IFRS 17 at Zurich

An introductory guide for investors and analysts

September 27, 2022
Investor presentation
Zurich Insurance Group
<table>
<thead>
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<th>Key messages</th>
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</table>
Roadmap to IFRS 9 / 17 at Zurich

- **Q1-22**: IFRS 17 parallel runs and transition balance sheet (Jan 1, 2022)
- **Q2-22**: Auditor alignment / Peer alignment on KPIs
- **Q3-22**: IFRS 17 financial planning
- **Q4-22**: Early communication with analysts/investors
- **Q1-23**: FY-22 IFRS 4 results reporting (Discussion of IFRS 17 transition impacts)
- **Q2-23**: Investor day including 2023-25 financial targets on IFRS 17 basis
- **Q3-23**: Q1-23 results: News release only (FY-22 IFRS 17 financial information to follow shortly after)
- **Q4-23**: Q3-23 results: News release only
- **Q1-24**: FY-23 results: full IFRS 17 reporting

**Q2-22**
- HY-23 results: 1st full IFRS 17 reporting
- Early communication with rating agencies

**Q3-22**
- Investor day including 2023-25 financial targets on IFRS 17 basis

**Q4-22**
- FY-22 IFRS 4 results reporting (Discussion of IFRS 17 transition impacts)

**Q1-23**
- Q1-23 results: News release only (FY-22 IFRS 17 financial information to follow shortly after)

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**Q4-23**
- Early communication with analysts/investors

**Q1-24**
- FY-23 results: full IFRS 17 reporting

**Q2-23**
- Investor day including 2023-25 financial targets on IFRS 17 basis

**Q3-23**
- Q1-23 results: News release only (FY-22 IFRS 17 financial information to follow shortly after)

**Q4-23**
- Early communication with analysts/investors
# Choice of measurement model based on qualitative considerations and eligibility assessment

## APPROACH

**GROUP’S GENERAL RULE:**

<table>
<thead>
<tr>
<th>P&amp;C insurance</th>
<th>Life insurance(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAA(^1)</td>
<td>BBA/VFA(^1)</td>
</tr>
</tbody>
</table>

**EXCEPTIONS CONSIDERED BASED ON:**

- Contract boundary
- Management approach & KPIs
- Current accounting practice and actuarial methods/tools
- Materiality and operational considerations

**ELIGIBILITY ASSESSMENT:**

- Not needed for BBA approach (IFRS 17 default model)
- Needed in order to adopt the simplified approach (PAA)

## EXAMPLES

- **JAPAN P&C:** PERSONAL ACCIDENT
  - BBA

- **NORTH AMERICA P&C:** WORKERS’ COMP
  - PAA

- **LATIN AMERICA LIFE:** SANTANDER JV PROTECTION
  - PAA

- **AUSTRALIA LIFE:** PROTECTION
  - BBA

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2. Excluding Life investment contracts, which are accounted based on IFRS 9. A modification of the BBA approach (i.e., Variable Fee Approach, or VFA) is discussed in the Life section of this document.
We have chosen options that reflect underlying economics and provide stability of earnings to the greatest extent possible.

**KEY ACCOUNTING CHOICES**

**DISCOUNT RATES/OCI³ OPTION**
- Bottom-up approach: risk free rate plus illiquidity premium¹
- December 2021 forward curve used for historical years pre-2015 in P&C²
- Disaggregation of impact of changes in discount rates between P&L and OCI³

**RISK ADJUSTMENT**
- Percentile approach, based on SST target level of ≥160%, with a periodical review of cost of capital
- Disaggregation of impact of changes in risk adjustment for non-financial risk between P&L and OCI³

**EQUITIES FVTPL⁴**
- We will not use the option to designate equity securities at fair value through OCI³, with consequent impact on NIAS

**LEVEL OF AGGREGATION**
- Application of annual cohorts for traditional savings business (mainly in Continental Europe)

**TRANSITION APPROACH**
- Fully retrospective approach for recent cohorts; modified retrospective approach preferred alternative
- >80% of CSM based on retrospective approach, <20% on fair value approach

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¹ Illiquidity premium not applied for onerous contracts.
² December 2021 forward curve for pre-2014 claims for North America P&C. Depending on transition approach, different dates apply for certain Life portfolios.
³ Other Comprehensive Income.
⁴ Fair Value Through Profit and Loss.

September 27, 2022
IFRS 17 expected to have a limited impact on earnings and revenue; greater impact on liabilities and equity

**PROFIT & LOSS**

IFRS 4 BUSINESS OPERATING PROFIT (BOP)

<table>
<thead>
<tr>
<th>Life</th>
<th>Long-term Life</th>
<th>• Introduction of insurance revenue, which excludes NDIC¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;C</td>
<td>P&amp;C</td>
<td>• Introduction of insurance revenue, similar to today's gross earned premium</td>
</tr>
<tr>
<td>Farmers</td>
<td>Farmers fee business</td>
<td>• Fee business: no change</td>
</tr>
<tr>
<td></td>
<td>Farmers Life</td>
<td>• Farmers Life: as for Life business</td>
</tr>
<tr>
<td>Other</td>
<td>GF&amp;O, NCB²</td>
<td>• No change</td>
</tr>
</tbody>
</table>

**REVENUE**

- • Introduction of Insurance revenue, which excludes NDIC¹
- • Introduction of Insurance revenue, similar to today's gross earned premium
- • Fee business: no change
- • Farmers Life: as for Life business
- • No change

**BALANCE SHEET**

IFRS 4

- Intangibles
- Other assets
- Unit linked investments
- Group investments
- Assets
- Liabilities for insurance contracts - P&C
- Liabilities for insurance contracts - Life²
- Liabilities for investment contracts
- Other liabilities
- Shareholders' equity

1 Non-Distinct Investment Components.
2 Group Functions and Operations, Non-Core Businesses.

September 27, 2022
IFRS 9 will not introduce changes to BOP, some additional volatility in NIAS expected

IFRS 9 addresses financial instruments that underpin and fund IFRS 17 insurance liabilities

- Unrealized gains and losses for most debt securities continue to be recorded through Other Comprehensive Income (OCI)
- Low volume of debt securities that fail Solely Payments of Principal and Interest (SPPI) test, measured at Fair Value Through P&L (FVTPL)
- Equities measured at FVTPL, with 40% of them backing direct participating contracts. Impact reported in NIAS, not affecting BOP
- Expected Credit Loss (ECL) allowance not material in the Group context, as the portfolio is predominantly investment grade
- Effective date and transition date: January 1, 2023 on a prospective basis, comparatives not restated

<table>
<thead>
<tr>
<th>No change due to IFRS 9:</th>
<th>Impacted by IFRS 9:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities FVTPL</td>
<td>~8%</td>
</tr>
<tr>
<td>Debt securities FVTPL</td>
<td>~5%</td>
</tr>
</tbody>
</table>

1. Excludes debt securities not passing the Solely Payment of Principal and Interest (SPPI) test which will be measured at FVTPL and those designated at fair value through profit or loss to avoid accounting mismatches.
2. Selected elements of IFRS 9 are reflected in the January 1, 2022 transition balance sheet, mainly related to the valuation of certain assets booked at amortized cost into fair value through Other Comprehensive Income.
Change in equity at transition mainly driven by introduction of CSM and active discounting of long-term liabilities

GROUP SHAREHOLDERS’ EQUITY WALK IFRS 4 to IFRS 9/17

1 Deferred Acquisition Costs (Life and P&C long-term Accident & Health) net of Deferred Front-End Fees.
2 IFRS 9 impact partially included on transition to IFRS 17 (January 1, 2022), partially included as of January 1, 2023.
Return on equity will be higher due to impact on denominator

DEFINITION

BOP after tax

Average of adjusted shareholders’ equity (i.e., adjusted for net unrealized gains/losses and cash flow hedges)

- Level and definition of BOP after tax in the numerator expected to be largely unchanged\
- Average shareholders’ equity will be adjusted for unrealized gains and losses related to both assets and liabilities
- Fixed income will be the only asset class to drive unrealized gains and losses in equity

EXPECTED IMPACT

Amortization of M&A related intangibles to be excluded from BOP under IFRS 17.
Our disclosure going forward will focus on a similar set of KPIs

<table>
<thead>
<tr>
<th>Business</th>
<th>IFRS 4 KPIs</th>
<th>IFRS 17 KPIs</th>
<th>IFRS 9/17 impact</th>
<th>Comments</th>
</tr>
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<tbody>
<tr>
<td>Group</td>
<td>BOP, NIAS, BOPAT ROE, SST, Cash remittances</td>
<td>BOP, NIAS, BOPAT ROE, SST, Cash remittances</td>
<td></td>
<td>To exclude amortization of M&amp;A intangibles; To include fair value changes of equity securities; Higher due to impact on shareholders’ equity; No direct impact</td>
</tr>
<tr>
<td>P&amp;C^2</td>
<td>GWP, NEP, Combined ratio, BOP</td>
<td>GWP, Insurance revenue, Combined ratio, BOP</td>
<td></td>
<td>Single parent captives accounted on a net basis; NEP no longer reported; Net impact dependent on discount rates and mix; Timing of profit recognition influenced by discounting</td>
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<tr>
<td>Life^2</td>
<td>APE, GWP incl. deposits, Net inflows, NBV, BOP</td>
<td>PVNBP^4, Insurance revenue, Net inflows, NB CSM, BOP</td>
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<td>PVNBP^4 for long-term life, insurance revenue for short-term life, Net inflows for investment contracts</td>
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Farmers
- Farmers Exchanges GWP
- FMS MGEP margin
- BOP

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<tbody>
<tr>
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</tr>
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1. Directional impact post transition, all other factors being equal. Does not take into account the impact of acquisitions and disposals.
2. P&C KPIs also apply to Farmers Re, reported under Farmers. Life KPIs also apply to Farmers Life, reported under Farmers.
3. For all the references to Farmers Exchanges see the disclaimer and cautionary statement.
IFRS 9/17 introduction has limited impact on Group’s capital and cash; economic leverage position unaffected

- No direct IFRS 9/17 impact expected given SST is based on a market consistent balance sheet applying economic valuation principles
- Limited second order impacts expected from IFRS exposure inputs used for the target or available capital calculation

- Adoption of IFRS 17 for local statutory or tax accounting may have limited impacts on distributable earnings or corporate taxation for a small number of local entities

- Economic leverage to remain unchanged post IFRS 17 transition
- CSM and risk adjustment expected to be included in IFRS 17 equity base when deriving leverage given loss absorbing characteristics

No impact on dividend
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IFRS 17 at Zurich
P&C
### Key messages

| Limited change | P&C accounting will primarily be based on the simplified approach (PAA), with only limited changes vs. IFRS 4, both in terms of disclosure and key financial metrics |
| New elements | Main new elements introduced by IFRS 17 are the risk adjustment as an allowance for uncertainty, the discounting of claims reserves\(^1\) and recognition of loss component |
| Presentational differences | Insurance revenue will be the key revenue metric and the basis for combined ratio calculation; limited change expected in the level and composition of the combined ratio |
| Consistent strength of reserves | Strength of reserves not expected to change as we move to IFRS 17; reserve releases will in future reflect the impacts of discounting and risk adjustment |
| Better comparability | Discounting of liabilities improves combined ratio comparability across lines of business; we do not anticipate this to result in any change in our target business mix |

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\(^1\) Under IFRS 4 only a small portion of claims reserves is discounted.
Limited impact on P&C financials

**TOPLINE**
- Insurance revenue expected to be lower than IFRS 4 GWP (slide 17)
- GWP expected to remain as a KPI

**COMBINED RATIO**
- All else equal, slightly higher (when <100%) due to different presentation of underlying components (slide 21)
- This may be offset by the net impact of discounting and risk adjustment

**BOP**
- Not expected to be materially different

**SHAREHOLDERS’ EQUITY**
- Expected to increase marginally, mainly due to discounting of reserves, partially offset by risk adjustment

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1 Adjusted to include technical non-qualifying expenses, reported as part of the other result (slide 16).

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### IFRS 4 SIMPLIFIED P&L

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<th>BOP key components</th>
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<tr>
<td>Revenues</td>
<td>Net earned premiums</td>
</tr>
<tr>
<td></td>
<td>Net investment result</td>
</tr>
<tr>
<td></td>
<td>Other income</td>
</tr>
<tr>
<td>Expenses</td>
<td>Net insurance benefits and losses</td>
</tr>
<tr>
<td></td>
<td>Underwriting and acquisition costs</td>
</tr>
<tr>
<td></td>
<td>Administrative and operating expenses</td>
</tr>
<tr>
<td></td>
<td>Interest credited to policyholders and other interest</td>
</tr>
<tr>
<td></td>
<td>Other expenses</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td></td>
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<td>Business Operating Profit (BOP)</td>
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<td>Insurance revenue</td>
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<tr>
<td></td>
<td>Insurance service expenses</td>
</tr>
<tr>
<td></td>
<td>Reinsurance result</td>
</tr>
<tr>
<td>Net investment result</td>
<td>Net investment result on Group investments</td>
</tr>
<tr>
<td></td>
<td>Insurance finance expenses</td>
</tr>
<tr>
<td>Fee result</td>
<td>Fee income and expenses</td>
</tr>
<tr>
<td>Other result</td>
<td>Other income and expenses</td>
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<tr>
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Insurance revenue comparable to gross earned premiums

**COMMENTS**

- Gross Written Premiums (GWP) will no longer appear in the P&L, but will be kept as a revenue KPI.
- Insurance revenue is reported gross of reinsurance and is comparable to Gross Earned Premium (GEP).
- Premiums for single parent captives will be accounted on a net of reinsurance basis.
- Insurance revenue will form the basis for combined ratio, hence: Insurance service result = Insurance revenue \( \times (1 - \text{combined ratio}) \).
- Fee income (e.g., risk engineering fees) is shown separately under fee result.

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1. Unearned premium reserve.
2. Other differences between gross earned premiums and insurance revenue include effect of a significant financing component, commissions that are not contingent on claims for assumed business and investment components.
3. Except for single parent captives for which the direct premium is presented net of captive premium.
4. Insurance service result adjusted for technical non-qualifying expenses, which are expected to be shown within the other result in the P&L but included in the combined ratio calculation.
Claims reserves reflect the impact of discounting...

**DISCOUNTING**

- IFRS 17 cash flows (nominal reserves) are aligned with IFRS 4
- All IFRS 17 claims reserves are discounted, while with IFRS 4 only certain reserves were discounted
- The discount is the difference between the present value (at locked-in accident year rates) and the nominal value
- Discounting leads to a change in the timing of profit recognition, not the overall level of profit

**UNWIND**

<table>
<thead>
<tr>
<th>Year</th>
<th>Present value of liabilities</th>
<th>Discount</th>
<th>Unwind of discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>AY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AY+1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AY+2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AY+3</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Payment</td>
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**KEY IMPLEMENTATION CHOICES**

**YIELD CURVE CONSTRUCTION**

- Bottom-up approach: risk free rate plus illiquidity premium
- December 2021 forward curve used for historical years pre-2015

**CURRENT vs. LOCKED-IN RATES**

- Locked-in accident year rates used for discounting in P&L
- Financial effects from change in interest rates recognized in Other Comprehensive Income (OCI)
- This choice limits volatility in the P&L

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1. Mainly related to annuities, certain workers’ compensation reserves, and hyperinflation accounting.
2. Illiquidity premium not applied for onerous contracts.
3. Except for North America which uses December 2021 forward curve for pre-2014 claims.

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...and an allowance for uncertainty

RISK ADJUSTMENT

- Reflects the uncertainty related to timing and amount of cash flows arising from non-financial risks
- Unfavorable impact on current accident year claims
- Release of risk adjustment has a favorable impact on prior year development
- Higher for volatile and long-tail lines of business

UNWIND / RELEASE

- Present value of liabilities
- Discount
- Unwind of discount
- Risk adjustment
- Release of risk adjustment

KEY IMPLEMENTATION CHOICES

CAPITAL FRAMEWORK

- Percentile approach, based on SST and calibrated for cost of capital
- Periodical review of cost of capital
- Consistent approach used for Life and P&C, different percentiles
- Group diversification applied

APPLICATION

- For P&L, applied to discounted reserves based on locked-in rates
- For B/S, applied to discounted reserves based on current rates, interest rate change recognized in OCI
Strength of reserves consistent as we move to IFRS 17

CLAIMS RESERVES (HY-22)¹

- Reserve strength
- IBNR
- Case reserves
- Discount

Risk adjustment
ALHE²

IBNR
Case reserves
Discount

Clams reserves (IFRS 4)
Liability for incurred claims (IFRS 17)

COMMENTS

- Under IFRS 4, only a small portion of reserves are discounted. Hence, a release of reserves generally has 1:1 impact on P&L; Under IFRS 17, a release of reserves will be impacted by the discount and risk adjustment, so no longer 1:1
- Discounting and risk adjustment directionally tend to offset each other, with the net impact depending on business mix, level of discount rates, and factors underlying the risk adjustment calculation
- Allowance for Limited Historical Experience (ALHE) mechanism under IFRS 17 is similar to Solvency II ENID (Events Not In Data). ALHE is a nominal figure and subject to discounting and risk adjustment
- We do not anticipate material changes to the strength of our reserves as we move to IFRS 17

¹ Including loss adjustment expenses.
² Allowance for Limited Historical Experience.

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Calculation on a net/gross basis leads to small difference in the reported combined ratio

**IFRS 4**

- Gross earned premiums = 100
- Benefits and losses, gross = 60
- Technical expenses, gross = 30
- Net result = 10

**P&L view**

\[
\text{Loss ratio (net)} = \frac{B}{A} = 64\%
\]

\[
\text{Expense ratio (net)} = \frac{C}{A} = 29\%
\]

\[
\text{Combined ratio (net)} = \frac{B + C}{A} = 93\%
\]

**IFRS 17**

- Revenue = 100
- Benefits and losses, gross = 60
- Technical expenses, net = 30
- Net result = 5

**P&L view**

\[
\text{Loss ratio (net)} = \frac{B}{A} + \frac{D}{A} = 65\%
\]

\[
\text{Expense ratio (gross)} = \frac{C}{A} = 30\%
\]

\[
\text{Combined ratio (net/gross)} = \frac{B + D}{A} = 95\%
\]

---

1. Including the impact of discounting and risk adjustment, assumed to fully offset each other in this example for illustrative purposes.
2. Adjusted to also include any technical non-qualifying expenses reported as part of the other result.
3. Reinsurance premiums net of ceding commissions less amounts recovered from reinsurance including the impact of discounting and risk adjustment.
Limited changes to the level and composition of combined ratio

**COMMENTS**

- Insurance revenue used as denominator in IFRS 17, resulting in slightly higher combined ratio (if underwriting profit is positive) all else equal, due to higher base.
- Loss ratio components to be reported net of reinsurance.
- AY loss ratio excl. Cats to include also the impact of reinsurance premiums, risk adjustment (on current AY), and changes to onerous contracts’ loss component.
- Prior Year Development (PYD) to include the unwind of prior years’ risk adjustment.

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1 Adjusted to include also technical non-qualifying expenses, reported as part of the other result (see slide 17).
IFRS 17 combined ratio more comparable across lines of business

SELECTED UNIT EXAMPLES OF ACCIDENT YEAR COMBINED RATIOS (HY-22)

<table>
<thead>
<tr>
<th></th>
<th>Property</th>
<th>Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 4</td>
<td>79%</td>
<td>96%</td>
</tr>
<tr>
<td>Discounting of reserves</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Risk adjustment</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Other¹</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>IFRS 17</td>
<td>88%</td>
<td>94%</td>
</tr>
</tbody>
</table>

Presentational difference, no impact on our risk appetite and lines of business’ relative attractiveness

¹ Includes other impacts like change of reinsurance accounting within the ratio, and impact of using insurance revenue instead of net earned premium as denominator.
Investment result reflects an investment margin view by including the unwind of the discount of insurance liabilities

**COMPONENTS OF INVESTMENT RESULT IN BOP (ILLUSTRATIVE)**

- Investment income
- Net capital gains/losses
- Insurance finance expenses

**COMMENTS**

- P&C investment income unaffected by IFRS 17: mainly includes interest income, dividends and real estate rental income; net capital gains/losses refer to the fair value changes of the Group’s P&C hedge fund portfolio
- Introduction of ‘Insurance finance expenses’ under IFRS 17 representing mainly unwind of the discounting of insurance liabilities
- IFRS 17 investment result includes both asset return and unwind of insurance liability discount which effectively reflects the investment margin
- The difference between locked-in rates and current rates for both fixed income assets and liabilities is recognized in OCI
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1. Under IFRS 4 only a small portion of claims reserves is discounted.
IFRS 17 at Zurich

Life
### Key messages

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<td>Earnings level largely unchanged</td>
<td>Adoption of IFRS 9/17 not expected to result in a material change to BOP; profit signature for long-term contracts will reflect a different treatment of economic and operating variances</td>
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<td>Improved visibility on profit emergence</td>
<td>Clear visibility on contribution from new business to balance sheet and profit emergence from long term portfolios</td>
</tr>
<tr>
<td>No impact on target business mix</td>
<td>The adoption of IFRS 9/17 will not result in any change in our target business mix</td>
</tr>
</tbody>
</table>
Different measurement models are applied for Life business following nature of contracts

### MEASUREMENT MODELS

<table>
<thead>
<tr>
<th>Insurance contracts</th>
<th>Participating</th>
<th>Direct participating</th>
<th>VFA</th>
<th>Protection</th>
<th>Unit-linked</th>
<th>Savings &amp; annuities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Indirect participating</td>
<td>BBA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-participating</td>
<td>Long-term</td>
<td>PAA</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Short-term</td>
<td>IFRS 9</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment contracts</th>
<th>IFRS 9</th>
</tr>
</thead>
</table>

#### SPLIT BY MEASUREMENT MODEL

- **Main units**
- **Non Unit-linked**
- **Unit-linked**
- **Insurance and investment liabilities**

---

1. Including investment contracts with discretionary participation features.
2. Mainly related to the protection part of certain corporate life and savings products.
3. As of Jan 1, 2022 (Italian back book reclassified as held for sale not included). Based on net insurance liability (including CSM) and investment liabilities.
4. Proxy based on HY-22 insurance service result, investment result, fee service result, income tax attributable to policyholders and non-controlling interests (other result not included).

September 27, 2022

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Under BBA, profits emerge mainly from CSM amortization, risk adjustment release, experience variances and investments.

### BUILDING BLOCK APPROACH (BBA)

<table>
<thead>
<tr>
<th>WHY NEEDED</th>
<th>P&amp;L VIEW (ASIA-PACIFIC COUNTRY EXAMPLE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• IFRS 17 default measurement model for insurance contracts</td>
<td></td>
</tr>
<tr>
<td><strong>MAIN PORTFOLIOS</strong></td>
<td></td>
</tr>
<tr>
<td>• Long-term and whole life protection</td>
<td></td>
</tr>
<tr>
<td>• Certain savings products (e.g., Spain)</td>
<td></td>
</tr>
<tr>
<td>• Universal life</td>
<td></td>
</tr>
<tr>
<td><strong>DISCOUNT RATES</strong></td>
<td></td>
</tr>
<tr>
<td>• Locked-in rates</td>
<td></td>
</tr>
<tr>
<td><strong>ECONOMIC VARIANCES</strong></td>
<td></td>
</tr>
<tr>
<td>• Impact equity through Other Comprehensive Income (OCI)</td>
<td></td>
</tr>
<tr>
<td><strong>OPERATING VARIANCES (current/past services)</strong></td>
<td></td>
</tr>
<tr>
<td>• Directly impact P&amp;L (insurance service result)</td>
<td></td>
</tr>
<tr>
<td><strong>OPERATING VARIANCES (future services)</strong></td>
<td></td>
</tr>
<tr>
<td>• Absorbed by CSM and amortized over time</td>
<td></td>
</tr>
</tbody>
</table>

### WHY NEEDED

- IFRS 17 default measurement model for insurance contracts

### MAIN PORTFOLIOS

- Long-term and whole life protection
- Certain savings products (e.g., Spain)
- Universal life

### DISCOUNT RATES

- Locked-in rates

### ECONOMIC VARIANCES

- Impact equity through Other Comprehensive Income (OCI)

### OPERATING VARIANCES (current/past services)

- Directly impact P&L (insurance service result)

### OPERATING VARIANCES (future services)

- Absorbed by CSM and amortized over time

---

1. Unless the contract becomes onerous, in which case the loss is recognized immediately in the P&L without smoothing over the remaining duration of the contract.
2. Premiums, claims and expenses.

September 27, 2022
VFA accounting reflects changes in market variables in the CSM, thereby smoothing the impact on P&L

**VARIABLE FEE APPROACH (VFA)**

**WHY NEEDED**
- Participating business where payments to policyholders are linked to underlying items

**MAIN PORTFOLIOS**
- Unit-linked
- Continental Europe traditional savings
- UK with-profits contracts

**DISCOUNT RATES**
- Current rates

**ECONOMIC VARIANCES**
- Absorbed by CSM and PVFCF\(^1\) and amortized over time\(^2\)

**OPERATING VARIANCES**
- Absorbed by CSM and PVFCF\(^1\) and amortized over time\(^2,3\)

**OPERATING VARIANCES**
- Absorbed by CSM and PVFCF\(^1\) and amortized over time\(^2\)

<table>
<thead>
<tr>
<th>P&amp;L VIEW (CONTINENTAL EUROPE COUNTRY EXAMPLE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSM amortization</td>
</tr>
<tr>
<td>Risk adjustment release</td>
</tr>
<tr>
<td>Onerous contracts</td>
</tr>
<tr>
<td>Actual vs expected(^4)</td>
</tr>
<tr>
<td>Insurance service result</td>
</tr>
<tr>
<td>Net investment result</td>
</tr>
<tr>
<td>Fee service result</td>
</tr>
<tr>
<td>Other result</td>
</tr>
<tr>
<td>BOP</td>
</tr>
</tbody>
</table>

---

1. Present value of future cash flows.
2. Unless the contract becomes onerous, in which case the loss is recognized immediately in the P&L without smoothing over the remaining duration of the contract.
3. Direct P&L impact for unit-linked and some traditional participating contracts.
4. Premiums, claims and expenses.
IFRS 17 brings increased visibility on new business and in-force amortization for long-term life business.

NEW BUSINESS CSM

IN-FORCE CSM (ILLUSTRATIVE)

- Present Value of New Business Premium
- New business margin

New business CSM

Covers insurance contracts accounted for under BBA and VFA only

CSM - opening → Operating variance → Economic variance → New business CSM → BOP consumption → FX / other → CSM - closing

CSM accretion / dilution
Due to our business mix, protection and unit-linked account for ~75% of CSM amortization

COMMENTS

• Share of direct participating business, accounted for using the VFA approach, declining over time due to changes in business mix

• Announced back book disposals expected to further accelerate the shift

• Protection and unit-linked with faster amortization compared to traditional life
Short-term Life business is similar to P&C; Fee result largely driven by investment contracts and 3rd party investments

Life PAA business is concentrated in Latin America of which a significant share relates to the Zurich Santander JV

Fee result largely driven by investment portfolios in Ireland, UK, Australia, Zurich International Life and 3rd party investments in Switzerland

1 Fee income of 3rd party investments mainly relates to Vita foundation in Switzerland.
2 Also includes fees not linked to AuM (e.g., transaction fees).
IFRS 17 introduces clear visibility on profit emergence

BOP BREAKDOWN (ILLUSTRATIVE)

RELEVANCE BY MEASUREMENT MODEL:

Investment contracts (IFRS 9)
- Short-term (PAA)
- Long-term (BBA)
- Long-term – Direct particip. (VFA)

Gross of non-qualifying expenses, which are reported in other result.
Life investment result primarily driven by contribution of short-term Life and non-participating business

### INVESTMENT RESULT BY MEASUREMENT MODEL (ILLUSTRATIVE)

<table>
<thead>
<tr>
<th>Recognized in BOP</th>
<th>LIFE TOTAL</th>
<th>IFRS 17 BBA / PAA</th>
<th>IFRS 17 VFA NON UNIT-LINKED</th>
<th>IFRS 17 VFA UNIT-LINKED</th>
<th>IFRS 9 INVESTMENT CONTRACTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group investment result</td>
<td>1,000</td>
<td>150</td>
<td>550</td>
<td>50</td>
<td>250</td>
</tr>
<tr>
<td>Insurance finance result</td>
<td>-900</td>
<td>-50</td>
<td>-550</td>
<td>-50</td>
<td>-250</td>
</tr>
<tr>
<td>BOP</td>
<td>100</td>
<td>100</td>
<td>-0</td>
<td>-0</td>
<td>-0</td>
</tr>
</tbody>
</table>

#### Recognized in Net income

| Investment result                      | 4,250      | 50                | 200                         | 2,000                   | 2,000                       |
| Finance expense                        | -4,200     | 0                 | -200                        | -2,000                  | -2,000                      |
| Net income                             | 50         | 50                | 0                           | 0                       | 0                           |

1. BOP includes yield income and hedge funds gains / losses. Investment gains / losses related to real estate and equity instruments are part of net income.
2. Insurance finance result may deviate from the Group investment result for VFA non unit-linked given the policyholder participation of risk / expense result is disclosed as part of the insurance finance result, while the corresponding shareholder participation is part of the insurance service result.

Investment result with direct impact on BOP and net income
Net fee income for VFA unit-linked and net investment result for VFA non unit-linked reflected in P&L through CSM amortization
Net fee income of investment contracts is reported under fee result
Profit signatures vary with market impacts, operating variances, actuarial assumption updates and one-offs

### MARKET IMPACTS

**IFRS 4**
- Direct BOP impact through:
  - AuM fees for Unit-linked contracts
  - Remeasurement of DAC / DFEF\(^1\)
  - Liability adequacy events

**IFRS 17**
- Direct BOP impact:
  - Investment contracts and PAA
  - Onerous contracts

### OPERATING VARIANCES/ASSUMPTION UPDATES

**IFRS 4**
- Direct BOP impact:
  - Past and current services
  - Liability adequacy events

**IFRS 17**
- Direct BOP impact:
  - PAA contracts
  - Past and current services for businesses accounted for through BBA
  - Onerous contracts

**OTHER ONE-OFFS**
(e.g., reserve releases)

**IFRS 4**
- Limited BOP impact:
  - Future services\(^2\)

**IFRS 17**
- Indirect BOP impact through CSM amortization:
  - Future services for businesses using BBA
  - Business accounted for through VFA\(^3\)

- Direct BOP impact

**DIRECTIONAL VIEW ONLY**

---

1. DAC: Deferred acquisition costs; DFEF: Deferred front end fees.
2. In a few geographies, operating variances or assumptions updates can lead to a direct BOP impact given the application of local GAAP principles.
3. Direct P&L impact for unit-linked and some traditional participating contracts for operating variances relating to past / current services.
<table>
<thead>
<tr>
<th>Key messages</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings level largely unchanged</td>
<td>Adoption of IFRS 9/17 not expected to result in a material change to BOP; profit signature for long-term contracts will reflect a different treatment of economic and operating variances</td>
</tr>
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George Quinn
Group Chief Financial Officer

Nationality: British
Born: 1966

Skills and experience
George Quinn started his career at KPMG 1988 in London, where he held several positions working with the insurance and reinsurance industry. He joined Swiss Re in 1999 as Group Chief Accounting Officer based in Zurich and later served as Chief Financial Officer (CFO) for Swiss Re Group’s financial services. Mr. Quinn became the regional CFO for Swiss Re Americas based in New York in 2005. In March 2007 he became Swiss Re Group’s CFO. Mr. Quinn joined Zurich in May 2014 as Group CFO and is a member of the Executive Committee.

External appointments
Mr. Quinn is a member of the finance chapter of the Swiss-American Chamber of Commerce.

Educational background
Mr. Quinn holds a degree in engineering from the University of Strathclyde. He is also a member of the Institute of Chartered Accountants in England and Wales.
Karthik Thilak
Head of Group Financial Accounting & Reporting

Nationality: Swiss
Born: 1984

Skills and experience
Karthik Thilak started his professional career as an auditor in India. He then moved to financial consulting at Infosys Technologies in India and then Switzerland, where he held several positions working with clients across industries in finance transformation. He joined Zurich in 2012 as a Finance Business Analyst in the Finance Transformation department, where he held various roles and led the rollout of Zurich’s Global Finance Core. In October 2017, he was appointed Finance Program Director to lead Zurich’s adoption of IFRS 17 and 9 standards.

In 2020, he became the Head of Financial Accounting and Reporting and a member of the Finance Executive Team. In this role, he oversees Zurich’s financial, sustainability, regulatory reporting, and digital finance and data management.

External appointments
None

Educational background
Mr. Thilak holds a degree in commerce from the University of Madras. He is also a member of the Institute of Chartered Accountants of India.
Acronyms
## Key acronyms used throughout the presentation

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC</td>
<td>Amortized Cost</td>
</tr>
<tr>
<td>ALHE</td>
<td>Allowance for Limited Historical Experience</td>
</tr>
<tr>
<td>APE</td>
<td>Annual Premium Equivalent</td>
</tr>
<tr>
<td>AuM</td>
<td>Assets under Management</td>
</tr>
<tr>
<td>BBA</td>
<td>Building Block Approach (General Model)</td>
</tr>
<tr>
<td>BOP(AT)</td>
<td>Business Operating Profit (After Tax)</td>
</tr>
<tr>
<td>CSM</td>
<td>Contractual Service Margin</td>
</tr>
<tr>
<td>DAC</td>
<td>Deferred Acquisition Costs</td>
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<td>DFEF</td>
<td>Deferred Front End Fees</td>
</tr>
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<td>ECL</td>
<td>Expected Credit Losses</td>
</tr>
<tr>
<td>ENID</td>
<td>Events Not In Data (Solvency II)</td>
</tr>
<tr>
<td>FRA</td>
<td>Fully Retrospective Approach</td>
</tr>
<tr>
<td>FVOCI</td>
<td>Fair Value through Other Comprehensive Income</td>
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<tr>
<td>FVTPL</td>
<td>Fair Value through Profit and Loss</td>
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<td>Gross Written Premiums</td>
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<td>IF</td>
<td>In-Force</td>
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<td>LLP</td>
<td>Last Liquid Point</td>
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<td>MGEP margin</td>
<td>Managed Gross Earned Premium margin</td>
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<td>Modified Retrospective Approach</td>
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<td>New Business Value</td>
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<tr>
<td>NDIC</td>
<td>Non-Distinct Investment Components</td>
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<tr>
<td>NIAS</td>
<td>Net Income Attributable to Shareholders</td>
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<tr>
<td>OCI</td>
<td>Other Comprehensive Income</td>
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<td>Premium Allocation Approach</td>
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<td>Participating business</td>
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<td>Present Value of New Business Premiums</td>
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<td>Return On Equity</td>
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<td>SPPI</td>
<td>Solely Payment of Principal and Interest test</td>
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<td>Swiss Solvency Test</td>
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<td>Unearned Premium Reserve</td>
</tr>
<tr>
<td>VFA</td>
<td>Variable Fee Approach</td>
</tr>
</tbody>
</table>
Thank you

UPCOMING EVENTS
- November 10, 2022: Update for the nine months ended September 30, 2022
- November 16, 2022: Investor Day, Zurich