	–	–	–	–
Net insurance contracts as of December 31, 2022	**8,658**	**334**	**51,890**	**1,453**	**(516)**	**61,819**

1 In 2022, movement is related to the sale of Joint Stock Company Insurance Company (Zurich Russia) and the reclassification of reserves to liabilities held for sale of Zurich Insurance plc (Spain Medical Malpractice portfolio and UK Employers' liability portfolio) (see note 4).
2 Other changes related to balance sheet reclassifications during the transition period.

Consolidated financial statements (continued)

Reconciliation of reinsurance contracts held, measured under PAA – current period

Table 6.3a

in USD millions	Assets for remaining coverage		Assets for incurred claims		
	Excluding loss-recovery component	Loss-recovery component	Estimate of the present value of the future cash flows	Risk adjustment	Total
Reinsurance contract assets, as of January 1, 2023	1,773	16	10,909	290	12,988
Reinsurance contract liabilities, as of January 1, 2023	–	–	–	–	–
Net reinsurance contracts as of January 1, 2023	1,773	16	10,909	290	12,988
Reinsurance premiums	(3,704)	–	–	–	(3,704)
Amounts recovered from reinsurance					
Recoveries of incurred claims and other insurance service expenses	–	–	2,520	49	2,568
Changes to recoveries of incurred claims that relate to past service	–	–	(136)	(77)	(213)
Changes that relate to onerous underlying contracts	–	(9)	–	–	(9)
Changes that relate to future services	2	–	–	–	2
Amounts recovered from reinsurance	2	(9)	2,384	(28)	2,348
Total reinsurance service result	(3,702)	(9)	2,384	(28)	(1,356)
Cash (in)/outflows in the period					
Reinsurance premiums paid	3,668	–	–	–	3,668
Amounts received under reinsurance contracts held, including investment components	–	–	(2,326)	–	(2,326)
Net cash (inflows)/outflows	3,668	–	(2,326)	–	1,342
Effect of changes in the risk of non-performance of reinsurers	–	–	8	–	8
Reinsurance finance income/(expense) recognized in P&L	23	–	121	3	146
Reinsurance finance income/(expense) recognized in OCI	3	–	82	4	89
Acquisitions/(divestments) and transfers	1	–	(23)	–	(22)
Foreign currency translation effects	26	–	115	1	141
Other changes	29	–	2	(1)	30
Total changes not related to provision of reinsurance services	81	–	304	7	392
Reinsurance contract assets, as of June 30, 2023	1,820	7	11,271	269	13,366
Reinsurance contract liabilities, as of June 30, 2023	–	–	–	–	–
Net reinsurance contracts as of June 30, 2023	**1,820**	**7**	**11,271**	**269**	**13,366**

Consolidated financial statements (continued)

Reconciliation of reinsurance contracts held, measured under PAA – prior period

Table 6.3b

in USD millions	Assets for remaining coverage		Assets for incurred claims		
	Excluding loss-recovery component	Loss-recovery component	Estimate of the present value of the future cash flows	Risk adjustment	Total
Reinsurance contract assets, as of January 1, 2022	1,903	39	11,345	240	13,526
Reinsurance contract liabilities, as of January 1, 2022	–	–	–	–	–
Net reinsurance contracts as of January 1, 2022	1,903	39	11,345	240	13,526
Reinsurance premiums	(7,266)	–	–	–	(7,266)
Amounts recovered from reinsurance					
Recoveries of incurred claims and other insurance service expenses	–	–	4,296	92	4,388
Changes to recoveries of incurred claims that relate to past service	–	–	(56)	(19)	(76)
Changes that relate to onerous underlying contracts	–	(23)	–	–	(23)
Changes that relate to future services	3	–	–	–	3
Amounts recovered from reinsurance	3	(23)	4,240	73	4,293
Total reinsurance service result	(7,263)	(23)	4,240	73	(2,973)
Cash (in)/outflows in the period					
Reinsurance premiums paid	7,077	–	–	–	7,077
Amounts received under reinsurance contracts held, including investment components	–	–	(3,883)	–	(3,883)
Net cash (inflows)/outflows	7,077	–	(3,883)	–	3,194
Reinsurance investment components	–	–	–	–	–
Effect of changes in the risk of non-performance of reinsurers	–	–	–	–	1
Reinsurance finance income/(expense) recognized in P&L	(16)	–	123	3	110
Reinsurance finance income/(expense) recognized in OCI	(10)	–	(718)	(20)	(748)
Acquisitions/(divestments) and transfers[1]	81	–	43	–	124
Foreign currency translation effects	(27)	–	(236)	(6)	(268)
Other changes[2]	27	–	(5)	1	23
Total changes not related to provision of reinsurance services	56	–	(792)	(22)	(759)
Reinsurance contract assets, as of December 31, 2022	1,773	16	10,909	290	12,988
Reinsurance contract liabilities, as of December 31, 2022	–	–	–	–	–
Net reinsurance contracts as of December 31, 2022	**1,773**	**16**	**10,909**	**290**	**12,988**

1 In 2022, movement is related to the sale of Joint Stock Company Insurance Company (Zurich Russia) and the reclassification of reserves to assets held for sale of Zurich Insurance plc (Spain Medical Malpractice portfolio and UK Employers' liability portfolio) (see note 4).
2 Other changes related to balance sheet reclassifications during the transition period.

Consolidated financial statements (continued)

Reconciliation of insurance contracts issued, measured under BBA – current period

Table 6.4a

in USD millions	Liability for remaining coverage				
	Excluding loss component	Loss component	Liability for incurred claims	Assets for insurance acquisition cash flows	Total
Insurance contract liabilities, as of January 1, 2023	22,577	1,780	4,652	(2)	29,007
Insurance contract assets, as of January 1, 2023	(489)	2	586	(766)	(668)
Net insurance contracts, as of January 1, 2023	22,088	1,782	5,237	(768)	28,339
Insurance revenue					
Insurance revenue	(3,169)	–	–	–	(3,169)
Insurance service expenses					
Incurred claims and other incurred insurance service expenses	–	–	2,292	–	2,292
Amortization of insurance acquisition cash flows	315	–	–	–	315
Changes that relate to past services	–	–	96	–	96
Losses on onerous contracts and reversal of those losses	–	(26)	–	–	(26)
Impairment and reversal of impairment of assets for insurance acquisition cash flows	–	–	–	3	3
Insurance service expenses	315	(26)	2,388	3	2,680
Total gross insurance service result	(2,855)	(26)	2,388	3	(490)
Cash in/(out)flows in the period					
Premiums received	5,032	–	–	–	5,032
Insurance acquisition cash flows	(436)	–	–	(58)	(495)
Claims and other insurance service expenses paid, including investment components	8	–	(3,917)	–	(3,909)
Net cash inflows/(outflows)	4,603	–	(3,917)	(58)	628
Allocation from assets for insurance acquisition cash flows	(47)	–	–	47	–
Investment components	(1,602)	–	1,602	–	–
Insurance finance (income)/expenses recognized in P&L	299	34	41	–	374
Insurance finance (income)/expenses recognized in OCI	146	–	(21)	–	125
Acquisitions/(divestments) and transfers[1]	(2,788)	(175)	–	–	(2,963)
Foreign currency translation effects	512	5	55	16	589
Other changes	19	1	2	–	22
Total changes not related to provision of insurance services	(3,459)	(135)	1,678	62	(1,853)
Insurance contract liabilities, as of June 30, 2023	20,833	1,620	4,807	(3)	27,256
Insurance contract assets, as of June 30, 2023	(455)	2	580	(759)	(632)
Net insurance contracts, as of June 30, 2023	**20,378**	**1,621**	**5,387**	**(762)**	**26,625**

1 In 2023, decrease related to an agreement entered into by Inversiones Suizo-Chilena S.A. to sell the annuity book of Zurich Chile Seguros de Vida S.A. (see note 4).

Consolidated financial statements (continued)

Reconciliation of insurance contracts issued, measured under BBA – prior period

Table 6.4b

in USD millions	Liability for remaining coverage – Excluding loss component	Liability for remaining coverage – Loss component	Liability for incurred claims	Assets for insurance acquisition cash flows	Total
Insurance contract liabilities, as of January 1, 2022	25,708	1,466	6,883	(162)	33,895
Insurance contract assets, as of January 1, 2022	(613)	–	278	(377)	(712)
Net insurance contracts, as of January 1, 2022	25,095	1,466	7,161	(540)	33,183
Insurance revenue					
Insurance revenue	(5,983)	–	–	–	(5,983)
Insurance service expenses					
Incurred claims and other incurred insurance service expenses	–	–	4,372	–	4,372
Amortization of insurance acquisition cash flows	581	–	–	–	581
Changes that relate to past services	–	–	23	–	23
Losses on onerous contracts and reversal of those losses	–	375	–	–	375
Impairment and reversal of impairment of assets for insurance acquisition cash flows	–	–	–	8	8
Insurance service expenses	581	375	4,396	8	5,360
Total gross insurance service result	(5,402)	375	4,396	8	(623)
Cash in/(out)flows in the period					
Premiums received	7,607	–	–	–	7,607
Insurance acquisition cash flows	(772)	–	–	(111)	(884)
Claims and other insurance service expenses paid, including investment components	(4)	–	(6,162)	–	(6,166)
Net cash inflows/(outflows)	6,831	–	(6,162)	(111)	557
Allocation from assets for insurance acquisition cash flows	(100)	–	–	100	–
Investment components	(1,818)	–	1,818	–	–
Insurance finance (income)/expenses recognized in P&L	560	15	(208)	–	367
Insurance finance (income)/expenses recognized in OCI	(3,903)	–	(98)	–	(4,001)
Acquisitions/(divestments) and transfers	(13)	–	–	–	(13)
Foreign currency translation effects	(1,165)	(113)	(302)	41	(1,539)
Other changes[1]	2,004	38	(1,368)	(266)	408
Total changes not related to provision of insurance services	(4,436)	(60)	(157)	(125)	(4,778)
Insurance contract liabilities, as of December 31, 2022	22,577	1,780	4,652	(2)	29,007
Insurance contract assets, as of December 31, 2022	(489)	2	586	(766)	(668)
Net insurance contracts, as of December 31, 2022	**22,088**	**1,782**	**5,237**	**(768)**	**28,339**

1 Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

Consolidated financial statements (continued)

Reconciliation of measurement components of insurance contracts issued, measured under BBA – current period

Table 6.5a

in USD millions	Present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities, as of January 1, 2023	21,268	1,964	5,775	29,007
Insurance contract assets, as of January 1, 2023	(1,401)	163	571	(668)
Net insurance contracts, as of January 1, 2023	19,867	2,127	6,346	28,339
Changes that relate to future services				
Changes in estimates that adjust the CSM	(24)	8	15	–
Changes in estimates that result in onerous contract losses or reversal of losses	26	(7)	–	19
Contracts initially recognized in the period	(690)	125	573	8
Changes that relate to current services				
CSM recognized for the services provided	–	–	(553)	(553)
Risk adjustment recognized for the risk expired	–	(84)	–	(84)
Experience adjustments	23	–	–	23
Changes that relate to past services				
Changes in fulfilment cash flows relating to incurred claims	117	(21)	–	96
Changes related to provision of insurance services	(546)	21	35	(490)
Cash in/(out)flows in the period				
Premiums received	5,032	–	–	5,032
Insurance acquisition cash flows	(495)	–	–	(495)
Claims and other insurance service expenses paid, including investment components	(3,909)	–	–	(3,909)
Net cash inflows/(outflows)	628	–	–	628
Insurance finance (income)/expenses	392	54	53	499
Foreign currency translation effects	613	(53)	28	589
Other changes[1]	(2,883)	(42)	(15)	(2,941)
Total changes not related to provision of insurance services	(1,879)	(41)	66	(1,853)
Insurance contract liabilities, as of June 30, 2023	19,383	1,953	5,920	27,256
Insurance contract assets, as of June 30, 2023	(1,313)	154	527	(632)
Net insurance contracts, as of June 30, 2023	**18,070**	**2,108**	**6,447**	**26,625**

1 In 2023, the decrease related to an agreement entered into by Inversiones Suizo-Chilena S.A. to sell the annuity book of Zurich Chile Seguros de Vida S.A. (see note 4).

Consolidated financial statements (continued)

Reconciliation of measurement components of insurance contracts issued, measured under BBA – prior period

Table 6.5b

in USD millions	Present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities, as of January 1, 2022	27,511	2,314	4,070	33,895
Insurance contract assets, as of January 1, 2022	(2,550)	377	1,461	(712)
Net insurance contracts, as of January 1, 2022	24,961	2,690	5,531	33,183
Changes that relate to future services				
Changes in estimates that adjust the CSM	(226)	(133)	358	–
Changes in estimates that result in onerous contract losses or reversal of losses	419	7	–	426
Contracts initially recognized in the period	(1,055)	192	912	49
Changes that relate to current services				
CSM recognized for the services provided	–	–	(987)	(987)
Risk adjustment recognized for the risk expired	–	(180)	–	(180)
Experience adjustments	45	–	–	45
Changes that relate to past services				
Changes in fulfilment cash flows relating to incurred claims	66	(43)	–	23
Changes related to provision of insurance services	(751)	(156)	284	(623)
Cash in/(out)flows in the period				
Premiums received	7,607	–	–	7,607
Insurance acquisition cash flows	(884)	–	–	(884)
Claims and other insurance service expenses paid, including investment components	(6,166)	–	–	(6,166)
Net cash inflows/(outflows)	557	–	–	557
Insurance finance (income)/expenses	(3,298)	(401)	65	(3,634)
Foreign currency translation effects	(956)	(214)	(369)	(1,539)
Other changes[1]	(647)	207	835	395
Total changes not related to provision of insurance services	(4,901)	(408)	531	(4,778)
Insurance contract liabilities, as of December 31, 2022	21,268	1,964	5,775	29,007
Insurance contract assets, as of December 31, 2022	(1,401)	163	571	(668)
Net insurance contracts, as of December 31, 2022	**19,867**	**2,127**	**6,346**	**28,339**

1 Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

Consolidated financial statements (continued)

Reconciliation of insurance contracts issued, measured under VFA – current period

Table 6.6a

in USD millions	Liability for remaining coverage			
	Excluding loss component	Loss component	Liability for incurred claims	Total
Insurance contract liabilities, as of January 1, 2023	111,688	107	1,215	113,011
Insurance contract assets, as of January 1, 2023	(8)	–	–	(8)
Net insurance contracts, as of January 1, 2023	111,680	107	1,215	113,002
Insurance revenue				
Insurance revenue	(1,880)	–	–	(1,880)
Insurance service expenses				
Incurred claims and other incurred insurance service expenses	–	–	1,031	1,031
Amortization of insurance acquisition cash flows	267	–	–	267
Changes that relate to past services	–	–	(19)	(19)
Losses on onerous contracts and reversal of those losses	–	–	–	–
Impairment and reversal of impairment of assets for insurance acquisition cash flows	–	–	–	–
Insurance service expenses	267	–	1,011	1,279
Total gross insurance service result	(1,613)	–	1,011	(601)
Cash in/(out)flows in the period				
Premiums received	5,495	–	–	5,495
Insurance acquisition cash flows	(257)	–	–	(257)
Claims and other insurance service expenses paid, including investment components	(9)	–	(7,124)	(7,133)
Net cash inflows/(outflows)	5,229	–	(7,124)	(1,894)
Investment components	(6,287)	–	6,287	–
Insurance finance (income)/expenses recognized in P&L	4,575	4	4	4,583
Insurance finance (income)/expenses recognized in OCI	959	–	–	959
Acquisitions/(divestments) and transfers	218	–	20	239
Foreign currency translation effects	3,507	(1)	7	3,514
Other changes	133	–	(164)	(32)
Total changes not related to provision of insurance services	3,105	3	6,155	9,263
Insurance contract liabilities, as of June 30, 2023	118,410	110	1,258	119,778
Insurance contract assets, as of June 30, 2023	(9)	–	–	(9)
Net insurance contracts, as of June 30, 2023	**118,401**	**110**	**1,258**	**119,770**

Consolidated financial statements (continued)

Reconciliation of insurance contracts issued, measured under VFA – prior period

Table 6.6b

in USD millions	Liability for remaining coverage			
	Excluding loss component	Loss component	Liability for incurred claims	Total
Insurance contract liabilities, as of January 1, 2022	160,083	60	1,884	162,026
Insurance contract assets, as of January 1, 2022	(8)	–	–	(8)
Net insurance contracts, as of January 1, 2022	160,075	60	1,884	162,018
Insurance revenue				
Insurance revenue	(3,433)	–	–	(3,433)
Insurance service expenses				
Incurred claims and other incurred insurance service expenses	–	–	2,179	2,179
Amortization of insurance acquisition cash flows	544	–	–	544
Changes that relate to past services	–	–	(56)	(56)
Losses on onerous contracts and reversal of those losses	–	56	–	56
Impairment and reversal of impairment of assets for insurance acquisition cash flows	–	–	–	–
Insurance service expenses	544	56	2,122	2,722
Total gross insurance service result	(2,889)	56	2,122	(711)
Cash in/(out)flows in the period				
Premiums received	11,326	–	–	11,326
Insurance acquisition cash flows	(579)	–	–	(579)
Claims and other insurance service expenses paid, including investment components	7	–	(13,783)	(13,776)
Net cash inflows/(outflows)	10,755	–	(13,783)	(3,028)
Investment components	(11,448)	–	11,448	–
Insurance finance (income)/expenses recognized in P&L	(5,800)	1	(103)	(5,902)
Insurance finance (income)/expenses recognized in OCI	(13,965)	–	–	(13,965)
Acquisitions/(divestments) and transfers[1]	(17,666)	2	99	(17,565)
Foreign currency translation effects	(7,736)	(3)	(21)	(7,760)
Other change[2]	353	(8)	(431)	(85)
Total changes not related to provision of insurance services	(56,261)	(8)	10,992	(45,277)
Insurance contract liabilities, as of December 31, 2022	111,688	107	1,215	113,011
Insurance contract assets, as of December 31, 2022	(8)	–	–	(8)
Net insurance contracts, as of December 31, 2022	**111,680**	**107**	**1,215**	**113,002**

1 In 2022, movement is mainly related to agreements entered into by Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft to sell its legacy traditional life insurance book and Zurich Investments Life S.p.A. to sell part of its life and pension back book (see note 4).
2 Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

Consolidated financial statements (continued)

Reconciliation of measurement components of insurance contracts issued, measured under VFA – current period

Table 6.7a

in USD millions	Present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities, as of January 1, 2023	103,755	517	8,739	113,011
Insurance contract assets, as of January 1, 2023	(42)	1	32	(8)
Net insurance contracts, as of January 1, 2023	103,713	518	8,771	113,002
Changes that relate to future services				
Changes in estimates that adjust the CSM	(666)	(12)	678	–
Changes in estimates that result in onerous contract losses or reversal of losses	2	(1)	–	1
Contracts initially recognized in the period	(166)	13	158	5
Changes that relate to current services				
CSM recognized for the services provided	–	–	(420)	(420)
Risk adjustment recognized for the risk expired	–	(23)	–	(23)
Experience adjustments	(145)	–	–	(145)
Changes that relate to past services				
Changes in fulfilment cash flows relating to incurred claims	(19)	–	–	(19)
Changes related to provision of insurance services	(994)	(23)	416	(601)
Cash in/(out)flows in the period				
Premiums received	5,495	–	–	5,495
Insurance acquisition cash flows	(257)	–	–	(257)
Claims and other insurance service expenses paid, including investment components	(7,133)	–	–	(7,133)
Net cash inflows/(outflows)	(1,894)	–	–	(1,894)
Investment components	–	–	–	–
Insurance finance (income)/expenses	5,536	6	–	5,542
Foreign currency translation effects	3,242	13	258	3,514
Other changes	153	21	32	207
Total changes not related to provision of insurance services	8,931	41	291	9,263
Insurance contract liabilities, as of June 30, 2023	109,796	535	9,447	119,778
Insurance contract assets, as of June 30, 2023	(41)	1	31	(9)
Net insurance contracts, as of June 30, 2023	**109,756**	**536**	**9,478**	**119,770**

Consolidated financial statements (continued)

Reconciliation of measurement components of insurance contracts issued, measured under VFA – prior period

Table 6.7b

in USD millions	Present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities, as of January 1, 2022	150,356	727	10,943	162,026
Insurance contract assets, as of January 1, 2022	(41)	1	32	(8)
Net insurance contracts, as of January 1, 2022	150,315	728	10,975	162,018
Changes that relate to future services	–	–	–	–
Changes in estimates that adjust the CSM	1,073	(101)	(973)	–
Changes in estimates that result in onerous contract losses or reversal of losses	58	(6)	–	52
Contracts initially recognized in the period	(372)	31	351	10
Changes that relate to current services	–	–	–	–
CSM recognized for the services provided	–	–	(835)	(835)
Risk adjustment recognized for the risk expired	–	(47)	–	(47)
Experience adjustments	166	–	–	166
Changes that relate to past services	–	–	–	–
Changes in fulfilment cash flows relating to incurred claims	(56)	–	–	(56)
Changes related to provision of insurance services	868	(122)	(1,457)	(711)
Cash in/(out)flows in the period	–	–	–	–
Premiums received	11,326	–	–	11,326
Insurance acquisition cash flows	(579)	–	–	(579)
Claims and other insurance service expenses paid, including investment components	(13,776)	–	–	(13,776)
Net cash inflows/(outflows)	(3,028)	–	–	(3,028)
Investment components	–	–	–	–
Insurance finance (income)/expenses	(19,849)	(18)	–	(19,867)
Foreign currency translation effects	(7,277)	(34)	(450)	(7,760)
Other changes[1,2]	(17,316)	(36)	(298)	(17,650)
Total changes not related to provision of insurance services	(44,442)	(87)	(748)	(45,277)
Insurance contract liabilities, as of December 31, 2022	103,755	517	8,739	113,011
Insurance contract assets, as of December 31, 2022	(42)	1	32	(8)
Net insurance contracts, as of December 31, 2022	**103,713**	**518**	**8,771**	**113,002**

1 In 2022, movement is mainly related to agreements entered into by Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft to sell its legacy traditional life insurance book and Zurich Investments Life S.p.A. to sell part of its life and pension back book (see note 4).
2 Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period

Consolidated financial statements (continued)

Reconciliation of reinsurance contracts held, measured under BBA – current period

Table 6.8a

in USD millions	Assets for remaining coverage			
	Excluding loss-recovery component	Loss-recovery component	Assets for incurred claims	Total
Reinsurance contract assets, as of January 1, 2023	5,158	171	1,561	6,890
Reinsurance contract liabilities, as of January 1, 2023	(436)	–	70	(367)
Net reinsurance contracts, as of January 1, 2023	4,722	171	1,631	6,524
Reinsurance premiums	(550)	–	–	(550)
Amounts recovered from reinsurance				
Recoveries of incurred claims and other insurance service expense	–	–	439	439
Changes to recoveries of incurred claims that relate to past services	–	–	14	14
Changes that relate to onerous underlying contracts	–	4	–	4
Amounts recovered from reinsurance	–	4	453	457
Total reinsurance service result	(550)	4	453	(93)
Cash (in)/outflows in the period				
Reinsurance premiums paid	506	–	–	506
Amounts received under reinsurance contracts held, including investment components	5	–	(616)	(612)
Net cash (inflows)/outflows	510	–	(616)	(106)
Reinsurance investment components	(164)	–	164	–
Effect of changes in the risk of non-performance of reinsurers	3	–	–	3
Reinsurance finance income/(expenses) recognized in P&L	38	2	4	44
Reinsurance finance income/(expenses) recognized in OCI	52	–	(1)	52
Acquisitions/(divestments) and transfers	(1)	–	–	(1)
Foreign currency translation effects	–	(1)	(1)	(3)
Other changes	(3)	–	3	–
Total changes not related to reinsurance services received	(74)	1	169	95
Reinsurance contract assets, as of June 30, 2023	5,035	175	1,571	6,781
Reinsurance contract liabilities, as of June 30, 2023	(427)	–	66	(361)
Net reinsurance contracts, as of June 30, 2023	**4,608**	**175**	**1,637**	**6,420**

Consolidated financial statements (continued)

Reconciliation of reinsurance contracts held, measured under BBA – prior period

Table 6.8b

in USD millions	Assets for remaining coverage			
	Excluding loss-recovery component	Loss-recovery component	Assets for incurred claims	Total
Reinsurance contract assets, as of January 1, 2022	4,349	156	2,177	6,682
Reinsurance contract liabilities, as of January 1, 2022	(269)	–	119	(150)
Net reinsurance contracts, as of January 1, 2022	4,080	156	2,296	6,532
Reinsurance premiums	(1,141)	–	–	(1,141)
Amounts recovered from reinsurance				
Recoveries of incurred claims and other insurance service expense	–	–	958	958
Changes to recoveries of incurred claims that relate to past services	–	–	4	4
Changes that relate to onerous underlying contracts	–	33	–	33
Amounts recovered from reinsurance	–	33	962	996
Total reinsurance service result	(1,141)	33	962	(146)
Cash (in)/outflows in the period				
Reinsurance premiums paid	1,132	–	–	1,132
Amounts received under reinsurance contracts held, including investment components	29	–	(1,218)	(1,189)
Net cash (inflows)/outflows	1,161	–	(1,218)	(57)
Reinsurance investment components	(288)	–	288	–
Effect of changes in the risk of non-performance of reinsurers	5	–	–	5
Reinsurance finance income/(expenses) recognized in P&L	87	1	(14)	74
Reinsurance finance income/(expenses) recognized in OCI	201	–	(6)	195
Acquisitions/(divestments) and transfers	3	–	–	3
Foreign currency translation effects	(81)	(11)	(77)	(169)
Other changes[1]	696	(8)	(601)	87
Total changes not related to reinsurance services received	623	(18)	(409)	195
Reinsurance contract assets, as of December 31, 2022	5,158	171	1,561	6,890
Reinsurance contract liabilities, as of December 31, 2022	(436)	–	70	(367)
Net reinsurance contracts, as of December 31, 2022	**4,722**	**171**	**1,631**	**6,524**

1 Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

Consolidated financial statements (continued)

Reconciliation of measurement components of reinsurance contracts held, measured under BBA – current period

Table 6.9a

in USD millions	Estimate of the present value of the future cash flows	Risk adjustment	Contractual service margin	Total
Reinsurance contract assets, as of January 1, 2023	4,451	376	2,064	6,890
Reinsurance contract liabilities, as of January 1, 2023	(625)	24	235	(367)
Net reinsurance contracts, as of January 1, 2023	3,825	400	2,299	6,524
Changes that relate to future services				
Changes in estimates that adjust the CSM	(33)	(8)	42	–
Changes in estimates that relates to loss-recovery and reversal of loss-recovery on onerous underlying contracts	7	1	–	8
Contracts initially recognized in the period	(151)	44	108	–
Changes that relate to current services				
CSM recognized in P&L for services received	–	–	(100)	(100)
Changes in the risk adjustment for non-financial risk	–	(11)	–	(11)
Experience adjustments	(4)	–	–	(4)
Changes that relate to past services				
Changes that relate to assets for incurred claims	20	(5)	–	14
Changes related to reinsurance services received	(162)	19	50	(93)
Cash (in)/outflows in the period				
Reinsurance premiums paid	506	–	–	506
Amounts received under reinsurance contracts held, including investment components	(612)	–	–	(612)
Net cash (inflows)/outflows	(106)	–	–	(106)
Reinsurance investment components	–	–	–	–
Effect of changes in the risk of non-performance of reinsurers	3	–	–	3
Reinsurance finance income/(expenses)	77	2	17	96
Foreign currency translation effects	(54)	5	46	(3)
Other changes	(1)	–	–	(1)
Total changes not related to reinsurance services received	25	6	63	95
Reinsurance contract assets, as of June 30, 2023	4,200	403	2,177	6,781
Reinsurance contract liabilities, as of June 30, 2023	(618)	22	235	(361)
Net reinsurance contracts, as of June 30, 2023	**3,582**	**425**	**2,413**	**6,420**

Consolidated financial statements (continued)

Reconciliation of measurement components of reinsurance contracts held, measured under BBA – prior period

Table 6.9b

in USD millions	Estimate of the present value of the future cash flows	Risk adjustment	Contractual service margin	Total
Reinsurance contract assets, as of January 1, 2022	4,862	429	1,391	6,682
Reinsurance contract liabilities, as of January 1, 2022	(973)	126	697	(150)
Net reinsurance contracts, as of January 1, 2022	3,889	554	2,089	6,532
Changes that relate to future services				
Changes in estimates that adjust the CSM	(356)	(27)	384	–
Changes in estimates that relates to loss-recovery and reversal of loss-recovery on onerous underlying contracts	43	(7)	–	36
Contracts initially recognized in the period	(181)	48	134	1
Changes that relate to current services				
CSM recognized in P&L for services received	–	–	(190)	(190)
Changes in the risk adjustment for non-financial risk	–	(24)	–	(24)
Experience adjustments	28	–	–	28
Changes that relate to past services				
Changes that relate to assets for incurred claims	15	(10)	–	4
Changes related to reinsurance services received	(452)	(22)	328	(146)
Cash (in)/outflows in the period				
Reinsurance premiums paid	1,132	–	–	1,132
Amounts received under reinsurance contracts held, including investment components	(1,189)	–	–	(1,189)
Net cash (inflows)/outflows	(57)	–	–	(57)
Reinsurance investment components	–	–	–	–
Effect of changes in the risk of non-performance of reinsurers	4	–	–	5
Reinsurance finance income/(expenses)	353	(103)	19	269
Foreign currency translation effects	43	(40)	(172)	(169)
Other changes[1]	45	10	35	90
Total changes not related to reinsurance services received	445	(133)	(117)	195
Reinsurance contract assets, as of December 31, 2022	4,451	376	2,064	6,890
Reinsurance contract liabilities, as of December 31, 2022	(625)	24	235	(367)
Net reinsurance contracts, as of December 31, 2022	**3,825**	**400**	**2,299**	**6,524**

1 Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

Table 6.10 shows the expected pattern of recognition of the CSM from existing contracts in profit or loss. For insurance contracts measured under BBA, a large proportion of the CSM is expected to be released within the next 10 years, consistent with the coverage period of the respective insurance contracts in force. The expected pattern for the CSM recognition for reinsurance contracts held is consistent with that of insurance contracts measured under BBA. Due to significantly longer coverage periods of insurance contracts measured under VFA, the expected CSM release pattern is much slower, with a significant proportion of CSM to be recognized in P&L after 10 years.

Expected recognition of the CSM in the P&L

Table 6.10

In USD millions, as of	**06/30/2023**			12/31/2022		
	Insurance contracts measured under BBA	**Insurance contracts measured under VFA**	**Reinsurance contracts measured under BBA**	Insurance contracts measured under BBA	Insurance contracts measured under VFA	Reinsurance contracts measured under BBA
< 1 year	488	262	(84)	744	517	(181)
1 to 2 years	575	552	(165)	516	617	(159)
2 to 3 years	485	531	(156)	473	570	(150)
3 to 4 years	438	510	(145)	432	438	(142)
4 to 5 years	400	486	(136)	392	417	(129)
5 to 10 years	1,542	2,053	(568)	1,522	1,772	(529)
> 10 years	2,520	5,084	(1,159)	2,267	4,439	(1,009)
Total amount of unamortized CSM	**6,447**	**9,478**	**(2,413)**	**6,346**	**8,771**	**(2,299)**

Consolidated financial statements (continued)

7. Insurance revenue

Table 7

Analysis of insurance revenue recognized

in USD millions, for the six months ended June 30	2023	2022
Insurance revenue recognized in the period – PAA	21,912	19,686
Change in the liability for remaining coverage, consisting of:		
Amortization of CSM	977	880
Release of risk adjustment for non-financial risk	126	144
Insurance service expenses expected during the period	3,314	3,380
Allocation of insurance acquisition cash flows	584	552
Premium experience adjustments	65	(182)
Other	(7)	(3)
Insurance revenue recognized in the period – BBA and VFA	5,058	4,771
Total insurance revenue	**26,971**	**24,457**

Consolidated financial statements (continued)

8. Fee result

Table 8

Fee result

in USD millions, for the six months ended June 30	**2023**	2022
Fee income		
Farmers management fees and other related revenues	2,251	2,218
Investment contracts related fee income	316	247
Risk engineering and other related fee income	338	376
Total fee income	2,905	2,840
Fee expenses		
Fee related expenses	(1,815)	(1,917)
Fee result	**1,090**	**924**

Consolidated financial statements (continued)

9. Attorney-in-fact contracts, goodwill and other intangible assets

Table 9.1

Intangible assets by business – current period

in USD millions, as of June 30, 2023	Attorney-in-fact contracts	Goodwill	Distribution agreements	Software	Other	Total
Property & Casualty	–	1,885	448	844	153	3,330
Life	–	1,390	1,419	46	163	3,018
Farmers	2,650	1,237	–	438	291	4,616
Group Functions and Operations	–	10	–	45	–	55
Net carrying value	**2,650**	**4,522**	**1,866**	**1,372**	**607**	**11,018**

Table 9.2

Intangible assets by business – prior period

in USD millions, as of December 31, 2022	Attorney-in-fact contracts	Goodwill	Distribution agreements	Software	Other	Total
Property & Casualty	–	1,760	439	827	158	3,184
Life	–	1,413	1,374	46	170	3,003
Farmers	2,650	1,237	–	469	309	4,666
Group Functions and Operations	–	10	–	43	–	53
Net carrying value	**2,650**	**4,420**	**1,813**	**1,385**	**637**	**10,906**

Table 9.3

Intangible assets – current period

in USD millions	Attorney-in-fact contracts	Goodwill	Distribution agreements	Software[1]	Other	Total
Gross carrying value as of January 1, 2023[2]	2,650	4,794	3,673	5,430	894	17,441
Less: accumulated amortization/impairments[2]	–	(256)	(1,858)	(4,046)	(257)	(6,417)
Net carrying value as of January 1, 2023[2]	2,650	4,538	1,815	1,384	638	11,025
Additions and acquisitions[3]	–	(8)	5	144	(2)	139
Divestments and transfers	–	–	–	–	(3)	(3)
Amortization[4]	–	–	(30)	(168)	(28)	(226)
Impairments	–	–	–	(4)	–	(4)
Foreign currency translation effects	–	(7)	76	16	2	87
Net carrying value as of June 30, 2023	**2,650**	**4,522**	**1,866**	**1,372**	**607**	**11,018**
Plus: accumulated amortization/impairments	–	263	1,973	4,255	289	6,779
Gross carrying value as of June 30, 2023	2,650	4,785	3,839	5,627	896	17,797

1 For the six months ended June 30, 2023 Farmers Group, Inc. has USD 1.3 billion of fully amortized software, which is still in use.
2 January 1, 2023 balances are impacted by hyperinflation, please see note 1 for details.
3 Additions of goodwill and other intangible assets include post acquisition adjustments of Financial Advisors of the Deutsche Bank Group in Italy, as follows: USD (8) million of goodwill and USD (4) million of other intangible assets (see note 4).
4 Amortization of distribution agreements is included within underwriting and policy acquisition costs.

As of June 30, 2023, intangible assets related to non-controlling interests were USD 867 million for distribution agreements, USD 10 million for software, USD 41 million for goodwill and USD 5 million for other intangible assets.

Consolidated financial statements (continued)

Intangible assets – prior period

Table 9.4

in USD millions	Attorney-in-fact contracts	Goodwill	Distribution agreements	Software[1]	Other	Total
Gross carrying value as of January 1, 2022	2,650	4,617	3,767	5,258	761	17,053
Less: accumulated amortization/impairments	–	(274)	(1,835)	(3,871)	(222)	(6,202)
Net carrying value as of January 1, 2022	2,650	4,344	1,932	1,387	539	10,852
Additions and acquisitions	–	212	13	370	152	748
Divestments and transfers	–	(6)	(9)	(7)	–	(22)
Amortization[2]	–	–	(66)	(321)	(49)	(436)
Impairments	–	–	(3)	(5)	–	(8)
Foreign currency translation effects	–	(130)	(53)	(40)	(4)	(227)
Net carrying value as of December 31, 2022	**2,650**	**4,420**	**1,813**	**1,385**	**637**	**10,906**
Plus: accumulated amortization/impairments	–	256	1,851	4,043	256	6,406
Gross carrying value as of December 31, 2022	2,650	4,677	3,664	5,427	893	17,312

1 For the year ended December 31, 2022 Farmers Group, Inc. has USD 1.3 billion of fully amortized software, which is still in use.
2 Amortization of distribution agreements is included within underwriting and policy acquisition costs.

As of December 31, 2022, intangible assets related to non-controlling interests were USD 841 million for distribution agreements, USD 9 million for software, USD 39 million for goodwill and USD 5 million for other intangible assets.

In 2022, as a result of the acquisition of the network of Financial Advisors of the Deutsche Bank Group in Italy, intangible assets increased by USD 348 million, of which USD 211 million is goodwill, USD 1 million is software and USD 136 million is other intangible assets (refer to note 4).

The Group performs quantitative tests of goodwill recoverability annually during the third quarter by applying a reasonably possible change to each of the key assumptions to capture potential future variations in market conditions: a decrease in cash flows of up to 20 percent, an increase in the discount rate of 1.0 percentage point and a decrease in the perpetual growth rate of 1.0 percentage point. Under each individual scenario, reasonably possible changes in key assumptions did not impair goodwill and attorney-in-fact (AIF) contracts. As of June 30, 2023, the Group had not identified any triggers impacting the carrying value of the goodwill in these cash-generating units (CGUs).

Consolidated financial statements (continued)

10. Provisions

Table 10a

Provisions – current period

in USD millions	Restructuring provisions	Litigation and regulatory provisions[1]	Other provisions	Total
As of January 1, 2023	115	198	443	755
Provisions made during the period	17	67	176	260
Increase of provisions set up in prior years	73	1	7	81
Provisions used during the period	(38)	(3)	(127)	(169)
Provisions reversed during the period	(5)	(4)	(23)	(32)
Foreign currency translation effects	2	3	15	20
Net changes due to acquisitions/divestments	–	2	(6)	(4)
Other changes	–	–	–	–
As of June 30, 2023	**164**	**264**	**483**	**912**

1 Refer to note 13 for further information on legal, compliance and regulatory developments.

Table 10b

Provisions – prior period

in USD millions	Restructuring provisions	Litigation and regulatory provisions[1]	Other provisions	Total
As of January 1, 2022	93	150	504	748
Provisions made during the period	67	100	273	440
Increase of provisions set up in prior years	10	14	8	32
Provisions used during the period	(45)	(50)	(311)	(407)
Provisions reversed during the period	(6)	(9)	(58)	(73)
Foreign currency translation effects	(4)	(4)	(13)	(21)
Net changes due to acquisitions/divestments	–	(3)	40	37
Other changes	–	–	–	(1)
As of December 31, 2022	**115**	**198**	**443**	**755**

1 Refer to note 13 for further information on legal, compliance and regulatory developments.

Consolidated financial statements (continued)

11. Income taxes

Income tax expense – current/deferred split

Table 11.1

in USD millions, for the six months ended June 30	**2023**	2022
Current	940	800
Deferred	(5)	(224)
Total income tax expense/(benefit)	**935**	**577**

Expected and actual income tax expense

Table 11.2

in USD millions, for the six months ended June 30	**Rate**	**2023**	Rate	2022
Net income before income taxes		3,605		3,080
less: income tax (expense)/benefit attributable to policyholders		(73)		253
Net income before income taxes attributable to shareholders		3,532		3,333
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	20.0%	706	20.0%	667
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*124*		*(61)*
Tax exempt and lower taxed income		*(77)*		*(104)*
Non-deductible expenses		*71*		*72*
Tax losses not recognized		*(12)*		*39*
Prior year adjustments and other		*49*		*218*
Actual income tax expense attributable to shareholders	**24.4%**	**861**	**24.9%**	**830**
plus: income tax expense/(benefit) attributable to policyholders		73		(253)
Actual income tax expense	25.9%	935	18.7%	577

Table 11.2 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate of 20.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

The Group is required to record taxes on policyholder earnings for life insurance policyholders in certain jurisdictions. Accordingly, the income tax expense or benefit attributable to these life insurance policyholder earnings is included in income tax expense. In certain jurisdictions, an accrual for future policy fees that will cover the tax charge is included in insurance benefits and losses.

Taxes paid by certain of the Group's life insurance businesses are based on the investment result, and it is normal practice for certain of the Group's businesses to recover from policyholders the taxes attributable to their share of the investment result. While the relevant insurance businesses have the contractual right to charge policyholders for the taxes attributable to their share of the investment result, the obligation to pay the tax authority rests with the company and therefore the full amount of tax including the portion attributable to policyholders is accounted for as income tax. Income tax expense, therefore, includes an element attributable to policyholders.

Consolidated financial statements (continued)

12. Senior and subordinated debt

Senior and subordinated debt

Table 12.1

in USD millions, as of		6/30/2023	12/31/22
Senior debt			
Zurich Insurance Company Ltd	1.875% CHF 100 million notes, due September 2023[1]	112	110
	1.750% EUR 500 million notes, due September 2024[1,2]	550	540
	0.500% CHF 350 million notes, due December 2024[1]	391	379
	1.500% CHF 150 million notes, due July 2026[1]	178	173
	0.750% CHF 200 million notes, due October 2027[1]	223	216
	1.000% CHF 200 million notes, due October 2028[1]	224	217
	1.500% EUR 500 million notes, due December 2028[1,2]	543	531
	1.125% CHF 400 million notes, due July 2029[1]	448	433
	0.000% CHF 200 million notes, due August 2031[1]	223	216
	0.100% CHF 250 million notes, due August 2032[1]	280	271
Zurich Holding Comp. of America Inc	2.300% USD 400 million notes, due February 2030[1]	400	400
Zurich Finance (Australia) Limited	3.477% AUD 350 million notes, due May 2023[1]	–	238
	4.770% AUD 200 million loan, due July 2027	141	136
	5.324% AUD 200 million notes, due September 2029[1]	133	136
	4.500% AUD 375 million notes, due July 2038[1]	264	268
Zurich Finance (Ireland) DAC	2.250% USD 200 million notes, due December 2031[1,2]	200	200
	1.625% EUR 500 million notes, due June 2039[1,2]	544	533
	Euro Commercial Paper Notes, due in less than 12 months	297	75
Senior debt		5,150	5,071
Subordinated debt			
Zurich Insurance Company Ltd	4.250% EUR 500 million notes, due October 2043, first callable October 2023[1,2]	545	534
	4.250% USD 300 million notes, due October 2045, first callable October 2025[1,2]	300	300
	5.625% USD 1 billion notes, due June 2046, first callable June 2026[1,2]	999	998
	3.500% EUR 750 million notes, due October 2046, first callable October 2026[1,2,3]	791	770
	5.125% USD 500 million notes, due June 2048, first callable June 2028[1,2]	499	499
	4.875% USD 500 million notes, due October 2048, first callable October 2028[1,2]	499	499
	2.750% EUR 500 million notes, due February 2049, first callable February 2029[1,2]	542	530
	1.500% CHF 300 million notes, due May 2052, first callable February 2032[1]	334	323
Zurich Finance (Ireland) DAC	1.875% EUR 750 million notes, due September 2050, first callable June 2030[1,2]	815	797
	3.000% USD 1.75 billion notes, due April 2051, first callable January 2031[1,2]	1,746	1,746
	3.500% USD 500 million notes, due May 2052, first callable February 2032[1,2]	499	499
	5.125% GBP 1 billion notes, due November 2052, first callable August 2032[1,2]	1,257	1,192
	1.600% EUR 200 million notes, due December 2052, first callable September 2032[1,2]	218	213
Subordinated debt		9,044	8,899
Total senior and subordinated debt		**14,194**	**13,970**

1 Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).
2 These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.
3 The Group has discontinued the fair value hedges previously applied to hedge the interest rate exposure.

None of the debt instruments listed in table 12.1 were in default as of June 30, 2023 or December 31, 2022.

Consolidated financial statements (continued)

13. Commitments and contingencies, legal proceedings and regulatory investigations

The Group has provided contractual commitments and financial guarantees to external parties, associates and joint ventures as well as partnerships. These arrangements include commitments under certain conditions to make liquidity advances to cover default principal and interest payments, make capital contributions or provide equity financing.

Table 13

Quantifiable commitments and contingencies

in USD millions as of	06/30/2023	12/31/2022
Remaining commitments under investment agreements	1,038	1,045
Guarantees and letters of credit[1]	866	838
Undrawn loan commitments	1	–
Other commitments and contingent liabilities[2]	370	427

1 Guarantee features embedded in life insurance products are not included.
2 Includes USD 8.8 million and USD 11 million future cash flows in 2023 and 2022, respectively, that the Group as a lessee is potentially exposed to which are not reflected in the measurement of lease liabilities in the balance sheet.

Legal, compliance and regulatory developments

The Group's business is subject to extensive supervision, and the Group is in regular contact with various regulatory authorities. The Group is also involved in legal and arbitration proceedings and regulatory investigations arising, for the most part, in the ordinary course of its business operations in various jurisdictions where it operates. In addition, the Group and/or its subsidiaries are involved in legal matters arising out of transactions involving the transfer of portfolios or businesses. These legal matters can include claims brought by purchasers or other parties asserting claims for damages on various theories, including failure to disclose material information, failure to perform contractual duties or otherwise seeking to impose liability on the Group and/or its subsidiaries. With respect to significant legal or regulatory matters, the Group considers the likelihood of a negative outcome, and when the likelihood of a negative outcome is probable and the amount of the loss can be reliably estimated, a reserve or provision is established to record the estimated loss for the expected outcome. While the Group believes that it is not a party to, nor are any of its subsidiaries the subject of, any unresolved current legal proceedings, claims, litigation and investigations that will have a material adverse effect on the Group's consolidated financial condition, proceedings are inherently unpredictable, and it is possible that the outcome of any proceeding could have a material impact on results of operations in the particular reporting period in which it is resolved. Specifically:

- Several of the Group's subsidiaries as well as other insurance companies are involved in litigation relating to the extent to which COVID-19 was intended to be covered under Property Damage Business Interruption policies. A limited number of class actions have also been initiated. Most of the litigation has been filed in United States courts in addition to test cases filed in Australia and some in the UK. The final determination of outcomes may take many years as appeals are pursued by the plaintiffs and insurers, including the Group or its subsidiaries.
- In 2016, the Group, on its own initiative, undertook an internal review of the life insurance, savings and pension business sold by its non-U.S. operating companies with relevant cross-border business to customers with a nexus to the U.S. The review confirmed that the Group's cross-border business with U.S. persons was very limited and of a legacy nature, with the large majority of sales having occurred more than a decade ago. The review also confirmed that the Group's U.S. operating companies were not involved in or connected to those activities. The Group voluntarily disclosed the results of the review and the regulatory issues presented by sales to U.S. residents to the Swiss Financial Market Supervisory Authority (FINMA), the U.S. Department of Justice (DOJ) and other authorities. The Group continues to cooperate with these authorities. In April 2019, the DOJ announced that Zurich Life Insurance Company Ltd (ZLIC) and Zurich International Life Limited (ZILL) entered into a non-prosecution agreement (NPA) with the DOJ, which memorializes the DOJ's decision not to prosecute these entities for any U.S. tax-related offenses in connection with legacy cross-border sales to U.S. persons. Under the terms of the NPA, ZLIC and ZILL have agreed to comply with certain specified conditions during the four-year term of the NPA. This resolution has not had, and will not have, an adverse effect on the Group's business or consolidated financial condition.
- In April 2023, a putative nationwide class action complaint was filed in the Superior Court for the County of Los Angeles, California, against Farmers Group Inc., and its subsidiaries, Fire Underwriters Association and Truck Underwriters Association (collectively, "FGI"). The case, captioned Paul Lim, et al v. Farmers Group, Inc., et al., alleges that FGI breached its fiduciary duty by accepting excessive compensation for their services and failing to disclose certain information about their fees, calculation methods and relationship to Zurich. In May 2023, FGI removed the action to the US District Court for the Central District of California under the Class Action Fairness Act. On May 26, 2023, plaintiffs filed a motion to remand the action to the California state court, which is fully briefed and remains pending. On July 14, 2023, plaintiffs filed an amended complaint. Under a new scheduling order approved by the Court, FGI's deadline to answer or otherwise respond to the amended complaint is August 25, 2023. FGI believes it has numerous and substantial defenses to the claims raised and will vigorously contest the action.

- On July 6, 2023, the administrators of Greensill Bank AG served two claim forms on Zurich Insurance plc (ZIP) issued in the London Commercial Court, alleging non-payment of claims presented under a trade credit policy written by ZIP. Particulars of Claim accompanied only one of the two claim forms served. The Particulars of Claim in respect of the second claim must be filed by August 17, 2023. ZIP believes that it has meritorious defenses to the policy and the claims raised and will vigorously contest the action.

Consolidated financial statements (continued)

14. Fair value measurement

Table 14.1 compares the fair value with the carrying value of financial assets and financial liabilities. Certain financial instruments are not included in this table as their carrying value is a reasonable approximation of their fair value. Such instruments include cash and cash equivalents, obligations to repurchase securities, deposits made under assumed reinsurance contracts, deposits received under reinsurance contracts held and other financial assets and liabilities. This note excludes financial assets and financial liabilities relating to unit-linked contracts.

Due to the adoption of IFRS 9 as of January 1, 2023, comparative information for 2022 is shown before the transition to IFRS 9. For details, refer to note 2.

For details on the fair value measurement framework and sensitivities of level 3 instruments, refer to note 23 of the consolidated financial statements 2022.

Table 14.1

Fair value and carrying value of financial assets and financial liabilities

in USD millions, as of	Total fair value		Total carrying value	
	06/30/2023	12/31/2022	**06/30/2023**	12/31/2022
Available-for-sale securities				
Equity securities		9,590		9,590
Debt securities		95,638		95,638
Total available-for-sale securities		105,228		105,228
Fair value through comprehensive income				
Debt securities	90,842		90,842	
Total fair value through comprehensive income	90,842		90,842	
Securities at FV through profit or loss				
Equity securities	13,505	3,540	13,505	3,540
Debt securities	8,764	6,386	8,764	6,386
Total securities at FV through profit or loss	22,269	9,926	22,269	9,926
Derivative assets	666	786	666	786
Held-to-maturity debt securities		1,727		1,716
Amortized cost debt securities	5,003		5,473	
Mortgage loans at amortized cost	3,905	5,103	4,254	5,497
Other financial assets at amortized cost	3,622	2,836	3,743	2,855
Total financial assets	**126,307**	**125,605**	**127,247**	**126,007**
Derivative liabilities	(1,064)	(1,165)	(1,064)	(1,165)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(477)	(539)	(457)	(518)
Senior debt	(4,626)	(4,468)	(5,150)	(5,071)
Subordinated debt	(7,962)	(7,773)	(9,044)	(8,899)
Total financial liabilities held at amortized cost	(13,065)	(12,780)	(14,651)	(14,488)
Total financial liabilities	**(14,130)**	**(13,945)**	**(15,715)**	**(15,653)**

Table 14.2a

Fair value hierarchy – non-unit-linked – current period

in USD millions, as of June 30, 2023	Level 1	Level 2	Level 3	Total
Securities at fair value through comprehensive income				
Debt securities	–	90,379	463	90,842
Total securities at FV through comprehensive income	–	90,379	463	90,842
Securities at FV through profit or loss				
Equity securities	7,700	1,897	3,908	13,505
Debt securities	–	8,481	283	8,764
Total securities at FV through profit or loss	7,700	10,378	4,191	22,269
Derivative assets	5	631	30	666
Investment property	–	–	14,340	14,340
Total assets	**7,705**	**101,388**	**19,024**	**128,117**
Derivative liabilities	(4)	(397)	(664)	(1,064)
Total liabilities	**(4)**	**(397)**	**(664)**	**(1,064)**

For the six months ended June 30, 2023, no material transfers between level 1 and level 2 occurred.

Consolidated financial statements (continued)

Fair value hierarchy – non-unit-linked – prior period

Table 14.2b

in USD millions, as of December 31, 2022	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	6,430	1,642	1,517	9,590
Debt securities	–	90,645	4,993	95,638
Total available-for-sale securities	6,430	92,287	6,510	105,228
Securities at FV through profit or loss				
Equity securities	1,046	474	2,021	3,540
Debt securities	–	6,358	28	6,386
Total securities at FV through profit or loss	1,046	6,832	2,049	9,926
Derivative assets	5	759	21	786
Investment property	–	2,896	11,902	14,798
Total assets	**7,481**	**102,774**	**20,483**	**130,738**
Derivative liabilities	–	(447)	(717)	(1,165)
Total liabilities	**–**	**(447)**	**(717)**	**(1,165)**

Development of assets and liabilities classified within level 3 – non-unit-linked – current period

Table 14.3a

in USD millions	Fair value through comprehensive income		Fair value through profit or loss securities				
	Equity securities (not recycled)	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities	Investment property
As of January 1, 2023	–	575	3,590	287	46	(717)	11,900
Realized gain/(losses) recognized in income[1]	–	(1)	30	(1)	1	26	47
Unrealized gain/(losses) recognized in income[1,2]	–	(3)	80	5	(11)	(31)	(265)
Unrealized gain/(losses) recognized in other comprehensive income	–	13	–	–	(1)	–	–
Purchases	–	63	385	66	2	(1)	101
Settlements/sales/redemptions	–	(90)	(189)	(82)	(1)	73	(326)
Transfers into level 3	–	54	–	–	–	–	2,929
Transfers out of level 3	–	(151)	(1)	(3)	–	–	–
Acquisitions and divestments[3]	–	(16)	(50)	–	(9)	–	(377)
Foreign currency translation effects	–	18	62	12	4	(14)	332
As of June 30, 2023	**–**	**463**	**3,908**	**283**	**30**	**(664)**	**14,340**

1 Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements (see note 5).
2 Unrealized gains/(losses) recognized in income for debt securities measured at fair value through comprehensive income relate to impairments.
3 Related to an agreement entered into by Inversiones Suizo-Chilena S.A. to sell the annuity book of Zurich Chile Seguros de Vida S.A. (see note 4).

For the six months ended June 30, 2023, no material transfers between level 1 and level 2 occurred.

The Group transferred USD 54 million of fair value through comprehensive income debt securities from level 2 to level 3, mainly as a result of the decrease in the degree of observability of the inputs used to value private debt instruments. The reverse condition triggered the transfer of USD 151 million of the fair value through comprehensive income debt securities from level 3 to level 2 in the form of private debt instruments with a higher reliance on observable inputs.

For the six months ended June 30, 2023, the Group transferred USD 3 billion of investment property from level 2 to level 3. During 2023, the Group reviewed the fair value hierarchy classification of investment properties primarily located in Germany. The sharp increase in interest rates, coupled with rising inflation and uncertainty around future interest rate development, resulted in significantly fewer transactions in the real estate market. Therefore, reliable market information was not available in sufficient quantity to substantiate some of the input parameters used by independent external appraisers in their valuations.

Consolidated financial statements (continued)

Development of assets and liabilities classified within level 3 – non-unit-linked – prior period

Table 14.3b

in USD millions	Available-for-sale securities		Fair value through profit or loss securities				
	Equity securities	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities	Investment property
As of January 1, 2022	1,953	6,148	2,150	40	103	(154)	10,800
Realized gain/(losses) recognized in income[1]	189	2	16	–	–	–	30
Unrealized gain/(losses) recognized in income[1,2]	(8)	(39)	(53)	(2)	(74)	(573)	675
Unrealized gain/(losses) recognized in other comprehensive income	(273)	(789)	–	–	–	2	–
Purchases	220	717	254	1	10	6	515
Settlements/sales/redemptions	(453)	(875)	(331)	(1)	(8)	–	(231)
Transfers into level 3	4	114	–	–	–	–	–
Transfers out of level 3	(6)	(105)	–	(7)	–	–	–
Acquisitions and divestments[3]	(30)	–	–	–	(4)	–	310
Foreign currency translation effects	(80)	(179)	(15)	(3)	(7)	1	(197)
As of December 31, 2022	**1,517**	**4,993**	**2,021**	**28**	**21**	**(717)**	**11,902**

1 Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements (see note 5).
2 Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.
3 The movements are related to an agreement entered into by Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft to sell its legacy traditional life insurance back book (see note 4).

For the year ended December 31, 2022, the Group transferred USD 114 million of available-for-sale debt securities from level 2 into level 3 corresponding to private debt instruments that exhibit higher reliance on unobservable valuation inputs, and non-agency ABS and MBS with a credit rating downgrade from AAA. This effect is approximately offset by the transfer of USD 105 million of available-for-sale debt securities out of level 3 into level 2 attributable to private debt instruments with a higher reliance on observable valuation inputs and non-agency ABS and MBS whose credit rating has been upgraded to AAA.

Consolidated financial statements (continued)

15. Expected credit loss measurement

The Group recognized expected credit losses in line with the accounting policies outlined in note 3e of the unaudited consolidated financial statements.

ECL scenarios and key input parameters

For rated debt securities, the Group determines the forward-looking inputs by evaluating a range of possible outcomes through a scenario-based approach. The following macroeconomic variables have been selected due to historical correlation with credit loss emergence and relevance to the Group investment portfolio: GDP growth, 10-year interest rates and credit spread in the US and Eurozone. Table 15.1 shows the macroeconomic variables for each of the three scenarios modelled by Group Investment Management – Market Strategy and Macroeconomics (downside scenario/base case/upside scenario), as well as the weights assigned to each scenario. For residential and small commercial mortgage loan portfolios, the forward-looking parameters are derived from the evolution of the real estate prices by property type, as well as actual affordability of the loan for a customer.

The scenarios were centered around the effects of the energy crisis, increasing inflationary pressure and significant increases in market interest rates observed during 2022 on the global economy:

- The base case had global growth falling below trend in 2023, with both Europe and U.S. in recession. Financial markets were expected to stay volatile during the year, with significant further drawdowns in equity prices and a notable widening in U.S. credit spreads. The high yield default rates were expected to rise, but remain lower than during prior recessions. The U.S. recession was expected to be relatively mild, with falling inflation allowing the Federal Reserve to soften its hawkish guidance and, over time, start to cut interest rates. In the Eurozone, the energy situation was expected to remain disruptive and inflation more sticky so that the European Central Bank would leave interest rates on hold for longer. Overall, the base case scenario assumed a lumpy recovery to gain traction later in the year.
- The downside scenario, which was also viewed as highly realistic, involved a stickier inflation and deeper U.S. recession, where the Federal Reserve would maintain its stance on interest rates despite deteriorating growth prospects accompanied by a sharp decline in asset prices. Over time, inflation drops, allowing the Federal Reserve to step back from further tightening, while the financial markets find a floor and partially recover in the year. In credit markets, companies become vulnerable with defaults picking up notably, with only a slow recovery in credit spreads, which ends 2023 significantly higher than in the base case.
- The upside scenario assumes that the downturn caused by the energy crisis in the Eurozone remains moderate, while the US economic activity is resilient and able to cope with higher interest rates so that U.S. recession is avoided. Over time, as conviction builds that inflation has indeed peaked, the interest rate path is more moderate, resulting in overall sentiment improvement, tightening credit spreads and financial markets recovering as evidence builds that U.S. recession has been avoided. The Fed tones down the hawkish guidance and adopts a more dovish stance, as indicators point to a forthcoming decline in inflation. Financial markets see further gains in 2023.

The scenarios were developed in Q4 2022. Key developments in the market and the macro environment since then include:

- Lower energy prices in Europe reduce recession risk for the region, but the growth outlook remains subdued, with weak and fragile growth still likely.
- Bank stresses highlight vulnerabilities to higher rates and yields and will lead to further tightening in credit conditions, but stresses are expected to remain contained given regulatory and policy measures put in place.

The resulting changes to the outlook for growth, credit spreads and yields were not deemed to be sufficiently significant to motivate an update to the scenarios.

Consolidated financial statements (continued)

Table 15.1

Scenario weights and macroeconomic assumptions for ECL measurement of debt securities

For the six months ended June 30, 2023	USA	Eurozone	Assigned weights in %
Upside scenario			
GDP year-on-year change in %	1.4	(0.1)	
10-year interest rate in %	3.2	1.6	
Credit spread in basis points	80	75	20%
Base case scenario			
GDP year-on-year change in %	0.3	(0.4)	
10-year interest rate in %	3.0	1.6	
Credit spread in basis points	125	140	45%
Downside scenario			
GDP year-on-year change in %	(0.6)	(1.0)	
10-year interest rate in %	2.5	1.3	
Credit spread in basis points	175	220	35%

The scenario weights reflect management assessment of economic and political risks that might affect the expected credit losses from financial assets held.

The scenario weights and macroeconomic assumptions included in Table 15.1 above were also applied at transition to IFRS 9 as of January 1, 2023.

The Group applies the low credit risk simplification for the rated debt securities and recognizes a 12-months ECL for debt securities that have an external or internal rating equivalent to 'investment grade' (i.e., AAA to BBB-). Other exposures are assessed for significant increase in credit risk. Table 15.2 below shows the carrying amount of debt securities by credit risk rating grades and the related expected credit losses recognized.

Table 15.2

Debt securities by rating of issuer-Carrying amount and ECL allowance

in USD millions, as of June 30, 2023	Carrying amount	% of total	12 months ECL	Lifetime ECL
Rating:				
AAA	22,007	23	(3)	–
AA- up to and including AA+	27,059	28	(5)	–
A- up to and including A+	16,427	17	(5)	–
BBB up to and including BBB+	20,357	21	(15)	–
BBB-	6,101	6	(8)	–
BB+ and below	4,363	5	(34)	(25)
Total	**96,315**	**100**	**(71)**	**(26)**

Maximum exposure to credit risk and ECL recognized

Table 15.3 provides a reconciliation for financial assets measured at fair value through OCI or at amortized cost between the gross carrying amount and the net carrying amount, including the recognition of 12-months ECL and lifetime ECL by asset type.

The gross carrying amount represents fair value for debt instruments measured at FVOCI and amortized cost (prior to recognition of any ECL) for debt instruments measured at amortized cost. The net carrying amount represents the balance sheet carrying amount (i.e., fair value for debt instruments measured at FVOCI and amortized cost less ECL allowance for debt instruments measured at amortized cost).

Table 15.3

Maximum exposure to credit risk and ECL by type of financial asset – current period

In USD millions, as of June 30, 2023	Gross carrying amount	12 months ECL	Lifetime ECL	Net carrying amount
Debt securities:				
of which Governments and supra-national bonds	47,138	(24)	(3)	47,112
of which Corporate securities	38,083	(45)	(22)	38,016
of which Mortgages and asset-backed securities	11,096	(2)	(1)	11,094
Total debt securities	96,318	(71)	(26)	96,221
Mortgage loans at amortized cost	4,255	–	(1)	4,254
Other financial assets at amortized cost	3,751	(5)	(3)	3,743
Receivables and other financial assets	8,534	–	(16)	8,518
Total	**112,857**	**(76)**	**(45)**	**112,737**

Consolidated financial statements (continued)

The carrying amount includes USD 55 million of debt securities subject to individual impairment with carrying amount reduced by cumulative impairment losses of USD (36) million as of June 30, 2023. Furthermore, the carrying amount includes USD 57 million of debt securities that were purchased or originated credit-impaired financial assets (POCI). There was no undiscounted lifetime expected credit losses associated with POCI financial assets initially recognized during 2023. There were no credit-impaired mortgage loans at amortized cost or other financial assets at amortized cost as of June 30, 2023.

Development of ECL allowances

Table 15.4 shows how the allowances for expected credit losses from financial assets in table 15.3 developed during the period ended June 30, 2023.

Development of ECL allowance by type of financial asset – current period

Table 15.4

in USD millions	Debt Securities[1]		Mortgage loans at amortized cost		Other financial assets at amortized cost	
	12-months ECL	Lifetime ECL	12-months ECL	Lifetime ECL	12-months ECL	Lifetime ECL
As of January 1, 2023	(68)	(21)	–	(2)	(5)	(2)
Transfer to lifetime expected credit losses	1	(1)	–	–	–	–
Transfer to 12-months expected credit losses	(1)	1	–	–	–	–
Debt securities that have been derecognized during the period	21	4	–	–	1	–
Additions	(22)	–	–	–	–	–
Write-offs	1	3	–	–	–	–
Other changes[2]	(1)	(11)	–	1	–	(1)
Foreign currency translation effects	(2)	(1)	–	–	–	–
As of June 30, 2023	**(71)**	**(26)**	**–**	**(1)**	**(5)**	**(3)**

1 Presented as loss allowance on FVOCI debt securities through other comprehensive income within shareholders' equity.
2 Remeasurement without stage transfer/change in methodology.

In addition to the above, impairment gains/(losses) of (24) USD million were recognized in profit or loss for individually impaired debt securities measured at FVOCI and amortized cost in 2023. There were no impairment gains/(losses) recognized for POCI debt securities. Impairment losses for credit-impaired mortgage loans and other financial assets at amortized cost were not material in 2023.

For transition disclosures related to IFRS 9, please refer to note 2. For comparative disclosures regarding the valuation of impairments and losses on financial assets as measured in 2022 under IAS 39, please refer to note 23 in the 2022 Annual Report.

Consolidated financial statements (continued)

16. Segment information

The Group pursues a customer-centric strategy, where the Property & Casualty (P&C) and Life businesses are managed on a regional basis. The Group's reportable segments have been identified on the basis of the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. The Group has identified 13 reportable segments in accordance with IFRS 8 and segment information is presented accordingly as follows:

- P&C regions
- Life regions
- Farmers
- Group Functions and Operations
- Non-Core Businesses

The Group's reportable segments comprise the following:

P&C and Life regions

- Europe, Middle East & Africa
- North America
- Asia Pacific
- Latin America
- Group Reinsurance

P&C regions provide a variety of motor, home and commercial products and services for individuals, as well as small and large businesses on both a local and global basis. Products are sold through multiple distribution channels including agents, brokers and bank distribution.

Life regions provide a comprehensive range of life and health insurance products on both an individual and a group basis, including annuities, endowment and term insurance, unit-linked and investment-oriented products, as well as full private health, supplemental health and long-term care insurance. In addition to the agent distribution channel, certain of these products are offered via bank distribution channels.

Farmers, through Farmers Group, Inc. and its subsidiaries (FGI), provides certain non-claims administrative and management services to the Farmers Exchanges, which are owned by their policyholders. This segment also includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S. In addition, this segment includes the activities of Farmers Life, a writer of individual life insurance business in the U.S.

Group Functions and Operations comprise the Group´s Holding and Financing and Headquarters activities, including Zurich Global Ventures. Certain alternative investment positions not allocated to business operating segments are included within Holding and Financing. In addition, this segment includes operational technical governance activities relating to technology, underwriting, claims, actuarial and pricing.

Non-Core Businesses include insurance and reinsurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. Non-core businesses are mainly situated in the U.S., Bermuda and in Europe.

Consolidated financial statements (continued)

Aggregations and additional information

Regional P&C and Life results are further aggregated to show a total P&C and total Life business view.

- P&C – Total
- Life – Total

For additional informational purposes, the Group also discloses income statement information for P&C Commercial Insurance and P&C Retail and Other Insurance results. Other Insurance include SME, direct market and other program business.

- P&C Commercial Insurance
- P&C Retail and Other Insurance

Business operating profit

The segment information includes business operating profit, which is the Group's key performance measure. Business operating profit (BOP) indicates the underlying performance of the Group's businesses, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operating variables. This measure is the basis on which the Group manages its business units. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and expected credit losses on investments (except investments in hedge funds as at fair value through profit or loss and certain securities held for specific economic hedging purposes) after considering the effect of changes in fair value of underlying items held for direct participating contracts and effects of hyperinflation. Significant items arising from special circumstances, including restructuring charges, legal matters outside the ordinary course of business, amortization of intangible assets acquired as part of a business combination, gains and losses on divestment of businesses and impairments of goodwill are also excluded from BOP.

Consolidated financial statements (continued)

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Consolidated financial statements (continued)

Property & Casualty – Overview by segment

Table 16.1

in USD millions, for the six months ended June 30	Europe, Middle East & Africa		North America	
	2023	2022	**2023**	2022
Insurance revenue[1]	8,267	7,798	9,559	8,787
Insurance service expense	(7,160)	(6,374)	(7,646)	(6,710)
Net expenses from reinsurance contracts held[1]	(404)	(706)	(1,012)	(907)
Insurance service result	702	718	900	1,169
Net investment income on Group investments	345	280	537	441
Net capital gains/(losses) and impairments on Group investments	12	(3)	66	(43)
Net investment result on Group investments	357	277	603	399
Net investment income on unit-linked investments	–	–	–	–
Change in liabilities for investment contracts and other funds	–	–	–	–
Re-/Insurance finance income/(expenses)	(86)	–	(236)	(127)
Net investment result	271	277	366	272
Fee income	98	220	100	92
Fee business expenses	(74)	(204)	(65)	(68)
Fee result	24	16	35	24
Other revenues	72	214	60	28
Interest expense on debt	(23)	(6)	(6)	(1)
Other expenses	(287)	(344)	(297)	(98)
Restructuring costs and other items not included in BOP	30	10	181	7
Other result	(208)	(126)	(61)	(65)
Income tax (expense)/benefit attributable to policyholders (BOP relevant)	–	–	–	–
Business operating profit before non-controlling interests	789	884	1,240	1,400
Non-controlling interests	12	10	–	–
Business operating profit	**777**	**874**	**1,240**	**1,400**

1 Includes add-back and IPZ business.

Consolidated financial statements (continued)

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
1,702	1,565	1,461	1,304	380	311	(1,205)	(1,117)	20,163	18,648
(1,376)	(1,197)	(1,141)	(1,055)	(240)	(274)	595	581	(16,968)	(15,030)
(162)	(168)	(177)	(144)	(196)	(214)	610	537	(1,341)	(1,602)
164	200	143	105	(56)	(176)	–	–	1,854	2,016
63	47	137	113	5	9	–	–	1,087	890
–	(1)	(9)	13	4	(11)	–	–	73	(45)
63	46	128	126	9	(2)	–	–	1,160	845
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
(23)	(10)	(39)	(36)	(11)	3	–	–	(396)	(169)
40	36	89	90	(2)	1	–	–	765	676
25	44	–	–	–	–	–	–	224	356
(32)	(71)	–	–	1	–	(2)	–	(172)	(344)
(6)	(27)	–	–	1	–	(2)	–	51	12
12	8	16	26	29	3	(6)	–	183	279
(1)	–	(2)	–	(6)	(1)	6	–	(33)	(8)
(60)	(37)	(75)	(58)	(14)	(24)	2	–	(731)	(561)
2	6	12	6	–	4	–	–	224	32
(47)	(23)	(50)	(25)	8	(18)	2	–	(357)	(258)
–	–	–	–	–	–	–	–	–	–
151	186	182	169	(49)	(193)	–	–	2,313	2,446
1	3	52	54	–	–	–	–	65	67
150	**183**	**130**	**115**	**(49)**	**(193)**	**–**	**–**	**2,247**	**2,379**

Consolidated financial statements (continued)

Life – Overview by segment

Table 16.2

in USD millions, for the six months ended June 30	Europe, Middle East & Africa		North America	
	2023	2022	**2023**	2022
Insurance revenue	2,874	2,571	100	143
Insurance service expense	(2,144)	(2,192)	(62)	(177)
Net expenses from reinsurance contracts held	(83)	(58)	(16)	1
Insurance service result	647	321	22	(33)
Net investment income on Group investments	1,073	1,097	26	14
Net capital gains/(losses) and impairments on Group investments	(72)	16	17	(25)
Net investment result on Group investments	1,000	1,113	43	(11)
Net investment income on unit-linked investments	631	579	–	–
Change in liabilities for investment contracts and other funds	(416)	(389)	–	–
Re-/Insurance finance income/(expenses)	(1,099)	(1,181)	(43)	33
Net investment result	116	121	–	22
Fee income	397	272	–	–
Fee business expenses	(295)	(222)	–	–
Fee result	102	51	–	–
Other revenues	42	27	12	1
Interest expense on debt	–	(1)	–	–
Other expenses	(189)	(175)	4	(3)
Restructuring costs and other items not included in BOP	2	15	–	2
Other result	(145)	(135)	16	–
Income tax (expense)/benefit attributable to policyholders (BOP relevant)	(60)	216	–	–
Business operating profit before non-controlling interests	660	575	38	(11)
Non-controlling interests	71	62	–	–
Business operating profit	**589**	**513**	**38**	**(11)**

Consolidated financial statements (continued)

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
1,119	1,157	1,306	1,197	15	16	(15)	(15)	5,398	5,069
(987)	(968)	(1,012)	(948)	(4)	(10)	4	11	(4,205)	(4,284)
(25)	(56)	(16)	(12)	(5)	(4)	11	4	(133)	(126)
108	133	278	236	6	1	–	–	1,060	659
113	88	259	345	–	–	–	–	1,471	1,543
(9)	43	32	6	–	–	–	–	(33)	40
104	131	291	351	–	–	–	–	1,438	1,583
30	50	19	14	–	–	–	–	679	643
(18)	(68)	–	–	–	–	–	–	(434)	(457)
(70)	(73)	(201)	(239)	–	6	–	–	(1,414)	(1,453)
46	40	108	127	–	6	–	–	270	316
25	(17)	9	11	–	–	–	–	430	267
(3)	(4)	(7)	(1)	–	–	–	–	(305)	(226)
21	(20)	2	10	–	–	–	–	126	41
8	3	13	10	1	–	–	–	75	40
(4)	(4)	(1)	(1)	–	–	–	–	(5)	(5)
(84)	(110)	(79)	(64)	–	–	–	–	(348)	(352)
17	47	32	17	–	–	–	–	51	81
(63)	(64)	(35)	(38)	1	–	–	–	(226)	(236)
(12)	37	(2)	–	–	–	–	–	(74)	253
100	126	352	335	6	8	–	–	1,156	1,033
–	–	146	124	–	–	–	–	217	185
100	**126**	**206**	**211**	**6**	**8**	**–**	**–**	**939**	**847**

Consolidated financial statements (continued)

Business operating profit by business

Table 16.3

in USD millions, for the six months ended June 30

	Property & Casualty		Life	
	2023	2022	**2023**	2022
Insurance revenue	20,163	18,648	5,398	5,069
Insurance service expense	(16,968)	(15,030)	(4,205)	(4,284)
Net expenses from reinsurance contracts held	(1,341)	(1,602)	(133)	(126)
Insurance service result	1,854	2,016	1,060	659
Net investment income on Group investments	1,087	890	1,471	1,543
Net capital gains/(losses) and impairments on Group investments	73	(45)	(33)	40
Net investment result on Group investments	1,160	845	1,438	1,583
Net investment income on unit-linked investments	–	–	679	643
Change in liabilities for investment contracts and other funds	–	–	(434)	(457)
Re-/Insurance finance income/(expenses)	(396)	(169)	(1,414)	(1,453)
Net investment result	765	676	270	316
Fee income	224	356	430	267
Fee business expenses	(172)	(344)	(305)	(226)
Fee result	51	12	126	41
Other revenues	183	279	75	40
Interest expense on debt	(33)	(8)	(5)	(5)
Other expenses	(731)	(561)	(348)	(352)
Restructuring costs and other items not included in BOP	224	32	51	81
Other result	(357)	(258)	(226)	(236)
Income tax (expense)/benefit attributable to policyholders (BOP relevant)	–	–	(74)	253
Business operating profit before non-controlling interests	2,313	2,446	1,156	1,033
Non-controlling interests	65	67	217	185
Business operating profit	**2,247**	**2,379**	**939**	**847**

Consolidated financial statements (continued)

Farmers		Group Functions and Operations		Non-Core Businesses		Eliminations		Total	
2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
1,269	619	170	127	50	52	(79)	(57)	26,971	24,457
(1,218)	(547)	(185)	(151)	(49)	(22)	63	46	(22,562)	(19,989)
(1)	17	13	7	(2)	(4)	16	11	(1,449)	(1,697)
50	89	(2)	(18)	(2)	26	–	–	2,959	2,771
88	77	51	39	71	45	(71)	(18)	2,698	2,577
5	(8)	90	8	(6)	(344)	–	–	130	(350)
93	69	141	47	65	(299)	(71)	(18)	2,827	2,227
12	54	–	–	–	–	–	–	691	697
(1)	(1)	–	–	(4)	(4)	–	–	(438)	(462)
(13)	(59)	(1)	–	(52)	202	–	–	(1,876)	(1,478)
92	63	140	48	9	(102)	(71)	(19)	1,204	983
2,251	2,218	–	–	–	–	–	–	2,905	2,840
(1,333)	(1,344)	(1)	–	–	–	(5)	(3)	(1,815)	(1,917)
918	874	(1)	–	–	–	(5)	(3)	1,090	924
(3)	(20)	110	60	10	5	(279)	(136)	96	228
–	13	(350)	(245)	(25)	(2)	184	24	(229)	(223)
(106)	(93)	(390)	(290)	(19)	(15)	171	133	(1,424)	(1,179)
42	56	61	64	–	–	–	–	378	234
(67)	(44)	(569)	(410)	(34)	(13)	75	21	(1,178)	(941)
–	–	–	–	–	–	–	–	(74)	253
993	982	(432)	(381)	(27)	(89)	–	–	4,002	3,991
–	–	–	–	–	–	–	–	282	253
993	**982**	**(432)**	**(381)**	**(27)**	**(89)**	**–**	**–**	**3,720**	**3,738**

Consolidated financial statements (continued)

Reconciliation of BOP to net income after income taxes

Table 16.4

in USD millions, for the six months ended June 30

	Property & Casualty		Life	
	2023	2022	**2023**	2022
Business operating profit net	**2,247**	**2,379**	**939**	**847**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) and impairments on Group investments	170	(235)	(280)	(1,217)
Net capital gains/(losses) on unit-linked investments	–	–	6,153	(13,354)
Change in liabilities for investment contracts and other funds	–	–	(2,692)	6,619
Re-/insurance finance income/(expenses)	–	–	(3,260)	7,699
Net gains/(losses) on divestment of businesses[1]	–	–	(28)	(19)
Restructuring costs	(137)	(15)	(12)	(9)
Other adjustments[2]	(88)	(18)	(39)	(72)
Add back:				
Business operating profit attributable to non-controlling interests	65	67	217	185
Net income before shareholders' taxes	2,258	2,179	997	680
Income tax expense/(benefit) attributable to policyholders (BOP relevant)	–	–	74	(253)
Net income before income taxes	**2,258**	**2,179**	**1,070**	**426**
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

1 In 2023, Life included losses of USD 8 million as Zurich Investments Life S.p.A. agreed to sell part of its life and pension back book, gains of USD 9 million as Inversiones Suizo-Chilena S.A. agreed to sell the annuity book of Zurich Chile Seguros de Vida S.A. and transaction costs of USD 30 million as Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft agreed to sell its legacy traditional life insurance back book (see note 4). In 2022, Life included losses of USD 12 million as Zurich Investments Life S.p.A. agreed to sell part of its life and pension back book and transaction costs of USD 9 million as Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft agreed to sell its legacy traditional life insurance back book (see note 4).

2 Other adjustments in 2023 include charges related to the implementation of IFRS 17, charitable contributions and litigation costs. Other adjustments in 2022 include charges related to the implementation of IFRS 17 and business combination integration costs.

Consolidated financial statements (continued)

	Farmers		Group Functions and Operations		Non-Core Businesses		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	993	**982**	**(432)**	**(381)**	**(27)**	**(89)**	**3,720**	**3,738**
	(36)	(4)	(117)	6	5	(7)	(258)	(1,456)
	126	(327)	–	–	185	(656)	6,464	(14,337)
	–	–	–	–	–	–	(2,692)	6,619
	(126)	327	–	–	(192)	743	(3,578)	8,769
	–	–	–	1	–	–	(28)	(19)
	–	–	(2)	(4)	–	–	(151)	(27)
	(42)	(57)	(59)	(60)	–	–	(228)	(207)
	–	–	–	–	–	–	282	253
	915	922	(610)	(439)	(28)	(8)	3,532	3,333
	–	–	–	–	–	–	74	(253)
	915	**922**	**(610)**	**(439)**	**(28)**	**(8)**	**3,605**	**3,080**
							(935)	(577)
							(73)	253
							(861)	(830)
							2,670	**2,503**
							179	160
							2,492	2,344

Consolidated financial statements (continued)

Table 16.5

Property & Casualty – Commercial and Retail Insurance overview[1]

in USD millions, for the six months ended June 30	Commercial Insurance		Retail and Other Insurance	
	2023	2022	**2023**	2022
Insurance revenue	13,849	12,868	7,142	6,582
Insurance service expense	(10,948)	(9,483)	(6,354)	(5,837)
Net expenses from reinsurance contracts held	(1,580)	(1,796)	(200)	(141)
Insurance service result	1,322	1,589	588	603
Net investment income on Group investments	737	607	346	274
Net capital gains/(losses) and impairments on Group investments	96	(45)	(27)	11
Net investment result on Group investments	833	561	319	285
Re-/insurance finance income/(expenses)	(316)	(161)	(68)	(11)
Net investment result	517	401	250	274
Fee result	43	23	50	21
Other result	(114)	(40)	(294)	(231)
Business operating profit before non-controlling interests	1,768	1,972	594	667
Non-controlling interests	–	–	65	67
Business operating profit	**1,767**	**1,972**	**529**	**600**

1 Commercial and Retail Insurance overview exclude Group Reinsurance and Eliminations.

Consolidated financial statements (continued)

17. Events after the balance sheet date

No events after the balance sheet date.

Review report of the auditors

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To the Board of Directors of
Zurich Insurance Group Ltd, Zurich

Zurich, August 9, 2023

Report on the review of interim condensed consolidated financial statements

Introduction

We have reviewed the interim condensed consolidated financial statements (income statement, statement of comprehensive income, balance sheet, statement of cash flows, statements of changes in equity and notes), pages 12 to 97, of Zurich Insurance Group Ltd for the period from 1 January 2023 to 30 June 2023. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

Ernst & Young Ltd

Isabelle Santenac
Licensed audit expert
(Auditor in charge)

Thomas Fiepke
Certified Public Accountant (U.S.)

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Additional information

Contents

Shareholder information	101
Glossary	102
Contact information	104
Financial calendar	104

Shareholder information

Zurich Insurance Group Ltd registered share data

Zurich shares

Zurich had a market capitalization of CHF 64 billion on June 30, 2023. The shares are listed on the SIX Swiss Exchange and traded on the SIX Swiss Exchange Blue Chip Segment; ticker symbol: ZURN; the Swiss security number (Valorennummer) is 1107539. Trading in Zurich Insurance Group Ltd shares on the Blue Chip Segment is conducted in Swiss francs.

Share price performance

The share price closed at CHF 424.90 at the end of June 2023. The lowest closing price in the first half of 2023 was CHF 400.00 on March 15, and the highest closing price was CHF 457.90 on April 11.

Zurich share performance (indexed) over one year, ending June 2023

%

Swiss Market Index · STOXX Europe 600 Insurance Index · Zurich Insurance Group Ltd

Source: Refinitiv Datastream

Dividend

Financial Year	Payment date as from	Total dividend per registered share in CHF	Paid from available earnings[1] in CHF	Paid from capital contribution reserve in CHF
2022	April 14, 2023	24.00	24.00	--
2021	April 12, 2022	22.00	20.35	1.65
2020	April 13, 2021	20.00	20.00	–
2019	April 7, 2020	20.00	20.00	–
2018	April 9, 2019	19.00	19.00	–
2017	April 10, 2018	18.00	16.60	1.40
2016	April 4, 2017	17.00	11.30	5.70
2015	April 5, 2016	17.00	–	17.00
2014	April 9, 2015	17.00	–	17.00
2013	April 9, 2014	17.00	–	17.00

1 Gross dividend, subject to 35% Swiss withholding tax

Glossary

Group

Book value per share

is a measure that is calculated by dividing shareholders' equity by the number of shares issued less the number of treasury shares as of the period end.

Business operating profit (BOP)

is the Group's internal performance measure, on which the Group manages all of its business units. It indicates the underlying performance, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and change in expected credit loss (ECL) allowance on investments (except for certain non-insurance operations included in Non-Core Businesses, investments in hedge funds as at fair value through profit or loss, certain securities held for specific economic hedging purposes, policyholders' share of investment results for the life businesses), amortization of intangible assets acquired in a business combination and non-operational foreign exchange movements. Significant items arising from special circumstances, including restructuring charges, legal matters or large one-off regulatory projects outside the ordinary course of business, gains and losses on divestment of businesses, certain business combination integration costs, impacts from hyperinflation and impairments of goodwill are also excluded from BOP. Please refer to the 'consolidated financial statements, Note 16. Segment information, Table 16.4' for further information.

Business operating profit (after-tax) return on shareholders' equity (BOPAT ROE)

indicates the level of BOP relative to resources provided by shareholders. It is calculated as BOP, annualized on a linear basis and adjusted for taxes, divided by the average value of shareholders' equity, adjusted for net unrealized gains/(losses) on insurance liabilities and on investments classified as fair value through comprehensive income and cash flow hedges, using the value at the beginning and end of each quarter within the period. The average shareholders' equity for each quarter is then added together and divided by the number of quarters. If the dividend is approved at the Annual General Meeting within the first ten working days in April, then the dividend is deducted from the shareholders' equity at the start of the second quarter. Please refer to the 'supplementary information (unaudited)/ROE, EPS and BVPS' for further information.

Cash remittances

is the net extraction of capital from each of the business units (P&C, Life, Farmers and Non-Core Business) to Group Functions & Operations (GF&O) and after all central costs in GF&O. Cash remittances are typically extracted from subsidiaries by way of dividends, capital reductions, repayment of intragroup debt and reinsurance profits.

Investments

Total investments in the consolidated balance sheets include **Group investments** and investments for unit-linked contracts. Group investments are those for which the Group bears part or all of the investment risk. Average Group investments include investment cash and derivative financial instruments. The Group manages its diversified investment portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of the Group's Asset/Liability Management and Investment Committee. **Investments for unit-linked contracts** include investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked contracts. They are managed in accordance with the investment objectives of each unit-linked fund.

Like-for-like

is the change in the underlying metric over a period of time and after removing the impact of foreign exchange movements and the impact of acquisitions and disposals.

Return on shareholders' equity (ROE)

is a measure that indicates the level of profit or loss relative to resources provided by shareholders. It is calculated as net income after taxes attributable to shareholders, annualized on a linear basis, divided by the average value of shareholders' equity, adjusted for net unrealized gains/(losses) on insurance liabilities and on investments classified as fair value through comprehensive income and cash flow hedges, using the value at the beginning and end of each quarter within the period. The average shareholders' equity for each quarter is then added together and divided by the number of quarters. If the dividend is approved at the Annual General Meeting within the first ten working days in April, then the dividend is deducted from the shareholders' equity at the start of the second quarter. Please refer to the 'supplementary information (unaudited)/ROE, EPS and BVPS' for further information.

Glossary (continued)

Property & Casualty

Gross written premiums (GWP)

is defined as the premium charged to a policyholder for an insurance contract. It is the total direct and assumed written premium excluding single parent captives before deductions for reinsurance and ceding commissions.

The following Property & Casualty (P&C) measures are net of reinsurance.

Insurance service result

is calculated as the difference between insurance revenue and the sum of net insurance service expenses and net expenses from reinsurance contracts held. Please refer to the 'supplementary information (unaudited)/P&C by segment' and 'supplementary information (unaudited)/P&C by country & customer unit' for further information.

Total net technical expenses

includes the total insurance services expenses for expenses for insurance contracts within the scope of IFRS 17, including the impact of discounting. It also includes other expenses which do not qualify for inclusion within IFRS 17 (reported under Other result) but are considered technical elements of administrative and other operating expenses. Please refer to the 'supplementary information (unaudited)/P&C by segment' for further information.

Combined ratio

is a measure that indicates the level of claims and net technical expenses during the period, relative to insurance revenues. It is calculated as the sum of the loss ratio and the expense ratio. Please refer to the 'supplementary information (unaudited)/P&C by segment' and 'supplementary information (unaudited)/P&C by country & customer unit' for further information.

Loss ratio

is a measure that indicates the level of claims during the period relative to insurance revenue. It is calculated as the sum of insurance services expenses for losses, including the impact of discounting and risk adjustment, and net expenses for reinsurance contracts held, divided by insurance revenue. Please refer to the 'supplementary information (unaudited)/P&C by segment' and 'supplementary information (unaudited)/P&C by country & customer unit' for further information.

Expense ratio

is a measure that indicates the level of the Total net technical expenses during the period relative to insurance revenue. It is calculated as the sum of the Total net technical expenses, divided by insurance revenue. Please refer to the 'Supplementary information (unaudited)/P&C by segment' and 'Supplementary information (unaudited)/P&C by country & customer unit' for further information.

Life

Present value of new business premiums (PVNBP)

is calculated as the present value of new business premiums gross of reinsurance discounted at the risk-free rate, before the effect of non-controlling interests.

New business contractual service margin (NB CSM)

represents the expected margin on the volume of business generated in the current period. It is calculated net of external reinsurance and before the effect of non-controlling interests.

New business margin (NBM)

is a measure that reflects the profitability of new business and is calculated as the new business CSM divided by PVNBP.

Farmers

Gross management result

is a measure of Farmers Management Services calculated as fee income minus fee business expenses, including amortization and impairments of intangible assets. Please refer to the 'supplementary information (unaudited)/Farmers' for further information.

Managed gross earned premium (MGEP) margin

is a measure calculated as the gross management result of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which 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 its attorney-in-fact and receives fees for its services.

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Financial calendar

Information on our website:
www.zurich.com/en/investor-relations/calendar

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