

150
years



Zurich Insurance Company Group

Annual Report 2021

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About us

Zurich Insurance Group (Zurich) is a leading multi-line insurer serving more than 55 million customers – both people and businesses – in more than 210 countries and territories. 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 is one of the world’s most sustainable insurers, as shown by the S&P Global Corporate Sustainability Assessment. In 2020, Zurich launched the Zurich Forest project to support reforestation and biodiversity restoration in Brazil.

The Zurich Group has about 56,000 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.

Risk review

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Risk review (continued)

Basis of presentation

The risk review is an integral part of the consolidated financial statements.

Risk and capital are managed at the Zurich Insurance Group (Zurich or Group), segment, region and business unit level according to Zurich's risk and capital management framework. The principles of the Group enterprise risk management described in the risk management and capital management sections are equally applicable to Zurich Insurance Company Ltd (ZIC) and its consolidated subsidiaries (collectively the ZIC Group).

The Zurich Insurance Group Ltd Board of Directors, Chief Executive Officer, and Chief Risk Officer equally serve as Board of Directors, Chief Executive Officer, and Chief Risk Officer for Zurich Insurance Company Ltd.

The figures presented are prepared on a ZIC Group basis.

Risk management

Objectives of risk management

Taking and managing risk is an integral part of the insurance business. Zurich takes and manages risks in an informed and disciplined manner and within a pre-determined risk appetite and tolerance.

The major risk management objectives of the Group are to:

- Support achievement of the Group's strategy and protect capital, liquidity, earnings and reputation by monitoring that risks are taken within the Group's risk tolerance.
- Enhance value creation by embedding disciplined risk-taking in the company's culture and contributing to an optimal risk-return profile where risk-reward trade-offs are transparent, understood, and risks are appropriately rewarded.
- Efficiently and effectively diversify risk and avoid or mitigate unrewarded risks.
- Encourage openness and transparency to enable effective risk management.
- Support decision-making processes by providing consistent, reliable and timely risk information.
- Protect Zurich's reputation and brand by promoting a sound culture of risk awareness, and disciplined and informed risk-taking.

Enterprise Risk Management Framework

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

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

The Zurich Risk Policy sets the principles and approach for effective risk management throughout the Group. The policy describes the Group's Enterprise Risk Management Framework and provides a standardized set of risk types. Risk-specific policy manuals provide requirements and procedures to implement the principles in the Zurich Risk Policy.

Risk review (continued)

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

To foster transparency about risk, the Group regularly reports on its risk profile at business and Group levels. The Group has procedures to refer risk topics to senior management and the Board of Directors in a timely manner.

The ZIC Group's solvency position is disclosed on the basis of the Swiss Solvency Test (SST) ratio. The Group's SST internal model has been fully approved by the Swiss Financial Supervisory Authority (FINMA).

The Group applies the Zurich Economic Capital Model (Z-ECM) as an internal metric. Z-ECM provides a key input into the Group's planning process as an assessment of its economic risk profile.

Risk-based remuneration

Based on the Group's remuneration rules, the Board of Directors designs and structures remuneration arrangements that support the achievement of strategic and financial objectives and do not encourage inappropriate risk-taking. Group Risk Management's role in respect of remuneration and its interaction with Board committees is described in the remuneration report.

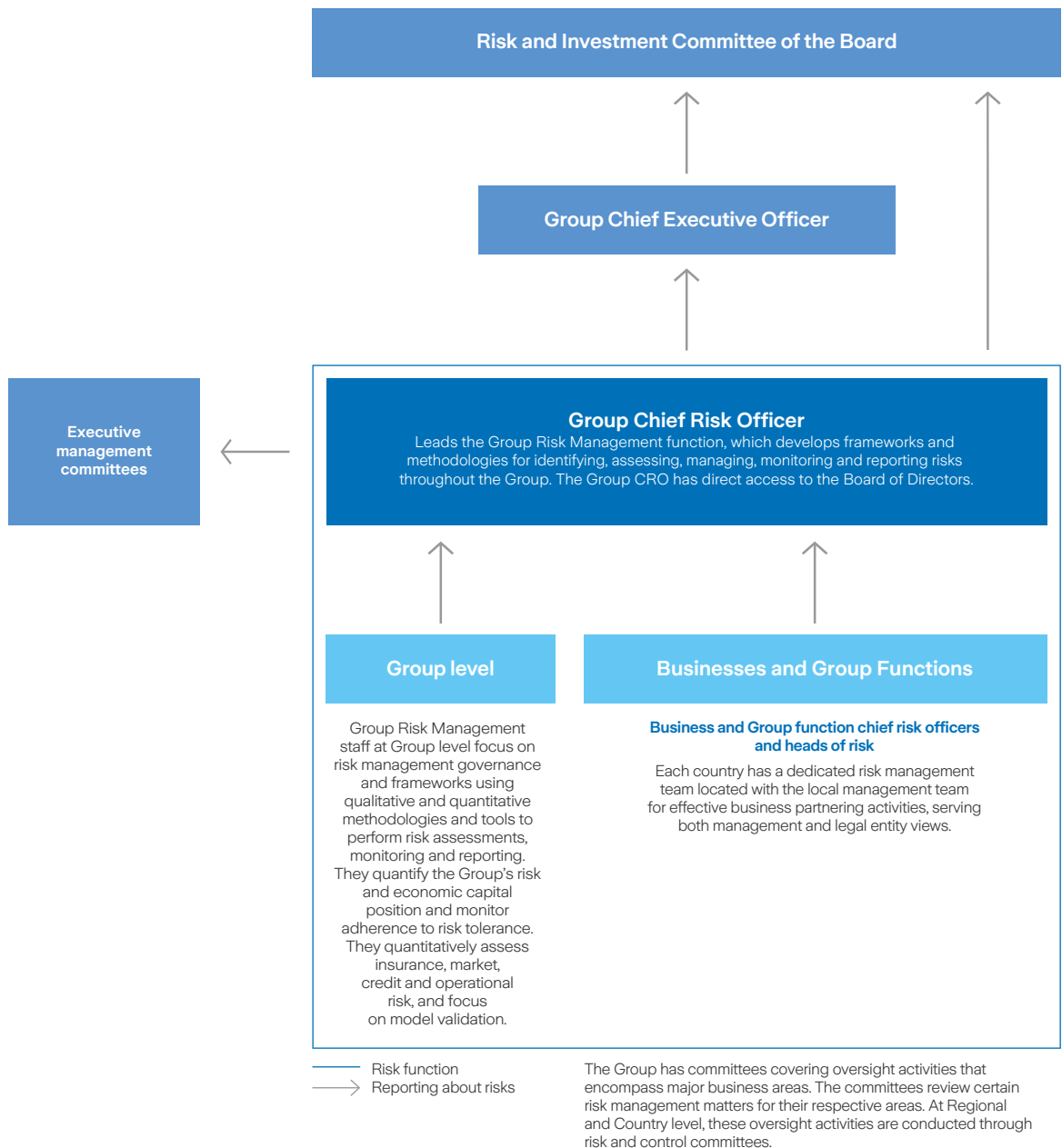
Risk review (continued)

Risk governance and risk management organization

For information on the Group's overall governance, including the Board of Directors and Group executive level, see the Zurich Insurance Group corporate governance report.

Risk management organization

The Group Risk Management function is a global function, led by the Group's Chief Risk Officer (CRO).



The risk function is independent of the business by being a vertically integrated function. Unless otherwise required by local laws or regulations, risk officers and heads of risk report into the Group CRO, except for the Farmers Chief Risk Officer, who has a matrix reporting line to the Group's CRO. Risk officers are embedded in the business, positioning them to independently challenge, support and advise on, business decisions from a risk perspective. As business advisers on risk matters, risk officers, equipped with technical risk skills as well as business skills, help foster a risk-aware culture in the business.

Risk review (continued)

Capital management

Objectives of capital management

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

As of December 31, 2021, International Financial Reporting Standards (IFRS) shareholders' equity of USD 37.5 billion and subordinated debt of USD 9.8 billion were part of the capital available in the ZIC Group SST available financial resources (AFR). Further adjustments usually include items such as intangible assets, deferred tax assets and liabilities, allowing for discounting of liabilities and the value of in-force business, and market-consistent valuation of external debt according to the methodology under SST.

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

Capital management framework

The Group's capital management framework forms the basis for actively managing capital within Zurich. The Group uses a number of different capital models, taking into account economic, regulatory, and rating agency constraints. The Group's capital and solvency position is monitored and regularly reported to the Executive Committee (ExCo) and Board of Directors.

Zurich's policy is to allocate capital to businesses earning the highest risk-adjusted returns, and to pool risks and capital as much as possible to operationalize its risk diversification.

The Group's executive management determines the capital management strategy and sets the principles, standards and policies to execute the strategy. Group Treasury and Capital Management executes the strategy.

Capital management program

The Group's capital management program comprises various actions to optimize shareholders' total return and to meet capital needs, while enabling Zurich to take advantage of growth opportunities. Such actions include paying and receiving dividends, capital repayments, share buybacks, issuance of shares, issuance of senior and hybrid debt, securitization and purchase of reinsurance.

The Group seeks to maintain a balance between returns for shareholders and the security that a sound capital position provides, also for our customers. Dividends, share buybacks, and issuances and redemption of debt have a significant influence on capital levels. In 2021, the Group paid a dividend out of retained earnings, bought own shares to reduce future dilution from share-based employee compensation plans and issued senior and hybrid debt to finance redemptions and investments in the Group's development.

The Swiss Code of Obligations stipulates that dividends may only be paid out of freely distributable reserves or retained earnings. Apart from what is specified by the Swiss Code of Obligations, Zurich Insurance Company Ltd (ZIC) faces no legal restrictions on dividends it may pay to its shareholders. As of December 31, 2021, the amount of the statutory general legal reserve was more than 50 times the paid-in share capital. The ability of the Group's subsidiaries to pay dividends may be restricted or indirectly influenced by minimum capital and solvency requirements imposed by insurance and other regulators in the countries in which the subsidiaries operate. Other limitations or considerations include foreign exchange control restrictions in some countries, and rating agencies' methodologies.

For details on issuances and redemptions of debt, see notes 18 and 29 of the ZIC Group consolidated financial statements.

Risk review (continued)

Risk and solvency assessment

Regulatory capital adequacy

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

Regulatory solvency regimes

Regulatory requirements in Switzerland

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

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

Regulatory requirements in the European Economic Area (EEA)

The main regulatory framework governing the Group's subsidiaries in the EEA is Solvency II. This is a risk-based capital framework which covers capital requirements (pillar 1), governance and risk management (pillar 2) and reporting (pillar 3). All EEA-based legal entities of the Group use the Solvency II standard formula for their pillar 1 requirements with the exception of Zurich Insurance plc (Ireland) that applies an approved internal model.

Regulatory requirements in the UK

The United Kingdom left the EU and the EEA on January 31, 2020 and the transition period ended on December 31, 2020, meaning UK regulations can diverge from Solvency II regulatory requirements. As of December 31, 2021 the UK regulations have not materially diverged.

Regulatory requirements in the U.S.

In the U.S., required capital is determined to be 'company action level risk-based capital' calculated using the National Association of Insurance Commissioners' risk-based capital model. This method, which builds on statutory accounts, measures the minimum amount of capital for an insurance company to support its overall business operations by taking into account its size and risk profile.

Regulatory requirements in other jurisdictions

Every country has a capital standard for insurance companies. Several jurisdictions (e.g., Brazil and Mexico) have implemented approaches similar to Solvency II.

Insurance financial strength rating

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

The insurance financial strength rating was upgraded by S&P to AA on March 15, 2021 because "ZIC's financial performance has sustainably improved" while also "improving its balance sheet resilience and capital-allocation discipline".

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

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

Risk review (continued)

Analysis by risk type

Insurance risk

Insurance risk is the risk of deviations in the timing, frequency or severity of insured events from that expected, leading to loss, including adverse change in the value of insurance liabilities (Life and Property & Casualty (P&C)). This may result from inherent uncertainty of insured events or losses, inadequate or ineffective underwriting or accumulation management, inappropriate product development, pricing, claims management, reserving or reinsurance. The profitability of insurance business is also susceptible to business risk in the form of unexpected changes in expenses, policyholders' behavior, and fluctuations in new business volumes. Zurich manages insurance risk through:

- Specific underwriting and claims standards and controls.
- Robust reserving processes.
- External reinsurance.

Property & Casualty (P&C) insurance risk

P&C insurance risk arises from coverage provided for motor, property, liability, special lines and worker injury. It comprises premium and reserve risk, catastrophe risk, and business risk. Premium and reserve risk covers uncertainties in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. Catastrophe risk predominantly relates to uncertainty around natural catastrophes. Business risk for P&C predominantly relates to unexpected increases in the expenses relating to claims handling, underwriting, and administration.

Management of Property & Casualty (P&C) insurance risk

The Group's underwriting strategy takes advantage of the diversification of P&C risks across lines of business, customers and geographic regions. Zurich defines Group-wide governance for insurance risk including for new products.

Underwriting discipline is a fundamental part of managing insurance risk. The Group sets limits on underwriting capacity and delegates authority to individuals based on their specific expertise and sets appropriate underwriting and pricing guidelines. Technical reviews assure that underwriters perform within authorities and adhere to underwriting policies.

P&C insurance reserves are regularly estimated, reviewed and monitored by qualified and experienced actuaries at local, regional and Group levels. To arrive at their reserve estimates, the actuaries take into consideration, among other things, the latest available facts, trends and patterns of loss payments. Inflation is monitored with insights feeding into actuarial reserving models and Zurich's underwriting processes and pricing.

To ensure a common understanding of business insights and new trends for reserve analysis, financial plans, underwriting and pricing decisions, the Group has established a culture of continuous cross-functional collaboration. For this, underwriting, actuarial (pricing and reserving), claims, finance, sales and distribution, risk engineering and risk management contribute to quarterly meetings at local and Group level.

Zurich's Emerging and Sustainability Risk Committee – with cross-functional expertise from core insurance functions such as underwriting, claims and risk management – identifies, assesses and recommends actions for emerging risks.

Governance is in place to ensure appropriate focus on top-line targets and profitability. Reinsurance is deployed to help manage insurance risk. Group Risk Management also provides independent assurance through risk reviews.

The Group is exposed to losses that could arise from natural and man-made catastrophes. The main concentrations of risks arising from such potential catastrophes are regularly reported to executive management. The most important peril regions for natural catastrophes are U.S. and Caribbean hurricane, California earthquake and European windstorm.

Risk review (continued)

Natural catastrophes

The Group uses third-party models, adjusted to Zurich's view, to manage its underwriting, ensure accumulations stay within intended exposure limits and assess the capital requirement due to natural catastrophes. Consistent with this view on natural catastrophes, Zurich performs profitability assessments and strategic capacity allocations, and chooses the type and quantity of reinsurance it buys.

To ensure global consistency, exposures to natural catastrophes are modeled by a dedicated Group function. Potential losses from property, motor and marine policies with material exposure in hazard-prone geographical areas are probabilistically modeled, as well as worker injury policies with material exposure in U.S. seismic zones. Losses for other lines of business are estimated based on adjustments to these modeled results. Risk modeling mainly addresses weather-induced perils such as wind, flood, tornado, and hail, and geological-induced perils such as earthquake.

Zurich regularly reviews and expands the scope and sophistication of its modeling and strives to improve data quality. Zurich has invested in a diversified, multi-vendor-based catastrophe modeling ecosystem and in expanding its catastrophe research and development capabilities to complement existing expertise in natural catastrophe risk management (e.g., risks relating to climate change, cyber, communicable diseases, and casualty catastrophes).

Zurich supplements internal know-how with external knowledge (e.g., the Advisory Council for Catastrophes) and is a shareholder of PERILS AG, Switzerland, a catastrophe exposure and loss data aggregation and estimation firm. Zurich is also a member of the open-source initiative, Oasis Loss Modelling Framework.

COVID-19 pandemic

Zurich has developed scenario modeling capabilities for the COVID-19 pandemic which continue to be refined based on claims data. The scope in terms of lines of business includes primarily property, travel, accident and health, and credit and surety. The scenario modeling continues to inform the Group about the financial impact of COVID-19 and understand the main sensitivities. The data and risk insights gained from COVID-19 were used to build a model to better assess the risk in the P&C portfolio from pandemics.

Man-made catastrophes

Man-made catastrophes include events such as industrial accidents, terrorism and cyber attacks.

For terrorism, worker injury and property risk exposures are analyzed to identify areas with significant risk concentration. Other lines of business are assessed, although the potential exposure is not as significant. A vendor-provided catastrophe model is used to evaluate potential exposures in every major U.S. city. The Group's analysis for the P&C business has shown that its exposures outside of North America are lower, in a large part due to government-provided pools. Outside the modeled areas, exposure concentrations are identified in Zurich's Risk Exposure Data Store (REDS). Exposure concentrations for location-based man-made scenarios, other than terrorism, are also identified in REDS, for example, industrial explosions at global ports.

The Group uses third-party models to manage its underwriting and accumulations for cyber and casualty catastrophe risks. The Group actively monitors and manages its cyber exposure and continues to refine products to ensure their appropriateness. Improving modeling capabilities and data quality for cyber and casualty catastrophe risks are key focus areas.

Risk review (continued)

Concentration of Property & Casualty (P&C) insurance risk

The Group defines concentration risk in the P&C business as the risk of exposure to increased losses associated with inadequately diversified portfolios. Concentration risk for a P&C insurer may arise due to a concentration of business written within a geographical area or of underlying risks covered.

Tables 1.a and 1.b show ZIC Group's concentration of risk within the P&C business by region and line of business based on direct written premiums before reinsurance. P&C premiums ceded to reinsurers (including retrocessions) amounted to USD 9.2 billion and USD 8.6 billion for the years ended December 31, 2021 and 2020, respectively. Reinsurance programs are managed on a global basis, and therefore, the net premium after reinsurance is monitored on an aggregated basis.

Table 1.a

Property & Casualty business – Direct written premiums and policy fees by line of business – current period	in USD millions, for the year ended December 31, 2021					
	Motor	Property	Liability	Special lines	Worker injury	Total
Europe, Middle East & Africa	4,423	5,336	2,828	2,532	406	15,526
North America	1,728	7,226	3,388	2,540	2,417	17,299
Other regions	1,823	1,634	466	1,401	165	5,489
Total	7,974	14,196	6,682	6,473	2,988	38,314

Table 1.b

Property & Casualty business – Direct written premiums and policy fees by line of business – prior period	in USD millions, for the year ended December 31, 2020					
	Motor	Property	Liability	Special lines	Worker injury	Total
Europe, Middle East & Africa	4,162	4,842	2,278	2,154	344	13,781
North America	1,565	5,933	2,914	2,276	2,496	15,185
Other regions	1,683	1,462	420	1,256	141	4,961
Total	7,409	12,237	5,612	5,686	2,981	33,926

Analysis of sensitivities for Property & Casualty (P&C) risks

Tables 2.a and 2.b show the sensitivity of net income before tax and the sensitivity of net assets, using the ZIC Group effective income tax rate, as a result of adverse development in the net loss ratio by one percentage point. The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the sensitivity analysis in tables 2.a and 2.b, each additional percentage-point increase in the loss ratio would have a linear impact on net income before tax and net assets. The ZIC Group also monitors insurance risk by evaluating extreme scenarios, taking into account the non-linear effects of reinsurance contracts.

Table 2.a

Insurance risk sensitivity for the Property & Casualty business – current period	in USD millions, for the year ended December 31, 2021					
	Europe, Middle East & Africa	North America	Asia Pacific	Latin America	Reinsurance	Total
+1% in net loss ratio						
Net income before tax	(137)	(112)	(25)	(19)	(1)	(295)
Net assets	(106)	(87)	(19)	(14)	(1)	(227)

Table 2.b

Insurance risk sensitivity for the Property & Casualty business – prior period	in USD millions, for the year ended December 31, 2020					
	Europe, Middle East & Africa	North America	Asia Pacific	Latin America	Reinsurance	Total
+1% in net loss ratio						
Net income before tax	(123)	(98)	(24)	(18)	–	(264)
Net assets	(94)	(74)	(19)	(13)	–	(200)

Risk review (continued)

Life insurance risk

The risks associated with life insurance include:

Life liability risk

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

Life business risk

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

Market risk

- Market risk – the risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets, which is analyzed in the 'market risk, including investment credit risk' section.

Credit risk

- Credit risk – the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations, which is analyzed in the 'market risk, including investment credit risk' and 'other credit risk' sections.

Management of Life insurance risk

The Group's Life underwriting results are based on the assumptions relating to life insurance risks. The actual experience may differ to that expected at the time of writing the business. For example, mortality could be either higher or lower than expected due to an unexpectedly harsh or benign flu season.

To understand the potential impact of experience differing from expectations, Zurich uses models to perform sensitivity analyses. The impact of changing the assumptions is considered under different scenarios across the risk types and products. Changes relating to absolute level and trend development in assumptions are considered by product category. For example, Zurich looks at the impact of an increase in morbidity rates for protection products or changes in the level and trend of longevity for annuity products. These analyses assist in understanding how sensitive the business is to changes in various assumptions and where there are benefits of having a diversified portfolio of risks and products. Changes in the same assumption can have a positive impact on one product and a negative impact on another. For example, people living longer than expected may have a positive impact on products that offer life cover, as claims are then paid later than expected, but could have a negative impact on annuity products as payments are made for longer than expected. At Zurich, the Life liability risks are managed through established processes with requirements described in the Zurich Risk Policy.

The Group has local product development and approval committees and a Group-level committee to review potential new life products that could significantly increase or change the nature of the risks or introduce new risks. The Group also regularly reviews the continued suitability and the potential risks of existing life products open to new business to ensure sustainability of the business.

Product pricing involves setting assumptions relating to life insurance risks. Local teams have responsibility for the pricing of the products in line with the experience and emerging trends observed in each market. The emerging experience is regularly monitored and compared against expectations. Where permitted, premiums are adjusted for factors such as age, gender, and smoker status to reflect the corresponding risks. Policy terms and conditions and disclosure requirements are designed to mitigate the risk arising from non-standard and unpredictable risks that could result in a severe financial loss.

The underwriting process forms an important part of risk management and risk selection for life insurance risks. This process is supported through setting standards in the Zurich Risk Policy and providing support through additional underwriting guidelines.

Where required and appropriate, life insurance risks are also managed using reinsurance.

Risk review (continued)

Unit-linked products are designed to reduce much of the market and credit risk associated with the Group's traditional business offerings. Risks that are inherent in these products are largely passed on to the policyholder, although a portion of the Group's management fees is linked to the value of funds under management, and hence is at risk if fund values decrease. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. Other life insurance liabilities include traditional life insurance products, such as protection and life annuity products.

Protection products (including disability products) provide benefits linked to policyholders' life and health and mainly carry mortality and morbidity risks. Changes in medical treatments and lifestyle changes are among the most significant factors that could result in earlier or more claims than expected or customers claiming for longer than expected. Disability, when defined in terms of the ability to perform an occupation, could also be affected by adverse economic conditions. This impact could come through, for example, an increase in claims relating to mental health conditions triggered by an economic downturn.

Life annuity products provide benefits that are paid to the customer either for a selected number of years, or until they die. Therefore, these products carry longevity risk as people living longer than expected can have a material impact on these products. Medical advances and improved social conditions that lead to increased longevity are significant risk drivers for these products. Annuitant (beneficiary) mortality assumptions include allowance for future mortality improvements. The trends in mortality improvements are monitored to ensure that changes in experience are considered. The exposure to longevity risk at a Group level is measured regularly and compared against the limit set by the Group.

The Group is exposed to risks posed by policyholder behavior and fluctuating expenses. These are mitigated by designing products that, as closely as possible, match revenue and expenses associated with the contract.

ZIC Group is also exposed to investment and surrender risks related to bank-owned life insurance contracts sold in the U.S. These risks have reduced significantly in recent years as several significant policies have switched into less risky investment divisions. See heading 'other contracts' in note 7 of the ZIC Group consolidated financial statements for additional information.

In the past, low interest rates have led to an increase in both Life business risks and Life liability risks (especially longevity risk). While interest rates have recently started to rise, the level of interest rates remains an important factor in the evaluation of insurance risks.

Furthermore, interest rate guarantees (with concentration in traditional guaranteed business in Germany, Switzerland and Italy and variable annuity business in the U.S. containing minimum guaranteed death benefits) expose Zurich to financial losses that may arise as a result of adverse movements in interest rates. These guarantees are managed through a combination of asset-liability management and hedging.

The Group has a dynamic hedging strategy to reduce the investment risk associated with the closed book of variable annuitants written by its U.S. subsidiary Zurich American Life Insurance Company. This exposure has fallen substantially as a result of several policy buyback programs since 2015.

Diversification across regions and businesses, as shown in table 3 below, contributes to reducing the impacts of the risks associated with the Life business described above.

Concentration of Life insurance risk

The Group defines concentration risk in the Life business as the risk of exposure to increased losses associated with inadequately diversified portfolios of assets or obligations. Concentration risk for a life insurer may arise with respect to investments in a geographical area, economic sector, or individual issuers, or due to a concentration of business written within a geographical area, of a product type, or of underlying risks covered.

Table 3 shows the ZIC Group's concentration of risk within Life by geographic region and line of business based on reserves for life insurance on a net of reinsurance basis. The life insurance reserves also include policyholder surplus reserves with a loss absorbing capacity¹, predominantly in Germany in the amount of USD 9.5 billion in 2021 (2020: USD 12.0 billion) and in the UK in the amount of USD 0.5 billion in 2021 (2020: USD 0.6 billion). The net movement in Italy reserves in 2021 is mainly related to an agreement entered into by Zurich Investments Life S.p.A. to sell part of its life and pension back book (see note 5 of the consolidated financial statements). The ZIC Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time.

See note 8 of the consolidated financial statements for additional information on reserves for insurance contracts.

¹ Policyholder surplus reserves with loss-absorbing capacity refer to funds allocated to the policyholders that can be used by the shareholders, and which, under certain conditions, may require regulatory approval.

Risk review (continued)

Table 3

**Reserves, net
of reinsurance,
by region**

in USD millions, as of December 31

	Unit-linked insurance contracts		Other life insurance liabilities		Total reserves	
	2021	2020	2021	2020	2021	2020
Life						
Europe, Middle East & Africa	51,005	50,476	78,194	90,470	129,199	140,945
of which:						
United Kingdom	15,700	15,934	4,116	4,018	19,816	19,952
Germany	22,757	22,016	38,155	43,235	60,912	65,251
Switzerland	1,148	936	17,069	18,491	18,216	19,426
Italy	4,071	4,163	3,227	6,859	7,297	11,023
Ireland	976	1,315	2,052	2,451	3,028	3,766
Spain	602	676	11,428	12,802	12,031	13,478
Zurich International	5,298	4,982	235	352	5,532	5,334
Rest of Europe, Middle East & Africa	454	453	1,913	2,262	2,367	2,715
North America	11,749	10,983	1,297	1,235	13,046	12,218
Asia Pacific	703	697	4,467	4,740	5,170	5,437
Latin America	13,516	13,740	5,068	5,984	18,585	19,725
Group Reinsurance	–	–	9	11	9	11
Eliminations	–	–	(6)	(15)	(6)	(15)
Subtotal	76,973	75,896	89,030	102,425	166,003	178,321
Other businesses	5,551	5,261	10,411	10,371	15,961	15,632
Total	82,524	81,157	99,440	112,796	181,965	193,953

Reinsurance for Property & Casualty (P&C) and Life businesses

The Group's objective in purchasing reinsurance is to provide market-leading capacity for customers while protecting the balance sheet, supporting management of earnings volatility, and achieving capital efficiency. The Group follows a centralized reinsurance purchasing strategy for both P&C and Life, and bundles programs, where appropriate, to benefit from diversification and economies of scale. In support of the Group's empowerment-based management model and to align risk-bearing capacities between the Group and individual country operations, internal reinsurance applies to all externally reinsured lines of business. In addition, to actively manage and reduce potential claims-recovery risks on facultative cessions and to support the strategy on operational excellence, the Group has specific facultative property and casualty reinsurance facilities.

The Group structures and aligns its external reinsurance protection to its capital position to achieve an optimal risk-return ratio. This includes participation in the underlying risks through self-retentions in line with the risk appetite of each line of business. The cession rate for P&C was 23.0 percent (14.2 percent excluding captives) as of December 31, 2021 and 24.2 percent (14.4 percent excluding captives) as of December 31, 2020. The cession rate for Life was 10.8 percent as of December 31, 2021 and 8.8 percent as of December 31, 2020.

The Group uses traditional and collateralized reinsurance markets to protect itself against extreme single events, multiple event occurrences across regions, and increased frequency of events. Specifically, to protect the Group against man-made and natural catastrophe scenarios per event, Zurich arranges an annual aggregate global cover as illustrated in the graph on the next page.

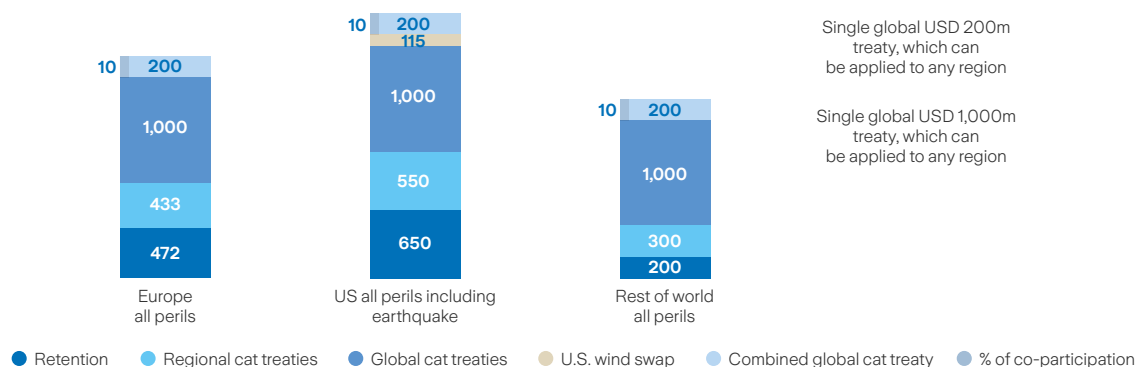
The Group participates in the underlying risks through its retention and through its co-participation in excess layers. The natural catastrophe reinsurance covers are on a loss-occurrence basis, except for the global aggregate catastrophe cover, which operates on an annual aggregate basis. The in-force natural catastrophe covers renew annually, with the exception of the global property catastrophe cover, which is up for renewal on April 1, 2022, following a three-year term.

In addition to these covers, the Group purchases several regional catastrophe covers, has a bilateral risk swap, and various line of business-specific risk treaties. These covers are reviewed continuously and are subject to change in the future.

To complement existing treaties, the Group purchases catastrophe reinsurance specific to life insurance for its exposure to natural and man-made catastrophes.

Risk review (continued)

Catastrophe reinsurance treaties in USD millions



Global aggregate cat treaty



- Global aggregate cat treaty renewed on January 1, 2021; US treaties renewed per April 1, 2021; Global all perils cat treaty renewed on April 1, 2021 (automatically renewed into year of the three years period); International and Europe all perils cat treaty renewed July 1, 2021. Please note: the attachment point and limit on Europe all perils tower are defined in EUR denomination (EUR390m xs EUR425m); currency exchange rates as of January 31, 2021.
- The USD 200m cover is the combined global occurrence and aggregate all perils cat treaty presiding over the global all perils cat treaty (plus over the US wind swap on the US windstorm tower). This cover can be used only once, either for aggregated losses or for an individual occurrence/event.

Risk review (continued)

Market risk, including investment credit risk

Market risk relates to the possibility of loss of value due to changes in financial market conditions. Risk factors include:

- Equity market price changes.
- Real estate market price changes.
- Interest rate changes.
- Credit and swap spread changes.
- Defaults of issuers.
- Changes in currency exchange rates.

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

The Group has policies and limits to manage market risk and keep its strategic asset allocation in line with its risk capacity. Zurich centrally manages certain asset classes to control aggregation of risk and provides a consistent approach to constructing portfolios and selecting external asset managers. It diversifies portfolios, investments and asset managers, and regularly measures and manages market risk exposure. The Group defines limits on concentration of investments in single issuers and certain asset classes, as well as the degree to which asset interest rate sensitivities may deviate from liability interest rate sensitivities. The Group regularly reviews its capacity to hold illiquid investments.

The Asset/Liability Management Investment Committee reviews and monitors the Group strategic asset allocation and tactical boundaries, and monitors Group's asset/liability exposure. The Group oversees the activities of local asset/liability management investment committees and regularly assesses market risks at both Group and local business levels. The economic effect of potential extreme market moves is regularly examined and considered when setting the asset allocation.

Risk assessment reviews include the analysis of the management of interest rate risk for each major maturity bucket and adherence to the aggregate positions with risk limits. The Group follows processes to manage market risks and to analyze market risk hotspots. Actions to mitigate risks are taken, if necessary, to manage fluctuations affecting asset/liability mismatch and risk-based capital.

The Group may use derivative financial instruments to mitigate market risks arising from changes in currency exchange rates, interest rates and equity prices, from credit quality of assets, and from commitments to third parties. The Group enters into derivative financial instruments mostly for economic hedging purposes and, in limited circumstances, the instruments may also meet the definition of an effective hedge for accounting purposes.

In compliance with Swiss insurance regulation, the Group's policy prohibits speculative trading in derivatives, meaning a pattern of so-called 'in-and-out trading' activity without any reference to an underlying position. The Group addresses the risks arising from derivatives through a stringent policy that requires approval of a derivative program before transactions are initiated, and by subsequent regular monitoring by Group Risk Management of open positions and annual reviews of derivative programs.

For more information on ZIC Group's investment result, including impairments and the treatment of selected financial instruments, see note 6 of the ZIC Group consolidated financial statements. For more information on derivative financial instruments and hedge accounting, see note 7 of the ZIC Group consolidated financial statements.

Risk from equity securities and real estate

The Group is exposed to risks from price fluctuations on equity securities and real estate. These could affect the Group's liquidity, reported income, economic surplus and regulatory capital position. Equity risk exposure includes common stocks (including equity unit trusts), private equity, common stock portfolios backing participating-with-profit policyholder contracts, and equities held for employee benefit plans. Exposure to real estate risk includes direct holdings in property and property company shares and funds. Returns on unit-linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and real estate, but these risks are borne by policyholders. The Group is however indirectly exposed to market movements from unit-linked contracts with respect to both earnings and economic capital; market movements affect the amount of fee income earned when the fee income level is dependent on the valuation of the asset base. Therefore, the value of in-force business for unit-linked business can be negatively affected by adverse movements in equity and real estate markets.

Risk review (continued)

The Group manages its risks related to equity securities and real estate as part of the overall investment risk management process and applies limits as expressed in policies and guidelines. Specifically, Zurich limits holdings in equities, real estate and alternative investments. To realize an optimal level of risk diversification, the strategy for equities is defined through a composite of market benchmark indices. The Group has the capability and processes in place to change the exposure to key equity markets via the use of derivatives or purchase or sale of securities within a short time frame.

For additional information on equity securities and investment property, see note 6 of the ZIC Group consolidated financial statements.

Risk from interest rates and credit spreads

Interest rate risk is the risk of an adverse economic impact resulting from changes in interest rates, including changes in the shape of yield curves. Yield curve changes affect the value of interest rate-sensitive investments and derivatives as well as the fair value of insurance liabilities. Other balance sheet items, such as liability investment contracts, debt issued by the Group, commercial and residential mortgages, employee benefit plans, loans and receivables, are also affected.

The Group manages credit spread risk, which is the variation in economic value due to changes in the level or the volatility of credit spreads over the risk-free interest rate. Movements of credit spreads are driven by several factors including changes in expected default probability, default losses, risk premium, liquidity and other effects.

Returns on unit-linked contracts, whether classified as insurance or investment contracts, are at the risk of the policyholder; however, the Group is exposed to fluctuations in interest rates and credit spreads insofar as they affect the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

Analysis of market risk sensitivities for interest rate, equity and credit spread risks

ZIC Group investment sensitivities

The gross economic market risk sensitivities of the fair value of IFRS ZIC Group investments before tax as of 2021 was negative USD 6.1 billion (negative USD 7.1 billion as of 2020) for a 50 basis points (bps) increase in interest rates. For a 50 bps decrease in interest rates, the sensitivity was USD 6.7 billion in 2021 (USD 7.9 billion as of 2020). For a 10 percent decline in equity markets, ZIC Group investments drop in value by USD 1.3 billion in 2021 compared with USD 1.3 billion as of 2020. A 100 bps increase in credit spreads resulted in a decrease of USD 6.2 billion in 2021 compared with USD 6.8 billion as of 2020.

The following describes limitations of the ZIC Group investment sensitivities. The ZIC Group sensitivities show the effects of a change of certain risk factors, while other assumptions remain unchanged. The interest rate scenarios assume a parallel shift of all interest rates in the respective currencies. They do not take account of the possibility that interest rate changes might differ by rating class; these are disclosed separately as credit spread risk sensitivities. The sensitivity analysis is based on economic assets, and not on shareholders' equity or net income as set out in the ZIC Group consolidated financial statements. The sensitivities only cover ZIC Group investments and do not cover insurance or other liabilities. The equity market scenarios assume a concurrent movement of all stock markets. The sensitivity analysis does not take account of actions that might be taken to mitigate losses. Actions may involve changing the asset allocation, for example through selling and buying assets. Sensitivity calculations do not assign a probability to the scenario considered. The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent the ZIC Group's view of expected future market changes.

Risk review (continued)

Risks from defaults of counterparties

Debt securities

The ZIC Group is exposed to credit risk from third-party counterparties where the ZIC Group holds securities issued by those entities. Default risk is controlled by ZIC Group counterparty concentration risk limits which aim to keep the size of potential losses to an acceptable level.

Table 4

Debt securities by rating of issuer	as of December 31	2021		2020	
		USD millions	% of total	USD millions	% of total
Rating					
AAA		28,339	19.5%	36,411	22.5%
AA		44,358	30.6%	42,240	26.1%
A		25,346	17.5%	25,084	15.5%
BBB		41,255	28.4%	51,636	31.9%
BB and below		5,411	3.7%	5,802	3.6%
Unrated		375	0.3%	536	0.3%
Total		145,084	100.0%	161,710	100.0%

Table 4 shows the credit risk exposure of debt securities, by credit rating. As of December 31, 2021, 96.0 percent of the ZIC Group's debt securities was investment grade and 19.5 percent was rated 'AAA.' As of December 31, 2020, 96.1 percent of debt securities was investment grade and 22.5 percent was rated 'AAA.'

Exposure level limits are in place and are based on default and recovery rates. Limits tighten progressively for lower-rated exposures. Where the ZIC Group identifies investments that are expected to trigger limit breaches, appropriate mitigating actions are implemented.

The risk-weighted average credit rating of the ZIC Group's debt securities portfolio is 'A-' in 2021, unchanged from 2020.

As of December 31, 2021, the largest concentration in the ZIC Group's debt securities portfolio was government related at 48 percent of all debt securities. In all other categories, a total of USD 28.6 billion (38 percent) was secured. As of December 31, 2020, 51 percent of the ZIC Group's debt portfolio was invested in government-related securities. In all other categories, a total of USD 29.5 billion (38 percent) was secured.

The second-largest concentration in the ZIC Group's debt securities portfolio is financial institutions, comprising investments mainly in banking, finance companies and insurance.

In addition to debt exposure, the ZIC Group had loan exposures of USD 3.5 billion to the German central government or German federal states as of December 31, 2021. The equivalent figure for December 31, 2020 was USD 4.2 billion. For more information, see the 'mortgage loans and other loans' section below.

Cash and cash equivalents

To reduce credit concentration, settlement and operational risks, the Group limits the amount of cash that can be deposited with a single counterparty. The Group also maintains an authorized list of acceptable cash counterparties.

For the ZIC Group, cash and cash equivalents amounted to USD 8.7 billion as of December 31, 2021 and USD 11.3 billion as of December 31, 2020. The risk-weighted average rating of the overall cash portfolio was 'A-' as of December 31, 2021 and 'A' as of December 31, 2020. The ten largest bank exposures represent 69 percent of the total, the risk-weighted average rating of which was 'AA-' as of December 31, 2021 and 'AA-' as of December 31, 2020.

Mortgage loans and other loans

Mortgage loans amounted to USD 6.1 billion as of December 31, 2021 and USD 5.8 billion as of December 31, 2020. The ZIC Group's largest mortgage loan portfolios are held in Switzerland (USD 3.0 billion) and in Germany (USD 1.5 billion); these are predominantly secured against residential property but also include mortgages secured by commercial property. The ZIC Group invests in mortgages in the U.S. (USD 0.5 billion); these are mainly participations in large mortgage loans secured against commercial property.

Risk review (continued)

The credit risk arising from other loans is assessed and monitored together with the debt securities portfolio. Out of the USD 7.1 billion reported loans as of December 31, 2021, 56 percent are government related, of which 89 percent are to the German central government or German federal states. As of December 31, 2021, USD 3.7 billion were rated as 'AAA' (52 percent) compared with 4.1 billion as of December 31, 2020; USD 1.0 billion as 'AA' (14 percent) compared with 1.8 billion as of December 31, 2020; USD 1.2 billion as 'A' (18 percent) compared with 1.4 billion as of December 31, 2020; USD 1.2 billion as 'BBB' and below (16 percent) compared with 1.0 billion as of December 31, 2020; and USD 0.0 billion as unrated (0 percent) compared with 0.3 billion as of December 31, 2020.

Derivatives

The replacement value of outstanding derivatives represents a credit risk to the Group. These instruments include interest rate and cross-currency swaps, forward contracts and purchased options. A potential exposure could also arise from possible changes in replacement values. The Group regularly monitors credit risk exposures arising from derivative transactions. Outstanding positions with external counterparties are managed through an approval process embedded in derivative programs.

To limit credit risk, derivative financial instruments are executed with counterparties rated 'BBB' or higher as per Zurich Risk Policy requirements. The Group's standard practice is to only transact derivatives with those counterparties for which the Group has in place an ISDA Master Agreement, with a Credit Support Annex. This mitigates credit exposures from over-the-counter transactions due to close-out netting and requires the counterparty to post collateral when the derivative position exceeds an agreed threshold. The Group further mitigates credit exposures from derivative transactions by using exchange-traded or centrally cleared instruments whenever possible. The Group remained under the applicable thresholds for phase 5 of the initial margin rules for over-the-counter derivatives and therefore was not subject to a duty to exchange initial margin in 2021.

Risk from currency exchange rates

Currency risk is the risk of loss resulting from changes in exchange rates. The Group operates internationally and therefore is exposed to the financial impact of changes in the exchange rates of various currencies. The Group's presentation currency is the U.S. dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in euro, Swiss franc, British pound and U.S. dollar.

On entity balance sheets a currency mismatch may cause a balance sheet's net asset value to fluctuate, either through income or directly through equity. The Group manages this risk by matching foreign currency positions on entity balance sheets within prescribed limits. Residual entity mismatches are reported centrally to make use of the netting effect across the Group. Zurich hedges these residual entity mismatches within an established limit through a central balance sheet. For information on net gains/losses on foreign currency transactions included in the consolidated income statements, see note 1 of the ZIC Group consolidated financial statements. The monetary currency risk exposure on entity balance sheets is considered immaterial.

Differences arise when functional currencies are translated into the Group's presentation currency, the U.S. dollar. The Group applies net investment hedge accounting to protect against the impact that changes in certain exchange rates might have on selected net investments.

Table 5 shows the sensitivity of total IFRS equity to changes in exchange rates for the main functional currencies to which the ZIC Group is exposed. Positive values represent an increase in the value of the ZIC Group's total equity. See notes 1, 3 and 7 of the ZIC Group consolidated financial statements for additional information on foreign currency translation and transactions.

Table 5

Sensitivity of the ZIC Group's total IFRS equity to exchange rate fluctuations	in USD millions, as of December 31		
		2021	2020
	10% increase in		
	EUR/USD rate	309	363
	GBP/USD rate	327	274
	CHF/USD rate	516	562
	BRL/USD rate	96	138
	AUD/USD rate	373	355
	JPY/USD rate	107	103
	Other currencies/USD rates	493	528

The sensitivities show only the effects of a change of the exchange rates, while other assumptions remain unchanged. The sensitivity analysis does not consider management actions that might be taken to mitigate such changes. The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent ZIC Group's view of expected future market changes. While table 5 shows the effect of a 10 percent increase in currency exchange rates, a decrease of 10 percent would have the converse effect.

Risk review (continued)

Other credit risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. See section 'risks from defaults of counterparties' for market risk-related asset categories. The Group's exposure to other credit risk is derived from the following main categories of assets:

- Reinsurance assets.
- Receivables.

The Group's objective in managing credit risk exposures is to maintain them within parameters that reflect the Group's strategic objectives, and its risk appetite and tolerance. Sources of credit risk are assessed and monitored, and the Group has policies to manage specific risks within various subcategories of credit risk. To assess counterparty credit risk, the Group uses ratings assigned by external rating agencies, qualified third parties, such as asset managers, and internal rating assessments. If the ratings of external rating agencies differ, the Group generally applies the lowest, unless other indicators justify an alternative, which may be an internal credit rating.

The Group actively uses collateral to mitigate credit risks. Underlying credit risks are managed independently from the collateral. The Group has limits and quality criteria to identify acceptable letter of credit providers. Letters of credit enable Zurich to limit the risks embedded in reinsurance, captives, deductible programs, trade credit and surety.

The Group has counterparty limits which are regularly monitored. Exposure to counterparties' parent companies and subsidiaries is aggregated to include reinsurance assets, investments, derivatives, and certain insurance products. The Group aggregate concentration limits and relevant exception approvals are monitored in line with risk policy requirements.

On-balance sheet exposures are the main source of credit risk. Off-balance sheet credit exposures are related primarily to certain insurance products, reinsurance and collateral used to protect underlying credit exposures on the balance sheet. The ZIC Group has no material amount of off-balance sheet exposures related to undrawn loan commitments as of December 31, 2021. See note 22 of the ZIC Group consolidated financial statements for undrawn loan commitments.

Credit risk related to reinsurance assets

The Group's Corporate Reinsurance Security Committee oversees the credit quality of cessions and reinsurance assets. The Group typically only cedes new business to authorized reinsurers with a minimum rating of 'A-'. Of ZIC Group's exposure ceded to reinsurers that are rated below 'A-' or are not rated, 54 percent was collateralized as of December 31, 2021 and 2020, respectively. Of ZIC Group's exposure ceded to reinsurers that are rated below 'A-' or are not rated, 66 percent was ceded to captive insurance companies in 2021, and 62 percent in 2020.

Reinsurance assets included reinsurance recoverables (the reinsurers' share of reserves for insurance contracts) of USD 25.7 billion and USD 25.6 billion, and receivables arising from ceded reinsurance of USD 1.6 billion and USD 1.5 billion as of December 31, 2021 and 2020, respectively, gross of allowance for impairment. Reserves for potentially uncollectible reinsurance assets amounted to USD 119 million as of December 31, 2021 and USD 149 million as of December 31, 2020. The Group's policy on impairment charges takes into account both specific charges for known situations (e.g., financial distress or litigation) and a general, prudent provision for unanticipated impairments.

Reinsurance assets in table 6 are shown before taking into account collateral such as cash or bank letters of credit and deposits received under ceded reinsurance contracts. Unsecured reinsurance assets shown are after deducting collateral. Bank issuing letters of credit for the benefit of ZIC Group are, on average, 'A' rated. The value of the collateral received amounts to USD 10.6 billion and USD 10.8 billion as of December 31, 2021 and 2020, respectively.

Risk review (continued)

Table 6 shows reinsurance assets and unsecured reinsurance assets split by rating.

Table 6

Reinsurance assets and unsecured reinsurance assets by rating of reinsurer and captive	as of December 31	2021						2020	
		Unsecured reinsurance				Unsecured reinsurance			
		Reinsurance assets		assets		Reinsurance assets		assets	
		USD	% of	USD	% of	USD	% of	USD	% of
		millions	total	millions	total	millions	total	millions	total
Rating									
AAA	26	0.1%	26	0.2%	37	0.1%	37	0.2%	
AA	8,267	30.3%	7,525	45.2%	8,382	31.1%	7,445	45.9%	
A	11,461	42.1%	5,630	33.8%	11,851	43.9%	5,644	34.8%	
BBB	3,604	13.2%	1,642	9.9%	3,094	11.5%	1,385	8.5%	
BB	652	2.4%	324	1.9%	411	1.5%	192	1.2%	
B and below	206	0.8%	77	0.5%	204	0.8%	45	0.3%	
Unrated	3,020	11.1%	1,416	8.5%	3,004	11.1%	1,485	9.1%	
Total	27,236	100.0%	16,640	100.0%	26,983	100.0%	16,233	100.0%	

Credit risk related to receivables

The largest amount of the ZIC Group's credit risk exposure to receivables is related to third-party agents, brokers and other intermediaries. It arises where premiums are collected from customers to be paid to the ZIC Group, or to pay claims to customers on behalf of the ZIC Group. ZIC Group has policies and standards to manage and monitor credit risk related to intermediaries. ZIC Group requires intermediaries to maintain segregated cash accounts for policyholder money. ZIC Group also requires that intermediaries satisfy minimum requirements of capitalization, reputation and experience, and provide short-dated business credit terms.

Receivables that are past due, but not impaired, are regarded as unsecured; however, some of these receivable positions may be offset by collateral. The Group reports internally on its past-due receivable balances and strives to keep the balance of past-due positions as low as possible, while taking into account customer satisfaction.

Receivables from ceded reinsurance are part of reinsurance assets and managed accordingly. See notes 15 and 24 of the ZIC Group consolidated financial statements for additional information on receivables.

Operational risk

Operational risk is the risk of financial loss, adverse reputational, legal or regulatory impact, resulting from inadequate or failed processes, people, systems or from external events, including external fraud, catastrophes, or failure in outsourcing arrangements. Zurich has a framework to identify, assess, manage, monitor, and report operational risk within the Group. Within this framework, the Group:

- Uses a scenario-based approach to assess, model and quantify the capital required for operational risk for business units under extreme circumstances. This approach allows information to be compared across the Group and highlights the main scenarios contributing to the capital required under Zurich Economic Capital Model (Z-ECM).
- Documents and reviews operational events exceeding a threshold determined by the Zurich Risk Policy. Remedial action is taken to avoid the recurrence of such operational events.
- Conducts risk assessments where operational risks are identified for key business areas. Risks identified and assessed to be above a certain threshold must have a risk response. Risk mitigation plans are documented and tracked on an ongoing basis. In the assessments, the Group uses sources of information such as the Total Risk Profiling™ process, internal control assessments, and audit findings, as well as scenario modeling and operational event data.

The Group has specific processes and systems in place to focus on high-priority operational matters such as managing information security and business resilience as well as combating fraud.

Preventing, detecting and responding to fraud are embedded in Zurich's business processes. Both claims and non-claims fraud are included in the common framework for assessing and managing operational risks. For Zurich's internal model calculations, claims fraud is part of insurance risk and non-claims fraud is part of operational risk.

Risk review (continued)

Liquidity risk

Liquidity risk is the risk that an entity within the Group may not have sufficient liquid financial resources to meet its obligations when they fall due or would have to incur excessive costs to do so. Zurich's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under normal conditions and in times of stress. To achieve this, the Group assesses, monitors and manages its liquidity needs on an ongoing basis.

Group-wide liquidity management policies and specific guidelines govern how entities plan, manage and report their entity liquidity and include regular stress tests for all major legal entities and branches within the Group. The stress tests use a standardized set of internally defined stress events, and are designed to provide an overview of the potential drain on liquidity should the Group have to recapitalize entity balance sheets. Similar guidelines apply at Group level, and detailed liquidity forecasts are regularly conducted, based on entities' input and the Group's forecasts. As part of its liquidity management, the Group maintains sufficient cash and cash equivalents and high-quality, liquid investment portfolios to meet outflows under expected and stressed conditions.

The Group also maintains internal liquidity sources that cover the potential liquidity needs within the Group, including those that might arise in times of stress. The Group takes into account the amount, availability and speed at which these sources can be accessed. The Group has access to diverse funding sources to cover contingencies, including asset sales, external debt issuance and making use of committed borrowing facilities or letters of credit. The Group maintains a range of maturities for external debt securities. A potential source of liquidity risk is the effect of a downgrade of the credit rating of the Group. This could affect the Group's commitments and guarantees, potentially increasing liquidity needs. This risk – and mitigating actions that might be employed – are assessed on an ongoing basis within the Group's liquidity framework.

The Group regularly analyzes the liquidity of the investment assets and ensures that the liquidity of assets stays in line with liquidity requirements. In 2021, the Group's holdings in illiquid assets were within its capacity.

For more information on debt obligation maturities, see note 18 of the ZIC Group consolidated financial statements, and for information on commitments and guarantees, see note 22 of the ZIC Group consolidated financial statements.

The Group's ongoing liquidity monitoring includes regular reporting to the executive management and quarterly reporting to the Risk and Investment Committee of the Board, covering aspects such as the Group's actual and forecast liquidity, possible adverse scenarios that could affect the Group's liquidity and possible liquidity needs from the Group's main subsidiaries, including under conditions of stress.

For more information on the ZIC Group's other financial liabilities, see note 16 of the ZIC Group consolidated financial statements. See note 6 of the ZIC Group consolidated financial statements for information on the maturity of debt securities.

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty during the term of the investment (generally three to five years) and must be funded by the Group on a timely basis. See note 22 of the ZIC Group consolidated financial statements for more information.

Risk review (continued)

Strategic risk and risks to the Group's reputation

Strategic risk

Zurich defines strategy as the long-term plan of action designed to allow the Group to achieve its goals and aspirations based on Zurich's purpose and values.

Strategic risks can arise from:

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

The Group works to manage risks associated with strategic business decisions through its risk assessment processes and tools, including the Total Risk Profiling™ process. As part of the annual assessment of strategic risks, the Executive Committee assesses potential risks from both external and internal factors, looking at the current year and beyond. The Executive Committee members define actions to respond as appropriate and review changes to the key risks and their status of actions at least quarterly.

The Group evaluates the risks of merger and acquisition (M&A) transactions both from a quantitative and a qualitative perspective. The Group conducts risk assessments of M&A transactions to evaluate risks specifically related to integrating acquired businesses.

Risks to the Group's reputation (unaudited)

Risks include acts or omissions by the Group or any of its employees that could damage the Group's reputation or lead to a loss of trust among its stakeholders. Every risk type has potential consequences for Zurich's reputation. Effectively managing each risk type supports preventing adverse reputational outcomes.

The Group aims to preserve its reputation by:

- Adhering to applicable laws and regulations.
- Following the core values and principles of the Group's code of conduct that promote integrity and good business practice.
- Living up to its sustainability commitments.

The Group centrally manages certain aspects of risk to reputation, for example, communications, through functions with the appropriate expertise. Potential risks to Zurich's reputation are included in its risk assessment processes and tools, including the Total Risk Profiling™ process.

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Financial overview

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The financial overview is the management analysis of the business performance of Zurich Insurance Company Ltd and its subsidiaries (collectively the Zurich Insurance Company Group or ZIC Group) for the year ended December 31, 2021, compared with 2020.

The information contained within the financial overview is unaudited and is based on the consolidated results of the ZIC Group for the years ended December 31, 2021 and 2020. 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 2021 of the ZIC Group and in particular with its consolidated financial statements for the year ended December 31, 2021.

In addition to the figures stated in accordance with International Financial Reporting Standards (IFRS), the ZIC 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 separately published 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 27 (table 27.4) of the audited consolidated financial statements for the year ended December 31, 2021.

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

Financial overview (continued)

Financial highlights

in USD millions, for the years ended December 31	2021	2020	Change ¹
Business operating profit	5,639	4,043	39%
Net income attributable to shareholders	5,081	3,684	38%
P&C business operating profit	3,121	2,080	50%
P&C gross written premiums and policy fees	40,123	35,518	13%
P&C combined ratio	94.3%	98.4%	4.1 pts
Life business operating profit	1,812	1,423	27%
Life gross written premiums, policy fees and insurance deposit	28,353	27,616	3%
Life new business annual premium equivalent (APE) ²	3,824	3,625	5%
Life new business margin, after tax (as % of APE) ²	29.1%	25.1%	4.0 pts
Life new business value, after tax ²	959	788	22%
Farmers business operating profit	1,541	1,432	8%
Farmers Management Services management fees and other related revenues	4,265	3,703	15%
Farmers Management Services managed gross earned premium margin	6.6%	6.8%	(0.1 pts)
Farmers Life new business annual premium equivalent (APE) ²	78	75	4%
Average Group investments ³	204,012	205,371	(1%)
Net investment result on Group investments ³	7,016	6,939	1%
Net investment return on Group investments ^{3,4}	3.4%	3.4%	0.1 pts
Total return on Group investments ^{3,4}	(0.8%)	6.3%	(7.2 pts)
Shareholders' equity	37,542	37,462	0%

¹ Parentheses around numbers represent an adverse variance.

² New business value and new business margin are calculated after the effect of non-controlling interests, whereas APE is presented before non-controlling interests.

³ Including investment cash.

⁴ Calculated on average Group investments.

The ZIC Group reported very strong growth in profit for 2021, with business operating profit (BOP) increasing 39 percent. Growth came from a strong underlying performance together with a reduced impact from the COVID-19 pandemic, which more than offset higher weather and natural catastrophe losses.

Net income attributable to shareholders increased by 38 percent in 2021, driven by the growth in business operating profit and higher net realized gains on equities and real estate, which more than offset slightly higher charges for other items.

Operating update

Property & Casualty (P&C)

in USD millions, for the years ended December 31

	Total	
	2021	2020
		Change
Gross written premiums and policy fees	40,123	35,518
Net earned premiums and policy fees	29,461	26,396
Insurance benefits and losses, net of reinsurance	18,593	17,536
Net underwriting result	1,681	423
Net investment result	1,731	2,045
Business operating profit	3,121	2,080
Loss ratio	63.1%	66.4%
Expense ratio	31.2%	32.0%
Combined ratio	94.3%	98.4%

BOP by segment

in USD millions, for the years ended December 31

	Business operating profit (BOP)	
	2021	2020
		Change
Europe, Middle East & Africa (EMEA)	822	755
North America	1,706	1,396
Asia Pacific	235	48
Latin America	236	239
Group Reinsurance	121	(357)
Total	3,121	2,080

Gross written premiums in Property & Casualty (P&C) for 2021 reached a record high of USD 40.1 billion, up 11 percent compared with the previous year on a like-for-like basis, after adjusting for currency movements and closed acquisitions and disposals. In U.S. dollars, gross written premiums rose 13 percent, with growth amplified by favorable currency movements.

Business operating profit in 2021 was USD 3.1 billion, 50 percent higher than in the previous year. The increase was primarily driven by a higher underwriting result, benefiting from a combination of top-line growth and improved combined ratio.

The net investment result declined 15 percent compared with the previous year, driven by lower investment income due to the earn through of lower yields, and a reduced performance of the ZIC Group's hedge fund portfolio.

The contribution of other items, which include the net non-technical result and non-controlling interests, improved by USD 97 million compared to the previous year, mainly driven by a gain from the disposal of a real estate asset previously held for own use.

Operating update (continued)

Combined ratio	in %, for the years ended December 31	Combined ratio	
		2021	2020 Change
Europe, Middle East & Africa (EMEA)		97.4%	96.6% (0.8 pts)
North America		92.4%	97.7% 5.3 pts
Asia Pacific		92.5%	100.5% 8.0 pts
Latin America		91.3%	91.8% 0.5 pts
Group Reinsurance		nm	nm nm
Total		94.3%	98.4% 4.1 pts

The combined ratio of 94.3 percent in 2021 was 4.1 percentage points better than in the previous year. Both the loss ratio and expense ratio contributed to the improvement. The loss ratio was 3.3 percentage points below prior year, driven by underlying improvement as higher prices earned into the results, increased reserve releases and lower catastrophe and COVID-19 losses. The expense ratio was 0.8 percentage points below the prior year, reflecting continued expense discipline and top-line growth.

In EMEA, the combined ratio deteriorated by 0.8 percentage points, mainly driven by lower reserve releases compared with the previous year, while the current accident year combined ratio improved year on year driven by both loss ratio and expense ratio.

In North America, the combined ratio improved by 5.3 percentage points, mainly driven by a lower loss ratio, which benefited from the earn through of rate increases, as well as higher reserve releases and lower catastrophe and COVID-19 losses.

The Asia Pacific combined ratio improved 8 percentage points, driven by both loss ratio and expense ratio. The loss ratio benefited from a favorable prior-year development compared with an adverse development in the prior year. The expense ratio improvement was mainly driven by a reduction of other underwriting expenses and top-line growth.

The Latin America combined ratio was 0.5 percentage points better than in the previous year, with the improvement driven by a better expense ratio, reflecting changes in business mix and a reduction of other underwriting expenses.

Operating update (continued)

Life

in USD millions, for the years ended December 31	2021	2020	Change
Insurance deposits	14,357	13,663	5%
Gross written premiums and policy fees	13,995	13,953	0%
Net investment income on Group investments	2,987	2,753	9%
Insurance benefits and losses, net of reinsurance	8,863	9,306	5%
Business operating profit	1,812	1,423	27%
Net policyholder flows ¹	6,002	4,310	39%
Assets under management ²	295,018	303,443	(3%)
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)	234,475	247,439	(5%)

¹ Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.

² 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.

BOP by segment

in USD millions, for the years ended December 31	2021	2020	Change
Europe, Middle East & Africa (EMEA)	1,197	945	27%
North America	31	(13)	nm
Asia Pacific	347	269	29%
Latin America	222	219	1%
Group Reinsurance	15	4	nm
Total	1,812	1,423	27%

The ZIC Group's Life business delivered a business operating profit of USD 1.8 billion for the full year 2021, 27 percent higher than the prior year. Excluding COVID-19 effects, Life business operating profit grew 26 percent, driven by the ZIC Group's continued focus on protection and capital-light saving products. This, together with portfolio management actions and favorable claims experience, led to margin improvements in Asia Pacific and Europe, which were complemented by profitable growth in Latin America and Europe and better investment returns. Other drivers were positive one-off benefits of around USD 150 million largely related to EMEA and resulting from favorable reserve releases, assumption updates and other one-offs.

In EMEA, business operating profit improved by 27 percent to USD 1.2 billion on a reported basis. Adjusted for COVID-19, business operating profit increased by 16 percent compared with the prior year to USD 1.3 billion. Switzerland's business operating profit improved as a result of growth in higher-margin individual life business together with a positive claims experience largely related to the favorable reserve releases. Italy and Ireland delivered strong and profitable growth in unit-linked products and benefited from favorable markets conditions. Germany's business operating profit increased due to favorable economic assumption updates and other one-offs, while the UK benefited from loss reserve reviews and profitable growth in protection.

In Latin America, business operating profit increased 1 percent on a reported basis. Excluding COVID-19 claims, business operating profit grew by 43 percent. This growth was driven by profitable sales through Zurich Santander together with a positive run-off development of a large corporate protection scheme in Chile, which benefited from favorable market conditions.

Asia Pacific contributed a business operating profit of USD 347 million, USD 79 million higher compared with the prior year. The performance improved significantly due to re-pricing and portfolio improvement actions in Australia as well as higher investments returns.

In North America, which excludes Farmers Life, business operating earnings increased by USD 43 million due to better claims experience and the sale of the group life business.

Net inflows of USD 6 billion were 39 percent higher than in the prior year, mainly benefiting from growth in EMEA, North America and Asia Pacific. Net inflows rose by 45 percent on a like-for-like basis, adjusting for currency movements, acquisitions and disposals, and the reclassification of Zurich Global Employee Benefit Solutions from Life to Zurich Global Ventures in Group Functions and Operations.

Assets under management (AuM) decreased by around 3 percentage points, driven by unfavorable currency movements and the reclassification of AuM as held for sale related to the sale of the Italian life and pension back book. These effects were partially offset by favorable market developments and the impact from positive net inflows.

Operating update (continued)

NBV, APE and NBM by Segment

in USD millions, for the years ended December 31

	New business value, after tax (NBV) ¹		New business annual premium equivalent (APE) ²		New business margin, after tax (as % of APE) (NBM) ³	
	2021	2020	2021	2020	2021	2020
Europe, Middle East & Africa (EMEA)	668	500	2,465	2,300	28.6%	22.7%
North America	24	44	120	108	19.8%	41.0%
Asia Pacific	103	101	198	213	52.7%	47.9%
Latin America	164	142	1,041	1,005	25.5%	23.0%
Total	959	788	3,824	3,625	29.1%	25.1%

¹ New business value is calculated on embedded value principles net of non-controlling interests.

² APE is shown gross of non-controlling interests.

³ New business margin is calculated using new business value as a percentage of APE based on figures net of non-controlling interests for both metrics.

During 2021, Life new business annual premium equivalent (APE) sales increased by 5 percent on a like-for-like basis. The growth in sales reflects favorable growth momentum in unit-linked business and protection products, partially offset by a strong reduction in savings and annuity business. On a reported basis, APE was 5 percent higher.

In EMEA, APE sales increased by 5 percent on a like-for-like basis, compared with the same period in 2020. This was mainly driven by strong growth of unit-linked business in Ireland, Italy and Switzerland and favorable APE sales of protection products in Spain, Switzerland and the UK. These factors were partially offset by lower sales of traditional life products in Germany and Italy, as well as by the reduction in corporate savings business in Switzerland, due to the COVID-19-related economic slowdown at the beginning of the year and competitive market conditions.

APE sales in Latin America increased 7 percent on a like-for-like basis, reflecting higher sales volumes of individual protection products at Zurich Santander and strong growth of unit-linked business in Chile and Brazil. These were partially offset by the non-renewal of a large corporate life and protection account in Chile.

In North America, APE sales increased 35 percent on a like-for-like basis, excluding the life business which was sold in the prior year. This was primarily driven by growth in unit-linked business.

In Asia Pacific, lower sales in Japan, Australia and Indonesia led to a decline of 10 percent on a like-for-like basis. The decline in Australia was in part due to repricing actions to improve margins.

The new business margin increased to an attractive level of 29.1 percent as reported and on a like-for-like basis. New business value (NBV) rose 21 percent on a like-for-like basis, driven by higher volumes and a more favorable sales mix in EMEA and Latin America. On a reported basis, NBV improved by 22 percent. The ZIC Group continues to focus on protection, unit-linked and corporate savings business, with these products accounting for more than 90 percent of APE sales. Protection business contributed around 75 percent of the total NBV.

Operating update (continued)

Farmers

in USD millions, for the years ended December 31	2021	2020	Change
Farmers Management Services (FMS)	1,463	1,312	12%
Farmers Re	(1)	25	nm
Farmers Life	79	95	(17%)
Total business operating profit	1,541	1,432	8%

Farmers Management Services (FMS) business operating profit increased 12 percent compared with the prior year and 5 percent on a like-for-like basis after adjusting for the first-time inclusion of the acquired MetLife U.S. P&C business. This was mainly driven by growth of the premium base of the Farmers Exchanges.

Farmers Re reported a loss of USD 1 million compared with a business operating profit of USD 25 million in the prior year. The loss was driven by catastrophe losses and unfavorable prior-year development related to older accident years, when Farmers Re had a higher proportion of ceded business from the Farmers Exchanges under the all lines quota share.

Farmers Life business operating profit of USD 79 million was 17 percent lower than in the prior year. The result was mainly driven by higher mortality claims, including USD 121 million of claims related to COVID-19.

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 years ended December 31	2021	2020	Change
Gross written premiums	24,228	20,108	20%
Gross earned premiums	23,689	20,109	18%

Gross written premiums at the Farmers Exchanges increased 20 percent. Excluding the contribution of the MetLife transaction, which closed at the beginning of April 2021, gross written premiums increased 7 percent.

Operating update (continued)

Group Functions and Operations

in USD millions, for the years ended December 31	2021	2020	Change
Holding and Financing	(427)	(330)	(29%)
Headquarters	(358)	(464)	23%
Zurich Global Ventures ¹	(49)	(44)	(12%)
Total business operating profit	(834)	(839)	1%

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

Group Functions and Operations of ZIC Group reported net expenses of USD 834 million compared with USD 839 million in the prior year. This was mainly driven by a reduction of gross expenses at the Headquarter partially offset by an increase in charges related to Holding and Financing due largely to financing and foregone investment income related to the acquisition of the MetLife U.S. P&C business and unfavorable currency movements.

Non-Core Businesses

in USD millions, for the years ended December 31	2021	2020	Change
Zurich Legacy Solutions	(47)	(14)	nm
Other run-off	46	(40)	nm
Total business operating profit	(1)	(54)	99%

The ZIC Group's Non-Core Businesses, which comprise run-off portfolios that are managed with the intention of proactively reducing risk and releasing capital, reported a loss of USD 1 million, an improvement of USD 53 million. The result benefited from the absence of adverse developments in a legacy life portfolio linked to the COVID-19 outbreak in the prior year.

Consolidated financial statements

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Consolidated financial statements (continued)

Consolidated income statements

in USD millions, for the years ended December 31	Notes	2021	2020
Revenues			
Gross written premiums		53,185	48,221
Policy fees		2,592	2,334
Gross written premiums and policy fees		55,777	50,555
Less premiums ceded to reinsurers		(10,970)	(9,988)
Net written premiums and policy fees		44,806	40,567
Net change in reserves for unearned premiums	10	(1,776)	(623)
Net earned premiums and policy fees		43,031	39,944
Farmers management fees and other related revenues	26	4,265	3,703
Net investment income on Group investments		5,045	4,901
Net capital gains/(losses) and impairments on Group investments		1,971	2,038
Net investment result on Group investments	6	7,016	6,939
Net investment result on unit-linked investments		14,388	7,389
Net gains/(losses) on divestment of businesses	5	(185)	57
Other income		1,283	958
Total revenues		69,798	58,990
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	10	34,470	35,899
Less ceded insurance benefits and losses	10	(6,186)	(8,158)
Insurance benefits and losses, net of reinsurance	10	28,284	27,741
Policyholder dividends and participation in profits, net of reinsurance	10	15,195	8,325
Underwriting and policy acquisition costs, net of reinsurance	10	9,213	8,555
Administrative and other operating expense	12	8,801	8,105
Interest expense on debt		469	400
Interest credited to policyholders and other interest		591	581
Total benefits, losses and expenses		62,553	53,706
Net income before income taxes		7,245	5,284
of which: Attributable to non-controlling interests		407	406
Income tax (expense)/benefit	17	(1,883)	(1,311)
attributable to policyholders	17	(275)	(46)
attributable to shareholders	17	(1,609)	(1,264)
of which: Attributable to non-controlling interests		(126)	(117)
Net income after taxes		5,362	3,973
attributable to non-controlling interests		281	290
attributable to shareholders		5,081	3,684

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 years ended December 31

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2020			
Comprehensive income for the period	3,684	1,664	71
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		2,885	64
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(1,092)	(37)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		(335)	–
Foreign currency translation effects		207	44
2021			
Comprehensive income for the period	5,081	(1,975)	(114)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(604)	(67)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(1,714)	(54)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		450	22
Foreign currency translation effects		(106)	(15)

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

Consolidated financial statements (continued)

Cumulative foreign currency translation adjustment	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
618	2,353	61	(92)	(31)	2,322	6,005	268	6,273
635	3,583	83	28	112	3,695			
(17)	(1,146)	–	–	–	(1,146)			
–	–	(17)	–	(17)	(17)			
–	(335)	(5)	(13)	(18)	(353)			
	251	–	(107)	(107)	143			
(1,061)	(3,150)	(19)	885	865	(2,285)	2,796	99	2,895
(1,054)	(1,725)	8	886	895	(830)			
(7)	(1,775)	–	–	–	(1,775)			
–	–	(13)	–	(13)	(13)			
–	471	(15)	(34)	(49)	422			
	(122)	–	33	33	(89)			

Consolidated financial statements (continued)

Consolidated balance sheets

Assets	in USD millions, as of December 31	Notes	2021	2020
Assets:				
Cash and cash equivalents			8,673	11,300
Total Group investments	6		191,911	211,227
Equity securities			19,530	20,322
Debt securities			145,084	161,710
Investment property			14,070	14,749
Mortgage loans			6,106	5,783
Other loans			7,053	8,620
Investments in associates and joint ventures			68	43
Investments for unit-linked contracts			142,470	135,058
Total investments			334,381	346,285
Reinsurers' share of liabilities for insurance contracts	8		25,680	25,523
Deposits made under reinsurance contracts			444	503
Deferred policy acquisition costs	11		20,446	20,021
Deferred origination costs	11		441	426
Receivables and other assets	15		19,947	20,353
Deferred tax assets	17		1,198	1,314
Assets held for sale ¹	5		11,626	2,538
Property and equipment	13		2,436	2,705
Attorney-in-fact contracts	14		2,650	1,025
Goodwill	14		4,344	4,089
Other intangible assets	14		4,484	4,230
Total assets			436,750	440,314

¹ As of December 31, 2021, the ZIC Group had USD 11.6 billion of assets held for sale based on agreements signed to sell business of Zurich Insurance plc, Zurich International Life Limited, Zurich Investments Life S.p.A. and Zurich Insurance plc (Spain) (see note 5). In 2020, the ZIC Group had USD 2.5 billion of assets held for sale business of Zurich Insurance plc and Zurich International Life Limited (see note 5).

Consolidated financial statements (continued)

Liabilities and equity

in USD millions, as of December 31		Notes	2021	2020
Liabilities				
Liabilities for investment contracts	9		68,855	69,507
Deposits received under ceded reinsurance contracts			970	910
Deferred front-end fees			5,124	5,372
Liabilities for insurance contracts	8		272,707	283,497
Obligations to repurchase securities			1,381	784
Other liabilities ¹	16, 22		16,503	19,094
Deferred tax liabilities	17		5,151	5,136
Liabilities held for sale ²	5		11,351	2,477
Senior debt	18		5,327	5,484
Subordinated debt	18		9,782	8,306
Total liabilities			397,150	400,569
Equity				
Share capital	19		660	660
Additional paid-in capital	19		11,761	11,761
Net unrealized gains/(losses) on available-for-sale investments			3,771	5,745
Cash flow hedges			411	526
Cumulative foreign currency translation adjustment			(8,095)	(7,188)
Revaluation reserve			265	284
Retained earnings			28,770	25,674
Shareholders' equity			37,542	37,462
Non-controlling interests			2,058	2,283
Total equity			39,600	39,745
Total liabilities and equity			436,750	440,314

¹ Includes restructuring provisions, litigation and regulatory provisions and other provisions (see note 16).

² As of December 31, 2021, the ZIC Group had USD 11.4 billion of liabilities held for sale based on agreements signed to sell business of Zurich Insurance plc, Zurich International Life Limited, Zurich Investments Life S.p.A and Zurich Insurance plc (Spain) (see note 5). In 2020, the ZIC Group had USD 2.5 billion of liabilities held for sale business of Zurich Insurance plc and Zurich International Life Limited (see note 5).

Consolidated financial statements (continued)

Consolidated statements of cash flows

in USD millions, for the years ended December 31	2021	2020
Cash flows from operating activities		
Net income attributable to shareholders	5,081	3,684
Adjustments for:		
Net (gains)/losses on divestment of businesses	185	(57)
(Income)/expense from equity method accounted investments	4	(3)
Depreciation, amortization and impairments of fixed and intangible assets	849	911
Other non-cash items	(306)	355
Underwriting activities:	16,033	8,029
Liabilities for insurance contracts, gross	9,485	7,594
Reinsurers' share of liabilities for insurance contracts	(336)	(2,105)
Liabilities for investment contracts	7,676	3,047
Deferred policy acquisition costs	(889)	(627)
Deferred origination costs	(38)	1
Deposits made under assumed reinsurance contracts	56	206
Deposits received under ceded reinsurance contracts	79	(87)
Investments:	(18,247)	(8,079)
Net capital (gains)/losses on total investments and impairments	(14,851)	(8,255)
Net change in derivatives	432	42
Net change in money market investments	728	(572)
Sales and maturities		
Debt securities	42,491	47,770
Equity securities	53,705	57,167
Other	9,489	6,100
Purchases		
Debt securities	(48,985)	(48,527)
Equity securities	(52,045)	(56,961)
Other	(9,211)	(4,842)
Net changes in sale and repurchase agreements	615	(248)
Movements in receivables and payables	(2,054)	565
Net changes in other operational assets and liabilities	(555)	649
Deferred income tax, net	646	(89)
Net cash provided by/(used in) operating activities	2,250	5,717

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 years ended December 31	2021	2020
Cash flows from investing activities		
Additions to tangible and intangible assets	(576)	(552)
Disposals of tangible and intangible assets	155	55
(Acquisitions)/disposals of equity method accounted investments, net	(38)	12
Acquisitions of companies, net of cash acquired ¹	(2,446)	(26)
Divestments of companies, net of cash divested	16	8
Dividends from equity method accounted investments	2	1
Net cash provided by/(used in) investing activities	(2,886)	(502)
Cash flows from financing activities		
Dividends paid	(3,270)	(3,299)
Issuance of debt	2,664	2,028
Repayment of debt	(754)	(1,120)
Lease principal repayments	(227)	(217)
Net cash provided by/(used in) financing activities	(1,587)	(2,609)
Foreign currency translation effects on cash and cash equivalents	(392)	682
Change in cash and cash equivalents	(2,615)	3,288
Cash and cash equivalents as of January 1	11,920	8,633
Total cash and cash equivalents as of December 31	9,306	11,920
of which: Cash and cash equivalents	8,673	11,300
of which: Unit-linked	632	620
Other supplementary cash flow disclosures²		
Other interest income received	4,676	4,479
Dividend income received	1,737	1,367
Other interest expense paid	(955)	(929)
Income taxes paid	(1,469)	(1,438)

¹ Relates mainly to the acquisition of MetLife P&C (see note 5).

² These amounts are primarily included in the operating activities of the Cash flow statement.

Cash and cash equivalents

in USD millions, as of December 31	2021	2020
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	8,638	10,923
Cash equivalents	667	997
Total	9,306	11,920

For the periods ended December 31, 2021 and 2020, cash and cash equivalents held to meet local regulatory requirements were USD 375 million and USD 440 million, respectively.

Consolidated financial statements (continued)

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2019 as previously reported	660	11,761
Issuance of share capital	–	–
Dividends to shareholders	–	–
Share-based payment transactions	–	–
Treasury share transactions	–	–
Change in ownership interests with no loss of control	–	–
Cumulative foreign currency translation adjustment due to hyperinflation	–	–
Reclassification from revaluation reserves	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
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 December 31, 2020	660	11,761
Balance as of December 31, 2020 as previously reported	660	11,761
Issuance of share capital	–	–
Dividends to shareholders	–	–
Share-based payment transactions	–	–
Treasury share transactions	–	–
Change in ownership interests with no loss of control	–	–
Cumulative foreign currency translation adjustment due to hyperinflation ¹	–	–
Reclassification from revaluation reserves	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
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 December 31, 2021	660	11,761

¹ Current year effect of IAS 29 'Financial Reporting in Hyperinflationary Economies'.

Consolidated financial statements (continued)

Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non- controlling interests	Total equity
4,082	454	(7,872)	223	24,998	34,305	2,203	36,507
–	–	–	–	–	–	–	–
–	–	–	–	(3,147)	(3,147)	(152)	(3,299)
–	–	–	–	218	218	–	218
–	–	–	–	–	–	–	–
–	–	–	–	(3)	(3)	–	(3)
–	–	67	–	–	67	6	73
–	–	–	–	17	17	–	17
1,664	71	618	61	3,592	6,005	268	6,273
–	–	–	–	3,684	3,684	–	–
1,664	–	–	–	–	1,664	–	–
–	71	–	–	–	71	–	–
–	–	618	–	–	618	–	–
–	–	–	61	–	61	–	–
–	–	–	–	(92)	(92)	–	–
–	–	–	–	–	–	(42)	(42)
5,745	526	(7,188)	284	25,674	37,462	2,283	39,745
5,745	526	(7,188)	284	25,674	37,462	2,283	39,745
–	–	–	–	–	–	–	–
–	–	–	–	(2,935)	(2,935)	(335)	(3,270)
–	–	–	–	62	62	–	62
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	153	–	(10)	143	12	155
–	–	–	–	13	13	–	13
(1,975)	(114)	(1,061)	(19)	5,966	2,796	99	2,895
–	–	–	–	5,081	5,081	–	–
(1,975)	–	–	–	–	(1,975)	–	–
–	(114)	–	–	–	(114)	–	–
–	–	(1,061)	–	–	(1,061)	–	–
–	–	–	(19)	–	(19)	–	–
–	–	–	–	885	885	–	–
–	–	–	–	–	–	–	–
3,771	411	(8,095)	265	28,770	37,542	2,058	39,600

Consolidated financial statements (continued)

Zurich Insurance Company Ltd (ZIC) and its subsidiaries (collectively the Zurich Insurance Company Group or ZIC Group) is a provider of insurance products and related services. The ZIC 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 Company Ltd is incorporated in Zurich, Switzerland. The registered office is Mythenquai 2, 8002 Zurich, Switzerland. Zurich Insurance Company Ltd is a wholly owned subsidiary of Zurich Insurance Group Ltd and together with its subsidiaries forms part of the Zurich Insurance Group (collectively the Group).

On March 9, 2022, the Board of Directors of Zurich Insurance Company Ltd authorized these consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on April 6, 2022.

1. Basis of presentation

General information

The consolidated financial statements of the ZIC Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. Where IFRS does not contain clear guidance governing the accounting treatment of certain transactions, including those that are specific to insurance and reinsurance products, IFRS permits reference to another comprehensive body of accounting principles that uses a similar conceptual framework. Accounting policies are established for the Zurich Insurance Group (the Group) and are equally applicable to the ZIC Group. The Group's accounting policies for insurance and reinsurance contracts are therefore based on those developed by the Group before the adoption of IFRS 4 in areas where IFRS 4 did not include specific requirements. Before the adoption of IFRS 4 on January 1, 2005, the Group typically applied U.S. GAAP pronouncements issued by the Financial Accounting Standards Board (FASB) on insurance and reinsurance contracts. Any changes to such pronouncements subsequent to this adoption are not reflected in the Group's accounting policies. In case of business combinations, the Group may decide to maintain the local statutory treatment if this does not distort the fair presentation of the financial position of the Group. If significant, the impact of such cases would be described elsewhere in the notes to these consolidated financial statements.

The accounting policies applied by the reportable segments are the same as those applied by the ZIC Group. The ZIC Group accounts for inter-segment 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 ZIC Group level. In the consolidated financial statements, intersegment revenues and transfers are eliminated.

Certain amounts recorded in the consolidated financial statements reflect estimates and assumptions made by management about insurance liability reserves, investment valuations, interest rates and other factors.

The COVID-19 pandemic continues to evolve globally with new variants of the virus emerging, and so do the impacts on the insurance industry and the global economy. Though most of the impacts of the pandemic on the ZIC Group's businesses, especially in the P&C business, are already known and management's best estimate of claims is reflected in the loss reserves and loss adjustment expenses, some uncertainties remain. The ZIC Group is closely monitoring and actively dealing with the potential for further exposure from (i) claims litigation on policy coverage, (ii) regulator and market-led test cases or legislative developments in certain jurisdictions that could impact the scope of intended coverage, (iii) potential second-order impact on health which could have mortality or morbidity effects, and (iv) other extended macroeconomic impacts around the pandemic, including governmental actions. While expected to be very remote, any extreme outcomes on the foregoing could have a material adverse impact on the ZIC Group's business, financial condition, results of operations or growth. For additional information on insurance liabilities, please see note 8.

Investment valuations and interest rates incorporate market conditions as of December 31, 2021 and recoverability of intangible assets has been tested where the value of these intangible assets, including goodwill, is sensitive to prevailing economic conditions. For more information on investments and fair value, please see note 6 and 23, respectively. For more information on intangible assets, please see note 14. Management has also implemented amendments to IFRS 16 Leases which allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions. The impact of the amendments to IFRS 16 Leases is immaterial to the ZIC Group.

Disclosures under IFRS 4 'Insurance Contracts' and IFRS 7 'Financial Instruments: Disclosures' relating to the nature and extent of risks, and capital disclosures under IAS 1 'Presentation of Financial Statements' have been included in the audited sections of the risk review on [pages 3 to 22](#), and they form an integral part of the consolidated financial statements.

Consolidated financial statements (continued)

The ZIC Group's consolidated balance sheets are not presented using a current/non-current classification. The following balances are generally considered to be current: cash and cash equivalents, deferred policy acquisition costs on property and casualty contracts, receivables, reserve for premium refunds and obligations to repurchase securities.

The following balances are generally considered to be non-current: equity securities, investment property, investments in associates and joint ventures, deferred policy acquisition costs on life insurance contracts, deferred tax assets, property and equipment, goodwill, other intangible assets and deferred tax liabilities.

The following balances are mixed in nature (including both current and non-current portions): debt securities, mortgage loans, other loans, reinsurers' share of liabilities for insurance contracts, deposits made under assumed reinsurance contracts, deferred origination costs, other assets, reserves and investments for unit-linked contracts, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees, reserves for losses and loss adjustment expenses, reserves for unearned premiums, future life policyholder benefits, policyholder contract deposits and other funds, other liabilities, senior and subordinated debt, and assets and liabilities held for sale.

Maturity tables have been provided for the following balances: debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), reserves for insurance contracts (tables 8.9a and 8.9b), liabilities for investment contracts (tables 9.3a and 9.3b), finance lease receivables (table 13.6), operating lease payments to be received (table 13.7), other financial liabilities (table 16.2), lease liabilities (table 16.3) and outstanding debt (table 18.2).

All amounts in the 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.

Table 1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD (157) million and USD (66) million for the years ended December 31, 2021 and 2020, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (56) million and USD 154 million for the years ended December 31, 2021 and 2020, respectively.

Table 1

Principal exchange rates	USD per foreign currency unit	Consolidated balance sheets		Consolidated income	
		at end-of-period exchange		statements and cash flows	
		rates		at average exchange rates	
		12/31/21	12/31/20	12/31/21	12/31/20
Euro		1.1373	1.2231	1.1831	1.1415
Swiss franc		1.0969	1.1304	1.0941	1.0663
British pound		1.3539	1.3656	1.3758	1.2836
Brazilian real		0.1793	0.1924	0.1856	0.1958
Australian dollar		0.7272	0.7716	0.7515	0.6907
Japanese Yen		0.0087	0.0097	0.0091	0.0094

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, 2021, and relevant for the ZIC Group's operations

Table 2.1 shows new accounting standards or amendments to, and interpretations of, standards relevant to the ZIC Group that have been implemented for the financial year beginning January 1, 2021, with no impact on the ZIC Group's financial position or performance.

Table 2.1

Standard/ Interpretation		Effective date
Amended standards		
IFRS 16	COVID-19-Related Rent Concessions	April 1, 2021 ¹
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	June 1, 2021 ²

- ¹ The ZIC Group early-adopted the amendment to IFRS 16 'Covid-19-Related Rent Concessions beyond 30 June 2021' to extend by one year the practical expedient to account for all lessees' rent concession occurring as a direct consequence of the COVID-19 pandemic in the same way as if the changes in lease payments were not lease modifications. The amendment has immaterial impact on the ZIC Group's financial statements.
- ² The ZIC Group early-adopted the amendment to IAS 12 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction'. The amendment has no impact on the ZIC Group's financial statements as the requirements of the amendment are consistent with the approach the ZIC Group applied at initial application of IFRS 16 'Leases' as of January 1, 2019.

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

Table 2.2 shows new accounting standards or amendments to, and interpretations of, standards relevant to the ZIC Group, which are not yet effective or adopted by the ZIC Group. Amendments resulting from the annual improvements to IFRS Standards 2018–2020 have no impact on the ZIC Group's financial statements.

Table 2.2

Standard/ Interpretation		Effective date
New standards/interpretations		
IFRS 9	Financial Instruments	January 1, 2023
IFRS 17	Insurance Contracts	January 1, 2023
Amended standards		
IFRS 3	Reference to the Conceptual Framework	January 1, 2022
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
IFRS 17	Initial Application of IFRS 17 and IFRS 9 – Comparative Information	January 1, 2023
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
IAS 1	Disclosure of Accounting Policies	January 1, 2023
IAS 8	Definition of Accounting Estimates	January 1, 2023

IFRS 17 'Insurance contracts' and IFRS 9 'Financial Instruments'

IFRS 17 'Insurance contracts' provides comprehensive guidance on accounting for insurance contracts and investment contracts with discretionary participation features and is expected to have a significant impact on accounting for insurance contracts and presentation of the insurance revenue and insurance service result. For long-duration life insurance contracts, IFRS 17 is expected to have a significant impact on actuarial modeling as granular cash flow projections and regular updates of all assumptions will be required resulting in either profit or loss volatility or affecting 'contractual service margin (CSM)', a separate component of the insurance liability representing unearned profits from in-force contracts. IFRS 17 further introduces a risk adjustment for non-financial risk, a separate component of the liability covering uncertainty in the amount and timing of future cash flows. Thus, the insurance liabilities will be composed on the current best estimate present value of future cash flows (PVFCF), risk adjustment and CSM.

Consolidated financial statements (continued)

IFRS 17 introduces different measurement approaches for the insurance contract liabilities reflecting a different extent of policyholder participation in investment or insurance entity performance: non-participating or indirect participating (general model) and direct participating (variable fee approach). For short-duration contracts, IFRS 17 foresees a simplified (or premium allocation) approach, 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 obtained applying the general model. The simplification applies to the measurement of the liability for remaining coverage, which is not required to be disaggregated into PVFCF, risk adjustment and CSM but rather is largely based premium received, less earned premium and unamortized acquisition cash flows. The liability for incurred claims is measured consistently with the general model, whereby all the incurred claims are subject to discounting and risk adjustment.

IFRS 17 will also affect the presentation of the insurance contracts revenue, which will no longer include gross written premium or investment components. Further, the insurance revenue and insurance service expenses will be presented gross of reinsurance, with the reinsurance result included in the insurance service expense. Under IFRS 17, the insurance liabilities are subject to discounting; the unwind of the discount on insurance liabilities will be part of the investment result, rather than insurance service result.

IFRS 9 'Financial Instruments' introduces a classification and measurement concept for financial assets that is based on the contractual cash flow characteristics and the holding intent. Under IFRS 9, all equity securities and fund investments, and some debt instruments will be measured at fair value through profit or loss because the characteristics of the contractual cash flows from such instruments are not solely payments of principal and interest on the principal amount outstanding. Though IFRS 9 introduces an option to account for some equity securities at fair value through other comprehensive income (OCI) with no recycling of gains or losses through profit or loss, the ZIC Group does not intend to make material use of this option. The debt instruments that are not measured at fair value through profit or loss will be measured at fair value with changes in fair value recorded in OCI, if held under the standard business model to collect contractual cash flows and for sale, or at amortized cost, if part of selected portfolios held to collect contractual cash flows. Furthermore, IFRS 9 introduces a requirement to recognize expected credit losses for financial assets carried at amortized cost or at fair value, with changes in fair value recognized in OCI.

Though overall profit or loss volatility is expected to increase under IFRS 9, the measurement approach for direct participating contracts in IFRS 17 allows such volatility to be largely absorbed in the measurement of insurance liabilities with an option to reflect in shareholders' equity (OCI) the effect of any asset-liability mismatch. Therefore, the ZIC Group decided to defer the full implementation of IFRS 9 until IFRS 17 becomes effective to better align the measurement approaches for the financial assets held and the insurance liabilities where appropriate. Based on the analysis performed as of December 31, 2015, the ZIC Group was eligible to apply the temporary exemption from the adoption of IFRS 9 for reporting entities that have not previously applied any version of IFRS 9 and whose activities are predominantly related to insurance, as the predominance ratio reflecting the share of liabilities connected with insurance to total liabilities exceeded 90 percent. No reassessment of eligibility was required during subsequent annual periods up to and including 2021 as there was no significant change in the activities performed by the ZIC Group. We refer to the Annual Report 2016 for further details on the eligibility assessment. The ZIC Group presents additional disclosures of indicative effects from adoption of IFRS 9 required by IFRS 4 'Applying IFRS 9 with IFRS 4' during the period of deferral (see note 24).

On December 9, 2021, the International Accounting Standards Board (IASB) published a narrow-scope amendment to the transition requirements of IFRS 17 and IFRS 9. The proposed amendment permits better alignment of presentation of comparative information under IFRS 17 and IFRS 9 by applying a 'classification overlay'. The ZIC Group does not intend to restate the comparative period on initial application of IFRS 9 and therefore anticipates applying the classification overlay for selected asset portfolios backing direct participating insurance contracts which are accounted for at amortized cost under IAS 39 but are expected to be accounted for at fair value with changes in fair value recorded in OCI under IFRS 9. The ZIC Group does not envisage to apply the expected credit loss requirements as part of the overlay approach.

Consolidated financial statements (continued)

In order to adopt IFRS 17 and IFRS 9 in the consolidated financial statements, a joint IFRS 17 and IFRS 9 Group Implementation Program (Program) sponsored by the Group Chief Financial Officer has been operating since 2017. A steering committee comprised of senior management from various functions (finance, risk, IT, operations and investment management) oversees the work performed by individual work streams. A dedicated methodology work stream covers group accounting policies, actuarial methodologies and disclosure requirements to be consistently implemented throughout the Group, including ZIC Group. This work stream further contributes to the industry-wide discussions on standard interpretation and its operational effects and has been closely monitoring the developments in the IASB Transition Resource Group for IFRS 17 and IASB re-deliberations to evaluate the effects and align the accounting policies and actuarial methodologies accordingly. The implementation work stream drives the development of the target core solution landscape at ZIC Group and local levels and analyses processes, data and systems implications. In 2021, the focus of the program has shifted towards education of key stakeholders and analysis of wider impacts on ZIC Group operations while finalizing the implementation efforts and completing another set of parallel run activities.

The ZIC Group continues to assess the impact of the application of both IFRS 17 and IFRS 9. The Group expects that the majority of its non-life insurance contracts issued, and reinsurance contracts held in force as of transition date will be eligible for application of the simplified approach and intends to apply the simplified approach for such contracts under IFRS 17. As the Group already applies best estimate reserving under its current accounting policies, the implementation of IFRS 17 is not expected to have a major impact on non-life nominal reserves. The Group further expects that a significant portion of its life insurance liabilities (including unit-linked insurance liabilities) will qualify as direct participating contracts under IFRS 17. For the majority of its in-force insurance and reinsurance contracts, the Group intends to apply the option in IFRS 17 to disaggregate the (re-)insurance finance income or expense between profit or loss and OCI. Under this option, the unwind of discount in profit or loss under the general model and the simplified approach is based on locked-in discount rates and the difference between the current rates and locked-in rates valuation due to changes in discount rates is presented in OCI. Consistently, the Group expects that the majority of debt instruments held will be accounted for at fair value with changes in fair value recorded in OCI. As of December 31, 2021, it was not practicable to quantify what the potential impact would be on the ZIC Group's financial position or performance once these standards are adopted.

Other standards, amendments and interpretations shown in table 2.2 are expected to have no, or an insignificant, impact on the ZIC Group's financial position or performance.

Interest rate benchmark reform (including Phase 2 amendments to IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The ongoing market-wide reform targets replacement of some interbank offered rates (IBORs) with alternative reference rates (ARRs). To ensure an orderly transition to ARRs, the Group launched a cross functional IBOR transition working group that has analyzed the exposure and defined mitigating actions, for example, by adhering to the ISDA fallback protocols for derivatives, amending terms and conditions of new debt issuances and entering into bilateral negotiations with counterparties.

During 2021, further progress has been made with transitioning most of the Group's exposures indexed to GBP, CHF and JPY to new ARRs. The decision to transition was made considering market readiness and liquidity. With the completion of the EURIBOR reform, no transition is required for financial instruments referencing those rates. Therefore, the exposures which are still subject to transition mainly consist of USD LIBOR linked instruments (such as floating rate notes, sinking bonds, asset- and mortgage-backed securities, collateralized loan obligations) representing 2.8 percent of the debt securities held by the Group. Given transition for these instruments is not foreseen before June 2023, the Group is not exposed to immediate risks arising from the IBOR reform. The reform has not resulted in changes to the Group risk management strategy.

The IASB addressed the financial reporting implications of the IBOR reform through IFRS amendments, which were fully adopted by the Group on January 1, 2020. Specifically, the phase 2 amendments introduce a practical expedient to account prospectively for a change in the basis for determining the contractual cash flows of a financial instrument attributable to the replacement of IBORs with ARR and relieves from specific hedge accounting requirements. Overall, the IBOR reform has no material effect on the ZIC Group's financial statements and the effectiveness of ZIC Group's hedging relationships.

Consolidated financial statements (continued)

3. Summary of significant accounting policies

Significant accounting policies applied in these consolidated financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated. Other accounting policies are presented as part of the respective note disclosures.

a) Consolidation principles

The ZIC Group's consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Company Ltd and its subsidiaries. A subsidiary is an entity that Zurich Insurance Company Ltd either directly or indirectly controls. The results of subsidiaries acquired are included in the consolidated financial statements from the date of acquisition. The results of subsidiaries that have been divested during the year are included up to the date control ceased. All intra-ZIC Group balances, profits and transactions are eliminated.

Changes in ownership interests in a subsidiary that do not result in a change in control are recorded within equity.

Non-controlling interests are shown separately in equity, consolidated income statements, consolidated statements of comprehensive income and consolidated statements of changes in equity.

The consolidated financial statements are prepared as of December 31 based on individual company financial statements at the same date. In some cases, information is included with a time lag of up to three months. The resulting effect on the ZIC Group's consolidated financial statements is not material.

b) Foreign currency translation and transactions

Foreign currency translation

Due to the ZIC Group's economic exposure to the U.S. dollar (USD), the presentation currency of the ZIC Group's consolidated financial statements is USD. Many ZIC Group companies have a different functional currency, being that of the respective primary economic environment in which these companies operate. Assets and liabilities are translated into the presentation currency at end-of-period exchange rates, while income statements and statements of cash flows are translated at average exchange rates for the period. The resulting foreign currency translation differences are recorded directly in other comprehensive income (OCI) as cumulative translation adjustment (CTA).

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rate at the date of the transaction or, for practical reasons, a weighted average rate, if exchange rates do not fluctuate significantly. Foreign currency monetary items and foreign currency non-monetary items that are carried at fair value are translated at end-of-period exchange rates. The resulting foreign currency translation differences are recorded in income, except for the following:

- Foreign currency translation differences that are recognized in OCI in conjunction with the recognition of unrealized gains or losses on available-for-sale investments; and
- Foreign currency translation differences arising on monetary items that form part of net investments in foreign operations, as well as foreign currency translation differences arising from monetary items that are designated as hedging instruments in a qualifying net investment hedge relationship, are included directly in OCI as CTA.

Hyperinflation

The ZIC Group considers various factors to determine whether an economy in a country where a foreign operation is situated is hyperinflationary, including the cumulative three-year inflation rate. If an economy becomes hyperinflationary, the financial statements of foreign operations with the functional currency of the hyperinflationary economy are restated to reflect the current purchasing power at the end of the reporting period using the official consumer price indices commonly used in the respective country. The restatement includes all balance sheet amounts that are not expressed in terms of the measuring unit current at the balance sheet date and items of comprehensive income for the current year by applying the change in the price index from the dates when the items of income and expense were originally recorded. The restated financial statements of a foreign operation are translated into the ZIC Group's presentation currency at closing rates. Any translation adjustment resulting from initial application of the hyperinflationary accounting is recognized directly in equity.

c) Insurance contracts and investment contracts with discretionary participating features (DPF)

Classification

Contracts issued that transfer significant insurance risk to the ZIC Group and obligations arising from investment contracts with DPF are accounted for as insurance contracts.

Consolidated financial statements (continued)

The ZIC Group also issues products containing embedded options that entitle the policyholder to switch all or part of the current and future invested funds into another product issued by the ZIC Group. Where this results in the reclassification of an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are reclassified and are accounted for in accordance with the accounting policy that is to be applied to the new product on a prospective basis. As a consequence, no gain or loss is recognized when a contract is reclassified from an investment to an insurance contract.

Once a contract has been classified as an insurance contract, no reclassification can subsequently be made.

Premiums

Property & Casualty

Premiums from the sale of property & casualty products are generally recorded when written and are recognized as revenue in relation to the insurance coverage provided. The unearned premium reserve represents the portion of the premiums written related to the unexpired coverage period.

Life insurance

Premiums from traditional life insurance contracts, including participating contracts and annuity policies with life contingencies, are recognized as revenue when they are due from the policyholder. For single premium and limited pay contracts, premiums are recognized as revenue when due, with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from investment-type insurance contracts such as universal life, unit-linked and unitized with-profits contracts are generally reported as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration and surrenders during the period. Front-end fees charged to the customer at inception, particularly for single premium contracts, are deferred and recognized over the estimated life of the contracts following the same pattern that is applied to deferred acquisition costs and addressed below. Regular fees charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds are billed in advance and recognized on a straight-line basis over the period in which the service is rendered. Fees charged at the end of the period are accrued over the service period as a receivable and are offset against the financial liability when charged to the customer.

Cash flows from certain universal life-type contracts in the ZIC Group's Spanish operations are recognized as gross written premiums and insurance benefits and losses and not as deposits.

Reserves for losses and loss adjustment expenses

Losses and loss adjustment expenses are charged to income as incurred. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed. The ZIC Group does not discount its loss reserves, other than for claims with payment patterns which are fixed and reasonably determinable, and claims in economies determined to be hyperinflationary where inflation constitutes a significant input in the reserving process.

Reserves for life benefits

Future life policyholder benefits represent the estimated future benefit liability for traditional life insurance policies and include the value of accumulated declared bonuses or dividends that have vested to policyholders.

The reserves for life benefits for participating traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions taking into account guaranteed mortality benefits and interest rates.

The reserves for life benefits for other traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions including mortality, persistency, expenses and investment return, plus a margin for adverse deviations. These assumptions are locked in at inception and are regularly assessed as part of the liability adequacy testing over the period of the contract.

Policyholder contract deposits represent the estimated policy benefits for investment-type insurance contracts invested in non-unit-linked funds. This liability comprises the accumulation of premiums received, less charges, plus declared policyholder dividends.

Some insurance contracts and investment contracts with DPF offered by the ZIC Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the ZIC Group. Where that discretion has not been exercised, the total amount expected to be allocated to policyholders as required by local insurance regulation or contractual provisions is included in the policyholder other funds.

Consolidated financial statements (continued)

Unrealized gains or losses arising on the revaluation of available-for-sale assets are recorded directly in OCI in accordance with the ZIC Group's accounting policy for such assets. Where these assets are related to life insurance, corresponding adjustments to the reserves for life benefits and related assets are also recognized directly in OCI.

Reserves for unit-linked contracts are based on the fair value of the financial instruments backing those contracts less any fees and assessments charged to the policyholders. The related assets for unit-linked insurance contracts are designated at fair value through profit or loss in order to reduce measurement inconsistencies.

For products containing guarantees in respect of minimum death benefits (GMDB), retirement income benefits (GRIB) and/or annuitization options (GAO), additional liabilities are recorded in proportion to the receipt of the contracted revenues which are subject to a liability adequacy test taking into account policyholder behavior and current market conditions.

For products managed on a dynamic basis using derivative hedging strategies, an option in IFRS 4 is used to measure insurance liabilities using current financial and non-financial assumptions to better reflect the way that these products are managed. Financial assets related to these liabilities are designated at fair value through profit or loss.

Deferred acquisition costs (DAC)

Costs that vary with and are directly related to the acquisition of new and renewal business, including for example commissions and certain underwriting and policy issue expenses, are deferred and subsequently amortized over a defined period. Such costs are presented on balance sheet net of commissions paid to reinsurers in respect of business ceded.

Property & Casualty

DAC for property & casualty contracts is amortized over the period in which the related premiums are earned.

Life insurance

DAC for traditional participating life insurance contracts is amortized based on estimated gross margins expected to be realized over the life of the contract. Estimated gross margins are updated for actual and anticipated future experience and discounted using the latest revised interest rate for the remaining benefit period. Resulting deviations are reflected in income.

DAC for other traditional life insurance and annuity contracts is amortized over the life of the contracts, based on expected premiums. Expected premiums are estimated at the date of policy issue for application throughout the life of the contract unless a premium deficiency subsequently occurs.

DAC for investment-type insurance contracts such as universal life, unit-linked and unitized with-profits contracts is amortized based on estimated gross profits expected to be realized over the life of the contract. Estimated gross profits are updated for actual and anticipated future experience and discounted using either the interest rate in effect at the inception of the contracts or the latest revised interest rate for the remaining benefit period, depending on whether crediting is based on the policyholder's or on the reporting entity's investment performance. Resulting deviations are reflected in income.

Unamortized DAC for life insurance contracts accrues interest at a rate consistent with the related assumptions for reserves.

For traditional participating and investment-type life insurance contracts, DAC is adjusted for the impact of unrealized gains/(losses) on allocated investments that are recorded in OCI.

Liability adequacy tests

Liability adequacy tests are performed annually for groupings of contracts determined in accordance with the ZIC Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

Property & Casualty

For property & casualty contracts, unearned premiums are tested to determine whether they are sufficient to cover related expected losses, loss adjustment expenses, policyholder dividends, unamortized DAC and maintenance expenses, using current assumptions and considering anticipated investment returns. If a premium deficiency is identified, the DAC asset for the respective grouping of contracts is written down by the amount of the deficiency. If, after writing down the DAC asset to nil, a premium deficiency still exists for the respective grouping of contracts, then an additional reserve is established for the amount of the remaining deficiency.

Consolidated financial statements (continued)

Life insurance

For life insurance contracts, the carrying amount of the existing reserve for life benefits, including any deferred front-end fees, reduced by the unamortized balance of DAC or present value of future profits of acquired insurance contracts (PVFP), is compared with the reserve for life benefits, calculated using revised assumptions for actual and anticipated experience as of the valuation date. If a deficiency is identified, the DAC or PVFP for the respective grouping of contracts is written down by the amount of the deficiency. If, after writing down the DAC or PVFP to nil, a deficiency still exists for the respective grouping of contracts, the reserve for life benefits is increased by the amount of the remaining deficiency.

Reinsurance

The ZIC Group's insurance subsidiaries cede risk in the normal course of business to limit the potential for losses arising from certain exposures. Reinsurance does not relieve the originating insurer of its liability. Certain ZIC Group insurance companies assume reinsurance business as part of their normal business.

Reinsurance contracts that do not transfer significant insurance risk are accounted for using the deposit method.

A deposit asset or liability is recognized based on the premium paid, or received less any explicitly identified premiums or fees to be retained by the ceding company. Interest on deposits is accounted for using the effective interest rate method. Future cash flows are estimated to calculate the effective yield, and revenues and expenses are recorded as interest income or expense. Reinsurance deposit assets or liabilities also include funds deposited or held by the ZIC Group under assumed or ceded reinsurance contracts, respectively, when funds are retained by the reinsured under the terms of the contract.

Reinsurance is recorded gross in the consolidated balance sheet. Reinsurance assets include balances expected to be recovered from reinsurance companies for ceded paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for the liabilities associated with the underlying insurance contracts.

Reinsurance assets are assessed for impairment on a regular basis and impairment losses, if any, are recorded in the same manner as for loans and receivables.

d) Liabilities for investment contracts (without DPF)

Investment contracts are those contracts that do not transfer significant insurance risk. The ZIC Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

Unit-linked investment contracts

These represent portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks related to the investments. The liabilities are carried at fair value, which is determined by reference to the underlying financial assets. Changes in fair value are recorded in income. The related assets for unit-linked investment contracts are designated at fair value through profit or loss in order to reduce measurement inconsistencies.

The services provided by the ZIC Group under such contracts are investment management and policy administration services that are provided over time and are not contingent on meeting specified performance criteria. Fees from such services are recognized ratably over the service period as policy fee revenue except where such fees are charged in connection with contract origination in which case such fees are recognized as contract liabilities (included within deferred front-end fees). The costs to fulfill the services over time are generally recognized as incurred, except the costs of acquiring new investment contracts with investment management services, such as commissions and other incremental expenses directly related to the issuance of each new contract. Such fees enhance the resources that will be used to satisfy future performance obligations and – to the extent recoverable – are capitalized as contract assets (deferred origination costs; DOC) and amortized in line with the revenue generated by providing investment management services. See note 11 for further information.

Investment contracts at amortized cost

Liabilities for investment contracts with fixed and guaranteed terms are measured at amortized cost using the effective interest rate method. Transaction costs are included in the calculation of the effective yield. As of each reporting date, the ZIC Group re-estimates the expected future cash flows and re-calculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the original effective interest rate for the financial liability. Any adjustment is immediately recognized in income.

Consolidated financial statements (continued)

e) Group investments excluding derivative financial instruments

Group investments are accounted for at either (a) fair value through OCI; (b) fair value through profit or loss; or (c) amortized cost. The ZIC Group continues to apply the requirements in IAS 39 'Financial Instruments: Recognition and Measurement' until implementation of IFRS 9 'Financial Instruments' on January 1, 2023 (see note 2).

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

Group investments at fair value through profit or loss include 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 eliminates or significantly reduces 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 include debt securities for which the ZIC Group has 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 are carried at amortized cost using the effective interest rate method, less any charges for impairment. When an impairment is determined to have occurred, the carrying amount of held-to-maturity investments and loans and receivables is reduced through the use of an allowance account, and the movement in the impairment allowance is recognized in income as an impairment loss.

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

Realized and unrealized gains and losses arising from changes in the fair value are recognized in income, within net capital gains/(losses) on investments and impairments, in the period in which they arise. Interest income determined using the effective interest method and dividend income from financial assets at fair value through profit or loss is included in net investment income.

Group investments 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 along with rental operating expenses for investment property recognized on an accrual basis.

Group investments include the following in cash and cash equivalents: 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 change in fair value. Cash and cash equivalents are stated at current redemption value.

Impairment of financial assets

The ZIC Group assesses at each reporting date whether there is objective evidence that loss events have occurred that negatively affect the estimated future cash flows of a financial asset or a group of financial assets. The evaluation of whether a financial asset is impaired requires significant judgment (see note 4).

f) Derivative financial instruments and hedge accounting

Derivative financial instruments, except those designated under a qualifying cash flow or net investment hedge relationship, are carried at fair value on the balance sheet with changes in fair value recognized in income.

Derivative financial instruments that qualify for hedge accounting

Derivative financial instruments are used by the ZIC Group to economically hedge risks. 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.
- Net investment hedges, which are hedges of a net investment in a foreign operation.

Consolidated financial statements (continued)

All hedge relationships are formally documented, including the risk management objectives and strategy for undertaking the hedge. At inception of a hedge and on an ongoing basis, the hedge relationship is 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 are no longer met, 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.

The accounting treatment of a qualifying hedge relationship is further described in note 7.

g) Attorney-in-fact (AIF) contracts

The AIF contracts reflect the ability of the ZIC Group to generate future revenues through Farmers Group Inc. (FGI) based on the FGI's relationship with the Farmers Exchanges. The Farmers Exchanges are not owned by FGI, a wholly owned subsidiary of the Group. In determining that these relationships have an indefinite useful life, the ZIC Group took into consideration the organizational structure of inter-insurance exchanges, under which subscribers exchange contracts with each other and appoint an attorney-in-fact to provide non-claims services, and the historical AIF relationship between FGI and the Farmers Exchanges. The value of the AIF contracts is tested for impairment at least annually.

The services provided by FGI under such contracts are non-claims services including risk selection, preparation and mailing of policy documents and invoices, premium collection, management of the investment portfolios and certain other administrative functions. The multiple performance obligations covered by the consideration received are considered to be a series with the same pattern of transfer, therefore, the performance obligations are not separated. The revenue for the services provided includes Farmers management fee, membership fees and revenues for ancillary services. Farmers management fees are determined as a percentage of gross premiums earned by the Farmers Exchanges and recognized ratably over the period the services are provided. Membership fees are one-time fees charged at the time of the policy issuance that do not cover a distinct performance obligation. Such fees are recognized as revenue over the expected life of the customer relationship. The incremental costs incurred in connection with the customer setup activity are recognized as an asset and subsequently amortized using the same pattern as the related revenue. The revenue for ancillary services includes remuneration for services provided that are not covered by Farmers management fees where FGI acts as a principal. Typically, these services are provided over time, so that the revenue is also recognized over time. See note 26 for further information.

h) Goodwill

Goodwill on the acquisition of subsidiaries is capitalized and tested for impairment annually, or more frequently if there are indications of impairment. For the purpose of impairment testing, goodwill is allocated to cash-generating units (CGUs) based on the level at which management monitors operations and makes decisions related to the continuation or disposal of assets and operations. If goodwill has been allocated to a CGU and an operation within that unit is disposed of, the carrying amount of the operation includes attributable goodwill when determining the gain or loss on disposal.

i) Other intangible assets

Other intangible assets typically have finite lives and are carried at cost, less accumulated amortization and impairments. Such assets are generally amortized using the straight-line method over their useful lives and reviewed for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Present value of future profits from acquired insurance contracts (PVFP)

An intangible asset representing the PVFP arises from the acquisition of life insurance businesses. Such an asset is amortized over the expected life of the acquired contracts, following the same principles as for DAC. The carrying value of the PVFP asset is tested periodically for impairment as part of the liability adequacy test for insurance contracts.

Distribution agreements

Distribution agreements may have useful lives extending up to 30 years, estimated based on the period of time over which they are expected to provide economic benefits, but for no longer than the contractual term, after taking into account all economic and legal factors such as stability of the industry, competitive position and the period of control over the assets.

Consolidated financial statements (continued)

Software

Costs associated with research and maintenance of internally-developed computer software are expensed as incurred. Costs incurred during the development phase are capitalized. Software under development is tested for impairment annually.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into use.

The useful lives of computer software licenses and capitalized internal software development costs generally range from three to five years. In limited circumstances, capitalized software development costs may be amortized over a period of up to 10 years, taking into account the effects of obsolescence, technology, competition and other economic and legal factors.

j) Employee benefits

Share-based compensation and cash incentive plans

The ZIC Group operates long-term incentive plans that are accounted for as cash-settled share-based compensation plans. The fair value of these incentive plans is determined at the grant date and is recognized as an expense in income over the vesting period, with a corresponding increase recorded within other liabilities for employee benefit plans.

Subsequently, the fair value of the liability is re-measured at the end of each reporting period with any changes in fair value recognized in profit or loss for the period.

Retirement benefits

The ZIC Group operates various post-employment benefit plans for its employees worldwide, which include defined benefit and defined contribution pension plans, and other post-employment benefits, such as medical care and life insurance.

Contributions to defined contribution plans are recorded as an expense in the period in which the economic benefit from the employees' service was received.

Defined benefit plan obligations and current service costs are determined annually by qualified actuaries using the projected unit credit method. The defined benefit liability represents the present value of defined benefit obligation at the end of the reporting period less the fair value of plan assets with changes from remeasurements recorded in OCI. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the recognition of the resulting net asset is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

ZIC Group's expense related to these plans is accrued over the employees' service periods based on the actuarially determined cost for the period. Net interest and service costs are determined using the spot rate approach. Actuarial gains and losses are recognized, in full in the period in which they occur, in OCI. Past service costs, which result from plan amendments and curtailments, are recognized in income when the plan amendment or curtailment occurs (which is the date from which the plan change is irrevocable) and the date on which a constructive obligation arises. Settlement gains or losses are recognized in income when the settlement occurs.

Other post-employment benefits

Other post-employment benefits, such as medical care and life insurance, are also provided for certain employees and are primarily funded internally. Similar to defined benefit plans, the cost of such benefits is accrued over the service period of the employees based on the actuarially determined cost for the period.

Consolidated financial statements (continued)

k) Leases

The ZIC Group is typically acting as a lessee in property and car or equipment leases. Further, the ZIC Group is acting as a lessor in leases of investment property.

When acting as a lessee, under IFRS 16, the ZIC Group recognizes a right-of-use asset and a corresponding lease liability at the lease commencement date when the leased asset is available for use by the ZIC Group. The lease liability is measured at the present value of the lease payments due over the lease term, discounted using the Group's incremental borrowing rate. Any options to extend or terminate a lease that the ZIC Group is reasonably certain to exercise are included in the lease term. The right-of-use asset is initially recognized at an amount equal to the lease liability adjusted for lease prepayments made or lease incentives received, initial direct costs and any estimated costs to dismantle or restore the leased asset.

The right-of-use asset is depreciated over the shorter of the leased asset's useful life or the lease term on a straight-line basis. The right-of-use asset is included in 'Property and equipment' and disclosed separately in note 13. The carrying amount of the lease liability is increased to reflect the unwinding of the discount so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period and is reduced by the lease payments made during the period. Lease payments include fixed payments and variable payments that depend on a non-leveraged index or a rate. Lease liabilities are included within 'Other Liabilities.'

The ZIC Group records short-term leases and leases of low-value assets as an expense on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are comprised of hardware and smaller office equipment. The lease expense is included in 'Administrative and other operating expense.'

When acting as a lessor of investment property in an operating lease, the ZIC Group follows the accounting policy in paragraph e).

Consolidated financial statements (continued)

4. Critical accounting judgments and estimates

The application of certain accounting policies 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 insurance reserves and deferred acquisition costs, the determination of fair value for financial assets and liabilities, impairment charges, deferred taxes and employee benefits.

a) Reserves for insurance contracts and deferred acquisition costs

Property & Casualty

The ZIC Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the ZIC Group's property & casualty products. These reserves represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the balance sheet date. The ZIC Group establishes its reserves by product line, type and extent of coverage and year of occurrence. There are two categories of loss reserve: reserves for reported losses and reserves for incurred but not reported (IBNR) losses. Additionally, reserves are 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 ZIC Group's reserves for reported losses and loss adjustment expenses are based on estimates of future payments to settle reported claims. The ZIC Group bases such estimates on the facts available at the time the reserves are established. These reserves are generally established on an undiscounted basis to recognize the estimated costs of bringing pending claims to final settlement. The reserve calculation takes into account inflation, as well as other factors that can influence the amount of reserves required, some of which are subjective and some of which are dependent on future events. In determining the level of reserves, the ZIC 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 ZIC Group's estimation of reserves. Between the reporting and final settlement of a claim circumstances may change, which may result in changes to established reserves. Items such as changes in law and interpretations of relevant case law, results of litigation, 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 ZIC Group reviews and re-evaluates claims and reserves on a regular basis. Amounts ultimately paid for losses and loss adjustment expenses can vary significantly from the level of reserves originally set.

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

The time required to learn of and settle claims is an important consideration in establishing the ZIC Group's reserves. 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 ZIC Group does not establish reserves for catastrophes in advance of the occurrence of such events, these events may cause volatility in the levels of its incurred losses and reserves 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 ZIC Group uses a number of accepted actuarial methods to estimate and evaluate the amount of reserves recorded. The nature of the claim being reserved for and the geographic location of the claim influence the techniques used by the ZIC Group's actuaries. Additionally, the ZIC Group's Corporate Center actuaries perform periodic reserve reviews of the ZIC Group's businesses throughout the world. Management considers the results of these reviews and adjusts its reserves for losses and loss adjustment expenses, where necessary.

Consolidated financial statements (continued)

Life insurance

The reserves for future life policyholder benefits and policyholder contract deposits and other funds contain a number of assumptions regarding mortality or longevity, lapses, surrenders, expenses, 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 liabilities for future life policyholder benefits and policyholder contract deposits 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 ZIC 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 ZIC Group is exposed to longevity risk.
- Under certain contracts, the ZIC Group has offered product guarantees (or options to take up product guarantees), including fixed minimum interest rate or mortality rate returns. In determining the value of these options and/or benefits, estimates have been made as to the percentage of contract holders that may exercise them. Changes in investment conditions could result in significantly more contract holders 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. Interest rate assumptions reflect expected earnings on the assets supporting the future policyholder benefits. The information used by the ZIC Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions, available experience studies and profitability analysis.

Deferred policy acquisition costs and the present value of future profits (PVFP) are recognized on balance sheet only to the extent that they are recoverable from future policy income which also depends on the above assumptions. Recoverability is tested at contract inception and subsequently on a regular basis with reference to current expectations of future profits or margins.

See note 8 for further information on liabilities for insurance contracts and note 11 for deferred policy acquisition costs. Also refer to the insurance risk section of the risk review.

b) Fair value measurement

In determining the fair values of investments in debt and equity instruments traded on exchanges and in over-the-counter (OTC) markets, the ZIC 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 ZIC 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. See notes 6, 7 and 23 for further information regarding the estimate of fair value.

Consolidated financial statements (continued)

c) Impairment of assets**Financial assets**

A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more occurred loss events that have an impact on the estimated future cash flows of the financial asset.

The evaluation of whether an available-for-sale debt security is impaired requires analysis of the credit standing of a particular issuer and involves management judgment. When assessing impairment of available-for-sale debt securities, the ZIC Group places 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 is not by itself considered a loss event, but rather incorporated in the impairment analysis along with other available information.

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

- its fair value is 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 has been below the weighted-average cost for a prolonged period of 24 consecutive months or longer.

Goodwill and attorney-in-fact (AIF) contracts

Goodwill is allocated to a cash generating unit (CGU) as outlined in note 3. The ZIC Group has defined the CGUs according to regions, separating Property & Casualty (P&C), Life businesses and other (see note 27). The CGUs which carry the majority of goodwill and AIF contracts are presented in table 4.

For goodwill impairment testing, the ZIC Group estimates the recoverable amount based on the value-in-use of the CGU.

Value-in-use is determined using the present value of estimated future cash flows expected to be generated from the CGU. Cash flow projections are based on business plan projections, which are approved by management, typically covering a three-year period or, if appropriate and adequately justified, a longer period, which may be necessary to more accurately represent the nature of the cash flows used to test the goodwill. Cash flows beyond this period are extrapolated using, among others, estimated perpetual growth rates, which typically do not exceed the expected inflation of the geographical areas in which the cash flows supporting the goodwill are generated. If cash flows are generated in different geographical areas with different expected inflation rates, weighted averages are used. The discount rates applied reflect the respective risk-free interest rate adjusted for the relevant risk factors to the extent they have not already been considered in the underlying cash flows.

The discount rates used in the recoverable amount calculations for developed markets are based on the weighted average cost of capital and consider government bond rates which are further adjusted for equity risk premium, appropriate beta and leverage ratio. In emerging markets, discount rates are based on the U.S. dollar discount rate taking into account inflation differential expectations and country risks. All input factors to the discount rates are based on observable market data.

Table 4 sets out for the major CGUs the applied discount rates and the perpetual nominal growth rates beyond the projection period that depend on expectations about country-specific growth rates and inflation as of the date of valuation, as well as the value of goodwill and AIF contracts as of December 31, 2021.

Table 4

Discount and perpetual growth rates for goodwill and AIF contracts for major CGUs

		in USD	Discount	Discount	Perpetual	Perpetual
	Business	millions	rates in %	rates in %	nominal	nominal
			2021	2020	growth	growth
					rate in %	rate in %
Farmers	Farmers	3,888	9.2	7.9	2.2	2.3
North America	P&C	350	9.0	7.8	2.2	2.0
Europe, Middle East & Africa	P&C	332	8.3	7.5	1.8	1.8
Asia Pacific	P&C	876	9.0	8.4	1.8	2.2
Asia Pacific	Life	1,198	9.1	8.4	2.0	2.1
Latin America	P&C	262	17.8	18.1	6.0	5.9
Latin America	Life	74	15.4	14.2	4.4	4.3

Consolidated financial statements (continued)

The recoverable amount of goodwill remains contingent on future cash flows and other assumptions, particularly discount rates and the perpetual growth rate. If the estimated future cash flows and other assumptions deviate significantly from the ZIC Group's current outlook, there is a risk that the goodwill is impaired.

Quantitative sensitivity tests have been performed for all CGUs, 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 AIF contracts.

Distribution agreements

Qualitative analyses have been performed on distribution agreements, typically comprising an analysis of the current financial performance, any change in the conditions in the agreement and environment that would indicate an impairment. No impairment was identified.

See notes 3, 6, 13, 14 and 15 for further information on impairment of assets.

d) Deferred taxes

Deferred tax assets are recognized if sufficient future taxable income, including income from the reversal of existing taxable temporary differences and available tax planning strategies, is available for realization. The utilization of deferred tax assets arising from temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases depends on the generation of sufficient taxable profits in the period in which the underlying asset or liability is recovered or settled. If applicable tax law acknowledges different types of expenses to be tax deductible, deferred tax assets are only recognized if they give rise to deductions against the same type of taxable income. The utilization of deferred tax assets arising from unused tax losses or tax credits depends on the generation of sufficient taxable profits before the unused tax losses or tax credits expire. As of each balance sheet date, management evaluates the recoverability of deferred tax assets and, if it is considered probable that all or a portion of the deferred tax asset will not be utilized, then a valuation allowance is recognized.

See note 17 for further information on deferred taxes.

e) Employee benefits

The ZIC Group provides defined benefit plans and other post-employment plans. In assessing the ZIC Group's liability for these plans, critical judgments include estimates of mortality rates, rates of employment turnover, disability, early retirement, discount rates, future salary and pension increases and increases in long-term health care costs. Discount rates for significant plans are based on a yield curve approach. The ZIC Group sets the discount rate by creating a hypothetical portfolio of high-quality corporate bonds for which the timing and amount of cash flows approximate the estimated payouts of the defined benefit plan. These assumptions may differ from actual results due to changing economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. These differences may result in variability of pension income or expense recorded in future years.

See note 20 for further information on employee benefits.

Consolidated financial statements (continued)

5. Acquisitions and divestments

Transactions in 2021

Acquisitions

Deutsche Bank Italian Financial Advisors network acquisition

On August 4, 2021, Zurich Italy 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 consisting of approximately 1,085 Financial Advisors, 97 employees and 16.5 billion euros of assets under management. The acquisition allows Zurich Italy to further develop its financial and insurance distribution network in the Italian market. The transaction is subject to regulatory approval and is expected to close in the second half of 2022.

My Policy Group

On May 18, 2021, the ZIC Group acquired a 19.99 percent share in Project Policy Bidco Limited, the owner of MyPolicy Limited, a UK usage-based insurance managing general agent, and Minerva. Science Limited. As part of the acquisition Zurich contributed Bright Box Hong Kong Limited and its subsidiaries as well as USD 10 million in cash. The investment is valued at USD 28 million. As a result of the transaction, the ZIC Group recognized a USD 33 million loss on sale of Bright Box Hong Kong Limited.

MetLife Property and Casualty business

On December 11, 2020, Zurich Insurance Group (Zurich) subsidiary Farmers Group, Inc. (FGI) and Farmers Exchanges announced the acquisition of MetLife's property and casualty (P&C) business in the U.S. for a purchase price of USD 3.96 billion. The acquisition successfully closed on April 7, 2021, and the acquired P&C business has since been rebranded to Farmers Workplace Solutions (FWS). As part of the transaction in effect, FGI acquired MetLife P&C's management and administrative-related assets and liabilities to conduct its responsibilities as attorney-in-fact of the Farmers Exchanges and the Farmers Exchanges' underlying insurance business. Zurich contributed USD 2.44 billion through FGI and the Farmers Exchanges, USD 1.52 billion. 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. Attorney-in-fact services primarily include risk selection, preparation and mailing of policy documents and invoices, premium collection, management of the investment portfolios and certain other administrative and managerial functions. Fees for these services are primarily determined as a percentage of gross premiums earned by the Farmers Exchanges. Ancillary services primarily include information technology, brand advertising and certain distribution-related services that are not covered under the attorney-in-fact contracts for which FGI acts as a principal in arranging for those services to the Exchanges.

The acquisition gives the Farmers Exchanges a truly nationwide presence and access to new distribution channels. This includes a 10-year exclusive distribution agreement through which the Farmers Exchanges are offering their personal lines products on MetLife's industry-leading U.S. Group Benefits platform, which today reaches 3,800 companies and 37 million employees.

Table 5.1 shows the updated opening balance sheet line items as of the acquisition date, representing the fair value of tangible and intangible assets. Goodwill has increased by USD 133 million due to adjustments to the purchase price allocation, in the second half of 2021, based on the finalization of certain tax contingencies associated with the acquisition.

Consolidated financial statements (continued)

Table 5.1

MetLife P&C balance sheet as of the acquisition date	in USD millions, as of April 7, 2021		Total ¹
	Receivables and other assets		8
	Property and equipment		1
	Goodwill ²		418
	Attorney-in-fact contracts		1,625
	Software		153
	Other intangible assets		375
	Assets acquired		2,580
	Other liabilities		9
	Deferred tax liabilities ²		126
	Liabilities acquired		135
	Net assets acquired		2,444
	Cash consideration		2,444

¹ As of December 31, 2021, the assets and liabilities of MetLife P&C are recognized at acquisition date, April 7, 2021.

² Includes deferred tax adjustments of USD 133 million.

Management fees and other related revenues generated since the acquisition and net income after taxes for the period April 7, 2021, to December 31, 2021, were USD 473 million and USD 55 million, respectively. Calculating these items for the full year has been deemed impractical. The Group incurred transaction-related costs of approximately USD 20 million, the majority of which were incurred in 2021.

Divestments

Held for sale

As of December 31, 2021, the total assets and liabilities reclassified to held for sale were USD 11.6 billion and USD 11.4 billion, respectively, as per transactions below.

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. The transaction is subject to regulatory approval and is expected to be completed in 2022. The ZIC Group has recorded a pre-tax loss of USD 144 million in the statement of income. As of December 31, 2021, assets and liabilities reclassified to held for sale were USD 9.2 billion and USD 9 billion, respectively.

Spain Medical Malpractice portfolio

On December 9, 2021, Zurich Insurance plc (Spain), entered into an agreement to sell its medical malpractice portfolio. The transaction is subject to regulatory and court approvals and is expected to be completed in 2023. As of December 31, 2021, assets reclassified to held for sale were USD 131 million and liabilities reclassified to held for sale were USD 131 million.

Zurich International Life portfolio

On December 22, 2020, Zurich International Life Limited entered into an agreement to sell an insurance portfolio. The transaction is subject to regulatory and court approvals and is expected to be completed in the second half of 2022. As of December 31, 2021, assets reclassified to held for sale were USD 783 million and liabilities reclassified to held for sale were USD 745 million.

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 London Limited, subject to regulatory and court approvals. The transfer is expected to be completed in 2024. As of December 31, 2021, assets reclassified to held for sale were USD 1.4 billion and liabilities reclassified to held for sale were USD 1.4 billion.

Consolidated financial statements (continued)

Transactions in 2020

Acquisitions

Healthinsite

On December 15, 2020, Zurich Insurance Company Ltd completed the acquisition of Healthinsite Proprietary Limited and Insite Holding Pty Limited (collectively referred to as Healthinsite). Healthinsite provides innovative health and behavioral risk management solutions internationally to corporate clients and is the owner of proprietary software.

Swiss Commercial Accident and Health business

On May 29, 2020, after receiving regulatory approval, Zurich Insurance Company Ltd acquired the Commercial Accident and Health business from CSS Versicherung AG.

Divestments

Divested

UK International Portfolio Bond

On November 30, 2020, Zurich Life Assurance plc completed the sale of its UK international Bond Portfolio to Monument Re, with a pre-tax loss of USD 14 million, recognized in the income statement.

US Corporate Life & Pensions (CLP)

On March 19, 2020, Zurich Holding Company of America, Inc., Zurich American Life Insurance Company and Zurich American Life Insurance Company of New York signed an agreement to sell the Corporate Life and Pensions (CLP) business to Aflac Incorporated (Aflac) and its insurance subsidiaries, American Family Life Assurance Company of Columbus and American Family Life Assurance Company of New York. On November 2, 2020, the ZIC Group completed the sale with a pre-tax gain of USD 115 million, recognized in the income statement.

UK Retail Wealth Business

On November 19, 2019, Zurich Financial Services (UKISA) Limited and Allied Zurich Holdings Limited (AZH) entered into an agreement with Embark Group Limited (Embark) to sell the UK Retail Wealth business, which includes an Investment and Retail Wealth Platform business, Sterling ISA Managers Limited (SIML), and an Investment Management business, Zurich Investment Services (UK) Limited (ZISUK). On May 1, 2020, the ZIC Group completed the sale with a pre-tax loss of USD 143 million, of which USD 123 million was recognized in December 2019, in the income statement, including an impairment of assets of USD 210 million.

Germany Architects & Engineers portfolio

On September 5, 2019, Zurich Insurance plc entered into an agreement to transfer the German Architects & Engineers portfolio to Darag Deutsche Versicherungs- und Rückversicherungs-AG. On June 30, 2020, the ZIC Group completed the sale of the portfolio with a pre-tax gain of USD 22 million, recorded in the income statement.

Consolidated financial statements (continued)

6. Group investments

Group investments are those for which the ZIC Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Net investment result on Group investments includes returns on investment-related cash, which is included in cash and cash equivalents on the consolidated balance sheets.

Table 6.1

Net investment result on Group investments	in USD millions, for the years ended December 31							
	Net investment income		Net capital gains/(losses) and impairments		Net investment result		of which impairments	
	2021	2020	2021	2020	2021	2020	2021	2020
Investment cash	2	12	–	–	2	12	–	–
Equity securities ¹	488	384	1,777	874	2,266	1,258	(39)	(357)
Debt securities	3,886	3,798	(31)	905	3,855	4,702	(13)	58
Investment property ²	474	502	520	514	994	1,016	–	–
Mortgage loans	151	141	(1)	6	150	147	(1)	(1)
Other loans	329	329	5	3	333	332	7	(1)
Investments in associates and joint ventures	(4)	3	(10)	15	(14)	18	(10)	–
Derivative financial instruments	–	–	(290)	(280)	(290)	(280)	–	–
Investment result, gross, on Group investments	5,326	5,169	1,971	2,038	7,297	7,206	(57)	(302)
Investment expenses on Group investments	(280)	(268)	–	–	(280)	(268)	–	–
Investment result, net, on Group investments	5,045	4,901	1,971	2,038	7,016	6,939	(57)	(302)

1 For the year ended December 31, 2020, the ZIC Group has recognized USD 357 million impairments on equity securities, mainly in EMEA and North America, due to the volatility of the stock markets in response to the COVID-19 pandemic.

2 Rental operating expenses for investment property amounted to USD 150 million and USD 144 million for the years ended December 31, 2021 and 2020, respectively.

Table 6.2

Details of Group investments by category	as of December 31			
	USD millions	% of total	USD millions	% of total
Equity securities:				
Fair value through profit or loss	4,571	2.4	4,714	2.2
Available-for-sale	14,960	7.8	15,608	7.4
Total equity securities	19,530	10.2	20,322	9.6
Debt securities:				
Fair value through profit or loss	7,181	3.7	7,115	3.4
Available-for-sale	136,005	70.9	152,330	72.1
Held-to-maturity	1,897	1.0	2,265	1.1
Total debt securities	145,084	75.6	161,710	76.6
Investment property	14,070	7.3	14,749	7.0
Mortgage loans	6,106	3.2	5,783	2.7
Other loans	7,053	3.7	8,620	4.1
Investments in associates and joint ventures	68	0.0	43	0.0
Total Group investments	191,911	100.0	211,227	100.0

Investments with a carrying value of USD 6.3 billion and USD 6.6 billion are held to meet local regulatory requirements as of December 31, 2021 and 2020, respectively.

Consolidated financial statements (continued)

Table 6.3

Details of debt securities by category	in USD millions, as of December 31		Fair value through		Available-for-sale		Held-to-maturity		Total	Total
			profit or loss							
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Debt securities:										
Government and supra-national bonds	3,156	3,854	64,441	75,598	1,798	2,077	69,395	81,529		
Corporate securities	3,533	2,817	55,757	60,575	99	188	59,389	63,579		
Mortgage and asset-backed securities	492	444	15,808	16,157	–	–	16,300	16,602		
Total debt securities	7,181	7,115	136,005	152,330	1,897	2,265	145,084	161,710		

Table 6.4

Debt securities maturity schedule	in USD millions, as of December 31		Fair value through		Available-for-sale		Held-to-maturity		Total	Total
			profit or loss							
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Debt securities:										
< 1 year	733	573	6,513	6,933	35	86	7,281	7,592		
1 to 5 years	1,974	1,984	34,135	38,615	820	802	36,929	41,401		
5 to 10 years	1,671	1,429	29,097	33,965	536	796	31,304	36,189		
> 10 years	2,312	2,686	50,452	56,660	506	581	53,270	59,927		
Subtotal	6,689	6,671	120,197	136,173	1,897	2,265	128,784	145,108		
Mortgage and asset-backed securities:										
< 1 year	1	–	20	36	–	–	20	36		
1 to 5 years	110	91	1,039	1,443	–	–	1,149	1,534		
5 to 10 years	127	98	2,188	2,224	–	–	2,315	2,322		
> 10 years	254	255	12,562	12,454	–	–	12,816	12,709		
Subtotal	492	444	15,808	16,157	–	–	16,300	16,602		
Total	7,181	7,115	136,005	152,330	1,897	2,265	145,084	161,710		

The analysis in table 6.4 is provided by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Table 6.5

Investment property	in USD millions		Total	
	2021	2020	2021	2020
As of January 1	14,749	13,261		
Additions and improvements	866	1,009		
Acquisitions/(divestments)	(379)	–		
Disposals	(908)	(1,112)		
Market value revaluation	454	586		
Transfer from/to assets held for own use	29	25		
Transfer to assets held for sale	(22)	(88)		
Foreign currency translation effects ¹	(718)	1,069		
As of December 31	14,070	14,749		

¹ Increase is mainly driven by foreign exchange-related impacts on real estate in Germany and Switzerland as the USD strengthened against the EUR and CHF.

Investment property consists of investments in commercial, residential and mixed-use properties primarily located in Germany, U.S. and Switzerland.

Consolidated financial statements (continued)

Table 6.6

Net unrealized gains/(losses) on Group investments included in equity	in USD millions, as of December 31	Total	
		2021	2020
Equity securities: available-for-sale		2,436	1,733
Debt securities: available-for-sale		9,549	18,911
Other		498	585
Gross unrealized gains/(losses) on Group investments		12,483	21,230
Less amount of unrealized gains/(losses) on investments attributable to:			
Life policyholder dividends and other policyholder liabilities		(6,444)	(12,119)
Life deferred acquisition costs and present value of future profits		(887)	(1,242)
Deferred income taxes		(940)	(1,481)
Non-controlling interests		(30)	(117)
Total¹		4,182	6,271

¹ Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 411 million and USD 526 million as of December 31, 2021 and 2020, respectively.

Table 6.7

Securities lending, repurchase and reverse repurchase agreements	in USD millions, as of December 31	Total	
		2021	2020
Securities lending agreements			
Securities lent under securities lending agreements ¹		4	329
Collateral received for securities lending		5	360
of which: Cash collateral		–	111
of which: Non-cash collateral ²		5	248
Liabilities for cash collateral received for securities lending		–	111
Repurchase agreements			
Securities sold under repurchase agreements ³		1,390	787
Obligations to repurchase securities		1,381	784

¹ The ZIC 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 4 million and USD 329 million as of December 31, 2021 and 2020, respectively. The majority of these assets were debt securities.

² The ZIC 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 5 million and USD 248 million as of December 31, 2021 and 2020, respectively.

³ The ZIC 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 352 million and USD 346 million as of December 31, 2021 and 2020, respectively. The majority of these assets were debt securities.

Under the terms of securities lending or repurchase agreements, the ZIC 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 ZIC Group's consolidated balance sheet. Cash received as collateral is recorded as an asset, and a corresponding liability is established. Interest expense is charged to income 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 ZIC Group's consolidated balance sheet, as long as the risk and rewards of ownership have not been transferred to the ZIC Group. The cash delivered by the ZIC Group is derecognized and a corresponding receivable is recorded within receivables and other assets. Interest income is recognized in income using the effective interest rate method over the life of the agreement.

Consolidated financial statements (continued)

7. Group derivative financial instruments and hedge accounting

The ZIC Group uses derivative financial instruments mainly for economic hedging purposes to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates. Derivative financial instruments with a positive fair value are reported in receivables and other assets (see note 15) and those with a negative fair value are reported in other liabilities (see note 16).

Table 7.1 shows the fair value and notional amounts for all group derivatives as of December 31, 2021 and 2020 separated by risks. While these notional amounts express the extent of the ZIC Group's involvement in derivative transactions, they do not, however, represent the amounts at risk.

Table 7.1

Maturity profile of notional amounts and fair values of Group derivative financial instruments	in USD millions, as of December 31	2021							2020	
		Maturity by notional amount			Notional amounts	Positive fair values	Negative fair values	Notional amounts	Positive	Negative
		< 1 year	1 to 5 years	> 5 years					fair values	fair values
Interest rate contracts ¹		2,520	11,072	4,265	17,857	738	(296)	20,890	1,401	(250)
Equity contracts		1,669	330	523	2,522	57	(65)	11,790	87	(68)
Foreign exchange contracts		17,961	529	319	18,808	143	(171)	20,699	275	(162)
Total Group derivative financial instruments		22,149	11,931	5,106	39,186	938	(532)	53,379	1,763	(481)
Thereof exchange-traded		511	–	–	511	1	(3)	1,187	6	(6)
Thereof OTC		21,638	11,931	5,106	38,676	937	(529)	52,192	1,757	(475)

¹ Includes USD 1.8 billion and USD 679 million notional related to derivatives which are centrally cleared as of December 31, 2021 and 2020, respectively.

Interest rate contracts

Interest rate contracts are used to hedge risks from changes in interest rates and to manage asset liability mismatches. Whenever possible the ZIC Group enters into exchange-traded contracts, which are standardized and regulated. Furthermore, because of the structure of the exchanges, exchange-traded contracts are not considered to carry counterparty risk. Over-the-counter (OTC) contracts are otherwise entered into and comprised of swaps and swaptions.

Equity contracts

Equity contracts are entered into, either on a portfolio or on a macro level, to protect the fair value of equity investments against a decline in equity market prices or to manage the risk return profile of equity exposures. Short positions are always covered and sometimes used to mitigate hedging costs.

Foreign exchange contracts

Swaps and forward contracts are used to hedge the ZIC Group's foreign currency exposures and to manage balance sheet mismatches.

Credit contracts

The ZIC Group may from time to time enter into credit contracts. Credit contracts are credit default swaps entered into either on a portfolio or on a macro level to limit market risks arising from the investment portfolios against a change in credit spreads or to manage the risk return profile of the credit exposures. As of December 31, 2021, the ZIC Group does not hold credit default swaps.

Other contracts

Other contracts predominantly include stable value products (SVPs) issued to insurance company separate accounts in connection with certain life insurance policies (Bank Owned Life Insurance (BOLI) and Company Owned Life Insurance (COLI)) with an account value of USD 11.3 billion as of December 31, 2021 and USD 11.1 billion as of December 31, 2020, and with a market value of the underlying investments of USD 11.3 billion and USD 11.5 billion as of December 31, 2021 and 2020, respectively (not included in the table above). The ZIC Group includes the likelihood of surrender as one of the input parameters to determine the fair value of the SVPs, which was nil as of December 31, 2021 and 2020.

In certain circumstances, derivative financial instruments meet the requirements of an effective hedge for accounting purposes. Where this is the case, hedge accounting may be applied. Financial information for these instruments is set out in table 7.2.

Consolidated financial statements (continued)

Table 7.2

Notional and fair values of Group hedge accounting derivative financial instruments	in USD millions, as of December 31	2021			2020		
		Notional principal amounts	Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
Fair value hedge:							
Interest rate contracts		426	11	–	539	25	(5)
Foreign currency contracts		430	7	(55)	420	–	(53)
Total fair value hedges		856	18	(55)	959	26	(58)
Cash flow hedge:							
Interest rate contracts ¹		3,396	490	(108)	4,588	993	(78)
Foreign currency contracts		794	52	(28)	451	30	(11)
Total cash flow hedges		4,190	542	(136)	5,040	1,023	(89)
Net investment hedge:							
Foreign currency contracts		1,932	1	(8)	1,500	51	–
Total net investment hedges		1,932	1	(8)	1,500	51	–

¹ Includes USD 1.8 billion and USD 679 million notional related to derivatives which are centrally cleared as of December 31, 2021 and 2020, respectively.

Fair value hedges

Designated fair value hedges consist of interest rate swaps used to protect the ZIC Group against changes in interest rate exposure of debt issued by ZIC Group.

Information on debt issuances designated as hedged items in fair value hedge relationships is set out in note 18.

The ZIC Group also has fair value hedge relationships consisting of cross currency swaps and forwards to protect the Group from foreign currency fluctuation of certain fixed income securities and hybrid equity securities denominated in a currency other than the functional currency of the reporting entity.

Forward Bonds are used to hedge bond's fair values against rates movements.

Changes in the fair value of the derivative financial instruments designated as fair value hedges and changes in the fair value of the hedged item in relation to the risk being hedged are both recognized in income.

Consolidated financial statements (continued)

Table 7.3 sets out gains and losses arising from fair value hedges:

Table 7.3

Gains/(losses) arising from fair value hedges	in USD millions, for the years ended December 31		2021	2020
	Gains/(losses)			
	on hedging instruments ¹		(5)	14
	on hedged items attributable to the hedged risk		5	(15)

¹ Excluding current interest income, which is recognized as an offset on the same line as the interest expense of the hedged debt.

Cash flow hedges

Designated cash flow hedges, such as interest rate swaptions and forwards are used to protect the Group against variability of future cash flows due to changes in interest rates associated with expected future purchases of debt securities required for certain life insurance policies. The effective portion of the gains and losses on these swaptions are initially recognized in OCI. Subsequently the gains or losses will be recycled to profit or loss within net investment income on Group investments over the period to December 31, 2036. The gains and losses related to the ineffective portion of these hedges are recognized immediately in income within net capital gains/(losses) on investments and impairments.

The ZIC Group also uses interest rate swaps and cross currency swaps for cash flow hedging to protect against the exposure to variability of cash flows attributable to interest rate and currency risk. The hedging instrument is measured at fair value, with the effective portion of changes in its fair value recognized in OCI. The effective portion, related to spot rate changes in the fair value of the hedging instrument, is reclassified to profit or loss within administrative and other operating expense as an offset to foreign currency revaluation on the underlying hedged debt securities. The ineffective portion of the change in fair value is recognized in net capital gains/(losses) and impairments.

The net change of gains/(losses) deferred in OCI on derivative financial instruments designated as cash flow hedges were USD 338 million and USD 276 million before tax for the years ended December 31, 2021 and 2020, respectively.

The ZIC Group recognized gains/(losses) of USD 36 million and USD 35 million in the consolidated income statements within net investment income on Group investments for the years ended December 31, 2021 and 2020, respectively. The ZIC Group also recognized net gains of USD 26 million and USD 2 million within administrative and other operating expense for the years ended December 31, 2021 and 2020, respectively, as an offset to the foreign currency revaluation on the underlying hedged items.

A nil amount for the years ended December 31, 2021 and 2020, respectively, was recognized in net capital gains/(losses) and impairments due to hedge ineffectiveness. The IBOR Reform did not impact the effectiveness of ZIC Group's hedging relationships and it is not expected to have any material impact in the future (see note 2).

Consolidated financial statements (continued)

Net investment hedges

The ZIC Group applies net investment hedge accounting to protect against the effects of changes in exchange rates in its net investments in foreign operations.

Measurement of hedge effectiveness is based on changes in forward rates. Gains and losses on the designated hedging derivative and non-derivative financial instruments related to the effective portion of the hedge are recognized in OCI together with the translation gains and losses on the hedged net investment. The accumulated gains and losses in OCI are reclassified to income on disposal or partial disposal of the foreign operation.

The net change of gains/(losses) deferred in OCI were USD (69) million and USD 120 million before tax for the years ended December 31, 2021 and 2020, respectively as a result of a hedge relationship by foreign exchange forwards and swaps.

The ZIC Group has also designated certain debt issuances as hedging instruments on a non-derivative net investment hedge relationship. The notional amount of these financial instruments was USD 11 billion and USD 9.7 billion for the years ended December 31, 2021 and 2020, respectively. The net gains/(losses) deferred in OCI were USD 171 million and USD 324 million before tax for the years ended December 31, 2021 and 2020, respectively.

Information on debt issuances designated as hedging instruments in a net investment hedge relationship is set out in note 18.

No ineffectiveness of net investment hedges was recognized in net capital gains/(losses) and impairments for the years ended December 31, 2021 and 2020.

Derivative financial instruments: offsetting of financial assets and liabilities

Table 7.4 shows the net asset and liability position of Group derivative financial instruments subject to enforceable master netting arrangements and collateral agreements. Master netting arrangements are used by the Group to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. These arrangements commonly create a right of offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or other circumstances which would not be expected to arise in the normal course of business.

Table 7.4

Group derivative financial instruments subject to enforceable master netting arrangements and collateral agreements	in USD millions, as of December 31	Derivative assets		Derivative liabilities	
		2021	2020	2021	2020
	Fair value	938	1,763	(532)	(481)
	Related amounts not offset	(51)	(192)	30	196
	Cash collateral (received)/pledged	(791)	(1,520)	246	114
	Non-cash collateral (received)/pledged	(6)	(26)	72	61
	Net amount	89	25	(185)	(110)

Consolidated financial statements (continued)

8. Liabilities for insurance contracts and reinsurers' share of liabilities for insurance contracts

Table 8.1

Liabilities for insurance contracts	in USD millions, as of December 31	Gross		Ceded		Net	
		2021	2020	2021	2020	2021	2020
Reserves for losses and loss adjustment expenses		63,577	63,327	(14,578)	(14,375)	48,998	48,951
Reserves for unearned premiums		19,909	18,724	(3,887)	(3,716)	16,022	15,009
Future life policyholder benefits		73,977	83,958	(4,096)	(4,256)	69,881	79,703
Policyholder contract deposits and other funds		28,052	31,497	(3,159)	(3,236)	24,893	28,261
Reserves for unit-linked insurance contracts		82,524	81,157	–	–	82,524	81,157
Other insurance liabilities		4,668	4,834	(1)	(1)	4,667	4,832
Total liabilities for insurance contracts¹		272,707	283,497	(25,722)	(25,584)	246,985	257,913

¹ Total liabilities for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 41 million and USD 61 million as of December 31, 2021 and December 31, 2020, respectively.

Table 8.2

Discounted reserves for losses and loss adjustment expenses	in USD millions, as of December 31	Gross		Ceded		Net	
		2021	2020	2021	2020	2021	2020
Reserves for losses and loss adjustment expenses		63,577	63,327	(14,578)	(14,375)	48,998	48,951
of which: Discounted reserves		3,312	3,387	(45)	(45)	3,267	3,342
Discount effect		1,051	1,166	(18)	(23)	1,033	1,143
Undiscounted reserves for losses and loss adjustment expenses		64,627	64,492	(14,596)	(14,398)	50,031	50,094
of which: Undiscounted amount of discounted reserves		4,362	4,552	(63)	(68)	4,300	4,484
Average discount rate		3.2%	3.2%	1.7%	1.9%	3.3%	3.2%

Table 8.3

Development of reserves for losses and loss adjustment expenses	in USD millions	Gross		Ceded		Net	
		2021	2020	2021	2020	2021	2020
As of January 1		63,327	59,165	(14,375)	(12,137)	48,951	47,028
Losses and loss adjustment expenses incurred:							
Current year		24,631	23,832	(5,231)	(5,842)	19,400	17,989
Prior years ¹		(961)	767	361	(1,175)	(600)	(408)
Total incurred		23,670	24,598	(4,870)	(7,017)	18,800	17,581
Losses and loss adjustment expenses paid:							
Current year		(8,821)	(8,573)	969	1,165	(7,852)	(7,407)
Prior years		(13,581)	(14,119)	3,825	4,198	(9,756)	(9,921)
Total paid		(22,401)	(22,691)	4,794	5,363	(17,607)	(17,328)
Interest effects of discounted reserves		163	163	(4)	(3)	159	159
Acquisitions/(divestments) and transfers ²		155	426	(327)	(356)	(171)	70
Foreign currency translation effects		(1,337)	1,666	204	(225)	(1,133)	1,441
As of December 31		63,577	63,327	(14,578)	(14,375)	48,998	48,951

¹ In 2020, changes to incurred gross prior year losses and loss adjustment expenses relate largely to business with limited net impact to the ZIC Group such as liabilities related to captive business, development in losses related to 2017 catastrophe events that are substantially reinsured, and participation in large claims related to business where the ZIC Group retains only a portion of the overall loss.

² In 2021, the ZIC Group reclassified USD 145 million of net reserves to assets and liabilities held for sale in Spain (see note 5). In 2020, net reserves increased by USD 288 million following the acquisition of the CSS Versicherung AG Commercial Accident and Health business and USD 23 million following the acquisition of Adira Insurance. Additionally, Zurich North America entered into an agreement with Lyft, a ride-sharing provider, which resulted in an increase in ceded reserves of USD 144 million. The increase in reserves is partially offset by the transfer of a portfolio in Brazil of USD 103 million to DPVAT, a motor insurance pool.

The ZIC Group establishes loss reserves, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. 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 reserves for losses and loss adjustment expenses are 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.

Consolidated financial statements (continued)

For the year ended December 31, 2021, the increase of USD 47 million in net reserves for losses and loss adjustment expenses is the result of an increase in reserves following natural catastrophe losses in North America including the Texas freeze event and Hurricane Ida and also in Europe, Middle East and Africa (EMEA) being offset by foreign exchange-related reserve decreases.

Net favorable reserve development emerged from reserves established in prior years amounting to USD 600 million mainly related to the following:

- In EMEA, favorable prior year development of USD 143 million driven by retail motor;
- In North America, favorable prior year development of USD 509 million driven by worker injury.

For the year ended December 31, 2020, the increase of USD 1.9 billion in net reserves for losses and loss adjustment expenses is mainly driven by foreign exchange-related increases as the U.S. dollar weakened against the euro and British pound, and from reserves related to catastrophe losses including Hurricane Laura and Civil Unrest in North America, and COVID-19-related losses mainly in North America, Europe and Asia Pacific.

Net favorable reserve development emerged from reserves established in prior years amounting to USD 408 million mainly related to the following:

- In EMEA, favorable prior year development of USD 286 million driven by motor and liability in retail segment;
- In North America, favorable prior year development of USD 140 million driven by worker injury in retail and commercial segments.

Consolidated financial statements (continued)

Table 8.4

**Development of
insurance losses,
net**

in USD millions, as of December 31	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Gross reserves for losses and loss adjustment expenses (undiscounted)	69,986	68,312	64,472	62,971	62,569	66,715	62,187	60,384	64,492	64,627
Reinsurance recoverable (undiscounted)	(12,601)	(10,993)	(9,770)	(9,231)	(9,796)	(11,092)	(11,561)	(12,161)	(14,398)	(14,596)
Initial net reserves for losses and loss adjustment expenses	57,385	57,319	54,703	53,739	52,773	55,623	50,627	48,223	50,094	50,031
Cumulative paid as of:										
One year later	(13,799)	(13,301)	(12,576)	(11,690)	(10,994)	(11,586)	(10,831)	(9,921)	(9,756)	
Two years later	(21,465)	(21,002)	(19,460)	(18,562)	(17,808)	(18,277)	(16,727)	(15,594)		
Three years later	(27,064)	(26,021)	(24,475)	(23,590)	(22,540)	(22,606)	(20,805)			
Four years later	(30,691)	(29,851)	(28,105)	(27,106)	(25,764)	(25,662)				
Five years later	(33,515)	(32,509)	(30,667)	(29,569)	(28,012)					
Six years later	(35,579)	(34,426)	(32,375)	(31,167)						
Seven years later	(37,108)	(35,728)	(33,639)							
Eight years later	(38,136)	(36,687)								
Nine years later	(38,875)									
Cumulative Change in Reserves:										
One year later	(757)	(59)	149	(164)	(641)	(674)	(583)	(408)	(600)	
Two years later	(652)	(139)	(25)	(1,106)	(1,358)	(1,516)	(1,429)	(1,073)		
Three years later	(777)	(72)	(438)	(1,666)	(2,311)	(2,372)	(2,017)			
Four years later	(709)	(214)	(823)	(2,402)	(3,235)	(3,027)				
Five years later	(912)	(576)	(1,382)	(3,257)	(3,802)					
Six years later	(1,136)	(1,041)	(2,046)	(3,663)						
Seven years later	(1,552)	(1,539)	(2,344)							
Eight years later	(1,994)	(1,827)								
Nine years later	(2,125)									
Net undiscounted reserves reestimated ¹ :										
One year later	56,628	57,259	54,852	53,575	52,131	54,949	50,044	47,815	49,494	
Two years later	56,734	57,180	54,677	52,633	51,415	54,108	49,197	47,150		
Three years later	56,609	57,246	54,265	52,073	50,462	53,251	48,610			
Four years later	56,676	57,105	53,880	51,337	49,538	52,597				
Five years later	56,474	56,743	53,321	50,482	48,971					
Six years later	56,250	56,278	52,657	50,076						
Seven years later	55,834	55,780	52,359							
Eight years later	55,391	55,492								
Nine years later	55,260									
Cumulative (deficiency)/redundancy of net reserves	2,125	1,827	2,344	3,663	3,802	3,027	2,017	1,073	600	
Cumulative (deficiency)/redundancy as a percentage of initial net reserves	3.7%	3.2%	4.3%	6.8%	7.1%	5.4%	4.0%	2.2%	1.2%	
Gross reserves reestimated	66,011	65,100	61,252	58,523	57,612	63,407	60,261	60,138	63,531	
Cumulative (deficiency)/redundancy of gross reserves ²	3,976	3,212	3,221	4,447	4,957	3,308	1,927	246	961	
Cumulative (deficiency)/redundancy as a percentage of initial gross reserves	5.7%	4.7%	5.0%	7.1%	8.0%	5.0%	3.1%	0.4%	1.5%	

¹ Undiscounted amounts starting 2016, prior years are shown discounted.

² In 2020, changes to incurred gross prior year losses and loss adjustment expenses relate largely to business with limited net impact to the ZIC Group such as liabilities related to captive business, development in losses related to 2017 catastrophe events that are substantially reinsured, and participation in large claims related to business where the ZIC Group retains only a portion of the overall loss.

Consolidated financial statements (continued)

Table 8.4 presents changes in the historical reserves for losses and loss adjustment expenses, net of reinsurance, that the ZIC Group established in 2012 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. Similarly, the cumulative change in reserves section details the cumulative changes in loss reserves at the end of each financial year. The net undiscounted reserves reestimated portion of the table shows the reestimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability reestimated as of December 31, 2021. It is the difference between the initial net reserve estimate and the last entry of the diagonal in the net undiscounted reserves reestimated portion of the table. Conditions and trends that have affected the development of reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.4.

The ZIC Group has considered asbestos, including latent injury, claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The ZIC Group continues to be advised of indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, together with increased medical diagnostic capabilities and awareness have often caused actual loss development to exhibit more variation than in other lines of business. Such claims require specialized reserving techniques and the uncertainty of the ultimate cost of these types of claims has tended to be greater than the uncertainty related to standard lines of business.

Net reserves for losses and loss adjustment expenses for asbestos amounted to USD 124 million and USD 121 million for the years ended December 31, 2021 and 2020, respectively.

Table 8.5

Development of
future life
policyholder
benefits

in USD millions

	Gross		Ceded		Net	
	2021	2020	2021	2020	2021	2020
As of January 1	83,958	77,756	(4,256)	(3,978)	79,703	73,778
Premiums	12,653	12,579	(1,717)	(1,385)	10,937	11,194
Claims	(10,902)	(11,182)	1,324	1,141	(9,578)	(10,041)
Fee income and other expenses	(4,341)	(3,856)	451	238	(3,890)	(3,618)
Interest and bonuses credited to policyholders	1,634	2,080	(73)	(101)	1,561	1,979
Changes in assumptions	14	76	–	–	14	76
Acquisitions/(divestments) and transfers ¹	(3,411)	20	11	39	(3,399)	59
Increase/(decrease) recorded in other comprehensive income	(1,135)	728	–	–	(1,135)	728
Foreign currency translation effects	(4,494)	5,757	163	(208)	(4,331)	5,548
As of December 31	73,977	83,958	(4,096)	(4,256)	69,881	79,703

¹ The 2021 net movement is mainly related to an agreement entered into by Zurich Investments Life S.p.A. to sell part of its life and pension back book (see note 5). The 2020 net movement is mainly related to adjustments to the acquisition of OnePath.

Long-duration contract liabilities included in future life policyholder benefits result primarily from traditional participating and non-participating life insurance products. Short-duration contract liabilities are primarily accident and health insurance products.

Future life policyholder benefits are generally calculated by a net premium valuation. In terms of U.S. dollars, the weighted average discount rate used in the calculation of future life policyholder benefits is 2.2 percent and 2.1 percent as of December 31, 2021 and 2020, respectively.

The amount of policyholder dividends to be paid is determined annually by each life insurance subsidiary. Policyholder dividends include life policyholder share of net income and unrealized appreciation of investments that are required to be allocated by the insurance contract or by local insurance regulations. Experience adjustments related to future policyholder benefits and policyholder contract deposits vary according to the type of contract and the country. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

Consolidated financial statements (continued)

The net impact of changes in assumptions on future life policyholder benefits by type of assumption is shown in table 8.6.

Table 8.6

Effect of changes in assumptions for future life policyholder benefits	in USD millions, for the years ended December 31	2021	2020
	Interest rates	5	13
	Investment return	9	14
	Changes in modeling	–	40
	Expense	1	2
	Morbidity	3	–
	Longevity	(2)	–
	Lapses	(1)	5
	Other	(3)	1
	Net impact of changes in assumptions	12	75

Table 8.7

Policyholder contract deposits and other funds gross	in USD millions, as of December 31	2021	2020
	Universal life and other contracts	14,571	14,622
	Policyholder dividends	13,482	16,875
	Total	28,052	31,497

Table 8.8

Development of policyholder contract deposits and other funds	in USD millions	Gross		Ceded		Net	
		2021	2020	2021	2020	2021	2020
	As of January 1	31,497	27,480	(3,236)	(3,285)	28,261	24,195
	Premiums	1,334	1,204	(69)	(74)	1,264	1,130
	Claims	(1,308)	(1,210)	261	245	(1,047)	(964)
	Fee income and other expenses	(485)	(437)	–	(4)	(485)	(441)
	Interest and bonuses credited to policyholders	1,125	1,114	(115)	(118)	1,009	995
	Acquisitions/(divestments) and transfers	–	16	–	–	–	16
	Increase/(decrease) recorded in other comprehensive income	(2,602)	1,517	–	–	(2,602)	1,517
	Foreign currency translation effects	(1,508)	1,813	–	–	(1,508)	1,813
	As of December 31	28,052	31,497	(3,159)	(3,236)	24,893	28,261

Consolidated financial statements (continued)

Tables 8.9a and 8.9b provide an analysis of the expected maturity profile of reserves for insurance contracts, net of reinsurance, based on expected cash flows without considering the surrender values as of December 31, 2021 and 2020. Reserves for unit-linked insurance contracts amounting to USD 83 billion and USD 81 billion as of December 31, 2021 and 2020, respectively, are not included, as policyholders can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are largely borne by the policyholders of unit-linked contracts.

Table 8.9a

Expected maturity profile for reserves for insurance contracts, net of reinsurance – current period	in USD millions, as of December 31, 2021	Reserves for losses and loss adjustment expenses	Future life policyholder benefits	Policyholder contract deposits and other funds	Total
	< 1 year	15,176	14,704	1,817	31,697
	1 to 5 years	18,008	13,674	2,173	33,855
	5 to 10 years	5,748	11,306	2,589	19,643
	10 to 20 years	4,427	8,791	2,649	15,868
	> 20 years	5,639	21,406	15,665	42,709
	Total	48,998	69,881	24,893	143,772

Table 8.9b

Expected maturity profile for reserves for insurance contracts, net of reinsurance – prior period	in USD millions, as of December 31, 2020	Reserves for losses and loss adjustment expenses	Future life policyholder benefits	Policyholder contract deposits and other funds	Total
	< 1 year	14,304	8,826	1,785	24,915
	1 to 5 years	19,394	18,138	2,232	39,764
	5 to 10 years	6,819	15,459	2,795	25,073
	10 to 20 years	5,413	13,027	2,958	21,398
	> 20 years	3,022	24,253	18,491	45,767
	Total	48,951	79,703	28,261	156,916

Consolidated financial statements (continued)

9. Liabilities for investment contracts

Table 9.1

Liabilities for investment contracts	in USD millions, as of December 31		
		2021	2020
	Unit-linked investment contracts	60,930	55,174
	Investment contracts (amortized cost)	837	878
	Investment contracts with DPF	7,088	13,455
	Total	68,855	69,507

Unit-linked investment contracts issued by the ZIC Group are recorded at a value reflecting the returns on investment funds which include selected equities, debt securities and derivative financial instruments. Policyholders bear the full risk of the returns on these investments.

The value of financial liabilities at amortized cost is based on a discounted cash flow valuation technique. The initial valuation of the discount rate is determined by the current market assessment of the time value of money and risk specific to the liability.

Table 9.2

Development of liabilities for investment contracts	in USD millions		
		2021	2020
	As of January 1	69,507	61,761
	Premiums	7,054	6,210
	Claims	(6,812)	(5,959)
	Fee income and other expenses	(478)	(366)
	Interest and bonuses credited to policyholders	7,912	3,364
	Acquisitions/(divestments) and transfers ¹	(4,394)	(301)
	Increase/(decrease) recorded in other comprehensive income	(504)	525
	Foreign currency translation effects	(3,430)	4,274
	As of December 31	68,855	69,507

¹ As of December 31, 2021, the net carrying amount of liabilities for investment contracts decreased by USD 4.4 billion mainly due to an agreement entered into by Zurich Investment Life S.p.A. to sell its life and pension back book (see note 5). As of December 31, 2020, the net carrying amount of liabilities for investment contracts decreased by USD 301 million due to portfolio transactions by Zurich International Life Limited and Zurich Life Assurance plc (see note 5).

Consolidated financial statements (continued)

Tables 9.3a and 9.3b provide an analysis of investment contract liabilities according to maturity, based on expected cash flows as of December 31, 2021 and 2020. The undiscounted contractual cash flows for investment contract liabilities are USD 69 billion as of December 31, 2021 and USD 69 billion as of December 31, 2020. Liabilities for unit-linked investment contracts amounted to USD 61 billion and USD 55 billion as of December 31, 2021 and 2020, respectively. Policyholders of unit-linked investment contracts can generally surrender their contracts at any time, leading the underlying assets to be liquidated, risks arising from liquidation of unit-linked assets are borne by the policyholders. Certain non-unit-linked contracts also allow for surrender of the contract by the policyholder at any time. Liabilities for such contracts amounted to USD 416 million and USD 444 million as of December 31, 2021 and 2020, respectively. The ZIC Group actively manages the Life in-force business to improve persistency and retention.

Table 9.3a

Expected maturity profile for liabilities for investment contracts – current period

in USD millions, as of December 31, 2021

	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	4,142	615	267	5,025
1 to 5 years	9,204	83	1,863	11,151
5 to 10 years	10,317	51	736	11,104
10 to 20 years	8,605	50	977	9,632
> 20 years	28,661	37	3,245	31,944
Total	60,930	837	7,088	68,855

Table 9.3b

Expected maturity profile for liabilities for investment contracts – prior period

in USD millions, as of December 31, 2020

	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	3,921	657	525	5,103
1 to 5 years	8,223	90	2,228	10,541
5 to 10 years	9,222	55	2,169	11,446
10 to 20 years	8,043	57	1,268	9,368
> 20 years	25,764	20	7,265	33,049
Total	55,174	878	13,455	69,507

Consolidated financial statements (continued)

10. Gross and ceded insurance revenues and expenses

Table 10.1

Insurance benefits and losses	in USD millions, for the years ended December 31					
	Gross		Ceded		Net	
	2021	2020	2021	2020	2021	2020
Losses and loss adjustment expenses	23,670	24,598	(4,870)	(7,017)	18,800	17,581
Life insurance death and other benefits	10,800	11,300	(1,316)	(1,141)	9,484	10,160
Total insurance benefits and losses	34,470	35,899	(6,186)	(8,158)	28,284	27,741

Table 10.2

Policyholder dividends and participation in profits	in USD millions, for the years ended December 31		2021	2020
Change in policyholder contract deposits and other funds			794	817
Change in reserves for unit-linked insurance contracts			6,834	4,233
Change in liabilities for investment contracts – unit-linked			7,598	3,223
Change in liabilities for investment contracts – other			187	147
Change in unit-linked liabilities related to UK capital gains tax			(219)	(95)
Total policyholder dividends and participation in profits			15,195	8,325

Table 10.3

Underwriting and policy acquisition costs	in USD millions, for the years ended December 31					
	Gross		Ceded		Net	
	2021	2020	2021	2020	2021	2020
Amortization of deferred acquisition costs	7,116	6,585	(763)	(889)	6,353	5,696
Amortization of deferred origination costs	67	67	–	–	67	67
Commissions and other underwriting and acquisition expenses ¹	3,354	2,996	(561)	(204)	2,793	2,792
Total underwriting and policy acquisition costs	10,537	9,647	(1,324)	(1,092)	9,213	8,555

¹ Net of additions related to deferred acquisition and origination costs.

Table 10.4

Change in reserves for unearned premiums	in USD millions, for the years ended December 31					
	Gross		Ceded		Net	
	2021	2020	2021	2020	2021	2020
Change in reserves for unearned premiums	2,023	903	(248)	(280)	1,776	623

Consolidated financial statements (continued)

11. Deferred policy acquisition costs and deferred origination costs

Table 11.1

Development of deferred policy acquisition costs	in USD millions	Property & Casualty		Life		Other businesses ¹		Total	
		2021	2020	2021	2020	2021	2020	2021	2020
As of January 1		5,984	5,694	12,248	11,695	1,789	1,818	20,021	19,207
Acquisition costs deferred		5,395	4,572	1,749	1,645	202	127	7,347	6,344
Amortization		(4,839)	(4,363)	(1,359)	(1,226)	(139)	(110)	(6,337)	(5,699)
Impairments		(2)	–	(118)	(19)	–	–	(120)	(19)
Amortization (charged)/ credited to other comprehensive income		–	–	268	(206)	32	(42)	300	(248)
Acquisitions/(divestments) and transfers ²		–	43	2	(107)	–	(4)	2	(68)
Foreign currency translation effects		(179)	38	(588)	466	1	(1)	(766)	503
As of December 31		6,359	5,984	12,201	12,248	1,886	1,789	20,446	20,021

¹ Net of eliminations from inter-segment transactions.

² In 2021, the movement in Life of USD 2 million is related to an agreement entered by Zurich International Life Limited to sell an insurance portfolio of USD 3 million, offset by an agreement with GamaLife – Companhia de Seguros de Vida S.A. to sell an insurance portfolio of USD 5 million (see note 5). In 2020, Property & Casualty movement of USD 43 million is mainly related to the acquisition of Adira Insurance for USD 33 million and CSS Versicherung AG Commercial Accident and Health business for USD 5 million (see note 5). The movement in Life of USD 107 million is mainly related to an agreement entered by Zurich International Life Limited to sell an insurance portfolio (see note 5).

Table 11.2

Development of deferred origination costs	in USD millions	2021	2020
As of January 1		426	400
Origination costs deferred		105	69
Amortization		(67)	(71)
Acquisitions/(divestments) and transfers		2	(2)
Foreign currency translation effects		(25)	29
As of December 31		441	426

Consolidated financial statements (continued)

12. Expenses

Table 12 shows expenses by functional area and by type of expense.

Table 12

Expenses	in USD millions, for the years ended December 31	
	2021	2020
Administrative and other operating expenses	8,801	8,105
Underwriting and policy acquisition costs, net of reinsurance	9,213	8,555
Claims handling expenses ¹	2,515	2,494
Investment expenses	367	366
Total	20,896	19,520
of which:		
Personnel and other related costs	6,732	6,454
Building and infrastructure costs	526	588
Brand and marketing expenses	694	609
Commissions (net of DAC)	7,260	6,643
Premium taxes (net of DAC)	601	563
Asset and other non-income taxes	39	59
IT expenses	2,046	1,886
Outsourcing and professional services	2,046	2,048
Foreign currency translation	157	66
Other	795	603
Total	20,896	19,520

¹ Included within losses and loss adjustment expenses (see table 10.1).

Consolidated financial statements (continued)

13. Property and equipment

Buildings held for own use and equipment are carried at cost less accumulated depreciation and any accumulated impairment loss. Generally, these assets are depreciated on a straight-line basis to income over the following estimated useful lives:

- buildings 25 to 50 years;
- furniture and fixtures 5 to 10 years;
- computer equipment 3 to 6 years;
- other equipment 6 to 10 years (or determined by the term of lease).

Land held for own use is carried at cost less any accumulated impairment loss.

The right-of-use asset is measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated over the shorter of the leased asset's useful life or the lease term on a straight-line basis.

Table 13.1

Property and equipment overview

in USD millions, as of December 31

	Real Estate		Equipment		Total	
	2021	2020	2021	2020	2021	2020
Right-of-use	1,412	1,608	59	47	1,471	1,655
Owned and subject to operating lease	501	527	464	523	965	1,050
Total	1,912	2,135	523	570	2,436	2,705

Table 13.2

Property and equipment – current period

in USD millions

	Real Estate				Equipment				Total	
	Owned	Owned – subject to operating lease	Right-of-use	Total	Owned	Right-of-use	Total	Owned incl. operating lease	Right-of-use	Total
Gross carrying value as of January 1, 2021	661	–	2,637	3,298	1,394	94	1,487	2,055	2,731	4,785
Less: accumulated depreciation/impairments	(134)	–	(1,029)	(1,163)	(871)	(46)	(918)	(1,005)	(1,075)	(2,081)
Net carrying value as of January 1, 2021	527	–	1,608	2,135	523	47	570	1,050	1,655	2,705
Additions and improvements	96	–	76	172	92	35	127	188	111	299
Lease modifications	–	–	(17)	(17)	–	–	–	–	(16)	(16)
Depreciation and impairments	(8)	–	(200)	(208)	(120)	(20)	(140)	(129)	(220)	(348)
Acquisitions/(divestments) and transfers	(97)	–	(7)	(104)	(14)	(3)	(17)	(111)	(10)	(121)
Foreign currency translation effects	(17)	–	(49)	(66)	(16)	(1)	(17)	(33)	(49)	(82)
Net carrying value as of December 31, 2021	501	–	1,412	1,912	464	59	523	965	1,471	2,436
Plus: accumulated depreciation/impairments	70	–	1,121	1,191	884	44	929	954	1,165	2,120
Gross carrying value as of December 31, 2021	571	–	2,533	3,104	1,349	103	1,452	1,919	2,636	4,555

Consolidated financial statements (continued)

Table 13.3

Property and equipment – prior period

in USD millions

	Real Estate				Equipment			Total		
	Owned – subject to operating lease		Right-of-use	Total	Owned – subject to operating lease		Right-of-use	Total	Owned incl. operating lease	
	Owned				Owned					
Gross carrying value as of January 1, 2020	589	3	2,472	3,064	1,419	115	1,535	2,011	2,587	4,598
Less: accumulated depreciation/impairments	(140)	(1)	(862)	(1,003)	(903)	(58)	(961)	(1,043)	(920)	(1,963)
Net carrying value as of January 1, 2020	449	2	1,610	2,061	517	57	574	968	1,667	2,635
Additions and improvements ¹	58	1	110	170	156	16	171	215	126	341
Lease modifications	–	–	42	42	–	(3)	(3)	–	39	39
Depreciation and impairments ²	(8)	–	(218)	(226)	(131)	(20)	(151)	(139)	(238)	(377)
Acquisitions/(divestments) and transfers	(13)	(3)	(5)	(21)	(40)	(3)	(43)	(57)	(8)	(65)
Foreign currency translation effects	41	–	68	109	22	–	22	62	69	131
Net carrying value as of December 31, 2020	527	–	1,608	2,135	523	47	570	1,050	1,655	2,705
Plus: accumulated depreciation/impairments	134	–	1,029	1,163	871	46	918	1,005	1,075	2,081
Gross carrying value as of December 31, 2020	661	–	2,637	3,298	1,394	94	1,487	2,055	2,731	4,785

¹ Includes the initial recognition of right-of-use asset in Australia of USD 47 million as a result of sale and leaseback transaction.

² Includes impairment of fixed assets of USD 30 million.

Table 13.4

Lessee – lease expenses and income

in USD millions, for the years ended December 31

	2021	2020
Lease expenses¹		
Interest expense on lease liabilities ²	43	49
Short-term lease expenses	12	12
Low-value asset lease expenses	30	25
Lease income		
Income from subleasing right-of-use assets	14	14
Gains arising from sale and leaseback transactions	–	24

¹ Total cash outflow for leases amounts to USD 312 million and USD 303 million as of December 31, 2021 and 2020, respectively, excluding USD 2 billion and USD 2 billion of future cash outflows due to extension & termination options.

² Included in 'Interest credited to policyholders and other interest.'

Consolidated financial statements (continued)

Table 13.5

Lessor – finance lease and operating lease income	in USD millions, for the years ended December 31	2021	2020
	Finance lease		
	Selling profit or loss	(2)	–
	Interest income on finance lease receivables	66	58
	Total	64	58
	Operating lease		
	Operating lease income – property and equipment	9	18
	Operating lease income – investment property	626	648
	Total	635	666

Table 13.6

Maturity schedule – finance lease receivable	in USD millions, as of December 31	2021			2020		
		Carrying value	Unearned interest	Undiscounted cash flows	Carrying value	Unearned interest	Undiscounted cash flows
< 1 year		113	9	122	91	18	109
1 to 2 years		30	9	39	24	13	36
2 to 3 years		95	7	102	118	10	129
3 to 4 years		25	3	29	89	9	98
4 to 5 years		27	7	33	20	5	25
> 5 years		229	162	391	184	100	285
Total		518	197	715	527	155	682

Table 13.7

Maturity schedule – operating lease payments to be received	in USD millions, as of December 31	Undiscounted cash flows	
		2021	2020
< 1 year		494	480
1 to 2 years		347	324
2 to 3 years		289	274
3 to 4 years		245	221
4 to 5 years		198	190
> 5 years		978	945
Total		2,550	2,434

Consolidated financial statements (continued)

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

Table 14.1

Intangible assets – current period	in USD millions	Attorney- in-fact	Goodwill	PVFP	Distribution	Software ²	Other	Total
		contracts			agreements			
Gross carrying value as of January 1, 2021		1,025	4,412	2,649	4,273	5,030	340	17,730
Less: accumulated amortization/impairments		–	(323)	(2,236)	(1,885)	(3,810)	(131)	(8,385)
Net carrying value as of January 1, 2021		1,025	4,089	413	2,388	1,221	209	9,345
Additions and acquisitions		1,625	418	–	81	529	375	3,029
Divestments and transfers		–	(19)	–	–	(20)	–	(39)
Amortization ¹		–	–	(41)	(107)	(288)	(39)	(475)
Amortization charged to other comprehensive income		–	–	26	–	–	–	26
Impairments		–	(5)	–	–	(16)	(4)	(25)
Foreign currency translation effects		–	(140)	(23)	(177)	(38)	(4)	(382)
Net carrying value as of December 31, 2021		2,650	4,344	375	2,185	1,387	537	11,478
Plus: accumulated amortization/impairments		–	274	2,180	1,836	3,871	147	8,307
Gross carrying value as of December 31, 2021		2,650	4,617	2,555	4,021	5,258	683	19,785

¹ Amortization of distribution agreements is included within underwriting and policy acquisition costs.

² For the year ended December 31, 2021 Farmers Group, Inc. has USD 1.3 billion of fully amortized software, which is still in use.

As of December 31, 2021, intangible assets related to non-controlling interests were USD 42 million for present value of future profits (PVFP) of acquired insurance contracts, USD 888 million for distribution agreements, USD 32 million for software, USD 100 million for goodwill, USD 122 million for attorney-in-fact-contracts and USD 18 million for other intangible assets.

As a result of the acquisition of MetLife's property and casualty (P&C) business in the U.S., intangible assets increased by USD 2.571 billion, of which USD 1.625 billion is Attorney-in-fact relationships, USD 418 million is goodwill, USD 153 million is software and USD 375 million is other intangible assets (see note 5).

Table 14.2

Intangible assets by business – current period	in USD millions, as of December 31, 2021	Attorney- in-fact	Goodwill	PVFP	Distribution	Software	Other	Total
		contracts			agreements			
Property & Casualty		–	1,820	–	714	798	167	3,499
Life		–	1,277	344	1,471	51	23	3,166
Farmers		2,650	1,237	32	–	500	347	4,766
Group Functions and Operations		–	9	–	–	37	–	47
Net carrying value		2,650	4,344	375	2,185	1,387	537	11,478

Consolidated financial statements (continued)

Table 14.3

**Intangible assets –
prior period**

in USD millions	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2020	1,025	3,883	2,556	4,286	5,053	331	17,134
Less: accumulated amortization/impairments	–	(274)	(2,116)	(1,752)	(3,912)	(113)	(8,165)
Net carrying value as of January 1, 2020	1,025	3,610	440	2,534	1,141	218	8,968
Additions and acquisitions	–	366	–	54	355	5	780
Divestments and transfers	–	–	–	(5)	(6)	–	(12)
Amortization ¹	–	–	(33)	(115)	(300)	(12)	(460)
Amortization charged to other comprehensive income	–	–	(17)	–	–	–	(17)
Impairments	–	(33)	–	(24)	(13)	(4)	(74)
Foreign currency translation effects	–	146	24	(56)	43	2	159
Net carrying value as of December 31, 2020	1,025	4,089	413	2,388	1,221	209	9,345
Plus: accumulated amortization/impairments	–	323	2,236	1,885	3,810	131	8,385
Gross carrying value as of December 31, 2020	1,025	4,412	2,649	4,273	5,030	340	17,730

¹ Amortization of distribution agreements is included within underwriting and policy acquisition costs.

As of December 31, 2020, intangible assets related to non-controlling interests were USD 52 million for present value of future profits (PVFP) of acquired insurance contracts, USD 972 million for distribution agreements, USD 26 million for software, USD 82 million for goodwill, USD 47 million for attorney-in-fact-contracts and USD 2 million for other intangible assets.

As a result of the acquisition of Adira Insurance in Indonesia, intangible assets increased by USD 253 million, of which USD 212 million is goodwill, USD 35 million is distribution agreements and USD 6 million is other intangible assets. Goodwill further increased following the acquisition of the CSS Versicherung AG Commercial Accident and Health portfolio in Switzerland and also as a result of post-acquisition adjustments related to the OnePath acquisition.

A goodwill impairment of USD 33 million was recognized relating to Bright Box, which is part of the Group Functions & Operations segment.

The ZIC 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 AIF contracts. The ZIC Group's quantitative tests support the carrying value of the goodwill in these CGUs.

Table 14.4

**Intangible assets
by business –
prior period**

in USD millions, as of December 31, 2020	Attorney- in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Property & Casualty	–	1,876	–	762	749	183	3,570
Life	–	1,365	381	1,625	57	26	3,455
Farmers	1,025	819	32	–	351	–	2,228
Group Functions and Operations	–	29	–	–	64	–	92
Net carrying value	1,025	4,089	413	2,388	1,221	209	9,345

Consolidated financial statements (continued)

15. Receivables and other assets

Table 15

Receivables and other assets	in USD millions, as of December 31		
		2021	2020
	Financial assets		
	Group derivative assets	938	1,763
	Unit-linked derivative assets	12	26
	Receivables from policyholders	3,364	3,319
	Receivables from insurance companies, agents and intermediaries	5,950	5,508
	Receivables arising from ceded reinsurance	1,633	1,549
	Amounts due from investment brokers	1,128	949
	Other receivables	2,053	2,505
	Allowance for impairments ¹	(300)	(332)
	Accrued premiums	1,054	910
	Accrued investment income ²	1,398	1,576
	Assets for defined benefit plans ³	603	630
	Other financial assets	190	174
	Non-financial assets		
	Current income tax receivables	970	903
	Prepaid expenses	554	474
	Other non-financial assets	400	399
	Total receivables and other assets	19,947	20,353

¹ Includes receivables arising from ceded reinsurance of USD 78 million and USD 88 million as of December 31, 2021 and 2020, respectively.

² Accrued investment income on the unit-linked investments amounts to USD 82 million and USD 87 million as of December 31, 2021 and 2020, respectively.

³ See note 20.

Receivables are carried at notional amounts and are generally settled within one year. The notional and fair value amounts are not significantly different.

Consolidated financial statements (continued)

16. Other liabilities

Table 16.1

Other liabilities	in USD millions, as of December 31		2021	2020
	Other financial liabilities			
	Group derivative liabilities		532	481
	Unit-linked derivative liabilities		21	1
	Amounts due to agents & intermediaries		789	773
	Liabilities for cash collateral received for securities lending		–	111
	Amounts due to investment brokers		1,145	1,910
	Bank deposits		–	–
	Collateralized bank financing for structured lease vehicles		124	139
	Liabilities for defined benefit plans ¹		1,759	2,800
	Other liabilities for employee benefit plans		681	705
	Lease liabilities		1,878	2,082
	Accrued liabilities		2,525	2,218
	Other financial liabilities		5,355	5,371
	Other non-financial liabilities			
	Current income tax payables		612	756
	Provisions ²		748	893
	Other non-financial liabilities ²		333	853
	Total other liabilities		16,503	19,094

¹ See note 20.

² In 2021, provisions include restructuring provisions, litigation and regulatory provisions and other provisions (see table 16.4 for further details). In 2020, restructuring provisions of USD 167 million were separately disclosed, and litigation and regulatory provisions and other provisions of US 726 million were included in other non-financial liabilities.

Table 16.2 shows the maturity schedule of other financial liabilities excluding liabilities for defined benefit plans and lease liabilities as of December 31, 2021 and 2020. The allocation to the time bands is based on the expected maturity date for the carrying value and the earliest contractual maturity for the undiscounted cash flows.

Table 16.2

Maturity schedule – other financial liabilities	in USD millions, as of December 31		2021		2020	
			Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
	< 1 year		10,877	10,884	11,287	11,299
	1 to 2 years		50	52	136	144
	2 to 3 years		16	19	67	71
	3 to 4 years		82	100	6	7
	4 to 5 years		38	39	77	93
	> 5 years		110	238	139	240
	Total		11,173	11,332	11,711	11,854

Table 16.3

Maturity schedule – lease liabilities	in USD millions, as of December 31		2021		2020	
			Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
	< 1 year		225	263	235	276
	1 to 2 years		193	228	215	252
	2 to 3 years		163	194	179	212
	3 to 4 years		157	185	155	186
	4 to 5 years		133	158	145	172
	> 5 years		1,006	1,288	1,153	1,478
	Total		1,878	2,316	2,082	2,576

Consolidated financial statements (continued)

Table 16.4

Provisions ¹	Restructuring provisions		Litigation and regulatory provisions ²		Other provisions		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
As of January 1	167	106	142	127	584	480	893	713
Provisions made during the period	50	121	16	80	315	238	382	438
Increase of provisions set up in prior years	12	22	4	3	9	34	25	59
Provisions used during the period	(118)	(77)	(52)	(59)	(238)	(188)	(408)	(325)
Provisions reversed during the period	(13)	(12)	(8)	–	(54)	(37)	(75)	(49)
Foreign currency translation effects	(4)	6	12	(5)	(56)	40	(47)	40
Net changes due to acquisitions/divestments	–	–	–	–	(32)	13	(32)	13
Other changes	(1)	2	35	(4)	(23)	5	11	4
As of December 31	93	167	150	142	504	584	748	893

1 In 2021, the ZIC Group enhanced the presentation of Provisions by adding to the Restructuring provisions table the movements related to Litigation and regulatory provisions and other provisions.

2 See note 22 for further information on legal, compliance and regulatory developments.

Consolidated financial statements (continued)

17. Income taxes

Table 17.1

Income tax expense – current/deferred split	in USD millions, for the years ended December 31		2021	2020
	Current		1,237	1,400
	Deferred		646	(89)
	Total income tax expense/(benefit)		1,883	1,311

Table 17.2

Expected and actual income tax expense	in USD millions, for the years ended December 31		Rate	2021	Rate	2020
	Net income before income taxes			7,245		5,284
	less: income tax (expense)/benefit attributable to policyholders			(275)		(46)
	Net income before income taxes attributable to shareholders			6,970		5,237
	Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	20.0%		1,394	21.0%	1,100
	Increase/(reduction) in taxes resulting from:					
	Tax rate differential in foreign jurisdictions			(102)		(56)
	Tax exempt and lower taxed income			(150)		(152)
	Non-deductible expenses			139		166
	Tax losses not recognized			64		68
	Prior year adjustments and other			263		139
	Actual income tax expense attributable to shareholders	23.1%		1,609	24.1%	1,264
	plus: income tax expense/(benefit) attributable to policyholders			275		46
	Actual income tax expense	26.0%		1,883	24.8%	1,311

Table 17.2 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. Following changes in the Swiss tax legislation, the applicable Swiss statutory tax rate has been revised to 20.0 percent for 2021 from 21.0 percent in 2020.

The UK tax reform had an adverse impact on the ZIC Group's shareholder income tax position in 2021, which is included in the line "Prior year adjustments and other".

The ZIC 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 ZIC Group's life insurance businesses are based on the investment result, and it is normal practice for certain of the ZIC 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)

Table 17.3

Deferred tax assets/(liabilities) analysis by source	in USD millions, as of December 31	2021		2020	
		Assets	Liabilities	Assets	Liabilities
Gross deferred tax					
Deferred acquisition and origination costs		89	(578)	79	(529)
Depreciable and amortizable assets		209	(150)	215	(141)
Life policyholders' benefits and deposits ¹		237	(5)	256	(4)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges		44	(82)	27	(114)
Accruals and deferred income		50	(12)	38	(18)
Reserves for losses and loss adjustment expenses		157	(38)	127	(13)
Reserves for unearned premiums		622	(2)	570	(1)
Deferred front-end fees		3	–	4	–
Pensions and other employee benefits		427	(77)	513	(37)
Other assets/liabilities		331	(81)	369	(91)
Tax loss carryforwards		379	–	423	–
Gross deferred tax assets/(liabilities) before valuation allowance		2,549	(1,025)	2,620	(949)
Valuation allowance		(326)	–	(357)	–
Gross deferred tax assets/(liabilities) after valuation allowance		2,223	(1,025)	2,263	(949)
Deferred tax assets		1,198		1,314	
Gross deferred tax					
Deferred acquisition and origination costs		63	(2,762)	57	(2,643)
Depreciable and amortizable assets		766	(2,442)	473	(1,842)
Life policyholders' benefits and deposits ¹		1,538	(1,296)	1,533	(1,308)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges		283	(1,247)	263	(1,672)
Accruals and deferred income		189	(78)	183	(90)
Reserves for losses and loss adjustment expenses		401	(741)	281	(612)
Reserves for unearned premiums		290	(114)	244	(76)
Deferred front-end fees		649	–	586	–
Pensions and other employee benefits		415	(422)	375	(382)
Other assets/liabilities		659	(1,427)	671	(1,285)
Tax loss carryforwards		450	–	511	–
Gross deferred tax assets/(liabilities) before valuation allowance		5,704	(10,529)	5,179	(9,910)
Valuation allowance		(325)	–	(404)	–
Gross deferred tax assets/(liabilities) after valuation allowance		5,378	(10,529)	4,774	(9,910)
Deferred tax liabilities			(5,151)		(5,136)
					–
Net deferred tax liabilities			(3,953)		(3,822)

¹ Includes reserves for unit-linked contracts.

The ZIC Group's deferred tax assets and liabilities are recorded by its tax-paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate. The first part of table 17.3 includes single taxpayers with a net deferred tax asset position and the second part includes single taxpayers with a net deferred tax liability position.

As of December 31, 2021 and 2020, the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized amount to approximately USD 4 billion and USD 2 billion, respectively. In the remote likelihood that these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

Consolidated financial statements (continued)

Table 17.4

Development of net deferred tax liabilities	in USD millions	2021	2020
	As of January 1	(3,822)	(3,382)
	Net change recognized in the income statement	(646)	89
	Net change recognized in equity	422	(355)
	Net changes due to acquisitions/(divestments)	(99)	24
	Foreign currency translation effects	191	(198)
	As of December 31	(3,953)	(3,822)
	attributable to policyholders	(756)	(691)
	attributable to shareholders	(3,197)	(3,131)

The net deferred tax liabilities related to non-controlling interests amounted to USD 152 million and USD 175 million as of December 31, 2021 and 2020, respectively.

Table 17.5

Development of deferred income taxes included in equity	in USD millions	2021	2020
	As of January 1	(593)	(203)
	Net unrealized (gains)/losses on available-for-sale investments	450	(335)
	Cash flow hedges	22	–
	Revaluation reserve	(15)	(5)
	Net actuarial (gains)/losses on pension plans	(34)	(13)
	Foreign currency translation effects	25	(37)
	As of December 31	(146)	(593)

Table 17.6

Tax loss carryforwards and tax credits	in USD millions, as of December 31	2021	2020
	For which deferred tax assets have been recognized, expiring		
	< 5 years	7	100
	5 to 20 years	75	175
	> 20 years or with no time limitation	721	619
	Subtotal	803	894
	For which deferred tax assets have not been recognized, expiring		
	< 5 years	181	121
	5 to 20 years	225	371
	> 20 years or with no time limitation	1,826	2,585
	Subtotal	2,232	3,077
	Total	3,035	3,971

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 27.3 percent and 24.5 percent as of December 31, 2021 and 2020, respectively.

The recoverability of the deferred tax asset for each taxpayer is based on the taxpayer's ability to utilize the deferred tax asset. This analysis considers the projected taxable income to be generated by the taxpayer, as well as its ability to offset the deferred tax asset against deferred tax liabilities.

Management assesses the recoverability of the deferred tax-asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2021, to be recoverable.

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18. Senior and subordinated debt

Table 18.1

in USD millions, as of December 31		2021	2020
Senior and subordinated debt			
Senior debt			
Zurich Insurance Company Ltd	2.875% CHF 250 million notes, due July 2021 ¹	–	282
	3.375% EUR 500 million notes, due June 2022 ^{1,3}	572	623
	1.875% CHF 100 million notes, due September 2023 ¹	114	121
	1.750% EUR 500 million notes, due September 2024 ^{1,3}	579	627
	0.500% CHF 350 million notes, due December 2024 ¹	384	396
	0.510% CHF 120 million loan, due December 2024	132	136
	1.500% CHF 150 million notes, due July 2026 ¹	179	188
	0.750% CHF 200 million notes, due October 2027 ¹	219	226
	1.000% CHF 200 million notes, due October 2028 ¹	220	226
	1.500% EUR 500 million notes, due December 2028 ^{1,3}	565	607
	0.000% CHF 200 million notes, due August 2031 ¹	219	–
	0.100% CHF 250 million notes, due August 2032 ¹	275	283
	Various debt instruments payable within 1 year to related parties ⁴	–	14
Zurich Holding Comp. of America Inc	2.300% USD 400 million notes, due February 2030 ¹	400	400
Zurich Finance (Australia) Limited	3.271% AUD 200 million loan, due May 2023	145	154
	3.477% AUD 350 million notes, due May 2023 ¹	254	270
	4.500% AUD 375 million notes, due July 2038 ¹	288	308
Zurich Finance (Ireland) DAC	2.250% USD 200 million notes, due December 2031 ¹	200	–
	1.625% EUR 500 million notes, due June 2039 ^{1,3}	567	610
Other	Various debt instruments	14	14
Senior debt		5,327	5,484
Subordinated debt			
Zurich Insurance Company Ltd	2.750% CHF 225 million perpetual capital notes, first callable June 2021 ¹	–	254
	2.750% CHF 200 million perpetual capital notes, first callable September 2021 ¹	–	229
	4.750% USD 1 billion perpetual capital notes, first callable January 2022 ^{1,3}	1,000	999
	4.250% EUR 1 billion notes, due October 2043, first callable October 2023 ^{1,3}	1,135	1,219
	4.250% USD 300 million notes, due October 2045, first callable October 2025 ^{1,3}	299	299
	5.625% USD 1 billion notes, due June 2046, first callable June 2026 ^{1,3}	998	997
	3.500% EUR 750 million notes, due October 2046, first callable October 2026 ^{1,2,3}	861	939
	5.125% USD 500 million notes, due June 2048, first callable June 2028 ^{1,3}	499	498
	4.875% USD 500 million notes, due October 2048, first callable October 2028 ^{1,3}	498	498
	2.750% EUR 500 million notes, due February 2049, first callable February 2029 ^{1,3}	564	606
Zurich Finance (Ireland) DAC	1.875% EUR 750 million notes, due September 2050, first callable June 2030 ^{1,3}	848	912
	3.000% USD 1.75 billion notes, due April 2051, first callable January 2031 ^{1,3}	1,746	–
	3.500% USD 500 million notes, due May 2052, first callable February 2032 ¹	499	–
	1.600% EUR 200 million notes, due December 2052, first callable September 2032 ^{1,3}	227	244
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes, first callable October 2022 ¹	608	613
Subordinated debt		9,782	8,306
Total senior and subordinated debt		15,109	13,790

¹ Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).

² The ZIC Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.

³ These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.

⁴ Loans with subsidiaries of the Group which are not part of ZIC Group.

None of the debt instruments listed in table 18.1 were in default as of 31 December 2021 or 31 December 2020.

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To facilitate the issuance of debt, the Group has in place a Euro Medium Term Note Program (EMTN Program) allowing for the issuance of senior and subordinated notes up to a maximum of USD 18 billion. All issuances under this program are either issued or guaranteed by Zurich Insurance Company Ltd. The Group has also issued debt outside this program.

Debt issued is recognized initially at fair value of the consideration received, net of transaction costs incurred, and subsequently carried at amortized cost using the effective interest rate method, unless fair value hedge accounting is applied.

Table 18.2

Maturity schedule of outstanding debt

in USD millions, as of December 31

	2021		2020	
	Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
< 1 year	2,195	2,646	793	1,242
1 to 2 years	1,649	2,021	2,234	2,630
2 to 3 years	1,095	1,401	1,763	2,072
3 to 4 years	299	604	1,159	1,393
4 to 5 years	2,038	2,281	299	537
5 to 10 years	5,977	6,760	6,098	6,660
> 10 years	1,856	2,018	1,444	1,627
Total	15,109	17,731	13,790	16,162

Debt maturities reflect original contractual dates, taking early redemption options into account. For call/redemption dates, see table 18.1. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 18.2. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2021 and 2020. Floating interest rates are assumed to remain constant as of December 31, 2021 and 2020. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Table 18.3

Development of debt arising from financing activities

in USD millions

	Total	
	2021	2020
As of January 1	13,790	12,099
Issuance of debt recognized in cash flows	2,664	2,028
Repayment of debt recognized in cash flows	(754)	(1,120)
Changes in fair value	(12)	9
Other changes	(14)	(14)
Foreign currency translation effects	(565)	789
As of December 31	15,109	13,790

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19. Shareholders' equity

Table 19.1

Share capital	number of shares, as of December 31		2021	2020
	Issued shares, CHF 10 par value		82,500,000	82,500,000

a) Issued share capital

On December 31, 2021, and on December 31, 2020, respectively, the issued share capital of Zurich Insurance Company Ltd (ZIC) amounted to CHF 825,000,000, consisting of 82,500,000 fully paid registered shares with a par value of CHF 10.00 each.

b) Additional paid-in capital

On April 25, 2008, a subordinated loan agreement was entered into between ZIC and Zurich Group Holding, which was transferred to Zurich Insurance Group Ltd as a consequence of its merger with Zurich Group Holding. The remaining loan was CHF 2.1 billion (USD 2.1 billion) in each of the years ended December 31, 2021 and 2020, respectively.

The loan is undated and pays interest subject to solvency thresholds and the payment of interest is optional if ZIC Ltd does not declare or pay any dividends or other profit distributions to its shareholders. The loan is classified as an equity instruments under IFRS as it meets the classification criteria as such under IAS 32.

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20. Employee benefits

The ZIC Group operates a number of retirement benefit arrangements for employees. Historically, the majority of employees belonged to defined benefit pension plans and some will still have past service benefits accrued in those plans.

However, the majority of employees now accrue benefits under defined contribution plans, which provide benefits equal to the amounts contributed by both the employer and the employee plus investment returns.

Certain of the ZIC Group's operating companies also provide post-employment benefit plans covering medical care and life insurance, mainly in the U.S. Eligibility for these plans is generally based on completion of a specified period of eligible service and reaching a specified age. The plans typically pay a stated percentage of medical expenses subject to deductibles and other factors. The cost of post-employment benefits is accrued during the employees' service periods.

The Group Pensions Committee is responsible for developing, reviewing and advising on the ZIC Group governance framework in matters related to pension and post-employment benefit arrangements. It provides oversight and guidance in the areas of market, demographic and reputational risk. It reports to and makes recommendations to the Group Balance Sheet Committee on material pension-related matters and reports regularly to the Remuneration Committee. The Group Pensions Committee provides a point of focus and coordination on the topic of pensions and post-retirement benefits at ZIC Group level for the supervision and exercise of company powers and obligations in relation to pension and post-retirement benefit plans.

Funding and asset allocation is subject to local legal and regulatory requirements.

a) Defined benefit pension plans

The largest defined benefit obligations are in the pension plans in Switzerland, the UK, the U.S. and Germany, which together comprise over 90 percent of the ZIC Group's total defined benefit obligation. The remaining plans in other countries are not individually significant, therefore no separate disclosure is provided.

Certain ZIC Group companies provide defined benefit pension plans, some of which provide benefits on retirement, death or disability related to employees' service periods and pensionable earnings. Others provide cash balance plans where the participants receive the benefit of the accumulated employer and employee contributions (where paid) together with additional cash credits in line with the rules of the plan.

Most of the ZIC Group's defined benefit pension plans are funded through contributions by the ZIC Group and, in some cases also by employees, to investment vehicles managed by trusts or foundations independent of the ZIC Group's finances, or by management committees with fiduciary responsibilities. Where a trust or foundation exists, it is required by law or by articles of association to act in the interests of the fund and of all relevant beneficiaries to the plan, which can also include the sponsoring company, and is responsible for the investment policy with regard to the assets of the fund. The trust/foundation board or committee is usually composed of representatives from both employers and plan members. Independent actuarial valuations for the plans are performed as required. It is the ZIC Group's general principle that plans are appropriately funded in accordance with local pension regulations in each country.

The pension plans typically expose the company to risks such as interest rate, price inflation, longevity and salary increases. To the extent that pension plans are funded, the assets held mitigate some of the liability risk but introduce some investment risk.

The overall investment policy and strategy for the ZIC Group's defined benefit pension plans is to achieve an investment return which, together with contributions, targets having sufficient assets to pay pension benefits as they fall due while also mitigating the various risks in the plans. The actual asset allocation is determined by reference to current and expected economic and market conditions and in consideration of specific asset class risk in the risk profile. The ZIC Group has a governance framework to ensure the trust/foundation board or committee considers how the asset investment strategy correlates with the maturity profile of the plan liabilities and the potential impact on the funding status of the plans, including short-term liquidity requirements. The investment strategies for each pension plan are independently determined by the governance body in each country, with oversight by the Group Pensions Committee. The pension assets are invested in diversified portfolios across geographical regions and asset classes to ensure diversified returns, also taking into account local pension laws. The investment strategies aim to mitigate asset-liability mismatches in the long run. In recent years, the integration of environmental, social and governance (ESG) factors has become a significant element of ZIC Group's pension plans' investment decision making. Pension plans will continue progressing on their responsible investment journey, leveraging ZIC Group's expertise and leadership while being cognizant of their fiduciary responsibility.

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For post-employment defined benefit plans, total contributions to funded plans and benefits paid directly by the ZIC Group were USD 331 million for 2021 compared with USD 268 million for 2020. The estimated total for 2022 is USD 297 million (actual amount may differ).

Swiss pension plan

The main plan provides benefits that exceed the minimum benefit requirements under Swiss pension law. It provides a lifetime pension to members based on their accrued retirement savings in the basic and additional accounts multiplied by the applicable conversion rate at the normal retirement age of 65 (age 62 for Executive Staff). Participants can draw retirement benefits early from age 60 (age 58 for Executive Staff). Alternatively, the benefit can be taken as a lump sum payment at retirement. In addition, at retirement, the plan pays a one-off cash sum settlement equal to the accrued retirement savings in the capital account. Contributions to the plan are paid by the employees and the employer, both for retirement savings and to finance risk benefits paid out in the event of death and disability. The accumulated balance on the pension account is based on the employee and employer pension contributions and interest accrued. The interest rate credited is defined annually by the plan's Board of Trustees which is responsible for the governance of the plan. The trustees review the Pension Plan's funding status regularly as well as the technical interest rate and the conversion rates. The conversion rate at age 65 is currently being phased down to 5 percent until 2023 to align it more closely with the low interest rate environment and increased life expectancy. In 2018, both the employer and employee savings contributions were increased. The insured salary was increased by reducing the coordination deduction. The flexibility of the plan was improved by introducing three levels of savings. Top-up payments from the company were introduced to those members' pension accounts which had been part of the plan in 2017 and were affected by the changes. For them, this ensures that expected benefits at normal retirement age will be at least equal to 98.5 percent of their pensions expectations under the previous conversion rates. The top up payments will be made until 2023.

Although the Swiss plan operates like a defined contribution plan under local regulations, it is accounted for as a defined benefit pension plan under IAS 19 'Employee Benefits' because of the need to accrue a minimum level of interest on the mandatory part of the pension accounts and the payment of a lifetime pension at a fixed conversion rate under the plan rules.

Actuarial valuations are completed annually and if the plan becomes underfunded under local regulations, options for dealing with this include the ZIC Group paying additional contributions into the plan and/or reducing future benefits. At present, the plan is sufficiently funded, meaning that no additional contributions into the plans are expected to be required in the next year. The investment strategy of the Swiss plan is constrained by Swiss pension law including regulations related to diversification of plan assets. Under IAS 19, volatility arises in the Swiss pension plan net asset because the fair value of the plan assets is not directly correlated to movements in the value of the plan's defined benefit obligation in the short-term.

If the fair value of plan assets exceeds the plan's defined benefit obligation, a surplus is only recognized on the balance sheet to the extent that it does not exceed the estimated future economic benefit. The value of the future economic benefit is estimated as the sum of two items: the difference between the present value of the estimated future net service cost and the present value of estimated future employer contributions, plus employer contribution reserves in accordance with local Swiss regulations.

UK pension plan

The major UK pension plan is a hybrid arrangement and defined benefits entitlements accrued to December 31, 2015, increase in line with salary increases. Normal retirement age for the plan is 60. The plan is split into distinct sections and the two defined benefit sections are closed to new entrants and, with effect from January 1, 2016, to future benefit accrual. All employees now participate in a defined contribution section within the same trust. The notes that follow consider only the defined benefit sections. The UK Pension Trustee Board is responsible for the governance of the plan. The employer contributions are determined based on regular triennial actuarial valuations which are conducted using assumptions agreed by the Trustee Board and the sponsoring company. A local statutory valuation was carried out at an effective date of June 30, 2019, and was finalized in September 2020. This valuation disclosed a funding surplus of USD 86 million (GBP 63 million) after taking into account the value of the asset-backed funding arrangement established in 2014. The asset-backed funding arrangement does not qualify as a plan asset under IAS19 and is therefore not included in the tables set out in the rest of this note.

The ongoing funding of the plan is closely monitored by the Trustee Board and a dedicated funding committee is made up of representatives from the Trustee Board and the Group. The plan rules and UK pension legislation set out maximum levels of inflationary increases applied to plan benefits. The plan assets are invested in diversified classes of assets.

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U.S. pension plans

There are two major pension plans in the U.S., the Zurich North America (ZNA) pension plan and the Farmers Group, Inc. (FGI) pension plan. Both plans are funded entirely by the participating employers. The ZNA plan is a cash balance and the FGI pension plan utilizes a cash balance pension formula for benefits accruing after January 1, 2009, except with respect to certain grandfathered participants who retained a final average pay formula. Under a cash balance pension formula, an amount is credited to the cash balance account each quarter, determined by an employee's age, service and their level of earnings up to and above the social security taxable wage base. The minimum annual interest credited on the account balance is 5 percent. The cash balance account is available from age 65, or age 55 with five years of service. The benefit can be taken as a monthly annuity or as a lump sum. Both the ZNA plan and the FGI pension plan have fiduciaries as required under local pension laws. The fiduciaries are responsible for the governance of the plans. Actuarial valuations are completed regularly. The annual employer minimum required contributions are equal to expected expenses paid from the plan each year, plus a rolling amortization of any prior underfunding.

The ZNA and FGI plans have been frozen with effect from December 31, 2018. ZNA and FGI employees with a cash balance account will continue to earn interest credits on their existing cash balance account balance after the freeze date and will continue to earn eligibility service used to determine vesting and early retirement eligibility. FGI employees participating in the final average pay formula will continue to earn eligibility service used to determine vesting and the percentage of pension benefit payable for early retirement before normal retirement age of 65. ZNA and FGI employees earn only defined contribution retirement benefits with effect from January 1, 2019. In conjunction with the change in the pension plan, ZNA and FGI employees receive an additional company contribution within their defined contribution plan.

German pension plans

There are a number of legacy defined benefit plans in Germany, most of which were set up under works council agreements. Contributions to support the pension commitments are made to a contractual trust arrangement. A separate arrangement was also established in 2010 to provide for retirement obligations that were in payment at that time. Consideration is given from time to time based on the fiscal efficiency of adding recent retirees to this arrangement and to adding assets to the contractual trust. In 2021 the pension liabilities are nearly fully funded therefore no additional funding was required.

The defined benefit plans provide benefits on either a final salary, career average salary or a cash balance basis. New entrants participate in a cash balance arrangement, which has the characteristics of a defined contribution arrangement, with a lump sum paid at retirement and a capital guarantee on members' balances, which mirrors the capital guarantee given in a conventional life insurance arrangement in Germany.

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Tables 20.1a and 20.1b set out the reconciliation of the defined benefit obligation and plan assets for the ZIC Group's post-employment defined benefit plans.

Table 20.1a

Movement in defined benefit obligation and fair value of assets – current period	in USD millions	Defined benefit	Fair value of		Net defined
		obligation	assets	Asset ceiling	benefit asset/(liability)
As of January 1, 2021		(25,939)	24,236	(467)	(2,170)
Net post-employment benefit (expense)/income:					
Current service cost		(178)	–	–	(178)
Interest (expense)/income		(222)	195	–	(27)
Settlements gains/(losses)		1	–	–	1
Past service (cost)/credit		(2)	–	–	(2)
Net post-employment benefit (expense)/income		(401)	195	–	(207)
Remeasurement effects included in other comprehensive income:					
Return on plan assets excluding interest income		–	658	–	658
Experience gains/(losses)		(499)	–	–	(499)
Actuarial gains/(losses) arising from changes in demographic assumptions		201	–	–	201
Actuarial gains/(losses) arising from changes in financial assumptions		1,012	–	–	1,012
Change in asset ceiling		–	–	(475)	(475)
Remeasurement effects included in other comprehensive income		714	658	(475)	896
Employer contributions		–	295	–	295
Employer contributions paid to meet benefits directly		36	–	–	36
Plan participants' contributions		(76)	76	–	–
Payments from the plan (incl. settlements)		977	(977)	–	–
Foreign currency translation effects		472	(478)	–	(6)
As of December 31, 2021		(24,218)	24,005	(942)	(1,155)
of which: Assets for defined pension plans					603
of which: Liabilities for defined pension plans					(1,759)

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Table 20.1b

Movement in defined benefit obligation and fair value of assets – prior period	in USD millions	Defined	Fair value of	Asset ceiling	Net defined
		benefit obligation	assets		benefit asset/ (liability)
As of January 1, 2020		(22,838)	21,071	(436)	(2,203)
Net post-employment benefit (expense)/income:					
Current service cost		(168)	–	–	(168)
Interest (expense)/income		(315)	275	–	(40)
Settlements gains/(losses)		6	(5)	–	1
Past service (cost)/credit		(3)	–	–	(3)
Net post-employment benefit (expense)/income		(480)	269	–	(210)
Remeasurement effects included in other comprehensive income:					
Return on plan assets excluding interest income		–	2,271	–	2,271
Experience gains/(losses)		(174)	–	–	(174)
Actuarial gains/(losses) arising from changes in demographic assumptions		(50)	–	–	(50)
Actuarial gains/(losses) arising from changes in financial assumptions		(2,027)	–	–	(2,027)
Change in asset ceiling		–	–	(30)	(30)
Remeasurement effects included in other comprehensive income		(2,251)	2,271	(30)	(10)
Employer contributions		–	233	–	233
Employer contributions paid to meet benefits directly		35	–	–	35
Plan participants' contributions		(71)	71	–	–
Payments from the plan (incl. settlements)		820	(820)	–	–
Foreign currency translation effects		(1,154)	1,141	–	(14)
As of December 31, 2020		(25,939)	24,236	(467)	(2,170)
of which: Assets for defined pension plans					630
of which: Liabilities for defined pension plans					(2,800)

Net post-employment benefit (expense)/income is recognized in other employee benefits, which is included within administrative and other operating expense.

Post-employment benefits are long-term by nature. However, short-term variations between long-term actuarial assumptions and actual experience may be positive or negative, resulting in actuarial gains or losses, which are recognized in full in the period in which they occur and are included within other comprehensive income.

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Table 20.2 provides a breakdown of plan assets by asset class.

Table 20.2

Fair value of assets held in funded defined benefit pension plans

in USD millions, as of December 31				2021	2020			
	Quoted in active markets	Other	Total	% of Total	Quoted in active markets	Other	Total	% of Total
Cash and cash equivalents	469	–	469	2%	581	–	581	2%
Equity securities	5,640	236	5,876	24%	5,538	203	5,742	24%
Debt securities	–	17,652	17,652	74%	–	17,913	17,913	74%
Investment property	–	1,949	1,949	8%	–	1,742	1,742	7%
Mortgage loans	–	372	372	2%	–	397	397	2%
Other assets	–	(2,314)	(2,314)	(10%)	–	(2,139)	(2,139)	(9%)
Total	6,109	17,896	24,005	100%	6,119	18,117	24,236	100%

For the classification of pension assets the ZIC Group follows the same principles as outlined in note 23 (Fair value measurement). Assets meeting the criteria of Level 1 are generally considered quoted in active markets, while assets meeting the criteria of Level 2 or Level 3 are generally considered in other assets.

Tables 20.3a and 20.3b provide a breakdown of the key information included in tables 20.1a and 20.1b for the main countries for the years ended December 31, 2021 and 2020, respectively.

Table 20.3a

Key information by main country – current period

in USD millions, as of December 31, 2021						
	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(5,394)	(12,308)	(3,666)	(1,504)	(1,345)	(24,218)
Fair value of plan assets	6,420	11,412	3,479	1,463	1,230	24,005
Impact of asset ceiling	(877)	(65)	–	–	–	(942)
Net defined benefit asset/(liability)	149	(962)	(187)	(41)	(115)	(1,155)
of which: Assets for defined pension plans	162	–	265	112	64	603
of which: Liabilities for defined pension plans	(13)	(962)	(452)	(153)	(179)	(1,759)
Net post-employment benefit (expense)/income	(106)	(36)	(18)	(19)	(27)	(207)

Table 20.3b

Key information by main country – prior period

in USD millions, as of December 31, 2020						
	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(5,643)	(13,257)	(3,968)	(1,605)	(1,465)	(25,939)
Fair value of plan assets	6,274	11,371	3,699	1,604	1,287	24,236
Impact of asset ceiling	(412)	(55)	–	–	–	(467)
Net defined benefit asset/(liability)	219	(1,941)	(269)	(1)	(178)	(2,170)
of which: Assets for defined pension plans	232	–	207	147	44	630
of which: Liabilities for defined pension plans	(13)	(1,941)	(476)	(148)	(222)	(2,800)
Net post-employment benefit (expense)/income	(96)	(44)	(22)	(21)	(29)	(210)

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The ZIC Groups' post-employment defined benefit obligations and the ZIC Group's post-employment benefit expenses in the ZIC Group's major plans shown in table 20.4 are calculated by discounting using the full yield curve for each country. For the UK, where price inflation is required for projecting benefits in those calculations, this is done using the full breakeven price inflation curve. The figures for discount rates and for UK price inflation in table 20.4 are single-equivalent rates for the defined benefit obligations (i.e., the single assumption that would produce the same defined benefit obligation as using the full curve); single-equivalent rates for other elements of the accounting results will differ slightly from the figures set out below.

Table 20.4

Key financial assumptions used for major plans	as of December 31	2021								2020
		United Kingdom				United States				
		Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany	
Discount rate		0.2%	1.8%	2.8%	1.1%	0.0%	1.3%	2.5%	0.6%	
Inflation rate (CPI) ¹		1.0%	2.2%	2.7%	2.2%	1.1%	1.9%	2.2%	1.4%	
Salary increase rate		1.0%	2.8%	5.2%	3.5%	1.1%	2.8%	4.7%	2.7%	
Expected future pension increases		0.1%	3.5%	n/a	2.2%	0.1%	3.4%	n/a	1.4%	
Interest crediting rate ²		1.0%	n/a	5.0%	n/a	0.3%	n/a	5.0%	n/a	

¹ In the UK part of the liability is linked to the inflation measure of the Retail Price Index (RPI), which is assumed to be 1.0 percent higher than the Consumer Price Index (CPI) as of both December 31, 2021 and 2020. As RPI is expected to converge with CPI no earlier than in 2030, the RPI assumption for the UK was assumed to be 1.0 percent higher than CPI for durations up to and including 2029 and the same as CPI for 2030 onwards.

² As at 31 December 2021 the approach for setting the Interest crediting rate assumption in Switzerland has been adjusted to assume that the BVG minimum crediting rate applies to all funds – both BVG and non BVG funds.

Tables 20.5a and 20.5b set out the life expectancies used in the valuation of the ZIC Group's major plans. The mortality assumptions in each country have been based on mortality tables in accordance with typical practice in that country.

Table 20.5a

Mortality tables and life expectancies for major plans – current period	Country	Mortality table for major plans	Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
			aged 65	aged 45	aged 65	aged 45
	Switzerland	BVG 2020 with generational projections according to CMI model adapted to Swiss mortality with a long-term trend rate of 1.25%	21.79	23.42	23.52	25.10
	United Kingdom	SAPS Series 3 with CMI_2020 projection with plan specific adjustments	21.93	22.93	23.92	25.12
		Pri-2012 with MP-2020 Generational projection and white collar adjustment	21.78	23.16	23.18	24.53
		Pri-2012 with MP-2021 Generational projection and white collar adjustment	21.90	23.28	23.33	24.69
	United States					
	Germany	Heubeck 2018G	20.47	23.23	23.92	26.15

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Table 20.5b

Mortality tables and life expectancies for major plans – prior period	Country	Mortality table for major plans	Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
			aged 65	aged 45	aged 65	aged 45
		BVG 2015 with generational projections according to CMI model adapted to Swiss mortality with a long-term trend rate of 1.25%				
	Switzerland		21.70	23.90	23.70	25.70
		SAPS Series 3 with CMI_2019 projection with plan specific adjustments				
	United Kingdom		21.93	22.93	23.92	25.12
		Pri-2012 with MP-2020 Generational projection and white collar adjustment				
	United States		21.74	23.12	23.14	24.49
	Germany	Heubeck 2018G	20.33	23.10	23.81	26.04

Table 20.6 shows the expected benefits to be paid under the ZIC Group's major plans in the future. It should be noted that actual amounts may vary from expected amounts. Therefore, future benefit payments may differ from the amounts shown.

Table 20.6

Maturity profile of future benefit payments for major plans	as of December 31	2021				2020			
		Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany
	Duration of the defined benefit obligation (in years)	13.7	19.0	12.1	13.9	14.8	20.2	12.3	13.5
	Maturity analysis of benefits expected to be paid (in USD millions):								
	< 1 year	307	329	210	61	253	353	298	83
	1 to 5 years	1,148	1,603	855	232	1,049	1,634	859	264
	5 to 10 years	1,285	2,531	1,035	318	1,283	2,572	1,046	335

Table 20.7 sets out the sensitivity of the defined benefit obligation to changes in key actuarial assumptions. The effect on the defined benefit obligation shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. While this table illustrates the overall impact on the defined benefit obligation of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the overall defined benefit obligation. In particular, the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for different plans. The sensitivity analysis is intended to illustrate the inherent uncertainty in the evaluation of the defined benefit obligation under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the overall defined benefit obligation. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the ZIC Group's view of expected future changes in the defined benefit obligation. Any management actions that may be taken to mitigate the inherent risks in the post-employment defined benefit plans are not reflected in this analysis.

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Table 20.7

Sensitivity analysis of significant actuarial assumptions	Defined benefit obligation ¹	
	2021	2020
in USD millions, as of December 31		
Discount rate +50 bps	1,851	2,093
Discount rate -50 bps	(2,112)	(2,395)
Salary increase rate +50 bps	(78)	(87)
Salary decrease rate -50 bps	75	88
Price inflation increase rate +50 bps	(1,245)	(1,078)
Price inflation decrease rate -50 bps	1,122	961
Cash balance interest credit rate +50 bps	(80)	(93)
Cash balance interest credit rate -50 bps	54	89
Mortality 10% increase in life expectancy	(2,294)	(2,445)
Mortality 10% decrease in life expectancy	2,239	2,480

¹ A negative number indicates an increase and a positive number indicates a decrease in the defined benefit obligation.

b) Defined contribution pension plans

Certain companies of the ZIC Group sponsor defined contribution pension plans. Eligibility for participation in such plans is either immediate on commencement of employment or based on completion of a specified period of continuous service. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 13 percent of annual pensionable salary, depending on a number of factors. The ZIC Group's contributions under these plans amounted to USD 289 million and USD 279 million for the years ended December 31, 2021 and 2020, respectively.

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21. Share-based compensation and cash incentive plans

The ZIC Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate employees. The plans are designed to reward employees for their contribution to the performance of the ZIC Group and to encourage employee share ownership. Share-based compensation plans include performance-based share plans and employee share purchase plans. Share-based compensation plans are based on the provision of Zurich Insurance Group Ltd shares.

a) Cash incentive plans

The ZIC Group's short-term incentive plan (STIP) is utilized across the ZIC Group and, in many countries covers all employees in that country who are selected to participate in a short-term incentive plan. In addition, there may be other local short-term incentive plans in place. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 596 million and USD 531 million for the years ended December 31, 2021 and 2020, respectively.

b) Share-based compensation plans for employees

The ZIC Group encourages employees to own shares in Zurich Insurance Group Ltd and has set up a framework based on the implementation of performance share programs. Actual plans are tailored to meet local market requirements.

The cost of share-based payments depends on various factors, including achievement of targets, and are subject to the discretion of the Remuneration Committee and the Board. Costs may therefore vary significantly from year to year. The net amounts of USD 325 million and USD 339 million for the years ended December 31, 2021 and 2020, respectively, reflect all aspects of share-based compensation, including adjustments made during the year.

The explanations below provide a more detailed overview of the main plans of the ZIC Group.

Employee share plans

Share incentive plans for employees in the UK

The ZIC Group established an Inland Revenue approved Share Incentive Plan and launched the Partnership Shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Insurance Group Ltd shares at the prevailing market price from their gross earnings. This plan was terminated in 2007. There were 16 and 25 participants in the plan as of December 31, 2021 and 2020, respectively.

A revised Partnership Share Scheme was launched in March 2013. Participants benefit from purchasing shares by making deductions from gross salary up to a maximum of GBP 1,800 or 10 percent of their year-to-date earnings. There were 694 and 690 active participants in the plan as of December 31, 2021 and 2020, respectively.

The ZIC Group also operates a profit-sharing element of the Share Incentive Plan (Reward Shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on business operating profit (BOP) after tax for the year achieved by the business unit of each participating employee. Individual awards are subject to a maximum of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,600. The total number of participating employees in Reward Shares as of December 31, 2021 and 2020 was 3,997 and 4,280, respectively.

A Dividend Shares scheme was launched in 2014 which allows employees to reinvest their dividends from Partnership Shares and Reward Shares. As of December 31, 2021 and 2020, there were 564 and 522 participants in the scheme, respectively.

Share incentive plan for employees in Switzerland

Under the Employee Share Plan, eligible employees are allowed to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment at the preferential price in shares is equivalent to CHF 3,500 per employee per annum. During 2021, 4,383 employees were eligible to participate in the plan, compared with 4,145 in 2020. For the years ended December 31, 2021 and 2020, 2,240 and 2,080 employees, respectively, purchased shares under the 2020 and 2021 share plans.

The Group Long-Term Incentive Plan (LTIP)

Participants in this plan are allocated a target number of performance shares units (PSUs) as notional shares of Zurich Insurance Group Ltd in April each year. The number of PSUs is calculated as a percentage of the annual base salary of each participant. To further align participants with the interests of shareholders, PSUs are credited with dividend equivalent units (DEUs) during the vesting period to compensate participants in LTIP for dividends paid to shareholders.

Consolidated financial statements (continued)

PSUs allocated in 2021 will vest after a period of three years following the year of allocation (three year cliff vesting), with the actual level of vesting between 0 percent and 200 percent of the overall target shares (PSUs allocated and DEUs that accrued during the vesting period), depending on the achievement of pre-defined performance criteria. The performance criteria used to determine the level of vesting are the Group's net income attributable to shareholders' return on common shareholders' equity (NIAS ROE), the position of its relative total shareholder return (TSR) measured against an international peer group of insurance companies, and the achievement of cash remittance targets. The three pre-defined performance criteria are each assessed over a period of three consecutive financial years starting in the year of allocation and have an equal weighting. One half of the shares that actually vest are sales-restricted for a further three years for members of the Executive Committee. As of December 31, 2021 and 2020 there were 1,228 and 1,162 participants in this plan, respectively.

Table 21

Shares allocated during the period	for the years ended December 31		Fair value at the allocation date (in CHF) ¹	
	Number			
	2021	2020	2021	2020
Shares allocated during the period	422,606	510,046	406	333

¹ Fair value measured using the market price of the shares at the allocation date and volatility indicators.

The shares allocated each year are based on parameters under the Group's LTIP. The level of vesting will depend on the level of achievements in the performance criteria.

Consolidated financial statements (continued)

22. Commitments and contingencies, legal proceedings and regulatory investigations

The ZIC 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 22

Quantifiable commitments and contingencies	in USD millions	12/31/2021	12/31/2020
	Remaining commitments under investment agreements	2,297	3,695
	Guarantees and letters of credit ¹	978	974
	Undrawn loan commitments	1	1
	Other commitments and contingent liabilities ^{2,3}	717	306

¹ Guarantee features embedded in life insurance products are not included.

² Includes USD 79 million future cash outflows, that the ZIC Group as lessee is potentially exposed to which are not reflected in the measurement of lease liabilities in the balance sheet.

³ Of which USD 47 million represents a lease agreement in UK commencing in 2022 (sale and leaseback of a new building).

Commitments under investment agreements

The ZIC Group has committed to contribute capital to third parties that engage in making investments in direct private equity, private equity funds and real estate. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis.

Guarantees and letters of credit

In 2021 and 2020, USD 643 million and USD 649 million, respectively, related to guarantees in the aggregate amount of GBP 475 million which were provided to the directors of a wholly owned subsidiary in connection with the repatriation of capital. These guarantees have no expiry date.

The ZIC Group knows of no event of default that would require it to satisfy financial guarantees. Irrevocable letters of credit have been issued to secure certain reinsurance contracts.

The ZIC Group is active in numerous countries where insurance guarantee funds exist. The design of such funds varies from jurisdiction to jurisdiction. In some, funding is based on premiums written, in others the ZIC Group may be called upon to contribute to such funds in case of a failure of another market participant. In addition, in some jurisdictions the amount of contribution may be limited, for example, to a percentage of the net underwriting reserve net of payments already made.

The ZIC Group carries certain contingencies in the ordinary course of business in connection with the sale of its companies and businesses. These are primarily in the form of indemnification obligations provided to the acquirer in a transaction in which a ZIC Group company is the seller. They vary in scope and duration by counterparty and generally are intended to shift the potential risk of certain unquantifiable and unknown loss contingencies from the acquirer to the seller.

Zurich Insurance Group Ltd has provided unlimited guarantees in support of entities belonging to the Zurich Capital Markets group of companies.

Other contingent liabilities

The ZIC Group has received notices from various tax authorities asserting deficiencies in taxes for various years. The ZIC Group is of the view that the ultimate outcome of these reviews will not materially affect the ZIC Group's consolidated financial position.

The ZIC Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available amounts to nil as of both December 31, 2021 and 2020.

In common with other insurance companies, the ZIC Group is mindful of the trend toward enhanced consumer protection. There is significant uncertainty about the ultimate cost this trend might have on our business. The main areas of uncertainty concern court decisions as well as the volume of potential customer complaints related to sales activities and withdrawal rights, and their respective individual assessments.

Consolidated financial statements (continued)

Pledged assets

The majority of assets pledged to secure the ZIC Group's liabilities relate to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 2.1 billion and USD 1.5 billion as of December 31, 2021 and 2020, respectively.

Terms and conditions associated with the financial assets pledged to secure the Group's liabilities are usual and standard in the markets in which the underlying agreements were executed.

Legal, compliance and regulatory developments

The ZIC Group's business is subject to extensive supervision, and the ZIC Group is in regular contact with various regulatory authorities. The ZIC 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 ZIC 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 ZIC Group and/or its subsidiaries. With respect to significant legal or regulatory matters, the ZIC 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 ZIC 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 ZIC 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, COVID-19-related coverage litigation: Several of the ZIC 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. To date, most of the litigation has been filed in United States courts, which have predominantly found in favor of insurers. The final determination of outcomes may take many years as appeals are pursued by the plaintiffs and insurers, including the ZIC Group or its subsidiaries.
- In 2016, the ZIC 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 ZIC 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 ZIC 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 ZIC Group's business or consolidated financial condition.

Consolidated financial statements (continued)

23. Fair value measurement

To measure fair value, the ZIC Group gives the highest priority to quoted and unadjusted prices in active markets. In the absence of quoted prices, fair values are calculated through valuation techniques, making the maximum use of relevant observable market data inputs. Whenever observable parameters are not available, the inputs used to derive the fair value are based on common market assumptions that market participants would use when pricing assets and liabilities. Depending on the observability of prices and inputs to valuation techniques, the ZIC Group classifies instruments measured at fair value within the following three levels (the fair value hierarchy):

Level 1 – includes assets and liabilities for which fair values are determined directly from unadjusted current quoted prices resulting from orderly transactions in active markets for identical assets/liabilities.

Level 2 – includes assets and liabilities for which fair values are determined using significant inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable market inputs.

Level 3 – includes assets and liabilities for which fair values are determined using valuation techniques with at least one significant input not being based on observable market data. This approach is used only in circumstances when there is little, if any, market activity for a certain instrument, and the ZIC Group is required to rely on third-party providers or develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability.

The governance framework and oversight of the ZIC Group's standards and procedures regarding the valuation of financial instruments measured at fair value lies within the responsibility of Group Risk Management, Group Investment Management, Treasury Capital Management and Group Finance. Specialists from these departments ensure the adequacy of valuation models, approve methodologies and sources to derive model input parameters, provide oversight over the selection of third-party pricing providers, and on a semi-annual basis review the classification within the fair value hierarchy of the financial instruments in scope.

The ZIC Group makes extensive use of third-party pricing providers to determine the fair values of its available-for-sale and fair value through profit or loss financial instruments, and only in rare cases places reliance on prices that are derived from internal models. Investment accounting, operations and process functions, are independent from those responsible for buying and selling the assets, and are responsible for receiving, challenging and verifying values provided by third-party pricing providers to ensure that fair values are reliable, as well as ensuring compliance with applicable accounting and valuation policies. The quality control procedures used depend on the nature and complexity of the invested assets. They include variance and stale price analysis, and comparisons with fair values of similar instruments and with alternative values obtained from asset managers and brokers. Model review activities are also conducted for evaluated prices supplied by third parties to verify that their valuation processes, methodologies, models, and governance and control framework comply with applicable internal guidance, and that the allocation of those instruments within the fair value hierarchy is adequate. They include the compilation and review of relevant documentation as well meetings with third-party representatives to supplement the analysis.

Consolidated financial statements (continued)

Table 23.1 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 ceded reinsurance contracts and other financial assets and liabilities. This table excludes financial assets and financial liabilities related to unit-linked contracts.

Table 23.1

Fair value and carrying value of financial assets and financial liabilities	in USD millions, as of	Total fair value		Total carrying value		
		2021	2020	2021	2020	
	Available-for-sale securities					
	Equity securities	14,960	15,608	14,960	15,608	
	Debt securities	136,005	152,330	136,005	152,330	
	Total available-for-sale securities	150,965	167,938	150,965	167,938	
	Fair value through profit or loss securities					
	Equity securities	4,571	4,714	4,571	4,714	
	Debt securities	7,181	7,115	7,181	7,115	
	Total fair value through profit or loss securities	11,752	11,829	11,752	11,829	
Derivative assets	938	1,763	938	1,763		
Held-to-maturity debt securities	2,358	2,991	1,897	2,265		
Mortgage loans	6,371	6,205	6,106	5,783		
Other loans	8,284	10,412	7,053	8,620		
Total financial assets	180,668	201,139	178,711	198,198		
Derivative liabilities	(532)	(481)	(532)	(481)		
Financial liabilities held at amortized cost						
Liabilities related to investment contracts	(1,042)	(1,134)	(837)	(878)		
Senior debt	(5,487)	(5,865)	(5,327)	(5,484)		
Subordinated debt	(10,287)	(9,204)	(9,782)	(8,306)		
Total financial liabilities held at amortized cost	(16,815)	(16,202)	(15,946)	(14,668)		
Total financial liabilities	(17,347)	(16,683)	(16,478)	(15,149)		

All of the ZIC Group's financial assets and financial liabilities are initially recorded at fair value. Subsequently, available-for-sale financial assets, fair value through profit or loss financial assets, and derivative financial instruments are carried at fair value as of the balance sheet date. All other financial instruments are carried at amortized cost. The valuation techniques used to determine fair value measurement are described below.

Fair values of held-to-maturity debt securities and senior and subordinated debt are obtained from third-party pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for identical assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. Such instruments are categorized within level 2.

Discounted cash flow models are used for mortgage loans and other loans (except for loans classified as private debt). The discount yields in these models use interest rates that reflect the return a market participant would expect to receive on instruments with similar remaining maturities, cash flow patterns, currencies, credit risk and collateral. Such instruments are categorized within level 3.

Different valuation techniques are used to value private debt instruments, including the income approach (such as discounted cash flow models) or the market approach (such as relative value models). Where prices are obtained from an evaluated pricing service from a data vendor in which price transparency data indicates no use of significant unobservable inputs, they are categorized within Level 2. All other prices are classified to Level 3 unless factual evidence indicates that unobservable inputs are not significant to the valuation.

Fair values of liabilities related to investment contracts and investment contracts with DPF are determined using discounted cash flow models. Such instruments are categorized within level 3 due to the unobservability of certain inputs used in the valuation.

Consolidated financial statements (continued)

Recurring fair value measurements of assets and liabilities

Table 23.2a

Fair value hierarchy – non-unit-linked – current period	in USD millions, as of December 31, 2021				
		Level 1	Level 2	Level 3	Total
	Available-for-sale securities				
	Equity securities	10,005	3,002	1,953	14,960
	Debt securities	–	129,857	6,148	136,005
	Total available-for-sale securities	10,005	132,859	8,101	150,965
	Fair value through profit or loss securities				
	Equity securities	1,804	617	2,150	4,571
	Debt securities	–	7,141	40	7,181
	Total fair value through profit or loss securities	1,804	7,758	2,190	11,752
	Derivative assets	1	834	103	938
	Investment property	–	3,270	10,800	14,070
	Reinsurers' share of liabilities for insurance contracts fair value option ¹	–	–	184	184
	Total	11,809	144,721	21,379	177,909
	Derivative liabilities	(3)	(375)	(154)	(532)
	Liabilities for insurance contracts fair value option ²	–	–	(1,999)	(1,999)
	Total	(3)	(375)	(2,153)	(2,532)

1 Included within reinsurers' share of liabilities for insurance contracts.

2 Included within liabilities for insurance contracts.

Table 23.2b

Fair value hierarchy – non-unit-linked – prior period	in USD millions, as of December 31, 2020				
		Level 1	Level 2	Level 3	Total
	Available-for-sale securities				
	Equity securities	10,571	3,291	1,746	15,608
	Debt securities	–	144,354	7,976	152,330
	Total available-for-sale securities	10,571	147,645	9,722	167,938
	Fair value through profit or loss securities				
	Equity securities	1,835	561	2,318	4,714
	Debt securities	–	7,033	83	7,115
	Total fair value through profit or loss securities	1,835	7,594	2,400	11,829
	Derivative assets	6	1,404	353	1,763
	Investment property	–	3,448	11,301	14,749
	Reinsurers' share of liabilities for insurance contracts fair value option ¹	–	–	213	213
	Total	12,412	160,091	23,990	196,492
	Derivative liabilities	(6)	(423)	(52)	(481)
	Liabilities for insurance contracts fair value option ²	–	–	(2,294)	(2,294)
	Total	(6)	(423)	(2,346)	(2,775)

1 Included within reinsurers' share of liabilities for insurance contracts.

2 Included within liabilities for insurance contracts.

Consolidated financial statements (continued)

Table 23.3a

Fair value hierarchy – unit-linked – current period	in USD millions, as of December 31, 2021	Level 1	Level 2	Level 3	Total
	Fair value through profit or loss securities				
	Equity securities	108,023	16,142	1,516	125,680
	Debt securities	–	10,136	30	10,166
	Other loans	24	2,801	–	2,825
	Total fair value through profit or loss securities	108,046	29,078	1,546	138,671
	Derivative assets	2	9	–	12
	Investment property	–	–	3,167	3,167
	Total investments for unit-linked contracts¹	108,049	29,088	4,713	141,850
	Financial liabilities at FV through profit or loss				
	Liabilities related to unit-linked investment contracts	–	(60,930)	–	(60,930)
	Derivative liabilities	(8)	(14)	–	(21)
	Total	(8)	(60,944)	–	(60,951)

¹ Excluding cash and cash equivalents.

Table 23.3b

Fair value hierarchy – unit-linked – prior period	in USD millions, as of December 31, 2020	Level 1	Level 2	Level 3	Total
	Fair value through profit or loss securities				
	Equity securities	102,259	16,329	1,163	119,751
	Debt securities	–	8,543	25	8,568
	Other loans	10	3,152	–	3,162
	Total fair value through profit or loss securities	102,269	28,024	1,188	131,481
	Derivative assets	24	1	–	26
	Investment property	–	–	2,957	2,957
	Total investments for unit-linked contracts¹	102,294	28,026	4,145	134,464
	Financial liabilities at FV through profit or loss				
	Liabilities related to unit-linked investment contracts	–	(55,214)	–	(55,214)
	Derivative liabilities	–	(1)	–	(1)
	Total	–	(55,216)	–	(55,216)

¹ Excluding cash and cash equivalents.

Within level 1, the ZIC Group has classified common stocks, exchange-traded derivative financial instruments, investments in unit trusts that are exchange listed or daily published and other highly liquid financial instruments.

Within level 2, the ZIC Group has classified government and corporate bonds, thinly traded common stocks, investments in unit trusts without daily prices or with sales restrictions, agency mortgage-backed securities (MBS), 'AAA' rated non-agency MBS and other asset-backed securities (ABS) and certain private debt instruments where valuations are obtained from independent pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for similar assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. If quoted prices are not available, then fair values are estimated on the basis of information from external pricing providers or internal pricing models (for example, discounted cash flow models or other recognized valuation techniques).

Where there are active and transparent real estate markets and no significant adjustments to the observable data are required, the investment property held by the ZIC Group is classified within level 2.

Over-the-counter derivative financial instruments are valued using internal models and third-party valuation services. The fair values are determined using dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for underlying instruments, time to expiry, yield curves and volatility of underlying instruments. Such instruments are classified within level 2 as the inputs used in pricing models are generally market observable or derived from market observable data.

Fair values of liabilities related to unit-linked investment contracts are usually determined by reference to the fair value of the underlying assets backing these liabilities. Such instruments are classified within level 2.

Consolidated financial statements (continued)

Within level 3, the ZIC Group has classified:

- Unlisted stocks, private equity funds and hedge funds that are not actively traded. The valuations of such instruments are obtained from quarterly net asset value information from the fund manager and annual audited financial statements provided by the issuing company. The prices are generally derived for each underlying company in line with the International Private Equity and Venture Capital Valuation (IPEV) guidelines, using discounted cash flow (income approach) or multiple methods (market approach). The ZIC Group has only limited insight into the specific inputs used by the fund managers hence a narrative sensitivity analysis is not applicable.
- Non-agency MBS, ABS and collateralized loan obligations (CLO) rated below 'AAA' and private debt holdings including certain private placements that are valued by independent pricing providers or external asset managers using primarily the discounted cash flow method with significant unobservable input parameters such as asset prepayment rate, default rates and credit spreads. A significant market yield increase of the benchmark securities in isolation could result in a decreased fair value, while a significant market yield decrease could result in an increased fair value. However, a reasonable variation in the option-adjusted spread taken from a set of benchmark securities with similar characteristics has only immaterial impact on fair value.
- All investment properties for which there are no active and transparent real estate markets or observable data available. The valuation for majority of these investment properties – other than certain investment properties located in Switzerland – are typically performed annually by independent qualified appraisers. The parameters used for the valuations are specific to each country or region and vary significantly across different markets. External appraisals are reviewed by internal real estate valuation specialists, however, since the unobservable inputs were not developed by Zurich they are not readily available. In some cases, where external valuations are obtained at least every three years, interim valuations by internal valuation specialists are performed. Further, internal valuations are performed for certain investment properties located in Switzerland. Overall, as of December 31, 2021 around 30 percent of level 3 investment properties were covered by internal valuations. Where internal valuations are performed, significant unobservable inputs include rental income and discount rate. Significant increases/(decreases) in rental income, in isolation, would result in a significantly higher/(lower) fair value measurement. For example, a decrease in rental income by 5 percent, considered in isolation, would result in a decrease in fair value of internally valued properties by approximately USD 175 million. Significant increases/(decreases) in the discount rate, in isolation, would result in a significantly lower/(higher) fair value measurement. For example, an increase in discount rate of 10bps, considered in isolation, would result in a decrease in fair value of USD 70 million as of December 31, 2021.
- Options and long-dated derivative financial instruments with fair values determined using counterparty valuations or calculated using significant unobservable inputs such as historical volatilities, historical correlation, implied volatilities from the counterparty or derived using extrapolation techniques. Quantitative information on unobservable inputs are not available when counterparty pricing was used. For internally calculated fair values significant increases/(decreases) in volatilities or correlation, would result in a significantly higher/(lower) fair value measurement, however, the overall effect on ZIC Group financial statements would not be material.
- Reinsurers' share of liabilities and liabilities for insurance contracts fair value option. The fair values are determined using discounted cash flow models. The discount factors used are based on derived rates for LIBOR swap forwards, spreads to U.S. Treasuries and spreads to U.S. corporate A or higher rated bond segments for financials, industrials and utilities. The liability-projected cash flows use contractual information for premiums, benefits and agent commissions, administrative expenses under third-party administrative service agreements and best estimate parameters for policy decrements. The primary unobservable inputs are the policy decrement assumptions used in projecting cash flows. These include disability claim parameters for incidence and termination (whether for recovery or death) and lapse rates. Significant increases/(decreases) in claim incidence rates and significant decreases/(increases) in claim termination rates would result in a significantly higher/(lower) fair value measurement.

For details on ZIC Group investments sensitivities, refer to section analysis by risk type in the risk review.

The fair value hierarchy is reviewed at the end of each reporting period to determine whether significant transfers between levels have occurred. Transfers between levels mainly arise as a result of changes in market activity and observability of the inputs to the valuation techniques used to determine the fair value of certain instruments.

For the year ended December 31, 2021, the ZIC Group recorded a transfer of USD 66 million of non-unit-linked fair value through profit or loss equity securities out of level 1 into level 2 for mutual funds without daily published prices, and a transfer of USD 345 million of unit-linked fair value through profit or loss equity securities out of level 2 into level 1 for mutual funds with daily published prices.

Consolidated financial statements (continued)

Table 23.4a

Development of assets and liabilities classified within level 3 – non-unit-linked – current period	in USD millions	Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities	Investment property
		Equity securities	Debt securities	Equity securities	Debt securities			
		securities	securities	securities	securities			
As of January 1, 2021		1,746	7,976	2,318	83	353	(52)	11,301
Realized gains/(losses) recognized in income ¹		483	15	25	–	18	(87)	39
Unrealized gains/(losses) recognized in income ^{1,2}		–	11	129	–	(10)	(9)	359
Unrealized gains/(losses) recognized in other comprehensive income		296	(181)	–	–	(208)	(91)	6
Purchases		321	980	357	–	7	(11)	652
Settlements/sales/redemptions		(881)	(1,459)	(683)	(46)	(29)	90	(730)
Transfer from/to assets held for own use		–	–	–	–	–	–	21
Transfers into level 3		25	201	27	5	–	(1)	–
Transfers out of level 3		–	(1,250)	–	–	–	–	–
Acquisitions and divestments ³		(1)	–	–	–	–	–	(379)
Foreign currency translation effects		(36)	(144)	(23)	–	(27)	8	(469)
As of December 31, 2021		1,953	6,148	2,150	40	103	(154)	10,800

¹ Presented as net capital gains/(losses) and impairments on Group investments in the audited consolidated income statements (see note 6).

² Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

³ The movement in Investment property is related to an agreement signed to sell business of Zurich Investments Life S.p.A. (see note 5).

For the year ended December 31, 2021, the ZIC Group transferred USD 1.3 billion of available-for-sale debt securities out of level 3 into level 2, mainly collateralized loan obligations (CLO) and non-agency asset- and mortgage-backed securities (ABS and MBS) with a 'AAA' rating that are priced using valuation inputs that are generally observable as of December 31, 2021. Partially offsetting this is the transfer of USD 201 million of available-for-sale debt securities from level 2 to level 3 primarily attributable to private debt instruments with a lower degree of input observability.

Table 23.4b

Development of assets and liabilities classified within level 3 – non-unit-linked – prior period	in USD millions	Available-for-sale securities		Fair value through profit or loss securities		Derivative assets	Derivative liabilities	Investment property
		Equity securities	Debt securities	Equity securities	Debt securities			
		securities	securities	securities	securities			
As of January 1, 2020		1,417	7,713	2,179	81	132	(42)	10,501
Realized gains/(losses) recognized in income ¹		146	11	38	–	(11)	–	228
Unrealized gains/(losses) recognized in income ^{1,2}		(7)	(50)	272	2	–	(5)	130
Unrealized gains/(losses) recognized in other comprehensive income		103	198	–	–	198	4	67
Purchases		281	928	331	–	16	(8)	640
Settlements/sales/redemptions		(262)	(699)	(436)	(4)	(6)	1	(1,089)
Transfer from/to assets held for own use		–	–	–	–	–	–	25
Transfers into level 3		–	523	–	9	–	–	–
Transfers out of level 3		–	(894)	–	(6)	–	–	–
Acquisitions and divestments		–	–	(134)	–	–	–	–
Foreign currency translation effects		68	246	66	1	24	(3)	798
As of December 31, 2020		1,746	7,976	2,318	83	353	(52)	11,301

¹ Presented as net capital gains/(losses) and impairments on Group investments in the audited consolidated income statements (see note 6).

² Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

For the year ended December 31, 2020, the ZIC Group transferred USD 894 million of available-for-sale debt securities out of level 3 into level 2. The transfers were caused by the application of additional data vendors improving rating and price coverage in the areas of non-agency asset/mortgage backed/private debt securities. Partially offsetting this is the transfer of 523 million in securities from level 2 to level 3 predominantly resulting from a transfer of corporate bonds into private debt priced by asset managers.

Consolidated financial statements (continued)

Table 23.5a

Development of liabilities for insurance contracts fair value option classified within level 3 – current period	in USD millions	Fair value through profit or loss securities		
		Gross	Ceded	Net
As of January 1, 2021		2,294	(213)	2,081
Premiums		41	(4)	38
Claims		(206)	15	(191)
Fee income and other expenses		(89)	14	(74)
Interest and bonuses credited to policyholders		(41)	3	(38)
As of December 31, 2021		1,999	(184)	1,815

Table 23.5b

Development of liabilities for insurance contracts fair value option classified within level 3 – prior period	in USD millions	Fair value through profit or loss securities		
		Gross	Ceded	Net
As of January 1, 2020		2,215	(206)	2,010
Premiums		48	(4)	44
Claims		(212)	20	(192)
Fee income and other expenses		6	–	5
Interest and bonuses credited to policyholders		235	(23)	212
Changes in assumptions		2	–	2
As of December 31, 2020		2,294	(213)	2,081

Table 23.6a

Development assets and liabilities classified within level 3 – unit-linked – current period	in USD millions	Fair value through profit or loss securities		
		Equity securities	Debt securities	Investment property
As of January 1, 2021		1,163	25	2,957
Realized gains/(losses) recognized in income ¹		7	(1)	158
Unrealized gains/(losses) recognized in income ¹		123	–	212
Unrealized gains/(losses) recognized in shareholder's equity		–	(1)	–
Purchases		274	6	347
Sales/redemptions		(65)	(5)	(507)
Transfers into level 3		17	11	–
Transfers out of level 3		–	(4)	–
Foreign currency translation effects		(4)	(1)	–
As of December 31, 2021		1,516	30	3,167

¹ Presented as net investment result on unit-linked investments in the consolidated income statements.

Table 23.6b

Development assets and liabilities classified within level 3 – unit-linked – prior period	in USD millions	Fair value through profit or loss securities		
		Equity securities	Debt securities	Investment property
As of January 1, 2020		919	21	3,034
Realized gains/(losses) recognized in income ¹		8	–	(62)
Unrealized gains/(losses) recognized in income ¹		93	–	(75)
Unrealized gains/(losses) recognized in shareholder's equity		–	2	–
Purchases		224	–	34
Sales/redemptions		(85)	(2)	(143)
Transfers into level 3		–	3	–
Transfers out of level 3		(1)	–	–
Foreign currency translation effects		4	1	169
As of December 31, 2020		1,163	25	2,957

¹ Presented as net investment result on unit-linked investments in the consolidated income statements.

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24. Analysis of financial assets

Tables 24.1a and 24.1b provide an analysis, for non-unit-linked businesses, of the age of financial assets that are past due but not impaired, and of financial assets that are individually determined to be impaired.

Table 24.1a

in USD millions, as of December 31, 2021

Analysis of financial assets – current period	Receivables and other financial assets				
	Debt securities	Mortgage loans	Other loans	financial assets	Total
Neither past due nor impaired financial assets	145,054	6,068	7,044	12,242	170,407
Past due but not impaired financial assets					
Past due by:					
1 to 90 days	–	26	3	1,515	1,545
91 to 180 days	–	3	–	232	234
181 to 365 days	–	2	–	194	196
> 365 days	–	4	–	270	274
Past due but not impaired financial assets	–	35	3	2,210	2,248
Financial assets impaired	30	11	3	181	224
Gross carrying value	145,084	6,114	7,050	14,632	172,880
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	5	(3)	123	124
Impairment allowances on collectively assessed financial assets	–	3	–	177	180
Net carrying value	145,084	6,106	7,053	14,333	172,575

Table 24.1b

in USD millions, as of December 31, 2020

Analysis of financial assets – prior period	Receivables and other financial assets				
	Debt securities	Mortgage loans	Other loans	financial assets	Total
Neither past due nor impaired financial assets	161,670	5,729	8,615	12,014	188,028
Past due but not impaired financial assets					
Past due by:					
1 to 90 days	–	36	2	1,281	1,319
91 to 180 days	–	6	2	355	362
181 to 365 days	–	4	1	212	216
> 365 days	–	5	–	295	300
Past due but not impaired financial assets	–	51	4	2,143	2,198
Financial assets impaired	40	11	12	201	264
Gross carrying value	161,710	5,791	8,632	14,357	190,490
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	4	12	105	121
Impairment allowances on collectively assessed financial assets	–	4	–	226	230
Net carrying value	161,710	5,783	8,620	14,026	190,139

Consolidated financial statements (continued)

Tables 24.2a and 24.2b show how the allowances for impairments of financial assets in tables 24.1a and 24.1b developed during the periods ended December 31, 2021 and 2020, respectively.

Table 24.2a

Development of allowance for impairments – current period	in USD millions	Mortgage	Other	
		loans	loans	Receivables
	As of January 1, 2021	8	12	332
	Increase/(decrease) in allowance for impairments	1	(7)	33
	Amounts written-off	–	(8)	(42)
	Acquisitions/(divestments) and transfers	–	–	(3)
	Foreign currency translation effects	–	–	(20)
	As of December 31, 2021	8	(3)	300

Table 24.2b

Development of allowance for impairments – prior period	in USD millions	Mortgage	Other	
		loans	loans	Receivables
	As of January 1, 2020	6	21	263
	Increase/(decrease) in allowance for impairments	1	1	90
	Amounts written-off	–	(11)	(29)
	Acquisitions/(divestments) and transfers	–	–	10
	Foreign currency translation effects	1	1	(2)
	As of December 31, 2020	8	12	332

The ZIC Group has elected to defer the full implementation of IFRS 9 until IFRS 17 becomes effective on January 1, 2023. For further information on the ZIC Group's eligibility to the temporary exemption from IFRS 9, please refer to note 2.

Under IFRS 9, the classification and measurement of all debt instruments will be driven by the business model in which these assets are held and by their contractual terms. The combined effect of the application of the business model and contractual cash flows characteristics determine whether the financial assets are measured at amortized cost, fair value with changes recognized in other comprehensive income (OCI) or fair value through profit or loss. The business model will be assessed at the date of the initial application of IFRS 9.

Debt instruments with contractual terms that give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding (SPPI) will be measured at either amortized cost or at fair value with changes recognized in OCI, unless they are managed on a fair value basis. The assessment of the features of the contractual terms is referred to as the SPPI test. Debt instruments that do not pass the SPPI test will always be measured at fair value through profit or loss.

Equity instruments including fund investments will be accounted for at fair value through profit or loss. The ZIC Group does not intend to make use of the election 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 the income statement.

Table 24.3a and Table 24.3b show the fair value and the carrying value at the end of current and previous reporting period for the following two groups of financial assets:

- Financial assets with contractual terms that give rise to cash flows that are SPPI;
- Other financial assets not passing the SPPI test, as well as financial assets managed on a fair value basis for which no SPPI assessment has been performed. Financial assets that have not passed the SPPI test include equities, 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.

Net unrealized gains/(losses) on debt securities available for sale that are not SPPI amounted to USD 212 million and USD 408 million for the years ended December 31, 2021 and 2020, respectively. The carrying value on held-to-maturity debt securities, mortgage loans, other loans, and receivables include impairment allowances of USD 320 million and USD 340 million of the years ended December 31, 2021 and 2020, respectively.

Consolidated financial statements (continued)

Table 24.3a

in USD millions, as of December 31, 2021

	SPPI		Other financial assets		Total	
	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value
Available-for-sale securities						
Equity securities	–	–	14,960	14,960	14,960	14,960
Debt securities	127,622	127,622	8,383	8,383	136,005	136,005
Total available-for-sale securities	127,622	127,622	23,343	23,343	150,965	150,965
Fair value through profit or loss securities						
Equity securities	–	–	4,571	4,571	4,571	4,571
Debt securities	–	–	7,181	7,181	7,181	7,181
Total fair value through profit or loss securities	–	–	11,752	11,752	11,752	11,752
Held-to-maturity debt securities	2,358	1,897	–	–	2,358	1,897
Mortgage loans	6,371	6,106	–	–	6,371	6,106
Other loans ¹	7,456	6,344	34	55	7,490	6,399
Receivables	13,362	13,362	–	–	13,362	13,362
Derivative assets	–	–	938	938	938	938
Total financial assets	157,170	155,331	36,066	36,088	193,236	191,418

¹ Do not include policyholder loans, which will come under IFRS 17 and are therefore not applicable for IFRS 9, of USD 794 million and USD 654 million for fair value and carrying value, respectively.

Table 24.3b

in USD millions, as of December 31, 2020

	SPPI		Other financial assets		Total	
	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value
Available-for-sale securities						
Equity securities	–	–	15,608	15,608	15,608	15,608
Debt securities	144,106	144,106	8,224	8,224	152,330	152,330
Total available-for-sale securities	144,106	144,106	23,832	23,832	167,938	167,938
Fair value through profit or loss securities						
Equity securities	–	–	4,714	4,714	4,714	4,714
Debt securities	–	–	7,115	7,115	7,115	7,115
Total fair value through profit or loss securities	–	–	11,829	11,829	11,829	11,829
Held-to-maturity debt securities	2,928	2,217	63	47	2,991	2,265
Mortgage loans	6,205	5,783	–	–	6,205	5,783
Other loans ¹	9,488	7,885	63	59	9,552	7,944
Receivables	13,036	13,036	–	–	13,036	13,036
Derivative assets	–	–	1,763	1,763	1,763	1,763
Total financial assets	175,764	173,028	37,551	37,531	213,315	210,559

¹ Do not include policyholder loans, which will come under IFRS 17 and are therefore not applicable for IFRS 9, of USD 861 million and USD 675 million for fair value and carrying value, respectively.

With IFRS 9, the incurred loss impairment approach will be replaced by a forward-looking expected credit loss (ECL) approach that will apply to debt securities, loans and receivables that are not accounted for at fair value through profit or loss. Thus, the same ECL requirements will apply to all financial assets measured at amortized cost and those measured at fair value with changes recognized in OCI.

At initial recognition of a debt instrument, a loss allowance is recognized for expected credit losses resulting from default events within the next 12 months after the reporting date (12-month ECL). Such instruments are classified as Stage 1. The ZIC Group does not originate or acquire financial assets that are credit-impaired at initial recognition.

In the event of a significant increase in credit risk (SICR) since initial recognition, IFRS 9 requires the ECL allowance to be measured at an amount equal to lifetime expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Such instruments are referred to as Stage 2.

Consolidated financial statements (continued)

The ZIC 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. For the remaining financial assets, the ZIC Group considers all relevant reasonable supporting information that is available without undue cost or effort when determining whether a SICR has occurred since initial recognition, or not. An increase in credit risk is assessed using a transition matrix approach that determines SICR thresholds depending on the credit rating at initial recognition and residual time to maturity of the instrument. Where necessary, the quantitative assessment is supplemented by a qualitative assessment of the issuer's credit quality. For certain less material portfolios, including residential mortgage loans, the '30 days past due' criterion is used as a primary indicator of a SICR. Where a SICR is no longer observed, the instrument transitions back to stage 1.

The ZIC Group has elected to apply the simplified approach for receivables from policyholders and other receivables that are allocated to 'Stage 2' unless individually impaired. Financial assets that have become credit-impaired are allocated to stage 3 based on similar principles as are applied under IAS 39 to determine whether credit loss has been incurred.

The tables 24.4a and 24.4b show the fair value and the carrying amount (before adjusting for any impairment in case of financial assets measured at amortized cost) of financial assets whose contractual terms give rise to cash flows that are SPPI, by impairment stages:

Table 24.4a

Financial assets (SPPI) by stages – current period	in USD millions, as of December 31, 2021	Stage 1		Stage 2		Stage 3		Total
		Carrying		Carrying		Carrying		Carrying
		Fair value	value	Fair value	value	Fair value	value	value
Available-for-sale								
debt securities		127,179	127,179	418	418	26	26	127,622
Held-to-maturity								
debt securities		2,358	1,897	–	–	–	–	2,358
Mortgage loans		6,338	6,079	19	17	15	18	6,371
Other loans ¹		7,389	6,282	67	66	–	–	7,456
Receivables		3,193	3,254	10,151	10,284	17	124	13,362
Total financial assets		146,457	144,691	10,655	10,784	58	168	155,643

¹ Do not include policyholder loans, which will come under IFRS 17 and are therefore not applicable for IFRS 9, of USD 794 million and USD 654 million for fair value and carrying value, respectively.

Table 24.4b

Financial assets (SPPI) by stages – prior period	in USD millions, as of December 31, 2020	Stage 1		Stage 2		Stage 3		Total
		Carrying		Carrying		Carrying		Carrying
		Fair value	value	Fair value	value	Fair value	value	value
Available-for-sale								
debt securities		143,508	143,508	560	560	38	38	144,106
Held-to-maturity								
debt securities		2,927	2,216	–	–	1	1	2,928
Mortgage loans		6,166	5,750	12	12	28	29	6,205
Other loans ¹		9,461	7,858	27	27	–	–	9,488
Receivables		2,439	2,504	10,554	10,718	42	145	13,035
Total financial assets		164,502	161,837	11,153	11,316	108	213	173,366

¹ Do not include policyholder loans, which will come under IFRS 17 and are therefore not applicable for IFRS 9, of USD 861 million and USD 675 million for fair value and carrying value, respectively.

Consolidated financial statements (continued)

25. Related-party transactions

In the normal course of business, the ZIC Group enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions, or one other party controls both. Related parties of the ZIC Group include, among others, subsidiaries, associates, joint ventures, key management personnel, and the post-employment benefit plans (see note 20). Transactions between the ZIC Group and its subsidiaries are eliminated on consolidation, and they are not disclosed in the consolidated financial statements. A list of the ZIC Group's significant subsidiaries is shown in note 28. The transactions of the ZIC Group concluded with its associates and with its joint ventures are not considered material to the ZIC Group, either individually or in aggregate.

Table 25 summarizes related-party transactions with key management personnel reflected in the consolidated financial statements. Key management personnel includes members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd and members of the Executive Committee.

Table 25

Related party transactions – key personnel	in USD millions, for the years ended December 31	
	2021	2020
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	33	31
Post-employment benefits	4	4
Share-based compensation	33	42
Other remuneration	4	4
Total remuneration of key personnel	74	81

As of December 31, 2021, and 2020, there were no loans, advances or credits outstanding from members of the Executive Committee. Outstanding loans and guarantees granted to members of the Board of Directors amounted to nil for the years ended December 31, 2021 and 2020. The terms 'members of the Board of Directors' and 'members of the Executive Committee' in this context include the individual as well as members of their respective households. The figures in table 25 include the fees paid to members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd, which were USD 6 million and USD 6 million for the years ended December 31, 2021 and 2020, respectively.

The information required by articles 14–16 of the Swiss Ordinance Against Excessive Compensation, which prevails over article 663b^{bis} of the Swiss Code of Obligations, is disclosed and audited in the Remuneration report.

The cash compensation, current benefits and fees are short term in nature.

Consolidated financial statements (continued)

26. Relationship with the Farmers Exchanges

Farmers Group, Inc. and its subsidiaries (FGI) provide certain non-claims services to the Farmers Exchanges as their attorneys-in-fact, and also provide certain ancillary services to the Farmers Exchanges. Farmers Group Inc. is a wholly owned subsidiary of the Group. Attorney-in-fact services primarily include risk selection, preparation and mailing of policy documents and invoices, premium collection, management of the investment portfolios and certain other administrative and managerial functions. Fees for these services are primarily determined as a percentage of gross premiums earned by the Farmers Exchanges. Ancillary services primarily include information technology, brand advertising and certain distribution related services that are not covered under the attorney-in-fact contracts for which FGI acts as a principal in arranging for those services to the Exchanges. The finances and operations of the Farmers Exchanges are governed by independent Boards of Governors. In addition, the ZIC Group has the following relationships with the Farmers Exchanges.

a) Surplus notes issued by the Farmers Exchanges

As of December 31, 2021 and 2020, FGI and its subsidiary held the following surplus note issued by the Farmers Exchanges.

Table 26.1

Surplus note	in USD millions, as of December 31	
	2021	2020
3.758% surplus note, due December 2027	100	100
Total	100	100

The USD 100 million of 10-year, no call five-year note at a 3.758 percent rate that the Farmers Exchanges issued to Farmers New World Life Insurance Company remains unchanged in 2021. At the end of the five years, starting December 20, 2022, interest shall accrue at the floating annual rate equal to the three-month USD LIBOR plus 2.60 percent rate.

Conditions governing payment of interest and repayment of principal are outlined in the surplus note. Generally, repayment of principal and payment of interest may be made only when the issuer has an appropriate amount of surplus, and then only after approval is granted by the appropriate state insurance regulatory department in the U.S. Additionally, the approval by the issuer's governing board is needed for repayment of principal.

b) Quota share reinsurance treaty with the Farmers Exchanges

The Farmers Exchanges cede risk through a quota share reinsurance treaty, the All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Reinsurance Company (Farmers Re Co), a wholly owned subsidiary of FGI, as well as numerous unrelated reinsurers. The All Lines agreement can be terminated after 90 days' notice by any of the parties.

The All Lines agreement provides for a cession of a quota share of the premiums earned and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges.

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Table 26.2

Quota share reinsurance treaty	in USD millions, for the years ended December 31	All Lines agreement	
		2021 ¹	2020 ²
Net earned premiums and policy fees		192	48
Insurance benefits and losses, net ^{3,4}		(145)	(24)
Total net technical expenses ⁵		(62)	(16)
Net underwriting result		(15)	9

1 From January 1, 2021, through March 31, 2021, Farmers Re Co assumed a 0.25 percent quota share. Another 25.75 percent was assumed by third parties. Effective April 1, 2021, Farmers Re Co assumed a 1.0 percent quota share. Another 32.00 percent was assumed by third parties. Effective December 31, 2021, Farmers Re Co assumed a 1.75 percent quota share. Another 29.25 percent was assumed by third parties.

2 From January 1, 2020, Farmers Re Co assumed a 0.25 percent quota share. Another 25.75 percent was assumed by third parties. Effective December 31, 2020, Farmers Re Co participation in the All Lines agreement remained at 0.25 percent. Another 25.75 percent was assumed by third parties.

3 Under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a maximum of 6.75 percent of net earned premiums dependent on loss experience and recoveries at a specified rate for each year. Based on the results for 2021, the total catastrophe recoveries subject to the All Lines agreement was USD 1.5 billion. Effective December 31, 2021, the maximum will increase to 7.88 percent of net earned premiums in the year 2022.

4 From 2012 to 2018, Zurich Insurance Company Ltd (ZIC) participated in the All Lines agreement. The insurance losses include prior-year loss development assumed by ZIC of USD 9 million and USD 8 million, for the years 2021 and 2020, respectively.

5 Under the All Lines agreement, the Farmers Exchanges receive 26.7 percent of premiums for ceding commissions, 8.1 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses. Effective December 31, 2021, ceding commissions remain at 26.7 percent of premiums, the unallocated loss adjustment expenses decrease to 6.24 percent of premiums, and the other expenses decrease to 5.2 percent of premiums.

c) Farmers management fees and other related revenues

Farmers Group, Inc. and its subsidiaries (FGI), wholly owned subsidiaries of the Group, are the appointed attorneys-in-fact of the Farmers Exchanges, which are not owned by FGI. As the attorney-in-fact, FGI is permitted by policyholders of the Farmers Exchanges to receive a management fee of up to 20 percent (up to 25 percent in the case of the Fire Insurance Exchange) of the gross premiums earned by the Farmers Exchanges. This management fee, the primary source of revenue for FGI, has an agreed upon margin cap of 7 percent which is derived from FGI gross management result divided by the gross premium earned by the Farmers Exchanges. The expected revenues and expenses are assessed monthly to determine if expected revenues will be in excess of the cap, in which case the revenue is reduced on a pro-rata basis to ensure that no revenue is recognized for the amounts exceeding the cap. For 2021 only, FGI and the Farmers Exchanges agreed to calculate the margin cap based on results excluding Farmers Workplace Solutions (FWS). In addition, FGI revenue includes reimbursement of certain ancillary service costs incurred by FGI on behalf of primarily the Farmers Exchanges that are not covered under the attorney-in-fact contracts. The amounts incurred for these services are reimbursed to FGI at cost in accordance with allocations that are subject to approval by the Farmers Exchanges Boards of Governors.

FGI has historically charged a lower management fee than the amount allowed by policyholders. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 23.7 billion and USD 20.1 billion for the years ended December 31, 2021 and 2020, respectively.

Table 26.3

Farmers Management Services	in USD millions, for the years ended December 31	2021	2020	Change
Management fees and other related revenues		4,265	3,703	15%
Management fees ¹		3,141	2,749	
Revenues for ancillary services ²		1,019	842	
Membership fees		59	59	
Other revenues		46	53	
Management and other related expenses		2,697	2,345	15%
Expenses for ancillary services ²		1,019	842	
Management and other expenses ³		1,678	1,504	
Gross management result		1,568	1,357	15%
Managed gross earned premium margin ⁴		6.6%	6.8%	(0.1 pts)

1 Increase in 2021 fee revenues in FWS (see note 5) as well as 2020 COVID-19 premium credits to customers at the Farmers Exchanges.

2 Increase in ancillary service revenues and expenses in FWS and higher Exchanges brand advertising and distribution related service expenses.

3 Increase in operating expenses in FWS.

4 Decrease in 2021 margin due to lower FWS margin.

Consolidated financial statements (continued)

27. 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 'Operating Segments' and segment information is presented accordingly as follows:

- Property & Casualty regions
- Life regions
- Farmers
- Group Functions and Operations
- Non-Core Businesses

The Group's reportable segments comprise the following:

Property & Casualty and Life regions

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

Property & Casualty 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 services and ancillary 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, Headquarters and the new digital ventures of the 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 Property & Casualty and Life results are further aggregated to show a total Property & Casualty and total Life business view.

- Property & Casualty – total
- Life – total

For additional informational purposes, the Group also discloses income statement information for

- Property & Casualty Commercial Insurance
- Property & Casualty Retail and SME

Business operating profit

The segment information includes the Group's internal performance measure, business operating profit (BOP). This measure is the basis on which the Group manages all of its business units. It indicates the underlying performance of the Group's business units, 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 impairments 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 and policyholders' share of investment results for the life businesses) 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 and impairments of goodwill are also excluded from BOP.

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Consolidated financial statements (continued)

Table 27.1

**Property & Casualty
– Overview by
segment**

in USD millions, for the years ended December 31

	Europe, Middle East & Africa		North America	
	2021	2020	2021	2020
Revenues				
Direct written premiums	15,526	13,781	17,299	15,185
Assumed written premiums	2,319	2,058	933	851
Gross written premiums and policy fees	17,845	15,839	18,232	16,036
Less premiums ceded to reinsurers	(3,549)	(3,109)	(6,302)	(5,970)
Net written premiums and policy fees	14,296	12,730	11,930	10,066
Net change in reserves for unearned premiums	(578)	(387)	(685)	(250)
Net earned premiums and policy fees	13,718	12,343	11,246	9,816
Net investment income on Group investments	524	498	888	981
Net capital gains/(losses) and impairments on Group investments	7	50	35	255
Net investment result on Group investments	531	547	923	1,236
Other income	486	355	205	37
Total BOP revenues	14,735	13,246	12,374	11,089
Benefits, losses and expenses				
Insurance benefits and losses, net	9,363	8,298	7,192	6,761
Policyholder dividends and participation in profits, net	9	8	12	7
Underwriting and policy acquisition costs, net	2,788	2,440	2,825	2,538
Administrative and other operating expense (excl. depreciation/amortization)	1,429	1,433	482	231
Interest credited to policyholders and other interest	174	173	60	65
Restructuring costs and other items not included in BOP	(54)	(84)	(15)	(19)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	13,709	12,268	10,555	9,583
Business operating profit (before interest, depreciation and amortization)	1,026	978	1,819	1,506
Depreciation and impairments of property and equipment	111	109	61	72
Amortization and impairments of intangible assets	69	90	53	39
Interest expense on debt	4	9	–	–
Business operating profit before non-controlling interests	842	770	1,706	1,396
Non-controlling interests	19	15	–	–
Business operating profit	822	755	1,706	1,396

Consolidated financial statements (continued)

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
2,989	2,719	2,499	2,242	–	–	–	–	38,314	33,926
233	207	89	57	696	597	(2,462)	(2,178)	1,809	1,592
3,223	2,926	2,589	2,299	696	597	(2,462)	(2,178)	40,123	35,518
(638)	(567)	(637)	(565)	(580)	(568)	2,462	2,178	(9,244)	(8,601)
2,585	2,359	1,951	1,734	117	28	–	–	30,879	26,918
(67)	80	(72)	37	(17)	(3)	–	–	(1,418)	(522)
2,519	2,439	1,879	1,771	100	26	–	–	29,461	26,396
86	92	178	160	12	10	–	–	1,688	1,740
–	–	–	–	–	–	–	–	42	305
86	92	178	160	12	10	–	–	1,731	2,045
82	136	46	41	16	3	–	–	836	573
2,686	2,668	2,104	1,972	128	38	–	–	32,028	29,014
1,383	1,476	744	641	(88)	360	–	–	18,593	17,536
1	–	1	–	–	–	–	–	23	15
577	601	716	719	(19)	(9)	–	–	6,886	6,288
424	487	312	260	108	36	–	–	2,755	2,447
4	2	36	32	6	7	–	–	279	278
(15)	(23)	(54)	(14)	–	–	–	–	(138)	(140)
2,374	2,543	1,754	1,638	6	393	–	–	28,398	26,425
312	124	350	335	122	(355)	–	–	3,630	2,589
49	51	15	17	1	1	–	–	236	251
25	23	14	11	–	–	–	–	161	162
–	–	–	–	–	1	–	–	4	10
239	51	322	306	121	(357)	–	–	3,229	2,166
3	3	85	68	–	–	–	–	108	86
235	48	236	239	121	(357)	–	–	3,121	2,080

Consolidated financial statements (continued)

Table 27.2

Life – Overview by segment	in USD millions, for years ended December 31	Europe, Middle East & Africa		North America	
		2021	2020	2021	2020
Revenues					
Life insurance deposits		10,476	9,390	713	761
Gross written premiums		6,948	7,420	139	137
Policy fees		1,573	1,388	404	369
Gross written premiums and policy fees		8,521	8,808	543	505
Net earned premiums and policy fees		7,807	8,133	418	469
Net investment income on Group investments		2,278	2,226	27	31
Net capital gains/(losses) and impairments on Group investments		662	434	17	6
Net investment result on Group investments		2,940	2,660	44	37
Net investment income on unit-linked investments		1,050	917	–	–
Net capital gains/(losses) and impairments on unit-linked investments		11,556	4,413	191	615
Net investment result on unit-linked investments		12,606	5,330	191	615
Other income		336	384	33	40
Total BOP revenues		23,689	16,507	687	1,161
Benefits, losses and expenses					
Insurance benefits and losses, net		6,469	6,993	325	385
Policyholder dividends and participation in profits, net		13,380	6,196	191	615
Income tax expense/(benefit) attributable to policyholders		245	37	–	–
Underwriting and policy acquisition costs, net		909	791	42	53
Administrative and other operating expense (excl. depreciation/amortization)		1,159	1,240	45	90
Interest credited to policyholders and other interest		228	230	56	32
Restructuring costs and other items not included in BOP		(79)	(82)	(3)	–
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)		22,311	15,404	656	1,174
Business operating profit (before interest, depreciation and amortization)		1,378	1,103	31	(13)
Depreciation and impairments of property and equipment		23	26	–	–
Amortization and impairments of intangible assets		54	35	–	–
Interest expense on debt		–	–	–	–
Business operating profit before non-controlling interests		1,301	1,042	31	(13)
Non-controlling interests		104	97	–	–
Business operating profit		1,197	945	31	(13)

Life includes approximately USD 1.1 billion and USD 1.1 billion of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2021 and 2020, respectively.

Consolidated financial statements (continued)

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
145	112	3,023	3,401	–	–	–	–	14,357	13,663
2,467	2,242	2,236	2,193	35	33	(35)	(45)	11,791	11,980
132	147	95	69	–	–	–	–	2,205	1,973
2,599	2,389	2,332	2,262	35	33	(35)	(45)	13,995	13,953
2,006	2,021	2,042	1,977	26	24	–	–	12,299	12,624
204	167	480	331	–	–	(1)	(2)	2,987	2,753
(63)	34	4	12	–	–	–	–	621	486
141	201	484	343	–	–	(1)	(2)	3,608	3,239
139	107	27	31	–	–	–	–	1,217	1,055
38	(4)	908	715	–	–	–	–	12,693	5,739
177	104	935	746	–	–	–	–	13,909	6,794
25	23	93	68	–	–	(1)	(2)	486	513
2,349	2,348	3,554	3,133	26	24	(3)	(3)	30,301	23,169
1,087	1,094	978	825	4	10	–	–	8,863	9,306
143	124	946	756	–	–	–	–	14,660	7,691
30	10	–	–	–	–	–	–	275	46
174	324	999	937	7	9	(1)	(2)	2,129	2,112
600	522	250	162	–	1	–	–	2,054	2,015
1	13	29	22	–	–	–	–	315	297
(58)	(40)	(33)	41	–	–	–	–	(173)	(81)
1,977	2,048	3,169	2,742	10	20	(1)	(2)	28,123	21,387
371	300	385	391	15	4	(1)	(2)	2,178	1,782
8	9	11	10	–	–	–	–	42	45
8	9	9	9	–	–	–	–	71	52
11	16	–	1	–	–	(1)	(2)	10	16
344	266	365	371	15	4	–	–	2,055	1,670
(4)	(3)	143	152	–	–	–	–	243	246
347	269	222	219	15	4	–	–	1,812	1,423

Consolidated financial statements (continued)

Table 27.3

in USD millions, for the years ended December 31

Business operating profit by business

	Property & Casualty		Life	
	2021	2020	2021	2020
Revenues				
Direct written premiums	38,314	33,926	11,770	11,760
Assumed written premiums	1,809	1,592	20	220
Gross Written Premiums	40,123	35,518	11,791	11,980
Policy fees	–	–	2,205	1,973
Gross written premiums and policy fees	40,123	35,518	13,995	13,953
Less premiums ceded to reinsurers	(9,244)	(8,601)	(1,507)	(1,225)
Net written premiums and policy fees	30,879	26,918	12,489	12,727
Net change in reserves for unearned premiums	(1,418)	(522)	(190)	(104)
Net earned premiums and policy fees	29,461	26,396	12,299	12,624
Farmers management fees and other related revenues	–	–	–	–
Net investment income on Group investments	1,688	1,740	2,987	2,753
Net capital gains/(losses) and impairments on Group investments	42	305	621	486
Net investment result on Group investments	1,731	2,045	3,608	3,239
Net investment result on unit-linked investments	–	–	13,909	6,794
Other income	836	573	486	513
Total BOP revenues	32,028	29,014	30,301	23,169
of which: inter-business revenues	3	(13)	29	(165)
Benefits, losses and expenses				
Losses and loss adjustment expenses, net	18,596	17,539	–	–
Life insurance death and other benefits, net	(2)	(2)	8,863	9,306
Insurance benefits and losses, net	18,593	17,536	8,863	9,306
Policyholder dividends and participation in profits, net	23	15	14,660	7,691
Income tax expense/(benefit) attributable to policyholders	–	–	275	46
Underwriting and policy acquisition costs, net	6,886	6,288	2,129	2,112
Administrative and other operating expense (excl. depreciation/amortization)	2,755	2,447	2,054	2,015
Interest credited to policyholders and other interest	279	278	315	297
Restructuring costs and other items not included in BOP	(138)	(140)	(173)	(81)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	28,398	26,425	28,123	21,387
Business operating profit (before interest, depreciation and amortization)	3,630	2,589	2,178	1,782
Depreciation and impairments of property and equipment	236	251	42	45
Amortization and impairments of intangible assets	161	162	71	52
Interest expense on debt	4	10	10	16
Business operating profit before non-controlling interests	3,229	2,166	2,055	1,670
Non-controlling interests	108	86	243	246
Business operating profit	3,121	2,080	1,812	1,423

Life includes approximately USD 1.1 billion and USD 1.1 billion of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2021 and 2020, respectively.

Consolidated financial statements (continued)

		Group Functions and Operations		Non-Core Businesses		Eliminations		Total	
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
638	610	3	(7)	34	34	–	–	50,759	46,323
353	49	357	–	52	54	(165)	(17)	2,426	1,899
992	659	359	(7)	86	88	(165)	(17)	53,185	48,221
359	337	–	–	27	24	–	–	2,592	2,334
1,351	996	359	(7)	113	112	(165)	(17)	55,777	50,555
(175)	(174)	(194)	–	(16)	(5)	165	17	(10,970)	(9,988)
1,176	822	165	(7)	98	107	–	–	44,806	40,567
(161)	(1)	(11)	2	4	2	–	–	(1,776)	(623)
1,015	821	154	(5)	102	109	–	–	43,031	39,944
4,265	3,703	–	–	–	–	–	–	4,265	3,703
176	189	155	162	131	166	(91)	(110)	5,045	4,901
5	2	–	–	(177)	174	–	–	491	966
180	191	155	162	(46)	339	(91)	(110)	5,536	5,867
203	163	–	–	276	433	–	–	14,388	7,389
73	89	123	133	31	(9)	(266)	(342)	1,283	958
5,736	4,967	432	291	362	872	(357)	(452)	68,502	57,861
(7)	(18)	(377)	(245)	(6)	(10)	357	452	–	–
145	24	2	–	57	18	–	–	18,800	17,581
590	522	105	(3)	(71)	338	–	–	9,484	10,160
735	545	107	(3)	(14)	356	–	–	28,284	27,741
213	173	12	–	287	446	–	–	15,195	8,325
–	–	–	–	–	–	–	–	275	46
175	145	25	4	5	5	(7)	–	9,213	8,555
2,702	2,372	481	481	58	87	3	(75)	8,054	7,327
111	108	124	121	25	26	(262)	(250)	591	581
(29)	(64)	(51)	(50)	–	–	–	–	(392)	(335)
3,908	3,280	697	553	361	920	(266)	(325)	61,220	52,239
1,829	1,687	(265)	(262)	1	(48)	(91)	(126)	7,282	5,622
59	72	14	12	–	–	–	–	351	380
141	114	23	70	–	–	–	–	396	398
12	–	532	495	2	5	(91)	(126)	469	400
1,617	1,501	(834)	(839)	(1)	(54)	–	–	6,067	4,444
76	70	–	–	–	–	–	–	428	402
1,541	1,432	(834)	(839)	(1)	(54)	–	–	5,639	4,043

Consolidated financial statements (continued)

Table 27.4

in USD millions, for the years ended December 31

Reconciliation of BOP to net income after income taxes

	Property & Casualty		Life	
	2021	2020	2021	2020
Business operating profit	3,121	2,080	1,812	1,423
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	1,440	835	167	390
Net gains/(losses) on divestment of businesses ¹	–	–	(151)	56
Restructuring costs	(59)	(92)	(33)	(64)
Impairments of goodwill	(5)	–	–	–
Other adjustments ²	(75)	(49)	(140)	(17)
Add back:				
Business operating profit attributable to non-controlling interests	108	86	243	246
Net income before shareholders' taxes	4,531	2,861	1,898	2,034
Income tax expense/(benefit) attributable to policyholders	–	–	275	46
Net income before income taxes	4,531	2,861	2,173	2,081
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

- ¹ In 2021, Life included losses of USD 144 million as Zurich Investments Life S.p.A. agreed to sell its life and pension back book and USD 9 million as Zurich International Life Limited entered into an agreement to sell an insurance portfolio, Group Functions included losses of USD 33 million related to the sale of Bright Box (see note 5). In 2020, Life included gains of USD 115 million due to the sale of the Corporate Life and Pensions (CLP) business to Aflac Incorporated (Aflac) by Zurich Holding Company of America, Inc., Zurich American Life Insurance Company and Zurich American Life Insurance Company of New York, offset by losses of USD 20 million as Zurich International Life Limited entered into an agreement to sell an insurance portfolio, USD 14 million due to the sale of UK International Portfolio Bond by Zurich Life Assurance plc, USD 19 million for re-measurements of assets held for sale based on agreements to sell businesses in the UK and USD 7 million related to the sale of the UK Life business.
- ² Other adjustments in 2021 and 2020 include charges related to the implementation of IFRS 17 and business combination integration costs.

Consolidated financial statements (continued)

[illegible]

Consolidated financial statements (continued)

Table 27.5

in USD millions, as of December 31

Assets and liabilities by business

	Property & Casualty		Life	
	2021	2020	2021	2020
Assets				
Cash and cash equivalents	8,626	9,850	3,821	4,789
Total Group Investments	75,314	73,303	105,214	124,883
Equity securities	9,038	9,250	8,278	9,097
Debt securities	54,634	53,743	76,392	93,864
Investment property	4,973	5,195	8,845	9,298
Mortgage loans	930	950	4,643	4,299
Other loans	5,735	4,159	7,034	8,305
Investments in associates and joint ventures	5	6	23	20
Investments for unit-linked contracts	–	–	136,920	129,797
Total investments	75,314	73,303	242,133	254,681
Reinsurers' share of liabilities for insurance contracts	17,846	17,518	2,928	3,026
Deposits made under assumed reinsurance contracts	56	56	2	73
Deferred policy acquisition costs	6,359	5,984	12,201	12,248
Deferred origination costs	–	–	441	426
Goodwill	1,820	1,876	1,277	1,365
Other intangible assets	1,679	1,694	1,889	2,090
Other assets ¹	17,239	17,187	16,908	8,708
Total assets (after cons. of investments in subsidiaries)	128,939	127,467	281,601	287,405
Liabilities				
Liabilities for investment contracts	–	–	68,472	69,118
Liabilities for insurance contracts, gross	84,892	83,545	168,932	181,348
Reserves for losses and loss adjustment expenses, gross	62,225	61,951	–	–
Reserves for unearned premiums, gross	19,707	18,709	–	–
Future life policyholder benefits, gross	26	30	68,333	78,151
Policyholder contract deposits and other funds, gross	44	34	22,031	25,495
Reserves for unit-linked insurance contracts, gross	–	–	76,973	75,896
Other insurance liabilities, gross	2,890	2,821	1,595	1,806
Senior debt	880	730	575	663
Subordinated debt	975	983	650	655
Other liabilities ¹	13,420	13,933	24,183	15,478
Total liabilities	100,167	99,190	262,811	267,263
Equity				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	465	412	94	82

¹ As of December 31, 2021, the ZIC Group had USD 11.6 billion of assets held for sale based on agreements signed to sell business of Zurich Insurance plc, Zurich International Life Limited and Zurich Investments Life S.p.A. (see note 5). In addition, assets held for sale include land and buildings formerly classified as investment property and held for own use amounting to USD 429 million. In 2020, the Group had USD 2.5 billion of assets held for sale based on agreements signed to sell business of Zurich Insurance plc and Zurich International Life Limited (see note 5). In addition, assets held for sale include land and buildings formerly classified as investment property and held for own use amounting to USD 32 million.

Consolidated financial statements (continued)

		Group Functions and Operations		Non-Core Businesses		Eliminations		Total	
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
823	818	5,187	6,142	776	616	(10,559)	(10,914)	8,673	11,300
5,855	5,802	12,242	10,805	5,222	5,766	(11,935)	(9,331)	191,911	211,227
71	71	2,047	1,765	97	139	–	–	19,530	20,322
4,212	4,150	5,825	5,762	4,338	4,551	(317)	(360)	145,084	161,710
159	159	–	–	94	96	–	–	14,070	14,749
533	534	–	–	–	–	–	–	6,106	5,783
880	887	4,329	3,260	694	979	(11,618)	(8,971)	7,053	8,620
–	–	41	17	–	–	–	–	68	43
1,286	1,086	–	–	4,265	4,175	–	–	142,470	135,058
7,140	6,887	12,242	10,805	9,487	9,941	(11,935)	(9,331)	334,381	346,285
1,992	2,074	189	–	2,937	2,936	(212)	(30)	25,680	25,523
98	142	135	–	220	283	(68)	(52)	444	503
1,885	1,788	–	–	–	–	1	1	20,446	20,021
–	–	–	–	–	–	–	–	441	426
1,237	819	9	29	–	–	–	–	4,344	4,089
879	383	37	64	–	–	–	–	4,484	4,230
3,477	1,812	1,369	1,318	2,566	2,657	(3,703)	(3,746)	37,857	27,936
17,531	14,723	19,168	18,357	15,986	16,433	(26,475)	(24,072)	436,750	440,314
247	235	–	–	137	153	–	–	68,855	69,507
7,915	7,484	410	–	10,882	11,182	(326)	(62)	272,707	283,497
186	198	1	–	1,196	1,203	(32)	(26)	63,577	63,327
182	21	1	–	22	(2)	(4)	(4)	19,909	18,724
2,359	2,304	374	–	3,061	3,474	(176)	(1)	73,977	83,958
3,914	3,885	5	–	2,058	2,083	–	–	28,052	31,497
1,286	1,086	–	–	4,265	4,175	–	–	82,524	81,157
(12)	(10)	29	–	280	248	(114)	(32)	4,668	4,834
–	–	11,754	10,440	279	276	(8,162)	(6,624)	5,327	5,484
1,058	–	10,755	9,248	–	–	(3,655)	(2,580)	9,782	8,306
2,238	2,112	10,934	12,874	4,037	4,183	(14,333)	(14,805)	40,479	33,774
11,458	9,831	33,853	32,562	15,335	15,795	(26,475)	(24,072)	397,150	400,569
								37,542	37,462
								2,058	2,283
								39,600	39,745
								436,750	440,314
144	128	54	92	–	–	–	–	757	715

Consolidated financial statements (continued)

Table 27.6

**Property & Casualty
– Commercial and
Retail Insurance
overview¹**

in USD millions, for the year ended December 31

	Commercial Insurance		Retail and SME	
	2021	2020	2021	2020
Gross written premiums and policy fees	28,184	24,697	13,724	12,454
Net earned premiums and policy fees	16,839	14,663	12,523	11,708
Insurance benefits and losses, net	11,057	10,394	7,624	6,783
Policyholder dividends and participation in profits, net	13	8	10	7
Total net technical expenses	4,742	4,222	4,380	4,188
Net underwriting result	1,027	38	509	730
Net investment income	1,186	1,251	491	481
Net capital gains/(losses) and impairments on investments	39	279	4	26
Net non-technical result (excl. items not included in BOP)	(12)	(84)	(136)	(198)
Business operating profit before non-controlling interests	2,240	1,484	868	1,039
Non-controlling interest	–	(1)	108	87
Business operating profit	2,239	1,485	761	953

¹ Commercial and Retail Insurance overview exclude Group Reinsurance.

Consolidated financial statements (continued)

Table 27.7

in USD millions

Property & Casualty – Revenues and non-current assets by region

	Gross written premiums and policy fees from external customers						Property, equipment and intangible assets	
			of which		of which			
	Total		Commercial Insurance		Retail and Other Insurance			
	for the years ended December 31		for the years ended December 31		for the years ended December 31		as of December 31	
	2021	2020	2021	2020	2021	2020	2021	2020
Europe								
Austria	665	619					108	77
France	367	313					16	20
Germany	2,944	2,779					645	715
Italy	1,689	1,533					28	41
Ireland	654	412					69	87
Portugal	387	354					11	18
Spain	1,516	1,302					299	314
Switzerland	3,830	3,347					805	839
United Kingdom	3,653	3,230					127	156
Rest of Europe	863	818					86	74
Middle East & Africa								
Middle East	137	131					–	1
Europe, Middle East & Africa	16,704	14,836	6,751	5,808	9,954	9,028	2,195	2,343
North America								
Canada	1,083	775					19	14
United States	16,641	14,787					1,076	1,111
North America	17,724	15,562	17,724	15,562	–	–	1,095	1,125
Asia Pacific								
Australia	885	691					855	903
Hong Kong	312	290					32	34
Japan	999	968					19	25
Malaysia	385	367					56	59
Rest of Asia Pacific	538	511					273	277
Asia Pacific	3,119	2,827	1,005	877	2,113	1,950	1,234	1,298
Latin America								
Argentina	529	439					220	183
Brazil	869	838					302	357
Chile	392	318					13	22
Mexico	583	526					130	146
Rest of Latin America	193	167					48	64
Latin America	2,567	2,289	910	812	1,657	1,476	712	773
Group Reinsurance								
Group Reinsurance	8	5	–	–	8	5	2	1
Total	40,122	35,518	26,390	23,059	13,732	12,459	5,239	5,540

Consolidated financial statements (continued)

Table 27.8

**Life –
Revenues and
non-current assets
by region**

in USD millions

	Gross written premiums and policy fees from external customers		Life insurance deposits		Property, equipment and intangible assets	
	for the years ended		for the years ended		as of December 31	
	December 31 2021	2020	December 31 2021	2020	2021	2020
Europe, Middle East & Africa						
Austria	110	99	63	56	6	27
Germany	1,675	2,065	1,688	1,565	76	73
Italy	973	1,019	1,887	2,040	19	29
Ireland ¹	606	574	4,595	3,146	95	106
Spain	1,684	1,615	49	48	1,053	1,146
Switzerland	1,130	1,183	331	276	3	3
United Kingdom	1,825	1,549	(66)	90	142	127
Zurich International ²	491	466	1,615	2,044	38	47
Rest of Europe, Middle East & Africa	27	208	314	125	1	5
Europe, Middle East & Africa	8,521	8,779	10,476	9,390	1,434	1,563
North America						
United States	543	505	713	761	–	–
North America	543	505	713	761	–	–
Asia Pacific						
Australia	1,765	1,580	59	26	1,267	1,349
Hong Kong	53	54	17	18	–	–
Indonesia	62	58	–	–	1	2
Japan	479	469	–	–	12	15
Malaysia	240	228	69	68	81	88
Asia Pacific	2,599	2,389	145	112	1,361	1,454
Latin America						
Argentina	157	117	100	92	45	35
Brazil	1,276	1,145	2,370	2,980	213	239
Chile	396	562	171	137	288	360
Mexico	443	388	382	192	89	100
Uruguay	43	41	–	–	1	–
Colombia	15	10	–	–	–	–
Latin America	2,331	2,262	3,023	3,401	636	734
Total	13,994	13,935	14,357	13,663	3,430	3,751

¹ Includes business written under freedom of services and freedom of establishment in Europe, and the related assets.

² Includes business written through licenses, mainly in Asia Pacific and Middle East, and the related assets.

Consolidated financial statements (continued)

28. Interest in subsidiaries

Significant subsidiaries are defined as those subsidiaries which either individually or in aggregate, contribute significantly to gross written premiums, shareholder's equity, total assets or net income attributable to shareholders.

Table 28.1

as of December 31, 2021

Significant
subsidiaries –
non-listed

as of December 31, 2021				Nominal value of share capital (in local currency millions)	
	Registered office	Voting rights %	Ownership interest %		
Australia					
Cover-More Group Limited	Sydney	100	100	AUD	1,014.2
Zurich Australia Limited	Sydney	100	100	AUD	543.5
Zurich Australian Insurance Limited	Sydney	100	100	AUD	6.6
Zurich Financial Services Australia Limited	Sydney	100	100	AUD	2,983.0
OnePath Life Limited	Sydney	100	100	AUD	1,344.4
OnePath Life Australia Holdings Pty Limited	Sydney	100	100	AUD	2,595.7
Austria					
Zürich Versicherungs-Aktiengesellschaft	Vienna	99.98	99.98	EUR	12.0
Brazil					
Zurich Santander Brasil Seguros e Previdência S.A. ¹	Sao Paulo	51	51	BRL	2,509.2
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	100	100	BRL	2,476.0
Zurich Resseguradora Brasil S.A.	Sao Paulo	100	100	BRL	204.0
Chile					
Chilena Consolidada Seguros de Vida S.A.	Santiago	99.10	99.10	CLP	211,423.0
Zurich Santander Seguros de Vida Chile S.A. ¹	Santiago	51	51	CLP	24,252.9
Germany					
Deutscher Herold Aktiengesellschaft	Köln	100	100	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Köln	100	100	EUR	68.5
Zurich Immobilien (Deutschland) AG & Co. KG	Köln	100	100	EUR	0.002
Indonesia					
PT Zurich Asuransi Indonesia Tbk	Jakarta Selatan	80	80	IDR	3,101,846.6
Ireland					
Zurich Life Assurance plc	Dublin	100	100	EUR	17.5
Zurich Holding Ireland Limited	Dublin	100	100	EUR	0.1
Zurich Insurance plc	Dublin	100	100	EUR	8.2
Italy					
Zurich Investments Life S.p.A.	Milan	100	100	EUR	199.0
Japan					
Zurich Life Insurance Japan Company Ltd	Nakano-ku	100	100	JPN	13,632.6
Luxembourg					
REX-ZDHL S.C.S. SICAV-SIF	Leudelange	100	100	EUR	2,180.6
Malaysia					
Zurich Life Insurance Malaysia Berhad	Kuala Lumpur	100	100	MYR	579.0
Zurich Holdings Malaysia Berhad	Kuala Lumpur	100	100	MYR	673.4
Mexico					
Zurich Santander Seguros México, S.A. ¹	Mexico City	51	51	MXN	190.0

Consolidated financial statements (continued)

Table 28.1

as of December 31, 2021

Significant subsidiaries – non-listed (continued)

as of December 31, 2021				Nominal value of	
	Registered office	Voting rights %	Ownership interest %	share capital (in local currency millions)	
Spain					
Bansabadell Pensiones, E.G.F.P, S.A.	Madrid	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Madrid	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros y Reaseguros	Madrid	50	50	EUR	43.9
Zurich Latin America Holding S.L. – Sociedad Unipersonal	Barcelona	100	100	EUR	43.0
Zurich Santander Holding (Spain), S.L. ¹	Boadilla del Monte	51	51	EUR	94.3
Zurich Santander Holding Dos (Spain), S.L. ¹	Madrid	51	51	EUR	40.0
Zurich Santander Insurance America, S.L.	Madrid	51	51	EUR	177.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	100	100	EUR	56.4
Switzerland					
Zurich Finance Company AG	Zurich	100	100	CHF	0.2
Zurich Life Insurance Company Ltd	Zurich	100	100	CHF	60.0
Zürich Rückversicherungs-Gesellschaft AG	Zurich	100	100	CHF	11.7
United Kingdom					
Allied Zurich Holdings Limited	St. Hélier, Jersey	100	100	GBP	547.6
Zurich Assurance Ltd	Swindon, England	100	100	GBP	306.1
Zurich Employment Services Limited	Swindon, England	100	100	GBP	345.6
Zurich Financial Services (UKISA) Limited	Swindon, England	100	100	GBP	1,070.0
Zurich Holdings (UK) Limited	Fareham, England	100	100	GBP	280.3
Zurich International Life Limited	Douglas, Isle of Man	100	100	GBP	123.4
Zurich UK General Services Limited	Fareham, England	100	100	GBP	428.3
United States of America					
Farmers Group, Inc. ²	Carson City, NV	87.90	95.38	USD	0.001
Farmers Reinsurance Company ²	Woodland Hills, CA	87.90	95.38	USD	58.8
Farmers New World Life Insurance Company ²	Bellevue, WA	87.90	95.38	USD	6.6
Zurich American Company, LLC ³	Wilmington, DE	100	100	USD	–
Zurich American Insurance Company	New York, NY	100	100	USD	5.0
Zurich American Life Insurance Company	Schaumburg, IL	100	100	USD	2.5
Zurich Holding Company of America, Inc. ⁴	Wilmington, DE	100	100	USD	–
ZCM Matched Funding Corp.	George Town, Cayman Islands	100	100	USD	0.00001
Centre Group Holdings (U.S.) Limited	Wilmington, DE	100	100	USD	0.00001
ZCM (U.S.) Limited	Wilmington, DE	100	100	USD	0.00001
Zurich Capital Markets Inc.	Wilmington, DE	100	100	USD	0.00001
Zurich Structured Finance, Inc.	Wilmington, DE	100	100	USD	0.012

¹ Zurich Insurance Company Ltd (ZIC) indirectly owns 51 percent.

² The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of Zurich Insurance Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.

³ The LLC interests have no nominal value in accordance with the company's certificate of formation and local legislation.

⁴ Shares have no nominal value in accordance with the company's articles of incorporation and local legislation.

Consolidated financial statements (continued)

Due to the nature of the insurance industry, the Group's business is subject to extensive regulatory supervision, and companies in the Group are subject to numerous legal restrictions and regulations. These restrictions may refer to minimum capital requirements or the ability of the Group's subsidiaries to pay dividends imposed by regulators in the countries in which the subsidiaries operate. These are considered industry norms, generally applicable to insurers who operate in the same markets.

For Zurich Santander Insurance America, S.L. and its subsidiaries, and the Bansabadell insurance entities, certain protective rights exist, which, among others, include liquidation, material sale of assets, transactions affecting the legal ownership structure, dividend distribution and capital increase, distribution channel partnerships and governance, which are not quantifiable.

For details on the Group's capital restrictions, see the capital management section in the risk review, which forms an integral part of the consolidated financial statements.

Table 28.2 shows the summarized financial information for each subsidiary that has non-controlling interests that are material to the ZIC Group. Farmers Group, Inc and its subsidiaries are owned 95.38 percent by Zurich Insurance Company Ltd and in total a 100 percent by the Group. Therefore, they are not separately disclosed.

Table 28.2

Non-controlling interests

in USD millions, as of December 31

	Zurich Santander Insurance America, S.L. and its subsidiaries		Bansabadell insurance entities	
	2021	2020	2021	2020
Non-controlling interests percentage	49%	49%	50%	50%
Total Investments	13,215	13,853	10,979	12,037
Other assets	2,858	3,264	1,595	1,951
Insurance and investment contract liabilities ¹	14,331	14,534	10,747	11,989
Other liabilities	803	1,168	426	521
Net assets	940	1,416	1,401	1,477
Non-controlling interests in net assets	461	694	700	739
Total revenues	2,372	2,155	1,836	1,706
Net income after taxes	270	290	183	166
Other comprehensive income	(211)	(112)	(123)	138
Total comprehensive income	59	178	60	304
Non-controlling interests in total comprehensive income	29	87	30	152
Dividends paid to non-controlling interests	263	99	68	50

¹ Includes reserves for premium refunds, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees and liabilities for insurance contracts.

Consolidated financial statements (continued)

29. Events after the balance sheet date

On January 2, 2022, the Group announced that Zurich Investments Life S.p.A. agreed to sell a part of its life and pension back book to the Portuguese insurance company GamaLife – Companhia de Seguros de Vida S.A. (see note 5).

On January 4, 2022, the Group announced that Zurich Insurance Company Ltd was exercising its option to redeem USD 1 billion of subordinated notes that had been issued in 2016. The notes were redeemed in full at par on January 20, 2022.

On January 7, 2022, the Group announced a placement of subordinated notes by Zurich Insurance Company Ltd. The subordinated notes, in a total principal amount of CHF 300 million and with a maturity date of May 3, 2052, were issued on January 18, 2022.

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Report of the statutory auditor



Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8010 Zurich

Phone: +41 58 286 31 11
Fax: +41 58 286 30 04
www.ey.com/ch

To the General Meeting of
Zurich Insurance Company Ltd, Zurich

Zurich, March 9, 2022

Statutory auditor's report on the audit of the consolidated financial statements



Opinion

We have audited the consolidated financial statements of Zurich Insurance Company Ltd and its subsidiaries (the ZIC Group), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 33 to 140 and the audited sections of the risk review on pages 3 to 22) give a true and fair view of the consolidated financial position of the ZIC Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.



Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the ZIC Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Report of the statutory auditor (continued)



2

Valuation of certain Property & Casualty reserves

Area of focus Out of the total consolidated liabilities, reserves for losses and loss adjustment expenses is a material item of the liabilities for insurance contracts financial statement line and amounted to USD 63,577 million as of December 31, 2021.

As described in the Notes to the consolidated financial statement, reserves for losses and loss adjustment expenses are estimates of future payments for reported and unreported claims losses and related expenses with respect to insured events that have occurred.

Reserving for incurred but not reported claims is a complex process applying actuarial and statistical methods over historical data and patterns requiring the use of informed estimates and judgments. It requires the use of complex formulas and computational tools that may be incorrectly configured, and for which inaccurate or incomplete input data may be used.

This is specifically the case for Property & Casualty lines of business that are considered longer-tail such as worker's compensation, general and professional liability, and other specialty lines where certain longer-term assumptions are required as part of the projection technics. These projection techniques also consider exposures to the prolonged impacts of the COVID-19 pandemic including uncertainty around claims litigation, timeliness of claims reporting, resultant impact of challenges with supply chains and inflation.

Additionally, reserves for catastrophes events which are usually of less frequency but higher severity, are more difficult to estimate and include expert judgments.

Accordingly, we have identified this as a key audit matter.

The accounting policies and critical accounting judgments and estimates of the ZIC Group about the valuation of the loss and loss adjustment expense reserves are described in Notes 3 and 4 respectively and additional information regarding these reserves is presented in Note 8 to the consolidated financial statements.

Report of the statutory auditor (continued)



3

Our audit response

We assessed and tested the design effectiveness of selected key controls within the actuarial reserve valuation process. These included controls over methods selection, completeness and accuracy of the underlying data, assumption setting and the governance process used by management.

We executed our substantive procedures in relation to these reserves and related changes as included in the consolidated statement of income using the work of our actuarial specialists.

Our procedures included:

- Performance of a country-based risk tiering assessment by line of business based on multiple criteria including materiality, tail length and prior year developments.
- Analytical reviews considering separately current accident year loss ratio from prior years developments.
- Evaluation of the appropriateness of the loss reserve levels for significant catastrophe events.

For selected lines of business, our procedures further included:

- Testing the completeness and accuracy of data utilized by Zurich Insurance actuaries in estimating the loss reserves by reconciling such amounts and related output to the underlying accounting records and the financial statements as appropriate.
- Data-enabled audit procedures and claims data plausibility checks on selected samples to support completeness and accuracy of claims triangles.
- Independent projections of ultimate losses and calculation of a reasonable range for required loss reserves for selected lines of business. We also assessed of managements' recorded loss reserves as compared to our independent developed loss reserve range.
- Analysis of actuarial methods and assessment of the reasonableness of the quantitative and qualitative assumptions used within projection techniques by Zurich Insurance actuaries for the valuation of property and casualty reserves.
- Assessment of the prolonged COVID-19 pandemic impacts on property and casualty reserves.
- Evaluation of the appropriateness of significant adjustments made by management relating to the Actuarial reserve estimates.

Finally, we assessed the appropriateness of accounting policies used and adequacy of the disclosures in the consolidated financial statements.

Based on audit procedures performed, we did not identify any exceptions with regards to the valuation of property and casualty reserves.

Report of the statutory auditor (continued)



4

Valuation of certain actuarially determined life insurance assets and liabilities

Area of focus Out of total consolidated assets, life deferred policy acquisition costs ('Life DAC') is a material item of the deferred policy acquisition costs financial statement line and amounted to USD 12,201 million as of December 31, 2021.

Out of total consolidated liabilities, future life policyholder benefit reserves is a material item of the liabilities for insurance contracts financial statement line and amounted to USD 73,977 million as of December 31, 2021.

The valuation of the above mentioned actuarially determined life insurance assets and liabilities is associated with significant uncertainties requiring the use of expert judgment within complex actuarial models relying on complex and subjective assumptions in relation to future events.

The assumptions and data used for calculations of these balances require both economic and non-economic assumptions, including interest rates, investment returns, mortality, morbidity, longevity, persistency, expenses, and the modeled future decisions of the policyholders. In addition, uncertainty triggered by the prolonged impact of the COVID-19 pandemic requires an additional layer of analysis and judgment.

Moreover, because of the long duration of many life insurance products, relatively small changes in key assumptions may have a significant impact on the valuation of the actuarially determined life insurance assets and liabilities. Specifically, the continued low interest rate, and the related impacted to policyholder behavior, creates a risk of accelerated amortization of deferred policy acquisition costs and a strain on the sufficiency of life reserves.

The valuation of these assets and liabilities requires the use of complex formulas and the construction of models and other computational tools that may be incorrectly designed or configured, and for which inadequate assumptions and or incomplete or inaccurate input data may be used.

Accordingly, we have identified this as a key audit matter.

The accounting policies and critical accounting judgments and estimates of the ZIC Group about the valuation of the actuarially determined life insurance assets and liabilities are described in Notes 3 and 4 respectively and additional information regarding these assets and liabilities is presented respectively in Notes 11 and 8 to the consolidated financial statements.

Report of the statutory auditor (continued)



5

Our audit response

We assessed and tested the design effectiveness of selected key controls within the life insurance asset and liability actuarial valuation process. These included controls over methods selection, completeness and accuracy of the underlying data, assumption setting and the governance process used by management.

We executed our substantive procedures in relation to these balances and related changes as included in the consolidated income statements using the work of our actuarial specialists.

Our procedures included:

- Performance of a country-based risk tiering assessment by product based on multiple criteria including materiality, specific product features and complexity, and liability adequacy test headroom.
- Reviewing liability adequacy testing, and related impact to Life DAC recoverability and sufficiency of the future life policyholder benefit reserves.
- Assessing the consistency of the life actuarial methods and best estimate assumptions used across the ZIC Group's significant business units.

For selected products, our procedures further included:

- Testing of the completeness and accuracy of data, including in-force policyholder data and experience studies, as utilized by Zurich Insurance actuaries to value these insurance assets and liabilities by reconciling such amounts and related output to the underlying accounting records and the financial statements as appropriate.
- Reviewing actuarial models used in the determination of these life insurance assets and liabilities and their compliance with products specificities and related guarantees.
- Assessing certain quantitative and qualitative best estimate assumptions used in actuarial models, including considerations of their reasonableness based on experience studies, our knowledge of the ZIC Group and local markets, products offered, publicly available market and macroeconomic data, and impacts of the prolonged COVID-19 pandemic.
- On a sample basis, independent calculation of Life DAC and future life policyholder benefit reserves balances.

Finally, we assessed the appropriateness of accounting policies used and adequacy of the disclosures in the consolidated financial statements.

Based on audit procedures performed, we did not identify any exceptions related to the valuation of actuarially determined life insurance assets and liabilities.

Report of the statutory auditor (continued)



6

Acquisition of MetLife's Property & Casualty business in the United States

Area of focus As of April 7, 2021, the ZIC Group's subsidiary Farmers Group Inc. (FGI) and the Farmers Exchanges successfully closed on an acquisition of MetLife Property & Casualty business in the United States (MetLife P&C). As part of this acquisition, FGI in effect acquired MetLife P&C's management and administrative related assets and liabilities to conduct its responsibilities as attorney-in-fact of the Farmers Exchanges and the Farmers Exchanges underlying insurance businesses. FGI acquired approximately USD 2,444 million of net assets in this acquisition which led to the recognition of an additional attorney-in-fact (AIF) intangible of approximately USD 1,625 million and goodwill of USD 418 million. Accounting for this unique business combination was complex including identification of customer relationships, the valuation of identified intangibles (including the AIF), and assessing the indefinite life of the underlying AIF contracts.

Accordingly, we deemed the acquisition of MetLife's P&C's business in the United States as a key audit matter.

FGI's acquisition is disclosed in Note 5 with additional information related to the AIF contracts in Note 14 and Relationship with Farmers Exchanges in Note 26 to the consolidated financial statements.

Our audit response We have inspected the underlying legal contracts provided to us by management and considered the substance of the FGI acquisition as basis for recognition as a business combination in the ZIC Group's consolidated financial statements.

We tested the consideration paid, and the identification and valuation of the tangible and intangible assets acquired.

With the assistance of our valuation specialists where appropriate, we tested and evaluated the valuations prepared by the ZIC Group for the separately identified intangible assets (including the value assigned to the AIF contracts).

Our procedures included:

- Assessing the appropriateness of valuation methods and testing the associated models used by management.
- Evaluating the reasonableness of significant assumptions, including projected financial information, used by management based on a comparison to historical source records as well as current industry and economic data; such procedures included evaluating current or future trends in discount rates, premium growth and retention rates and management fee rates, among other assumptions.
- Performing sensitivity analyses to determine the impact of changes in key assumptions including the discount rate and projected fee revenue to determine potential valuation impacts.

Finally, we assessed the appropriateness of accounting policies used and adequacy of the disclosures in the consolidated financial statements.

Based on audit procedures performed, we did not find any exceptions related to the acquisition of MetLife's Property and Casualty business in the United States.

Report of the statutory auditor (continued)



7

Recoverability of goodwill and attorney-in-fact contracts

Area of focus As of December 31, 2021, the ZIC Group recognized goodwill and attorney-in-fact (AIF) contracts intangibles (including the value assigned to AIF intangible associated with the MetLife's P&C business acquisition) with a net carrying amount of USD 6,994 million. Goodwill is allocated to the cash generating units (CGUs) that are identified generally at the segment level.

Management performs impairment testing of goodwill and intangible assets with indefinite useful life (i.e., the AIF intangible) at least once annually to ensure that the net carrying amount does not exceed the recoverable amount per CGU and there is no impairment in the relevant CGU.

Estimation of the recoverable amount requires management to use complex models, expert judgment and is based on several complex and subjective assumptions, particularly in respect of:

- projections of future income based on prospective business plans,
- perpetual growth rates, and
- discount rates.

Accordingly, we deem the measurement of the recoverable amount of goodwill and attorney-in-fact contracts to be a key audit matter.

The accounting policies and critical accounting judgments and estimates related to goodwill and attorney-in-fact contracts are disclosed in Notes 3 and 4 respectively and additional information on goodwill and attorney-in-fact contracts is presented in Note 14 to the consolidated financial statements.

Report of the statutory auditor (continued)



8

Our audit response

We obtained an understanding of the ZIC Group's goodwill impairment testing and assessed the design effectiveness of selected key controls related to the ZIC Group's goodwill and AIF intangible.

With the assistance of our valuation specialists where appropriate, our substantive testing procedures included:

- Evaluation whether the goodwill and AIF intangible allocation to CGUs as identified by management is supportable.
- Assessment of the valuation methodology and models used by management to determine the goodwill and AIF recoverability amount.
- Performance of substantive procedures regarding key assumptions including evaluation of:
 - o Consistency of projected future cash flows with management's most recent estimates including those used in the ZIC Group's budgeting and forecasting process,
 - o The assumptions made with respect to projected future cash flows are reasonable in terms of the applicable GCU's economic and financial outlook, including the impacts of the prolonged COVID-19 pandemic,
 - o The comparison of actual results versus historical projected financial information,
 - o Consistency of key assumptions including discount and perpetual growth rates with market and industry specific reference values and that such assumptions are used in the ZIC Group's projected cash flows, and
 - o The completeness and accuracy of data used by management to project future cash flows.
- Evaluation of the sensitivity analysis performed by management and performance of additional procedures to assess the appropriateness of key assumptions used by management.

Finally, we assessed the appropriateness of accounting policies used and adequacy of the disclosures in the consolidated financial statements.

Based on audit procedures performed, we did not find any exceptions to the recoverability of goodwill and attorney-in-fact contracts.

Other Matter

The consolidated financial statements of Zurich Insurance Company Ltd and its subsidiaries for the year ended December 31, 2020, were audited by another statutory auditor who expressed an unmodified opinion on those consolidated financial statements on March 3, 2021.

Report of the statutory auditor (continued)



9



Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of Zurich Insurance Company Ltd, the audited sections of the risk review on pages 3 to 22 and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the ZIC Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the ZIC Group or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTSuisse: <http://www.expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report of the statutory auditor (continued)



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Report on other legal and regulatory requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Isabelle Santenac
Licensed audit expert
(Auditor in charge)

Thomas Fiepke
Certified Public Accountant (U.S.)

Financial statements – statutory accounts

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Financial statements – statutory accounts (continued)

Board of Directors and auditors, as of December 31, 2021

Board of Directors and auditors			Expiration of current
		Residence	term of office
	Board of Directors		
	Michel M. Liès, Chairman	Zollikon, Switzerland	2022
	Christoph Franz, Vice Chairman	Zug, Switzerland	2022
	Joan Amble	Darien, CT, USA	2022
	Catherine Bessant	Charlotte, NC, USA	2022
	Alison Carnwath	Devon, United Kingdom	2022
	Michael Halbherr	Zurich, Switzerland	2022
	Sabine Keller-Busse	Zumikon, Switzerland	2022
	Monica Mächler	Pfäffikon SZ, Switzerland	2022
	Kishore Mahbubani	Singapore, Singapore	2022
Jasmin Staiblin	Pfäffikon SZ, Switzerland	2022	
Barry Stowe	Nashville, TN, USA	2022	
Marc Monnier, Company Secretary			
Auditors			
Ernst & Young AG			

Financial statements – statutory accounts (continued)

Management report

Zurich Insurance Company Ltd (ZIC or the Company) is a corporation domiciled in Zurich, Switzerland, and was incorporated on November 1, 1872. The Company is the principal operating insurance company of the Zurich Insurance Group (the Group). As well as being an insurance company, it also acts as the holding company for all subsidiaries and other affiliates of the Group except for the Group's property loans and banking activities.

The results of ZIC include the direct Property and Casualty (P&C) insurance business in Switzerland with its largest branches located in Canada, Japan and Hong Kong as well as assumed reinsurance business from its subsidiaries and the Farmers Exchanges.¹

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

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

The net insurance reserves increased by CHF 591 million compared with the year ended December 31, 2020, mainly driven by the reserve strengthening for Group internally assumed life reinsurance business as well as by the reserve increase following natural catastrophe losses in North America and in Europe, partially offset by a release of net insurance reserves reflecting the termination of the Whole Account Quota Share (WAQS) reinsurance treaty with Zurich American Insurance Company in 2018, which is now in run-off.

The net investment result decreased by CHF 360 million to CHF 3.1 billion, mainly due to lower income on investments in subsidiaries and associates, partially offset by a higher net investment result on equity securities following the overall improvement in the equity securities markets during 2021.

Shareholder's equity decreased by CHF 117 million to CHF 25.3 billion for the year ended December 31, 2021, from CHF 25.4 billion for the year ended December 31, 2020. This decrease reflects the dividend payment to Zurich Insurance Group Ltd of CHF 2.6 billion in 2021, which was approved at the Annual General Meeting on April 7, 2021, partially offset by the net income after taxes of CHF 2.5 billion.

ZIC is fully integrated into the Group-wide risk assessment process of the Zurich Insurance Group. This risk process also addresses the nature and scope of business activities and the specific risks of ZIC. For more information, see the Risk review on [pages 3 to 22](#) of this Annual Report.

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

Financial statements – statutory accounts (continued)

On May 18, 2021, the Company acquired a 19.99 percent share in Project Policy Bidco Limited, the owner of MyPolicy Limited, a UK usage-based insurance managing general agent, and Minerva.Science Limited. As part of the acquisition the Company contributed Bright Box HK Limited and its subsidiaries as well as USD 10 million (CHF 9 million) in cash. The investment is valued at CHF 25 million as of December 31, 2021. As a result of the transaction, the Company recognized a loss on the sale of Bright Box HK Limited of CHF 40 million.

The COVID-19 pandemic continues to evolve globally with new variants of the virus emerging, and so do the impacts on the insurance industry and the global economy. Though most of the impacts of the pandemic on the Company's businesses, especially in the P&C business, are already known, and management's best estimate of claims is reflected in the loss reserves and loss adjustment expenses, some uncertainties remain. The Company is closely monitoring and actively dealing with the potential for further exposure from (i) claims litigation on policy coverage, (ii) regulator and market-led test-cases or legislative developments in certain jurisdictions that could impact the scope of intended coverage, (iii) potential second-order impact on health which could have mortality or morbidity effects, and (iv) other extended macroeconomic impacts around the pandemic, including governmental actions. While expected to be very remote, any extreme outcomes on the foregoing could have a material adverse impact on the Company's business, financial condition, results of operations or growth.

Financial statements – statutory accounts (continued)

Income statements

Income statements	in CHF millions, for the years ended December 31	Notes	2021	2020
	Gross written premiums and policy fees		15,919	14,995
	Premiums ceded to reinsurers		(3,896)	(3,804)
	Net written premiums and policy fees		12,023	11,192
	Change in reserves for unearned premiums, gross		(366)	(283)
	Change in reserves for unearned premiums, ceded		50	55
	Net earned premiums and policy fees		11,707	10,963
	Other income		958	1,173
	Total technical income		12,666	12,136
	Claims paid, annuities and loss adjustment expenses, gross		(9,353)	(9,469)
	Claims paid, annuities and loss adjustment expenses, ceded		1,629	1,901
	Change in insurance reserves, gross	15	(259)	(1,019)
	Change in insurance reserves, ceded	15	128	621
	Insurance benefits and losses, net of reinsurance		(7,855)	(7,966)
	Underwriting & policy acquisition costs, gross		(3,456)	(3,266)
	Underwriting & policy acquisition costs, ceded		598	519
	Underwriting & policy acquisition costs, net of reinsurance		(2,858)	(2,747)
	Administrative and other expense	4	(1,733)	(1,892)
	Total technical expense		(12,446)	(12,604)
	Investment income	5	3,574	4,297
	Investment expenses	6	(482)	(845)
	Net investment result		3,092	3,452
	Other financial income		605	978
	Other financial expense		(791)	(966)
	Operating result		3,126	2,996
	Interest expense on debt and other interest expense		(540)	(523)
	Net income before taxes		2,586	2,472
	Direct tax expenses		(103)	(112)
	Net income after taxes		2,483	2,361

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

Financial statements – statutory accounts (continued)

Balance sheets

Assets	in CHF millions, as of December 31	Notes	2021	2020
Investments				
Real estate			1,166	1,346
Investments in subsidiaries and associates	7		34,867	34,685
Debt securities			19,238	17,550
Other loans			6,771	5,243
Mortgage loans			777	794
Equity securities			4,533	4,688
Mixed investments funds			80	52
Other investments	8		5,775	5,939
Total investments			73,208	70,298
Other assets				
Derivative assets			495	893
Deposits made under assumed reinsurance contracts			2,281	2,145
Cash and cash equivalents	9		4,285	5,644
Insurance reserves, ceded	14		7,089	6,915
Fixed assets	10		91	87
Deferred acquisition costs, net of reinsurance	11		2,086	2,003
Intangible assets	12		95	98
Receivables from insurance and reinsurance business	13		1,656	1,517
Other receivables			617	537
Other assets			18	27
Accrued assets			769	647
Total other assets			19,481	20,512
Total assets			92,690	90,810

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

Financial statements – statutory accounts (continued)

Liabilities and shareholder's equity	in CHF millions, as of December 31		Notes		2021	2020
	Liabilities					
	Insurance reserves, gross		14		37,533	36,768
	Provisions		17		1,433	1,249
	Senior and other debt		18		13,246	13,878
	Derivative liabilities				285	279
	Deposits received under ceded reinsurance contracts				289	157
	Liabilities from insurance and reinsurance business		19		1,296	1,327
	Other liabilities				998	1,193
	Accrued liabilities				1,819	1,622
	Subordinated debt		18		10,510	8,939
	Total liabilities				67,408	65,411
	Shareholder's equity (before appropriation of available earnings)					
	Share capital		20		825	825
	Capital contribution reserve				5,570	5,570
	Legal reserve				485	485
	General free reserve				4,272	4,272
	Retained earnings:					
	Beginning of year				14,246	14,786
	Dividend paid				(2,600)	(2,900)
	Net income after taxes				2,483	2,361
	Retained earnings, end of year				14,130	14,246
	Total shareholder's equity (before appropriation of available earnings)				25,282	25,398
	Total liabilities and shareholder's equity				92,690	90,810

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

Financial statements – statutory accounts (continued)

Notes to the financial statements

1. Basis of presentation

The Company's financial statements are presented in accordance with the Swiss Code of Obligations and relevant insurance supervisory law, including the FINMA Insurance Supervision Ordinance (ISO-FINMA), revised December 15, 2015.

All amounts in the financial statements, unless otherwise stated, are shown in CHF, rounded to the nearest million with the consequence that the rounded amounts may not add up to the total in all cases. All variances are calculated using the actual figures rather than the rounded amounts.

2. Summary of significant accounting policies

Investments

Real estate held for investment and for own use held in Switzerland is carried at the acquisition cost less required or permissible impairment, and is valued on a single valuation basis. Real estate held by branches located outside Switzerland is carried at the local statutory value valid in the country where the real estate is located, valued on a single valuation basis.

Investments in subsidiaries and associates are held at acquisition cost less necessary impairments. The method to determine the necessary impairments is considering the similarity of the underlying investments in subsidiaries and associates such as the fungibility of capital or the pooling of reinsurance as well as the potential dependency with other investments in subsidiaries and associates. Investments in subsidiaries and associates in both "Property and Casualty (P&C)" and "Life" are assessed on a regional basis (Europe, Middle East & Africa, North America, Asia Pacific, Latin America and Group Reinsurance), further "Farmers", "Group Functions and Operations" and "Non-Core Businesses" are considered as similar assets. For these sub-groups, the book value of the sub-group is compared to its IFRS Net Assets Value/Value-in-use. If needed, the carrying value of the investments in subsidiaries and associates is impaired accordingly.

Debt securities are carried at amortized cost using the effective interest rate method. The valuation of debt securities held in the single investor funds in Switzerland is the same as for directly held securities.

Mortgage and other loans are valued at their nominal value less any necessary impairments.

Equity securities which are quoted on a stock exchange are carried at the stock exchange price as of December 31. Unquoted equity securities are carried at the acquisition cost with a deduction for necessary impairments. The valuation of equity securities held in single investor funds in Switzerland is the same as for directly held securities.

Mixed investments funds invests into different asset types. Mixed investment funds are carried at market price as of December 31.

Other investments consists of asset-backed and mortgage-backed securities as well as collateralized debt/loan obligations, which are carried at amortized cost using the effective interest rate method.

Other assets

Derivative financial instruments

Derivative financial instruments held for purposes of economic hedging are carried at fair value.

Deposits made under assumed reinsurance contracts

Reinsurance deposits consist of funds deposited with ceding insurers to guarantee contractual liabilities for assumed reinsurance.

Deferred acquisition costs, net of reinsurance

Acquisition costs related to reinsurance business are deferred. For P&C business, the deferred costs are subsequently amortized over the period in which the related assumed premiums are earned. For life business, the deferred costs are amortized over the life of the contract based on expected premiums or the estimated gross margin expected to be realized over the life of the contract, depending on the type of underlying contracts.

Financial statements – statutory accounts (continued)

Accrued assets

This amount relates primarily to interest income accruals, other prepaid expenses and other accrued income. Accrued investment income within the single investor funds in Switzerland is recorded as a write-up on investments.

Insurance reserves

Reserves for unearned premiums represent the portion of the premiums written relating to the unexpired term of insurance coverage as of the balance sheet date. In many insurance contracts, the insurance period for which the insurance company assumes a risk against a premium paid does not correspond to the Company's financial year. Thus, an amount equivalent to the unearned portion of the premium is set up as a reserve at the end of the financial year.

Reserves for losses and loss adjustment expenses represent reserves for reported claims and estimates for losses incurred but not yet reported (IBNR). In addition, equalization reserves are included where these are accepted or required by the regulator in the country where such reserves are held. The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates are reflected in the income statements in the period in which estimates are changed.

Future life policyholders' benefits represent the estimated future benefit liability for life insurance policies and include the value of accumulated declared bonuses or dividends that have vested to policyholders. In addition, equalization reserves are included where these are accepted or required by the regulator in the country where such reserves are held. **Future life policyholders' benefits** relate to assumed reinsurance contracts and are primarily measured using current financial and non-financial assumptions. Certain pension and annuity liabilities are calculated using a net level premium valuation method based on actuarial assumptions including mortality, persistency, expenses and investment return, plus a margin for adverse deviations.

Other income and administrative and other expense

Other income includes interest income on deposits received under ceded reinsurance contracts as well as other technical and other non-technical income. Administrative and other expense represent primarily technical expense in connection with the operation of the insurance business.

Investment income and expense

Realized capital gains/losses on investments occur when the sales price or redemption value is higher or lower than the carrying value at the time of sale. The gain/loss is the difference between carrying value and the sales price or redemption value.

Write-downs and write-ups on investments include losses arising from a decrease in the fair value below cost or the carrying value at the previous year end on equity securities and necessary impairments of debt securities and investments in subsidiaries and associates. Write-ups of quoted equity securities are gains resulting from the difference between the lower carrying value at the beginning of the year or at the later purchase date and the higher carrying value as of the end of December. Write-ups also include gains as a result of the reversal of impairments on unquoted equity securities up to the acquisition cost value. Write-downs and write-ups further include the change in valuation of the single investor funds, which also include the investment income of the investments within these funds.

Other financial income and expense

Other financial income includes interest income on cash and cash equivalents as well as gains on derivatives. Other financial expenses includes mainly losses on derivatives.

Direct tax expenses

Direct tax expenses include both Swiss and foreign income tax expense and capital tax expense in Switzerland as well as foreign withholding tax expense on investment income.

Financial statements – statutory accounts (continued)

3. Exchange rates

The presentation currency for ZIC and its branches is Swiss franc. Several ZIC branches operate outside Switzerland with different functional currencies. A functional currency is the currency of the primary economic environment in which the branch operates. Assets and liabilities of those branches with functional currencies other than Swiss franc are translated into the presentation currency at end-of-period exchange rates, except for investments in subsidiaries and associates where historical exchange rates are used. Revenues and expenses are translated using the average exchange rate of the year. The resulting exchange differences are recorded in the income statements.

The table below summarizes the principal exchange rates that have been used for translation purposes.

Principal exchange rates	CHF per foreign currency unit	Balance sheets		Income statements	
		12/31/2021	12/31/2020	2021	2020
	Canadian dollar	0.7203	0.6943	0.7292	0.6998
	Euro	1.0368	1.0820	1.0813	1.0705
	British pound	1.2344	1.2081	1.2574	1.2038
	Japanese yen	0.0079	0.0086	0.0083	0.0088
	U.S. dollar	0.9117	0.8847	0.9140	0.9378

4. Administrative and other expense

Administrative and other expense	in CHF millions, for the years ended December 31	2021	2020
	Administration and other general expenses	(714)	(766)
	Personnel expenses	(1,122)	(1,071)
	Amortization and impairments of software and equipment	(46)	(79)
	Foreign currency transaction gains and losses	225	(7)
	Gains and losses on foreign currency derivatives	(75)	31
	Total administrative and other expense	(1,733)	(1,892)

Administrative and other expenses decreased by CHF 159 million to CHF 1.7 billion in 2021, mainly due to the positive impact of foreign currency transactions and derivatives in 2021 compared to 2020. The foreign currency transaction gains and losses includes the increase in the provision for unrealized foreign currency gains of CHF 100 million, whereas this provision remained unchanged in 2020.

Financial statements – statutory accounts (continued)

5. Investment income

Investment
income

in CHF millions, for the years ended December 31

	Current income		Write-ups		Realized capital gains		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Real estate	64	86	–	–	237	256	301	343
Investments in subsidiaries and associates	1,392	2,341	–	–	–	–	1,392	2,341
Debt securities	260	271	43	52	77	217	379	540
Other loans	192	180	–	–	–	8	193	188
Mortgage loans	11	15	–	–	–	7	12	22
Equity securities	93	67	452	238	549	325	1,094	629
Mixed investments funds	2	2	–	–	–	–	2	2
Other investments	149	192	–	–	52	40	201	232
Total investment income	2,164	3,154	495	290	916	853	3,574	4,297

Total investment income decreased by CHF 723 million or 17 percent to CHF 3.6 billion in 2021. Dividend income from subsidiaries and associates decreased by CHF 949 million to CHF 1.4 billion in 2021, mainly due to the absence of a dividend from Farmers Group, Inc. (2020: CHF 1.4 billion) and to lower dividend income from Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal and Zürich Beteiligungs-Aktiengesellschaft (Deutschland), partially offset by higher dividend income from Zurich Latin America Holding S.L. – Sociedad Unipersonal and Zurich International Life Limited. The income on equity securities increased by CHF 465 million, mainly due to the improved market conditions in 2021 compared to 2020.

6. Investment expenses

Investment
expenses

in CHF millions, for the years ended December 31

	Write-downs		Realized capital losses		Total	
	2021	2020	2021	2020	2021	2020
Real estate	(61)	(5)	(1)	–	(62)	(5)
Investments in subsidiaries and associates	(19)	(279)	(101)	(6)	(120)	(285)
Debt securities	(4)	(32)	(12)	(51)	(17)	(83)
Other loans	(1)	(4)	(9)	(4)	(10)	(8)
Mortgage loans	–	–	–	–	–	–
Equity securities	(34)	(149)	(124)	(177)	(158)	(327)
Mixed investments funds	–	(2)	–	–	–	(2)
Other investments	–	–	(26)	(50)	(26)	(50)
Sub-total investment expenses	(119)	(470)	(273)	(289)	(392)	(759)
Investment general expenses	n.a.	n.a.	n.a.	n.a.	(90)	(86)
Total investment expenses					(482)	(845)

Total investment expenses decreased by CHF 363 million to CHF 482 million in 2021, mainly due to lower investment expenses on equity securities by CHF 169 million, driven by the overall improvement in the equity securities market in 2021. Further, investment expenses on investments in subsidiaries and associates decreased by CHF 165 million in 2021, mainly due to lower write-downs on investments in subsidiaries and associates of CHF 19 million in 2021 compared to CHF 279 million in 2020. The impairments in 2021 mainly relate to associated companies, whereas in 2020 it mainly related to subsidiaries in Latin America P&C business and Bright Box HK Limited. This is partially offset by the increase in realized losses on investments in subsidiaries and associates of CHF 95 million as a result of the Group internal sale of PT Zurich General Takaful Indonesia and of the sale of Bright Box HK Limited.

Financial statements – statutory accounts (continued)

7. Investments in subsidiaries and associates

The table below shows the significant subsidiaries of ZIC with a carrying value of at least CHF 500 million and/or net income exceeding CHF 100 million. The carrying value of the listed subsidiaries and associates represents 89 percent of the total investments in subsidiaries and associates of CHF 34.9 billion.

Significant subsidiaries	as of December 31, 2021				Nominal value of common stock (in local currency millions)	
	Registered office	Voting rights %	Ownership interest %			
Australia						
Zurich Financial Services Australia Limited ¹	Sydney	100.0	100.0	AUD	2,983.0	
Brazil						
Zurich Minas Brasil Seguros S.A. ¹	Belo Horizonte	100.0	100.0	BRL	2,476.0	
Germany						
Zürich Beteiligungs-Aktiengesellschaft (Deutschland) ¹	Frankfurt	100.0	100.0	EUR	152.9	
Ireland						
Zurich Holding Ireland Limited	Dublin	100.0	100.0	EUR	0.1	
Zurich Insurance plc ^{1,2}	Dublin	4.5	4.5	EUR	8.2	
Italy						
Zurich Investments Life S.p.A. ¹	Milan	100.0	100.0	EUR	199.0	
Spain						
Zurich Latin America Holding S.L. – Sociedad Unipersonal	Barcelona	100.0	100.0	EUR	43.0	
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal ¹	Madrid	100.0	100.0	EUR	56.4	
Switzerland						
Zurich Finance Company AG	Zurich	100.0	100.0	CHF	0.2	
Zurich Life Insurance Company Ltd ¹	Zurich	100.0	100.0	CHF	60.0	
Zurich Reinsurance Company Ltd ¹	Zurich	100.0	100.0	CHF	11.7	
United Kingdom						
Allied Zurich Holdings Limited	St. Hélier, Jersey	100.0	100.0	GBP	547.6	
Zurich Holdings (UK) Limited ⁶	Fareham, England	100.0	100.0	GBP	280.3	
Zurich International Life Limited ¹	Douglas, Isle of Man	100.0	100.0	GBP	123.4	
United States of America						
Farmers Group, Inc. ^{1,3,4}	Carson City, NV	87.9	95.4	USD	0.0	
Zurich Holding Company of America, Inc. ⁵	Wilmington, DE	100.0	100.0	USD	–	

¹ Regulated companies.

² The indirectly held voting rights percentage and ownership interest percentage are 100 percent for Zurich Insurance plc.

³ The ownership percentages in Farmers Group, Inc., and its fully owned subsidiaries have been calculated based on the participation rights of ZIC in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.

⁴ The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Zurich Insurance Group, provides certain non-claims services and ancillary services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

⁵ Shares have no nominal value in accordance with the company's articles of incorporation and local legislation.

⁶ Zurich Holdings (UK) Limited has been added to the list of significant subsidiaries.

Financial statements – statutory accounts (continued)

The table below shows the most significant indirectly held subsidiaries of ZIC with a net asset value exceeding USD 1.0 billion (based on IFRS values) and ownership interest of more than 10 percent.

Significant indirect subsidiaries	as of December 31, 2021			Voting rights % ³	Ownership interest % ³
		Registered office	Parent company		
Australia					
OnePath Life Australia Holdings Pty Limited	Sydney		Zurich Financial Services Australia Limited ¹	100.0	100.0
OnePath Life Limited	Sydney		OnePath Life Australia Holdings Pty Limited	100.0	100.0
Zurich Australia Limited	Sydney		Zurich Financial Services Australia Limited ¹	100.0	100.0
Bermuda					
Zurich Global, Ltd.	Pembroke, Bermuda		Zurich Holding Company of America, Inc. ¹	100.0	100.0
Germany					
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Köln		Zürich Beteiligungs-Aktiengesellschaft (Deutschland) ¹	32.5	32.5
			Deutscher Herold Aktiengesellschaft	67.5	67.5
Zurich Immobilien (Deutschland) AG & Co. KG ²	Köln		Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	100.0	100.0
Luxembourg					
REX-ZDHL S.C.S SICAV-SIF	Leudelange		Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	100.0	100.0
Spain					
Zurich Santander Holding (Spain), S.L.	Boadilla del Monte		Zurich Santander Insurance America, S.L.	51.0	51.0
Bansabadell Vida S.A. de Seguros y Reaseguros	Madrid		Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal ¹	50.0	50.0
United Kingdom					
Zurich Assurance Ltd	Swindon, England		Eagle Star Holdings Limited	100.0	100.0
Zurich Financial Services (UKISA) Limited	Swindon, England		Allied Zurich Holdings Limited ¹	100.0	100.0
United States of America					
Farmers New World Life Insurance Company	Bellevue, WA		Farmers Group, Inc. ¹	87.9	95.4
Zurich American Company, LLC	Wilmington, DE		Zurich Holding Company of America, Inc. ¹	100.0	100.0
Zurich American Insurance Company	New York, NY		Zurich Holding Company of America, Inc. ¹	100.0	100.0

¹ Direct subsidiary of the Company.

² Zurich Immobilien (Deutschland) AG & Co. KG has been added to the list of significant indirect subsidiaries.

³ The voting and ownership percentage are disclosed based on a Zurich Insurance Company Group view.

Financial statements – statutory accounts (continued)

8. Other investments

Other investments	in CHF millions, as of December 31	2021	2020
	Asset-backed securities	427	662
	Mortgage-backed securities	4,633	4,819
	Collateralized debt/loan obligations	715	458
	Total other investments	5,775	5,939

The decrease in other investments was related to the termination of the WAQS reinsurance treaty with Zurich American Insurance Company in 2018, which is now in run-off, partially offset by the increase of the U.S. dollar in 2021.

9. Cash and cash equivalents

Cash and cash equivalents include CHF 381 million (2020: CHF 699 million) intragroup balances related to receivables from within the Group internal cash pooling facility, which is operated by the Company, refer also to note 21.

10. Fixed assets

Fixed assets	in CHF millions, as of December 31	2021	2020
	Furniture and equipment	391	370
	Accumulated amortization	(300)	(283)
	Total fixed assets	91	87

11. Deferred acquisition costs

Deferred acquisition costs, net of reinsurance	in CHF millions, as of December 31	2021	2020
	Deferred acquisition costs, assumed reinsurance	2,158	2,072
	Deferred acquisition costs, retroceded reinsurance	(72)	(69)
	Total deferred acquisition costs, net of reinsurance	2,086	2,003

12. Intangible assets

Intangible assets consists of self-developed and acquired software in the amount of CHF 95 million and CHF 98 million as of December 31, 2021 and 2020, respectively.

13. Receivables from insurance and reinsurance business

Receivables from insurance and reinsurance business	in CHF millions, as of December 31	2021	2020
	Receivables from policyholders	151	138
	Receivables from agents and intermediaries	285	208
	Receivables from insurance and reinsurance companies	1,220	1,171
	Total receivables from insurance and reinsurance business	1,656	1,517

Financial statements – statutory accounts (continued)

14. Insurance reserves, net

Insurance reserves, net	in CHF millions, as of December 31		2021	2020
	Gross			
	Reserves for unearned premiums		4,749	4,440
	Reserves for losses and loss adjustment expenses		25,938	26,067
	Other technical reserves		997	816
	Future life policyholders' benefits		5,843	5,441
	Reserves for policyholders' dividends		5	5
	Total insurance reserves, gross		37,533	36,768
	Ceded			
	Reserves for unearned premiums		(1,308)	(1,262)
	Reserves for losses and loss adjustment expenses		(5,569)	(5,391)
	Other technical reserves		(1)	(1)
	Future life policyholders' benefits		(212)	(262)
	Reserves for policyholders' dividends		–	–
	Total insurance reserves, ceded		(7,089)	(6,915)
	Net			
	Reserves for unearned premiums		3,442	3,178
	Reserves for losses and loss adjustment expenses		20,369	20,676
	Other technical reserves		996	814
	Future life policyholders' benefits		5,632	5,179
	Reserves for policyholders' dividends		5	5
	Total insurance reserves, net of reinsurance		30,444	29,853

Total net insurance reserves increased by CHF 591 million or 2 percent to CHF 30.4 billion. In local currency, the net insurance reserves increased by CHF 351 million. The gross insurance reserves increased by CHF 764 million mainly due to the strengthening of the reserves for Group internally assumed life reinsurance business with Zurich Assurance Ltd, due to the reserve increase following several natural catastrophe losses in the U.S. and in Europe as well as due to higher reserves for unearned premiums of CHF 309 million, following the continuing business growth in Switzerland and Canada. On the other hand, the reserves for losses and loss adjustment expenses decreased by CHF 129 million mainly due to impact of the WAQS reinsurance treaty with Zurich American Insurance Company which is in run-off since 2018, partially offset by the impact of the foreign currency translation as a result of the increase of the U.S. dollar in 2021.

The impact on insurance reserves in 2021 as result of the COVID-19 pandemic was minor. Whereas in 2020, the insurance reserves, gross, and the insurance reserves, ceded, increased by CHF 580 million and CHF 350 million respectively, due to COVID-19.

Financial statements – statutory accounts (continued)

15. Change in insurance reserves, net

Change in insurance reserves, net	in CHF millions, for the years ended December 31		2021	2020
	Gross			
	Change in reserves for losses and loss adjustment expenses		172	(369)
	Change in other technical reserves		(66)	(62)
	Change in reserves for future life policyholders' benefits		(355)	(582)
	Change in reserves for policyholders' dividends		(10)	(7)
	Total change in insurance reserves, gross		(259)	(1,019)
	Ceded			
	Change in reserves for losses and loss adjustment expenses		170	660
	Change in other technical reserves		–	–
	Change in reserves for future life policyholders' benefits		(42)	(40)
	Change in reserves for policyholders' dividends		–	–
	Total change in insurance reserves, ceded		128	621
	Net			
	Change in reserves for losses and loss adjustment expenses		342	292
	Change in other technical reserves		(66)	(62)
	Change in reserves for future life policyholders' benefits		(397)	(621)
	Change in reserves for policyholders' dividends		(10)	(7)
	Total change in insurance reserves, net of reinsurance		(131)	(398)

The negative impact in the income statement due to the change in net insurance reserves in 2021 is mainly driven by the strengthening of reserves for future life policyholders' benefits for Group internally assumed life reinsurance business with Zurich Assurance Ltd and by the increase in reserves for losses and loss adjustment expenses as result of the storm events in particular in the U.S. and in Europe, partially offset by the reserve release due to the termination of the WAQS reinsurance treaty with Zurich American Insurance Company, which is in run-off since 2018.

In 2020, the negative impact in the income statement due to the change in net insurance reserves resulted from the reserve set-up following the acquisition of the commercial accident and health insurance portfolio from CSS Versicherung AG, from the reserves for COVID-19 losses as well as from reserves related to catastrophe losses such as hurricanes Laura and Sally, partially offset by the reserve release due to the termination of the WAQS reinsurance treaty with Zurich American Insurance Company.

Financial statements – statutory accounts (continued)

16. Direct and assumed business

Direct and assumed business	in CHF millions, for the years ended December 31	2021	2020
	Gross written premiums and policy fees, direct business	5,272	4,796
	Gross written premiums and policy fees, assumed business	10,648	10,200
	Premiums ceded to reinsurers	(3,896)	(3,804)
	Net written premiums and policy fees	12,023	11,192
	Change in reserves for unearned premiums, direct business	(134)	(111)
	Change in reserves for unearned premiums, assumed business	(232)	(172)
	Change in reserves for unearned premiums, ceded	50	55
	Change in reserves for unearned premiums, net of reinsurance	(316)	(228)
	Claims paid, annuities and loss adjustment expenses, direct business	(2,876)	(2,608)
	Claims paid, annuities and loss adjustment expenses, assumed business	(6,476)	(6,861)
	Claims paid, annuities and loss adjustment expenses, ceded	1,629	1,901
	Claims paid, annuities and loss adjustment expenses, net of reinsurance	(7,723)	(7,568)
	Change in insurance reserves, direct business	(63)	(212)
	Change in insurance reserves, assumed business	(196)	(807)
	Change in insurance reserves, ceded	128	621
	Change in insurance reserves, net of reinsurance	(131)	(398)
	Underwriting & policy acquisition costs, direct business	(1,099)	(966)
	Underwriting & policy acquisition costs, assumed business	(2,357)	(2,300)
	Underwriting & policy acquisition costs, ceded	598	519
	Underwriting & policy acquisition costs, net of reinsurance	(2,858)	(2,747)

17. Provisions

The provisions were established in anticipation of expected, estimated or perceived expenditures or exposures and increased by CHF 184 million in 2021, mainly due to an increase in the provision for unrealized foreign currency gains by CHF 100 million that were not included in the Company's income statements, as well as due to the increase of provisions to cover obligations in relation to employee benefits plans.

Financial statements – statutory accounts (continued)

18. Debt

a) Senior and other debt

Senior and other debt	in CHF millions, as of December 31		2021	2020
	Issuances to capital markets under Euro Medium Term Note Programme			
	2.875% CHF 250 million, due July 2021		–	250
	3.375% EUR 500 million, due June 2022		518	541
	1.875% CHF 100 million, due September 2023		100	100
	1.750% EUR 500 million, due September 2024		518	541
	0.500% CHF 350 million, due December 2024		350	350
	1.500% CHF 150 million, due July 2026		150	150
	0.750% CHF 200 million, due October 2027		200	200
	1.000% CHF 200 million, due October 2028		200	200
	1.500% EUR 500 million, due December 2028		518	541
	0.000% CHF 200 million, due August 2031		200	–
	0.100% CHF 250 million, due August 2032		250	250
Zurich Insurance Group companies	various		10,119	10,634
Other debt	various		122	121
Total senior and other debt			13,246	13,878
	<i>thereof due in one to five years</i>		<i>1,238</i>	<i>1,652</i>
	<i>thereof due in more than five years</i>		<i>1,368</i>	<i>1,341</i>

b) Subordinated debt

Subordinated debt	in CHF millions, as of December 31		2021	2020
	Zurich Insurance Group Ltd			
	6.300% CHF 2.1 billion perpetual loan		2,132	2,132
	1.875% EUR 750 million, first callable on June 17, 2030, due September 2050		778	811
Zurich Finance (Ireland) DAC	3.000% USD 1,750 million, first callable on January 19, 2031, due April 2051		1,595	–
Zurich Finance (Ireland) DAC	3.500% USD 500 million, first callable on January 2031, due May 2052		456	–
Zurich Finance (Ireland) DAC	1.600% EUR 200 million, first callable on September 17, 2032, due December 2052		207	216
Issuances to capital markets under Euro Medium Term Note Programme	2.750% CHF 225 million perpetual capital notes, callable on June 2, 2021		–	225
	2.750% CHF 200 million perpetual capital notes, first callable on September 30, 2021		–	200
	4.750% USD 1 billion perpetual notes, first callable on January 20, 2022		912	885
	4.250% EUR 1 billion notes, first callable on October 2, 2023, due October 2043		1,037	1,082
	4.250% USD 300 million subordinated notes, first callable on October 1, 2025, due October 2045		274	265
	5.625% USD 1 billion subordinated notes, first callable on June 24, 2026, due June 2046		912	885
	3.500% EUR 750 million subordinated notes, first callable on October 1, 2026, due October 2046		778	811
	5.125% USD 500 million subordinated notes, first callable on June 1, 2028, due June 2048		456	442
	4.875% USD 500 million subordinated notes, first callable on October 2, 2028, due October 2048		456	442
	2.750% EUR 500 million subordinated notes, first callable on February 19, 2029, due February 2049		518	541
Total subordinated debt			10,510	8,939
	<i>thereof due in one to five years</i>		<i>3,000</i>	<i>2,232</i>
	<i>thereof due in more than five years</i>		<i>6,599</i>	<i>6,282</i>

Financial statements – statutory accounts (continued)

19. Liabilities from insurance and reinsurance business

Liabilities from insurance and reinsurance business	in CHF millions, as of December 31	2021	2020
	Amounts due to policyholders	39	47
	Amounts due to agents and intermediaries	23	19
	Amounts due to insurance and reinsurance companies	1,234	1,261
	Total liabilities from insurance and reinsurance business	1,296	1,327

20. Share capital

Share capital	number of shares, as of December 31	2021	2020
	Issued shares, CHF 10.00 par value	82,500,000	82,500,000

a) Issued share capital

On December 31, 2021, and on December 31, 2020, respectively, the issued share capital of ZIC amounted to CHF 825,000,000, consisting of 82,500,000 fully paid registered shares with a par value of CHF 10.00 each.

b) Shareholder

As of December 31, 2021 and 2020, 100 percent of the registered shares of the Company were owned by Zurich Insurance Group Ltd.

Shareholder's equity	in CHF millions, as of December 31	2021	2020	Change
	Shareholder's equity			
	Share capital	825	825	–
	Capital contribution reserve	5,570	5,570	–
	Legal reserve	485	485	–
	General free reserve	4,272	4,272	–
	Retained earnings:			
	Beginning of year	14,246	14,786	(539)
	Dividend paid	(2,600)	(2,900)	300
	Net income after taxes	2,483	2,361	123
	Retained earnings, end of year	14,130	14,246	(117)
	Total shareholder's equity	25,282	25,398	(117)

Financial statements – statutory accounts (continued)

21. Assets and liabilities relating to companies within the Zurich Insurance Group

Assets and liabilities relating to direct and indirect subsidiaries	in CHF millions, as of December 31	2021	2020
	Assets		
	Investments in subsidiaries and associates	34,867	34,685
	Debt securities	12	12
	Other loans	6,763	5,171
	Derivative assets	275	369
	Deposits made under assumed reinsurance contracts	2,031	1,866
	Cash and cash equivalents	381	504
	Insurance reserves, ceded	1,644	1,572
	Deferred acquisition costs, net of reinsurance	2,097	2,014
	Receivables from insurance and reinsurance business	677	616
	Other receivables	173	173
	Accrued assets	280	250
	Total assets	49,199	47,231
	Liabilities		
	Insurance reserves, gross	26,137	25,759
	Provisions	146	148
	Senior and other debt	10,067	10,105
	Derivative liabilities	28	34
	Deposits received under ceded reinsurance contracts	176	39
	Liabilities from insurance and reinsurance business	1,037	1,047
	Other liabilities	88	73
	Accrued liabilities	280	220
	Subordinated debt	3,036	1,028
	Total liabilities	40,995	38,453

Assets and liabilities relating to ZIG Ltd	in CHF millions, as of December 31	2021	2020
	Assets		
	Equity securities	858	724
	Cash and cash equivalent	–	195
	Total assets	858	919
	Liabilities		
	Senior and other debt	52	529
	Other liabilities	–	–
	Accrued liabilities	91	91
	Subordinated debt	2,132	2,132
Total liabilities	2,276	2,753	

Financial statements – statutory accounts (continued)

22. Supplementary information

Supplementary information

in CHF millions, as of December 31	2021	2020
Limited guarantees, indemnity liabilities and pledges in favor of third parties	16,173	15,445
Leasing obligations not recorded on the balance sheet	247	275
Pledged assets in respect of securities lending agreements (at book value)	–	183
Security deposits	7,773	7,688
Number of employees – Average full time equivalents	5,955	5,778
Audit fees	(10)	(11)
Other service fees	(11)	–

Limited guarantees, indemnity liabilities and pledges in favor of third parties included a guarantee of USD 3.0 billion both in 2021 (CHF 2.7 billion) and in 2020 (CHF 2.7 billion), in favor of subsidiaries to provide funds under certain circumstances. The total maximum exposure under this guarantee amounted to USD 200 million (CHF 182 million) as of December 31, 2021, and USD 200 million (CHF 177 million) as of December 31, 2020.

In addition to the guarantees listed above, the Company has provided unlimited guarantees in support of various subsidiaries belonging to the Zurich Insurance Group.

According to regulatory requirements, CHF 12.5 billion and CHF 12.1 billion (eligible value) were attributed to tied assets, as of December 31, 2021 and 2020, respectively.

To secure the insurance reserves of the assumed reinsurance business, investments with a value of CHF 7.8 billion and CHF 7.7 billion as of December 31, 2021 and 2020, respectively, were deposited in favor of ceding companies.

23. Net release of hidden reserves

In 2021 and in 2020, there was no material release of hidden reserves to be reported according to Swiss Code of Obligations.

24. Subsequent events

On January 4, 2022, the Company announced that it was exercising its option to redeem USD 1 billion (CHF 912 million) of subordinated notes that had been issued in 2016. The notes were redeemed in full at par on January 20, 2022.

On January 7, 2022, the Company announced a placement of subordinated notes in a total principal amount of CHF 300 million and with a maturity date of May 3, 2052, were issued on January 18, 2022.

Financial statements – statutory accounts (continued)

Proposed appropriation of available earnings

	2021	2020
number of shares, as of December 31		
Registered shares eligible for dividends		
Eligible shares	82,500,000	82,500,000

The Board of Directors proposes to the Annual General Meeting to be held on April 6, 2022, to appropriate the available earnings for 2021 as follows:

in CHF	Available earnings
Available earnings	
As of January 1, 2021	14,246,443,028
Dividend paid	(2,600,000,000)
Net income after taxes	2,483,392,949
Available earnings, as of December 31, 2021	14,129,835,977

The Board of Directors proposes a dividend of CHF 3,200,000,000 out of the available earnings for 2021:

in CHF	Available earnings
Appropriation of available earnings	
As of January 1, 2022	14,129,835,977
Dividend payment out of available earnings	(3,200,000,000)
Balance carried forward	10,929,835,977

Zurich, March 9, 2022

On behalf of the Board of Directors of Zurich Insurance Company Ltd

Michel M. Liès

Report of the statutory auditor



Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8010 Zurich

Phone: +41 58 286 31 11
Fax: +41 58 286 30 04
www.ey.com/ch

To the General Meeting of
Zurich Insurance Company Ltd, Zurich

Zurich, March 9, 2022

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Zurich Insurance Company Ltd (hereinafter referred to as "the Company"), which comprise the balance sheet, income statement and notes (pages 156 to 172), for the year ended December 31, 2021.



Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Company's articles of association. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.



Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the Company's financial statements for the year ended December 31, 2021 comply with Swiss law and the Company's articles of association.

Report of the statutory auditor (continued)



Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the Company's financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibility* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Company's financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the Company's financial statements.

Valuation of certain Property & Casualty insurance reserves

Area of focus The Company underwrites Property & Casualty business and acts as a reinsurance company, mainly for affiliated companies. Resulting reserves for losses and loss adjustment expenses is a material item within total liabilities and gross insurance reserves financial statement line item amounting to CHF 25,938 million as of December 31, 2021.

As described in the notes to the financial statements, reserves for losses and loss adjustment expenses are estimates of future payments for reported and unreported claims losses and related expenses with respect to insured events that have occurred.

Reserving for incurred but not reported claims is a complex process applying actuarial and statistical methods over historical data and patterns requiring the use of informed estimates and judgments. It requires the use of complex formulas and computational tools that may be incorrectly configured, and for which inaccurate or incomplete input data may be used.

This is specifically the case for Property & Casualty lines of business that are considered longer-tail where certain longer-term assumptions are required as part of the projection techniques. These projection techniques also consider exposures to the prolonged impacts of the COVID-19 pandemic including uncertainty around claims litigation, timeliness of claims reporting, resultant impact of challenges with supply chains and inflation.

Additionally, reserves for catastrophe events which are usually of less frequency but higher severity, are more difficult to estimate and include expert judgments.

Accordingly, we have identified this as a key audit matter.

Report of the statutory auditor (continued)



The accounting policies and critical accounting judgments and estimates of the Company about the valuation of the loss and loss adjustment expense reserves are described in Note 2 ("Summary of significant accounting policies") and additional information regarding these insurance reserves is presented in Note 14 ("Insurance reserves, net") to the financial statements.

Our audit response

We assessed and tested the design effectiveness of selected key controls within the actuarial reserve valuation process. These included controls over methods selection, completeness and accuracy of the underlying data, key assumption and the governance process used by management.

We executed our substantive procedures in relation to these insurance reserves and related changes as included in the income statement using the work of our actuarial specialists.

Our procedures included:

- ▶ Performance of a country-based risk tiering assessment by line of business based on multiple criteria including materiality, tail length and prior year developments.
- ▶ Analytical reviews considering separately current accident year loss ratio from prior years developments.
- ▶ Evaluation of the appropriateness of the loss reserve levels for significant catastrophe events.
- ▶ On a sample basis, tested Property & Casualty business assumed by the Company by reviewing data directly from affiliates and reinsurance contract terms.

For selected lines of business, our procedures further included:

- ▶ Testing the completeness and accuracy of data utilized by the Company's actuaries in estimating the loss reserves by reconciling such amounts and related output to the underlying accounting records and the financial statements as appropriate.
- ▶ Data-enabled audit procedures and claims data plausibility checks on selected samples to support completeness and accuracy of claims triangles.
- ▶ Independent projections of ultimate losses and calculation of a reasonable range for required loss reserves for selected lines of business. We also assessed managements' recorded loss reserves against our independent developed loss reserve range.
- ▶ Analysis of actuarial methods and assessment of the reasonableness of the quantitative and qualitative assumptions used within projection techniques by the Company's actuaries for the valuation of property and casualty reserves.
- ▶ Assessment of the prolonged COVID-19 pandemic impacts on property and casualty reserves.

Finally, we assessed the appropriateness of accounting policies used and adequacy of the disclosures in the financial statements.

Based on the audit procedures performed, we did not find any exceptions with regards to the valuation of certain property and casualty insurance reserves.

Report of the statutory auditor (continued)



Valuation of certain actuarially determined life insurance reserves

Area of focus The Company acts as a reinsurance company, mainly for life business written by affiliated companies. Resulting future life policyholders' benefit reserves is a material item within total liabilities and gross insurance reserves financial statement line item amounting to CHF 5,843 million as of December 31, 2021.

The valuation of the above mentioned actuarially determined life insurance reserves is associated with significant uncertainties requiring the use of expert judgment within complex actuarial models relying on complex and subjective assumptions in relation to future events.

The assumptions and data used for calculations of these balances require both economic and non-economic assumptions, including interest rates, investment returns, mortality, morbidity, longevity, persistency, expenses, and the modeled future decisions of the policyholders. In addition, uncertainty triggered by the prolonged impact of the COVID-19 pandemic requires an additional layer of analysis and judgment.

Moreover, because of the long duration of many life insurance products, relatively small changes in key assumptions may have a significant impact on the valuation of the actuarially determined life insurance reserves. Specifically, the continued low interest rate, and the related impact to policyholder behavior, creates a strain on the sufficiency of life insurance reserves.

The valuation of these life insurance reserves requires the use of complex formulas and the construction of models and other computational tools that may be incorrectly designed or configured, and for which inadequate assumptions and incomplete or inaccurate input data may be used.

Accordingly, we have identified this as a key audit matter.

The accounting policies and critical accounting judgments and estimates of the Company about the valuation of the actuarially determined life insurance reserves are described in Note 2 ("Summary of significant accounting policies") and additional information regarding these insurance reserves is presented in Note 14 ("Insurance reserves, net") to the statutory financial statements.

Report of the statutory auditor (continued)



Our audit response

We assessed and tested the design effectiveness of selected key controls within the life insurance reserves actuarial valuation process. These included controls over methods selection, completeness and accuracy of the underlying data, assumption setting, and the governance process used by management.

We executed our substantive procedures in relation to these balances and related changes as included in the income statements using the work of our actuarial specialists.

Our procedures included:

- ▶ Performance of a country-based risk tiering assessment by product based on multiple criteria including materiality, specific product features and complexity, and liability adequacy test headroom.
- ▶ Reviewing liability adequacy testing and sufficiency of the future life policyholder benefit reserves.
- ▶ Assessing the consistency of the life actuarial methods and best estimate assumptions used across the Company's significant affiliates.
- ▶ On a sample basis, tested life business assumed by the Company by reviewing data directly from affiliates and reinsurance contract terms.

For selected products, our procedures further included:

- ▶ Testing of the completeness and accuracy of data, including in-force policyholder data and experience studies, as utilized by Zurich Insurance actuaries to value these insurance reserves by reconciling such amounts and related output to the underlying accounting records and the financial statements as appropriate.
- ▶ Reviewing actuarial models used in the determination of these life insurance reserves and their compliance with products specificities and related guarantees.
- ▶ Assessing certain quantitative and qualitative best estimate assumptions used in actuarial models, including considerations of their reasonableness based on experience studies, our knowledge of the Company and local markets, products offered, publicly available market and macroeconomic data, and impacts of the prolonged COVID-19 pandemic.
- ▶ On a sample basis, independent calculation of future life policyholder benefit reserves balances.

Finally, we assessed the appropriateness of accounting policies used and adequacy of the disclosures in the financial statements.

Based on audit procedures performed, we did not identify any exceptions with regards to the valuation of certain actuarially determined life insurance reserves.

Report of the statutory auditor (continued)



Recoverability of investments in subsidiaries

Area of focus

We consider the investments in subsidiaries to be a key audit matter not only due to the judgment involved but also based on the magnitude of CHF 34.9 billion, which makes up 38% of the Company's total assets as of December 31, 2021.

Investments in subsidiaries are carried at cost less necessary impairments. The need for impairment is assessed by grouping the subsidiaries into regional sub-groups. The sub-groups correspond to the published IFRS segments of the Company.

The Company compares the carrying value of a sub-group to its IFRS Net Asset Value as of December 31, 2021 to identify any impairment triggers. In the case of an impairment trigger, further qualitative and quantitative assessments are performed by the Company based on the IFRS recoverable amount of the sub-group. Estimation of the recoverable amount requires management to use complex models, expert judgment and is based on several complex and subjective assumptions, particularly in respect of:

- ▶ projections of future income based on prospective business plans,
- ▶ perpetual growth rates, and
- ▶ discount rates.

In addition, there is increased uncertainty surrounding the projections of future income of certain businesses due to COVID-19.

If the assessment finally indicates a need for an impairment, the Company reduces the carrying value of a subsidiary on an individual basis accordingly.

Refer to Note 2 ("Summary of significant accounting policies") and Note 7 ("Investments in subsidiaries and associates") to the 2021 financial statements.

Report of the statutory auditor (continued)



Our audit response

We obtained an understanding of management's process and controls and assessed the design effectiveness of selected key controls over the recoverability of the carrying value of investments in subsidiaries.

With the assistance of our valuation specialists where appropriate, our substantive testing procedures included:

- ▶ Assessing the appropriateness of the Company's impairment testing methodology, including the grouping of the subsidiaries into the sub-groups defined by management and used for the impairment test.
- ▶ Testing the mathematical accuracy of management's calculation and performance of substantive procedures regarding key assumptions including evaluation of:
 - Consistency of projected future cash flows with management's most recent estimates including those used in the Company's budgeting and forecasting process;
 - The assumptions made with respect to projected future cash flows are reasonable in terms of the applicable sub-groups' economic and financial outlook, including the impacts of the prolonged COVID-19 pandemic;
 - The comparison of actual results versus historical projected financial information;
 - Consistency of key assumptions including discount and perpetual growth rates with market and industry specific reference values and that such assumptions are used in the Company's projected cash flows; and
 - The completeness and accuracy of data used by management to project future cash flows.
- ▶ Evaluation of the sensitivity analysis performed by management and performance of additional procedures to assess the appropriateness of key assumptions used by management.
- ▶ Re-performing management's impairment test on the carrying value of all investments in subsidiaries and challenging the impairment decisions taken.

Finally, we assessed the appropriateness of the accounting policies used and adequacy of the respective disclosures in the financial statements.

Based on the audit procedures performed, we did not find any exceptions with regards to the recoverability of investments in subsidiaries.

Other matter

The financial statements of Zurich Insurance Company Ltd for the year ended December 31, 2020 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on March 3, 2021.



Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of association. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Isabelle Santenac
Licensed audit expert
(Auditor in charge)

Thomas Fiepke
Certified Public Accountant (U.S.)

Disclaimer and cautionary statement

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

All references to 'Farmers Exchanges' mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors. Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the three Exchanges and in that capacity provide certain non-claims services and ancillary services to the Farmers Exchanges. Neither Farmers Group, Inc., nor its parent companies, Zurich Insurance Company Ltd and Zurich Insurance Group Ltd, have any ownership interest in the Farmers Exchanges. 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 Reinsurance Company.

It should be noted that past performance is not a guide to future performance. Please also note that interim results are not necessarily indicative of full year results.

Persons requiring advice should consult an independent adviser.

This communication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

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years



Zurich Insurance Company Group

Mythenquai 2

8002 Zurich, Switzerland

Phone +41 (0) 44 625 25 25

www.zurich.com