# Consolidated financial statements 2021

Annual results 2021

Zurich Insurance Group

# Consolidated financial statements

## Contents

# 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 | | 5,047 | 4,903 |
| Net capital gains/(losses) and impairments on Group investments | | 2,038 | 2,047 |
| Net investment result on Group investments | 6 | 7,085 | 6,950 |
| 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 | 957 |
| Total revenues | | 69,867 | 59,001 |
| 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 | 8,794 | 8,006 |
| Interest expense on debt | | 469 | 399 |
| Interest credited to policyholders and other interest | | 591 | 581 |
| Total benefits, losses and expenses | | 62,546 | 53,606 |
| Net income before income taxes | | 7,321 | 5,395 |
| of which: Attributable to non-controlling interests | | 332 | 339 |
| Income tax (expense)/benefit | 17 | (1,895) | (1,323) |
| attributable to policyholders | 17 | (275) | (46) |
| attributable to shareholders | 17 | (1,621) | (1,277) |
| of which: Attributable to non-controlling interests | | (109) | (102) |
| **Net income after taxes** | | **5,425** | **4,071** |
| attributable to non-controlling interests | | 223 | 238 |
| attributable to shareholders | | 5,202 | 3,834 |
| in USD | | | |
| Basic earnings per share | 19 | 34.99 | 25.85 |
| Diluted earnings per share | 19 | 34.66 | 25.56 |
| in CHF | | | |
| Basic earnings per share | 19 | 31.98 | 24.24 |
| Diluted earnings per share | 19 | 31.68 | 23.98 |

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 | 3,834 | 1,716 | 71 |
| Details of movements during the period | | | |
| Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders) | | 2,942 | 64 |
| Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders) | | (1,093) | (37) |
| Reclassification to retained earnings | | – | – |
| Deferred income tax (before foreign currency translation effects) | | (336) | – |
| Foreign currency translation effects | | 203 | 44 |
| **2021** | | | |
| Comprehensive income for the period | 5,202 | (2,031) | (114) |
| Details of movements during the period | | | |
| Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders) | | (669) | (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) | | 451 | 22 |
| Foreign currency translation effects | | (98) | (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 |
|---|---|---|---|---|---|---|---|---|
| 585 | 2,372 | 61 | (91) | (30) | 2,342 | 6,176 | 211 | 6,387 |
| | | | | | | | | |
| 601 | 3,608 | 83 | 29 | 112 | 3,720 | | | |
| (17) | (1,146) | – | – | – | (1,146) | | | |
| – | – | (17) | – | (17) | (17) | | | |
| – | (337) | (5) | (13) | (18) | (355) | | | |
| | 247 | – | (107) | (107) | 140 | | | |
| | | | | | | | | |
| (1,088) | (3,234) | (19) | 885 | 865 | (2,368) | 2,834 | 45 | 2,878 |
| | | | | | | | | |
| (1,081) | (1,817) | 8 | 886 | 895 | (922) | | | |
| (7) | (1,775) | – | – | – | (1,775) | | | |
| – | – | (13) | – | (13) | (13) | | | |
| – | 472 | (15) | (34) | (49) | 423 | | | |
| | (114) | – | 33 | 33 | (81) | | | |

# Consolidated financial statements (continued)

## Consolidated balance sheets

### Assets

| in USD millions, as of December 31 | Notes | 2021 | 2020 |
|---|---|---|---|
| Assets: | | | |
| **Cash and cash equivalents** | | **8,698** | **11,106** |
| Total Group investments | 6 | 190,959 | 210,398 |
| Equity securities | | 18,578 | 19,493 |
| 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** | | **333,429** | **345,456** |
| 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 | 19,951 | 20,362 |
| 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** | | **435,826** | **439,299** |

1 As of December 31, 2021, the 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 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 | 16,009 | 17,992 |
| Deferred tax liabilities | 17 | 5,151 | 5,136 |
| Liabilities held for sale[2] | 5 | 11,351 | 2,477 |
| Senior debt | 18 | 5,327 | 5,470 |
| Subordinated debt | 18 | 9,782 | 8,306 |
| **Total liabilities** | | **396,656** | **399,453** |
| | | | |
| **Equity** | | | |
| Share capital | 19 | 11 | 11 |
| Additional paid-in capital | 19 | 1,449 | 1,438 |
| Net unrealized gains/(losses) on available-for-sale investments | | 3,670 | 5,701 |
| Cash flow hedges | | 411 | 526 |
| Cumulative foreign currency translation adjustment | | (9,633) | (8,698) |
| Revaluation reserve | | 265 | 284 |
| Retained earnings | | 41,707 | 39,016 |
| Shareholders' equity | | 37,881 | 38,278 |
| Non-controlling interests | | 1,289 | 1,568 |
| **Total equity** | | **39,170** | **39,846** |
| **Total liabilities and equity** | | **435,826** | **439,299** |

1 Includes restructuring provisions, litigation and regulatory provisions and other provisions (see note 16).
2 As of December 31, 2021, the 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 and Zurich Insurance plc (Spain) (see note 5). In 2020, the 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 | 5,202 | 3,834 |
| 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 | (374) | 558 |
| 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: | (17,857) | (7,893) |
| Net capital (gains)/losses on total investments and impairments | (14,918) | (8,264) |
| Net change in derivatives | 432 | 42 |
| Net change in money market investments | 728 | (572) |
| Sales and maturities | | |
| Debt securities | 42,492 | 47,775 |
| Equity securities | 53,695 | 57,137 |
| Other | 9,489 | 6,100 |
| Purchases | | |
| Debt securities | (48,985) | (48,527) |
| Equity securities | (51,580) | (56,741) |
| Other | (9,211) | (4,842) |
| Net changes in sale and repurchase agreements | 615 | (248) |
| Movements in receivables and payables | (2,059) | 609 |
| Net changes in other operational assets and liabilities | (75) | 50 |
| Deferred income tax, net | 646 | (89) |
| Net cash provided by/(used in) operating activities | 3,167 | 5,701 |

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 | 60 |
| (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) | (496) |
| Cash flows from financing activities | | |
| Dividends paid | (3,534) | (3,232) |
| Net movement in treasury shares | (455) | (214) |
| Issuance of debt | 2,664 | 2,015 |
| Repayment of debt | (740) | (1,024) |
| Lease principal repayments | (227) | (217) |
| Net cash provided by/(used in) financing activities | (2,292) | (2,672) |
| Foreign currency translation effects on cash and cash equivalents | (386) | 666 |
| Change in cash and cash equivalents | (2,396) | 3,199 |
| Cash and cash equivalents as of January 1 | 11,726 | 8,527 |
| **Total cash and cash equivalents as of December 31** | **9,330** | **11,726** |
| of which: Cash and cash equivalents | 8,698 | 11,106 |
| of which: Unit-linked | 632 | 620 |

| Other supplementary cash flow disclosures[2] | | |
|---|---|---|
| Other interest income received | 4,676 | 4,479 |
| Dividend income received | 1,737 | 1,367 |
| Other interest expense paid | (955) | (928) |
| Income taxes paid | (1,486) | (1,406) |

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 | 8,663 | 10,949 |
| Cash equivalents | 667 | 777 |
| **Total** | **9,330** | **11,726** |

For the periods ended December 31, 2021 and 2020, cash and cash equivalents held to meet local regulatory requirements were USD 376 million and USD 440 million, respectively.

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

# Consolidated financial statements (continued)

## Consolidated statements of changes in equity

in USD millions

| | Share capital | Additional paid-in capital |
|---|---|---|
| Balance as of December 31, 2019 as previously reported | 11 | 1,235 |
| Issuance of share capital | – | 233 |
| Dividends to shareholders | – | – |
| Share-based payment transactions | – | (30) |
| 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 | 11 | 1,438 |
| | | |
| Balance as of December 31, 2020 as previously reported | 11 | 1,438 |
| Issuance of share capital | – | – |
| Dividends to shareholders | – | – |
| Share-based payment transactions | – | 12 |
| 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** | **11** | **1,449** |

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

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

# 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 |
|---|---|---|---|---|---|---|---|---|
| | 3,985 | 454 | (9,349) | 223 | 38,445 | 35,004 | 1,545 | 36,549 |
| | – | – | – | – | – | 233 | – | 233 |
| | – | – | – | – | (3,080) | (3,080) | (152) | (3,232) |
| | – | – | – | – | 50 | 20 | – | 20 |
| | – | – | – | – | (157) | (157) | – | (157) |
| | – | – | – | – | (3) | (3) | – | (3) |
| | – | – | 67 | – | – | 67 | 6 | 73 |
| | – | – | – | – | 17 | 17 | – | 17 |
| | 1,716 | 71 | 585 | 61 | 3,742 | 6,176 | 211 | 6,387 |
| | – | – | – | – | 3,834 | 3,834 | | |
| | 1,716 | – | – | – | – | 1,716 | | |
| | – | 71 | – | – | – | 71 | | |
| | – | – | 585 | – | – | 585 | | |
| | – | – | – | 61 | – | 61 | | |
| | – | – | – | – | (91) | (91) | | |
| | – | – | – | – | – | – | (42) | (42) |
| | 5,701 | 526 | (8,698) | 284 | 39,016 | 38,278 | 1,568 | 39,846 |
| | | | | | | | | |
| | 5,701 | 526 | (8,698) | 284 | 39,016 | 38,278 | 1,568 | 39,846 |
| | – | – | – | – | – | – | – | – |
| | – | – | – | – | (3,199) | (3,199) | (335) | (3,534) |
| | – | – | – | – | (54) | (42) | – | (42) |
| | – | – | – | – | (146) | (146) | – | (146) |
| | – | – | – | – | – | – | – | – |
| | – | – | 153 | – | (10) | 143 | 12 | 155 |
| | – | – | – | – | 13 | 13 | – | 13 |
| | (2,031) | (114) | (1,088) | (19) | 6,087 | 2,834 | 45 | 2,878 |
| | – | – | – | – | 5,202 | 5,202 | | |
| | (2,031) | – | – | – | – | (2,031) | | |
| | – | (114) | – | – | – | (114) | | |
| | – | – | (1,088) | – | – | (1,088) | | |
| | – | – | – | (19) | – | (19) | | |
| | – | – | – | – | 885 | 885 | | |
| | – | – | – | – | – | – | – | – |
| | **3,670** | **411** | **(9,633)** | **265** | **41,707** | **37,881** | **1,289** | **39,170** |

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

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

On February 9, 2022, the Board of Directors of Zurich Insurance Group 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 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. 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 Group. The 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 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 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 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 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 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 5 to 32, and they form an integral part of the consolidated financial statements.

# Consolidated financial statements (continued)

The 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 (158) million and USD (65) 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.

## Principal exchange rates

Table 1

| USD per foreign currency unit | Consolidated balance sheets at end-of-period exchange rates | | Consolidated income statements and cash flows at average exchange rates | |
|---|---|---|---|---|
| | **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 |

## 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 Group's operations**

Table 2.1 shows new accounting standards or amendments to, and interpretations of, standards relevant to the Group that have been implemented for the financial year beginning January 1, 2021, with no impact on the 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 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 Group's financial statements.
2 The 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 Group's financial statements as the requirements of the amendment are consistent with the approach the 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 Group**

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

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 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 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 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 Group. We refer to the Annual Report 2016 for further details on the eligibility assessment. The 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 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 Group does not envisage to apply the expected credit loss requirements as part of the overlay approach.

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. 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 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 Group operations while finalizing the implementation efforts and completing another set of parallel run activities.

The 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 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 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 Group's financial statements and the effectiveness of Group's hedging relationships.

## 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 Group's consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Group Ltd and its subsidiaries. A subsidiary is an entity that Zurich Insurance Group 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-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 Group's consolidated financial statements is not material.

**b) Foreign currency translation and transactions**

Foreign currency translation

Due to the Group's economic exposure to the U.S. dollar (USD), the presentation currency of the Group's consolidated financial statements is USD. Many 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 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 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 Group and obligations arising from investment contracts with DPF are accounted for as insurance contracts.

The 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 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 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 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 Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the 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.

Unrealized gains or losses arising on the revaluation of available-for-sale assets are recorded directly in OCI in accordance with the 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 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.

*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 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 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 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 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 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 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.

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

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 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 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.

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 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 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.

### 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 Group operates long-term incentive plans that are accounted for as equity-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 in additional paid-in capital.

Subsequently, depending on the underlying performance metrics, the Group revises its estimates of the number of shares that are expected to be issued and recognizes the impact of the revision, if any, in income with a corresponding adjustment to additional paid-in capital. However, no subsequent adjustment is made after the vesting date.

### Retirement benefits

The 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.

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.

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

When acting as a lessee, under IFRS 16, the 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 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 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 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 Group follows the accounting policy in paragraph e).

## 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 Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the 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 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 Group's reserves for reported losses and loss adjustment expenses are based on estimates of future payments to settle reported claims. The 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 Group considers historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions, economic conditions and public attitudes may affect the ultimate cost of settlement and, as a result, the Group's estimation of 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 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 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 Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The 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 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 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 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 Group's actuaries. Additionally, the Group's Corporate Center actuaries perform periodic reserve reviews of the Group's businesses throughout the world. Management considers the results of these reviews and adjusts its reserves for losses and loss adjustment expenses, where necessary.

### 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 Group has significant exposure to mortality risk.
- For contracts that insure the risk of longevity, such as annuity contracts, an appropriate allowance is made for people living longer. Continuing improvements in medical care and social conditions could result in further improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.
- Under certain contracts, the Group has offered product guarantees (or options to take up product guarantees), including fixed minimum 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 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 Group makes extensive use of independent, reliable and reputable third-party pricing providers and only in rare cases places reliance on valuations that are derived from internal models.

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

Valuations can be subject to significant judgment, especially when the fair value is determined based on at least one significant unobservable input parameter; such items are classified within level 3 of the fair value hierarchy. See notes 6, 7 and 23 for further information regarding the estimate of fair value.

### 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 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 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 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 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**

| | Business | in USD millions | Discount rates in % 2021 | Discount rates in % 2020 | Perpetual nominal growth rate in % 2021 | Perpetual nominal growth rate in % 2020 |
|---|---|---|---|---|---|---|
| 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 |

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 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 Group provides defined benefit plans and other post-employment plans. In assessing the 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 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.

# 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 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 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 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.

## 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 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 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 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 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 | 1,844 | 883 | 2,332 | 1,267 | (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 | 5,168 | 2,038 | 2,047 | 7,363 | 7,215 | (57) | (302) |
| Investment expenses on Group investments | (279) | (265) | – | – | (279) | (265) | – | – |
| **Investment result, net, on Group investments** | **5,047** | **4,903** | **2,038** | **2,047** | **7,085** | **6,950** | **(57)** | **(302)** |

1 For the year ended December 31, 2020, the 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 | **2021** | | 2020 | |
|---|---|---|---|---|
| | **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 | 14,008 | 7.3 | 14,779 | 7.0 |
| Total equity securities | 18,578 | 9.7 | 19,493 | 9.3 |
| Debt securities: | | | | |
| Fair value through profit or loss | 7,181 | 3.8 | 7,115 | 3.4 |
| Available-for-sale | 136,005 | 71.2 | 152,330 | 72.4 |
| Held-to-maturity | 1,897 | 1.0 | 2,265 | 1.1 |
| Total debt securities | 145,084 | 76.0 | 161,710 | 76.9 |
| Investment property | 14,070 | 7.4 | 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** | **190,959** | **100.0** | **210,398** | **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)

## Details of debt securities by category

Table 6.3

| in USD millions, as of December 31 | Fair value through profit or loss 2021 | Fair value through profit or loss 2020 | Available-for-sale 2021 | Available-for-sale 2020 | Held-to-maturity 2021 | Held-to-maturity 2020 | Total 2021 | Total 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** |

## Debt securities maturity schedule

Table 6.4

| in USD millions, as of December 31 | Fair value through profit or loss 2021 | Fair value through profit or loss 2020 | Available-for-sale 2021 | Available-for-sale 2020 | Held-to-maturity 2021 | Held-to-maturity 2020 | Total 2021 | Total 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.

## Investment property

Table 6.5

| in USD millions | Total 2021 | Total 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)

## Net unrealized gains/(losses) on Group investments included in equity

Table 6.6

| in USD millions, as of December 31 | Total 2021 | Total 2020 |
|---|---|---|
| Equity securities: available-for-sale | 2,329 | 1,679 |
| Debt securities: available-for-sale | 9,549 | 18,911 |
| Other | 498 | 585 |
| Gross unrealized gains/(losses) on Group investments | 12,376 | 21,176 |
| 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 | (23) | (107) |
| **Total**[1] | **4,081** | **6,227** |

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.

## Securities lending, repurchase and reverse repurchase agreements

Table 6.7

| in USD millions, as of December 31 | 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 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 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 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 Group retains substantially all the risks and rewards of ownership of the transferred securities, and also retains contractual rights to the cash flows from these securities. These securities are therefore not derecognized from the Group's 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 Group's consolidated balance sheet, as long as the risk and rewards of ownership have not been transferred to the Group. The cash delivered by the Group is derecognized and a corresponding receivable is recorded within receivables and other assets. Interest income is recognized in income using the effective interest rate method over the life of the agreement.

## 7. Group derivative financial instruments and hedge accounting

The 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 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 | | | | | | | | |
| | < 1 year | 1 to 5 years | > 5 years | **Notional amounts** | **Positive fair values** | **Negative fair values** | Notional amounts | Positive fair values | Negative 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 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 Group's foreign currency exposures and to manage balance sheet mismatches.

### Credit contracts
The 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 Group does not hold credit defaults 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 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 Group against changes in interest rate exposure of debt issued by Group.

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

The 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.

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

### Gains/(losses) arising from fair value hedges

Table 7.3

| 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 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 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 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 Group's hedging relationships and it is not expected to have any material impact in the future (see note 2).

### Net investment hedges

The 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 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

**Liabilities for insurance contracts**

Table 8.1

| 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 contracts[1]** | **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.

**Discounted reserves for losses and loss adjustment expenses**

Table 8.2

| 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% |

**Development of reserves for losses and loss adjustment expenses**

Table 8.3

| 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 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 Group retains only a portion of the overall loss.
2 In 2021, the 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 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.

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)

## Development of insurance losses, net

Table 8.4

| 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 | 62,254 | 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 | 52,458 | 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* | *(479)* | *(326)* | *(674)* | *(583)* | *(408)* | *(600)* | |
| *Two years later* | *(652)* | *(139)* | *(25)* | *(1,106)* | *(1,043)* | *(1,516)* | *(1,429)* | *(1,073)* | | |
| *Three years later* | *(777)* | *(72)* | *(438)* | *(1,666)* | *(1,996)* | *(2,372)* | *(2,017)* | | | |
| *Four years later* | *(709)* | *(214)* | *(823)* | *(2,402)* | *(2,920)* | *(3,027)* | | | | |
| *Five years later* | *(912)* | *(576)* | *(1,382)* | *(3,257)* | *(3,487)* | | | | | |
| *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* | *53,260* | *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 | 3,487 | 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% | 6.6% | 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 | 4,642 | 3,308 | 1,927 | 246 | 961 | |
| Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves | 5.7% | 4.7% | 5.0% | 7.1% | 7.5% | 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 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 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 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 Group has considered asbestos, including latent injury, claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The 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.

## Development of future life policyholder benefits

Table 8.5

| 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** |

# 9. Liabilities for investment contracts

**Liabilities for investment contracts**

Table 9.1

| 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 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.

**Development of liabilities for investment contracts**

Table 9.2

| 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 Group actively manages the Life in-force business to improve persistency and retention.

**Expected maturity profile for liabilities for investment contracts – current period**

Table 9.3a

| 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** |

**Expected maturity profile for liabilities for investment contracts – prior period**

Table 9.3b

| 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** |

# 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.

**Expenses**

Table 12

| in USD millions, for the years ended December 31 | 2021 | 2020 |
|---|---|---|
| Administrative and other operating expenses | 8,794 | 8,006 |
| Underwriting and policy acquisition costs, net of reinsurance | 9,213 | 8,555 |
| Claims handling expenses[1] | 2,515 | 2,494 |
| Investment expenses | 365 | 364 |
| **Total** | **20,887** | **19,419** |
| of which: | | |
| Personnel and other related costs | 6,691 | 6,306 |
| 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 | 42 | 62 |
| IT expenses | 2,046 | 1,886 |
| Outsourcing and professional services | 2,047 | 2,049 |
| Foreign currency translation | 158 | 65 |
| Other | 823 | 647 |
| **Total** | **20,887** | **19,419** |

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

## 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** | **1,488** | **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 | 885 | 44 | 929 | 955 | 1,165 | 2,120 |
| **Gross carrying value as of December 31, 2021** | **571** | **–** | **2,533** | **3,104** | **1,349** | **103** | **1,452** | **1,920** | **2,636** | **4,556** |

# Consolidated financial statements (continued)

## Property and equipment – prior period

Table 13.3

| 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, 2020** | **589** | **3** | **2,472** | **3,064** | **1,424** | **115** | **1,539** | **2,016** | **2,587** | **4,603** |
| Less: accumulated depreciation/impairments | (140) | (1) | (862) | (1,003) | (907) | (58) | (965) | (1,048) | (920) | (1,968) |
| **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** | **1,488** | **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.

## Lessee – lease expenses and income

Table 13.4

| in USD millions, for the years ended December 31 | **2021** | 2020 |
|---|---|---|
| **Lease expenses[1]** | | |
| 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)

### Lessor – finance lease and operating lease income

Table 13.5

| 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** |

### Maturity schedule – finance lease receivable

Table 13.6

| 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** |

### Maturity schedule – operating lease payments to be received

Table 13.7

| 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** |

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

**Intangible assets – current period**

Table 14.1

| in USD millions | Attorney-in-fact contracts | Goodwill | PVFP | Distribution agreements | Software[2] | Other | Total |
|---|---|---|---|---|---|---|---|
| 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 41 million for present value of future profits (PVFP) of acquired insurance contracts, USD 888 million for distribution agreements, USD 9 million for software, USD 43 million for goodwill and USD 2 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).

**Intangible assets by business – current period**

Table 14.2

| in USD millions, as of December 31, 2021 | Attorney-in-fact contracts | Goodwill | PVFP | Distribution agreements | Software | Other | Total |
|---|---|---|---|---|---|---|---|
| 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)

**Intangible assets – prior period**

Table 14.3

| 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 | 5,059 | 331 | 17,140 |
| Less: accumulated amortization/impairments | – | (274) | (2,116) | (1,752) | (3,917) | (113) | (8,171) |
| 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 50 million for present value of future profits (PVFP) of acquired insurance contracts, USD 972 million for distribution agreements, USD 10 million for software, USD 44 million for goodwill 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 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 Group's quantitative tests support the carrying value of the goodwill in these CGUs.

**Intangible assets by business – prior period**

Table 14.4

| 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** |

## 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 | 974 | 905 |
| Prepaid expenses | 554 | 475 |
| Other non-financial assets | 400 | 404 |
| **Total receivables and other assets** | **19,951** | **20,362** |

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.

## 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 | 1 | 1 |
| 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 | 142 | 131 |
| Lease liabilities | 1,878 | 2,082 |
| Accrued liabilities | 2,527 | 2,221 |
| Other financial liabilities | 5,445 | 5,424 |
| **Other non-financial liabilities** | | |
| Current income tax payables | 622 | 770 |
| Provisions[2] | 748 | 893 |
| Other non-financial liabilities[2] | 277 | 256 |
| **Total other liabilities** | **16,009** | **17,992** |

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 | 10,430 | 10,438 | 10,769 | 10,781 |
| 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** | **10,727** | **10,886** | **11,193** | **11,336** |

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)

## Provisions[1]

Table 16.4

| in USD millions | 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 | 334 | 280 | 401 | 481 |
| Increase of provisions set up in prior years | 12 | 22 | 4 | 3 | 9 | 34 | 25 | 59 |
| Provisions used during the period | (118) | (78) | (52) | (59) | (257) | (216) | (427) | (353) |
| Provisions reversed during the period | (13) | (12) | (8) | – | (54) | (52) | (75) | (64) |
| 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 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.

## 17. Income taxes

**Income tax expense – current/deferred split**

Table 17.1

| in USD millions, for the years ended December 31 | **2021** | 2020 |
|---|---|---|
| Current | 1,250 | 1,412 |
| Deferred | 646 | (89) |
| **Total income tax expense/(benefit)** | **1,895** | **1,323** |

**Expected and actual income tax expense**

Table 17.2

| in USD millions, for the years ended December 31 | **Rate** | **2021** | Rate | 2020 |
|---|---|---|---|---|
| Net income before income taxes | | 7,321 | | 5,395 |
| less: income tax (expense)/benefit attributable to policyholders | | (275) | | (46) |
| Net income before income taxes attributable to shareholders | | 7,046 | | 5,348 |
| Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate | 20.0% | 1,409 | 21.0% | 1,123 |
| Increase/(reduction) in taxes resulting from: | | | | |
| Tax rate differential in foreign jurisdictions | | (102) | | (57) |
| Tax exempt and lower taxed income | | (150) | | (152) |
| Non-deductible expenses | | 139 | | 166 |
| Tax losses not recognized | | 64 | | 66 |
| Prior year adjustments and other | | 260 | | 130 |
| **Actual income tax expense attributable to shareholders** | **23.0%** | **1,621** | **23.9%** | **1,277** |
| plus: income tax expense/(benefit) attributable to policyholders | | 275 | | 46 |
| Actual income tax expense | 25.9% | 1,895 | 24.5% | 1,323 |

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 Group's shareholder income tax position in 2021, which is included in the line "Prior year adjustments and other".

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

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

# Consolidated financial statements (continued)

### Deferred tax assets/(liabilities) analysis by source

Table 17.3

| 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 | 432 | – | 476 | – |
| Gross deferred tax assets/(liabilities) before valuation allowance | 2,601 | (1,025) | 2,673 | (949) |
| Valuation allowance | (379) | – | (410) | |
| 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 | (1,249) | 263 | (1,674) |
| 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 | 661 | (1,427) | 673 | (1,285) |
| Tax loss carryforwards | 450 | – | 511 | – |
| Gross deferred tax assets/(liabilities) before valuation allowance | 5,705 | (10,531) | 5,181 | (9,913) |
| Valuation allowance | (325) | – | (404) | – |
| Gross deferred tax assets/(liabilities) after valuation allowance | 5,380 | (10,531) | 4,777 | (9,913) |
| **Deferred tax liabilities** | | **(5,151)** | | **(5,136)** |
| | | | | |
| **Net deferred tax liabilities** | | **(3,953)** | | **(3,822)** |

1 Includes reserves for unit-linked contracts.

The 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 26 billion and USD 26 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)

## Development of net deferred tax liabilities

Table 17.4

| 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 | 423 | (355) |
| Net changes due to acquisitions/(divestments) | (99) | 24 |
| Foreign currency translation effects | 190 | (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 118 million and USD 162 million as of December 31, 2021 and 2020, respectively.

## Development of deferred income taxes included in equity

Table 17.5

| in USD millions | 2021 | 2020 |
|---|---|---|
| As of January 1 | (585) | (193) |
| Net unrealized (gains)/losses on available-for-sale investments | 451 | (336) |
| 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** | **(137)** | **(585)** |

## Tax loss carryforwards and tax credits

Table 17.6

| 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 | 2,245 | 2,585 |
| Subtotal | 2,651 | 3,077 |
| **Total** | **3,454** | **3,971** |

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 25.0 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.

# Consolidated financial statements (continued)

## 18. Senior and subordinated debt

**Senior and subordinated debt**

Table 18.1

| in USD millions, as of December 31 | | **2021** | 2020 |
|---|---|---|---|
| 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 |
| 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 | 5,470 |
| 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** | **13,777** |

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

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

# Consolidated financial statements (continued)

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 | 779 | 1,228 |
| 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** | **13,777** | **16,148** |

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 | 13,777 | 11,999 |
| Issuance of debt recognized in cash flows | 2,664 | 2,015 |
| Repayment of debt recognized in cash flows | (740) | (1,024) |
| Changes in fair value | (12) | 9 |
| Other changes | (14) | (14) |
| Foreign currency translation effects | (565) | 792 |
| **As of December 31** | **15,109** | **13,777** |

# 19. Shareholders' equity, dividends and earnings per share

## Share capital

Table 19.1

| | Share capital in CHF | Number of shares | Par value in CHF |
|---|---|---|---|
| **Issued share capital** | | | |
| As of December 31, 2019 | 14,960,803 | 149,608,027 | 0.10 |
| New shares issued from contingent capital in 2020 | 85,214 | 852,140 | 0.10 |
| As of December 31, 2020 | 15,046,017 | 150,460,167 | 0.10 |
| New shares issued from contingent capital in 2021 | – | – | |
| **As of December 31, 2021** | **15,046,017** | **150,460,167** | **0.10** |
| **Authorized, contingent and issued share capital** | | | |
| As of December 31, 2020 | 22,935,926 | 229,359,259 | 0.10 |
| As of December 31, 2021 | 22,935,926 | 229,359,259 | 0.10 |

The following information related to authorized share capital and contingent share capital is specified in articles $5^{bis}$ and $5^{ter}$ of the Articles of Association of Zurich Insurance Group Ltd (ZIG).

### a) Authorized share capital

On April 7, 2021, the Annual General Meeting (AGM) of ZIG approved an extension of the authorized share capital for another two years (from April 2021 to April 7, 2023). The extension of the authorized share capital required the corresponding extension of the validity of the combined dilution limitations for the authorized and contingent share capital (Art. $5^{bis}$ 5 and $5^{ter}$ 1d of the Articles of Association).

The Board of ZIG is authorized to increase the share capital of ZIG by an amount not exceeding CHF 4,488,240 by issuing up to 44,882,400 fully paid registered shares with a nominal value of CHF 0.10 each until April 7, 2023. An increase in partial amounts is permitted. The Board would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising subscription rights, and the commencement of entitlement to dividends.

The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with a subsequent offer of those shares to current shareholders. The Board may allow the expiry of subscription rights which have not been exercised, or it may place these rights as well as shares, the subscription rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or exclude the subscription rights of shareholders and to allocate them to third parties, ZIG or one of its Group companies, up to a maximum of 14,960,800 shares, if the shares are to be used:

- for the take-over of an enterprise, of parts of an enterprise or of participations or for investments by ZIG or one of its Group companies, or the financing including re-financing of such transactions; or
- for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges or issuance of shares on the national or international capital markets (including private placements to one or more selected investors); or
- for the conversion of loans, bonds, similar debt instruments, equity-linked instruments or other financial market instruments (collectively, the 'Financial Instruments') issued by ZIG or one of its Group companies; or
- for the improvement of the regulatory and/or the rating capital position of ZIG or one of its Group companies in a fast and expeditious manner.

Up to April 7, 2023, the total of new shares issued from (i) authorized share capital where the subscription rights were restricted or excluded, and (ii) contingent share capital in connection with Financial Instruments where the advance subscription rights were restricted or excluded, may not exceed 14,960,800 new shares.

### b) Contingent share capital

Financial Instruments

The extension of the authorized share capital until April 7, 2023, (see a) above) required the corresponding extension of the validity of the combined dilution limitations for authorized and contingent share capital until April 7, 2023, which was resolved at the AGM of April 7, 2021, by the shareholders (see also below). No other changes were resolved with respect to the contingent share capital.

# Consolidated financial statements (continued)

The share capital of ZIG may be increased by an amount not exceeding CHF 2,992,160 by issuing of up to 29,921,600 fully paid registered shares with a nominal value of CHF 0.10 each by the voluntary or mandatory exercise of conversion and/or option rights which are granted in connection with the issuance of Financial Instruments by ZIG or one of its Group companies or by mandatory conversion of Financial Instruments issued by ZIG or one of its Group companies, that allow for contingent mandatory conversion into shares of ZIG, or by exercising option rights which are granted to the shareholders. The subscription rights are excluded. The then-current owners of the Financial Instruments shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board is authorized, when issuing Financial Instruments to restrict or exclude the advance subscription rights in cases where they are issued:

- for the financing including re-financing of a take-over of an enterprise, of parts of an enterprise, or of participations or of investments by ZIG or one of its Group companies; or
- on national or international capital markets (including private placements to one or more selected investors); or
- for the improvement of the regulatory and/or the rating capital position of ZIG or one of its Group companies in a fast and expeditious manner.

If the advance subscription rights are restricted or excluded by a resolution of the Board, the following applies: the Financial Instruments are to be issued at prevailing market conditions (including standard dilution protection clauses in accordance with market practice) and the setting of the conversion or issue price of the new shares must take due account of the stock market price of the shares and/or comparable instruments priced by the market at the time of issue or time of conversion.

The conversion rights may be exercisable during a maximum of ten years and option rights during a maximum of seven years from the time of the respective issue; contingent conversion features may remain in place indefinitely.

Up to April 7, 2023, the total of new shares issued from (i) authorized share capital where the subscription rights were restricted or excluded, and (ii) contingent share capital in connection with Financial Instruments where the advance subscription rights were restricted or excluded, may not exceed 14,960,800 new shares.

#### Employee participation

During 2021, no shares were issued to Group employees out of the contingent share capital while during 2020, 852,140 shares were issued to Group employees out of the contingent capital. As of December 31, 2021, and as of December 31, 2020, the remaining contingent share capital available for issuance to Group employees amounted to CHF 409,509.20 and 4,095,092 fully paid registered shares with a nominal value of CHF 0.10 each, respectively. Subscription rights, as well as advance subscription rights of the shareholders are excluded. The issuance of new shares or respective option rights to employees is subject to one or more regulations to be issued by the Board and taking into account performance, functions, levels of responsibility and criteria of profitability. New shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

### c) Additional paid-in capital

This reserve is not ordinarily available for distribution. However, as of January 1, 2011, a Swiss tax regulation based on the Swiss Corporate Tax Reform II became effective, allowing for payments free of Swiss withholding tax to shareholders out of the capital contribution reserve, created out of additional paid-in capital. Therefore, amounts qualifying under this regulation can be paid out of additional paid-in capital. As of December 31, 2021, the general capital contribution reserve amounted to CHF 252 million.

### d) Treasury shares

Table 19.2

**Treasury shares**

| number of shares, as of December 31 | **2021** | 2020 | 2019 |
|---|---|---|---|
| Treasury shares | 2,169,197 | 1,964,106 | 1,549,714 |

Treasury shares comprise shares acquired in the market.

### e) Dividends

The dividend of CHF 20 per share was paid out of the available earnings on April 13, 2021, as approved at the AGM on April 7, 2021. The difference between the respective amounts of the dividend at transaction day exchange rates amounting to USD 3.2 billion and at historical exchange rates are reflected in the cumulative foreign currency translation adjustment.

The dividend of CHF 20 per share was paid out of the available earnings on April 7, 2020, as approved at the AGM on April 1, 2020. The difference between the respective amounts of the dividend at transaction day exchange rates amounting to USD 3.1 billion and at historical exchange rates are reflected in the cumulative foreign currency translation adjustment.

### f) Earnings per share

Table 19.3

**Earnings per share**

| for the years ended December 31 | Net income attributable to common shareholders (in USD millions) | Weighted average number of shares | Per share (USD) | Per share (CHF)[1] |
|---|---|---|---|---|
| **2021** | | | | |
| **Basic earnings per share** | **5,202** | **148,685,004** | **34.99** | **31.98** |
| Effect of potentially dilutive shares related to share-based compensation plans | | 1,385,619 | (0.32) | (0.30) |
| **Diluted earnings per share** | **5,202** | **150,070,623** | **34.66** | **31.68** |
| **2020** | | | | |
| **Basic earnings per share** | **3,834** | **148,304,623** | **25.85** | **24.24** |
| Effect of potentially dilutive shares related to share-based compensation plans | | 1,662,328 | (0.29) | (0.26) |
| **Diluted earnings per share** | **3,834** | **149,966,951** | **25.56** | **23.98** |

1 The translation from U.S. dollars to Swiss francs is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2021 and 2020, respectively.

Basic earnings per share is computed by dividing net income attributable to shareholders by the weighted average number of shares outstanding during the year, excluding the weighted average number of shares held as treasury shares. Diluted earnings per share reflects the effect of potentially dilutive shares.

## 20. Employee benefits

The 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 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 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 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 Group's total defined benefit obligation. The remaining plans in other countries are not individually significant, therefore no separate disclosure is provided.

Certain 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 Group's defined benefit pension plans are funded through contributions by the Group and, in some cases also by employees, to investment vehicles managed by trusts or foundations independent of the 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 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 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 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 Zurich's pension plans' investment decision making. Pension plans will continue progressing on their responsible investment journey, leveraging Zurich's expertise and leadership while being cognizant of their fiduciary responsibility.

For post-employment defined benefit plans, total contributions to funded plans and benefits paid directly by the 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).

# Consolidated financial statements (continued)

*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 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.

# Consolidated financial statements (continued)

*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.

Tables 20.1a and 20.1b set out the reconciliation of the defined benefit obligation and plan assets for the 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 obligation | Fair value of assets | Asset ceiling | Net defined 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) |

# Consolidated financial statements (continued)

**Movement in defined benefit obligation and fair value of assets – prior period**

Table 20.1b

| in USD millions | Defined benefit obligation | Fair value of assets | Asset ceiling | Net defined 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.

# Consolidated financial statements (continued)

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 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) |

The Groups' post-employment defined benefit obligations and the Group's post-employment benefit expenses in the 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.

## Key financial assumptions used for major plans

Table 20.4

| as of December 31 | **2021** | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 Group's major plans. The mortality assumptions in each country have been based on mortality tables in accordance with typical practice in that country.

## Mortality tables and life expectancies for major plans – current period

Table 20.5a

| in years, as of December 31, 2021 | | **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** |
| Country | Mortality table for major plans | | | | |
| 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 |
| United States | Pri-2012 with MP-2021 Generational projection and white collar adjustment | 21.90 | 23.28 | 23.33 | 24.69 |
| Germany | Heubeck 2018G | 20.47 | 23.23 | 23.92 | 26.15 |

# Consolidated financial statements (continued)

**Mortality tables and life expectancies for major plans – prior period**

Table 20.5b

| in years, as of December 31, 2020 | | 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 |
| Country | Mortality table for major plans | | | | |
| Switzerland | BVG 2015 with generational projections according to CMI model adapted to Swiss mortality with a long-term trend rate of 1.25% | 21.70 | 23.90 | 23.70 | 25.70 |
| United Kingdom | SAPS Series 3 with CMI_2019 projection with plan specific adjustments | 21.93 | 22.93 | 23.92 | 25.12 |
| United States | Pri-2012 with MP-2020 Generational projection and white collar adjustment | 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 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.

**Maturity profile of future benefit payments for major plans**

Table 20.6

| 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 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.

# Consolidated financial statements (continued)

## Sensitivity analysis of significant actuarial assumptions

Table 20.7

| | Defined benefit obligation[1] | |
|---|---|---|
| in USD millions, as of December 31 | **2021** | 2020 |
| 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 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 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.

## 21. Share-based compensation and cash incentive plans

The 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 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 Group's short-term incentive plan (STIP) is utilized across the 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 597 million and USD 532 million for the years ended December 31, 2021 and 2020, respectively.

**b) Share-based compensation plans for employees**

The 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 279 million and USD 187 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 Group.

### Employee share plans

*Share incentive plans for employees in the UK*

The 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 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.

## Shares allocated during the period

Table 21

| for the years ended December 31 | Number | | Fair value at the allocation date (in CHF)[1] | |
|---|---|---|---|---|
| | **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.

## 22. Commitments and contingencies, legal proceedings and regulatory investigations

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

**Quantifiable commitments and contingencies**

Table 22

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

The 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 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.

### Pledged assets

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

- Specifically, COVID-19-related coverage litigation: Several of the Group's subsidiaries as well as other insurance companies are involved in litigation relating to the extent to which COVID-19 was intended to be covered under Property Damage Business Interruption policies. A limited number of class actions have also been initiated. 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 Group or its subsidiaries.
- In 2016, the Group, on its own initiative, undertook an internal review of the life insurance, savings and pension business sold by its non-U.S. operating companies with relevant cross-border business to customers with a nexus to the U.S. The review confirmed that the Group's cross-border business with U.S. persons was very limited and of a legacy nature, with the large majority of sales having occurred more than a decade ago. The review also confirmed that the Group's U.S. operating companies were not involved in or connected to those activities. The Group voluntarily disclosed the results of the review and the regulatory issues presented by sales to U.S. residents to the Swiss Financial Market Supervisory Authority (FINMA), the U.S. Department of Justice (DOJ) and other authorities. The Group continues to cooperate with these authorities.

In April 2019, the DOJ announced that Zurich Life Insurance Company Ltd (ZLIC) and Zurich International Life Limited (ZILL) entered into a non-prosecution agreement (NPA) with the DOJ, which memorializes the DOJ's decision not to prosecute these entities for any U.S. tax-related offenses in connection with legacy cross-border sales to U.S. persons. Under the terms of the NPA, ZLIC and ZILL have agreed to comply with certain specified conditions during the four-year term of the NPA.

This resolution has not had, and will not have, an adverse effect on the Group's business or consolidated financial condition.

## 23. Fair value measurement

To measure fair value, the 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 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 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 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 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 | 14,008 | 14,779 | 14,008 | 14,779 |
| Debt securities | 136,005 | 152,330 | 136,005 | 152,330 |
| Total available-for-sale securities | 150,013 | 167,109 | 150,013 | 167,109 |
| 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** | **179,716** | **200,311** | **177,758** | **197,369** |
| 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) | (5,851) | (5,327) | (5,470) |
| Subordinated debt | (10,287) | (9,204) | (9,782) | (8,306) |
| Total financial liabilities held at amortized cost | (16,815) | (16,189) | (15,946) | (14,655) |
| **Total financial liabilities** | **(17,347)** | **(16,669)** | **(16,478)** | **(15,135)** |

All of the 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

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

Table 23.2a

| in USD millions, as of December 31, 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale securities | | | | |
| Equity securities | 9,052 | 3,002 | 1,953 | 14,008 |
| Debt securities | – | 129,857 | 6,148 | 136,005 |
| Total available-for-sale securities | 9,052 | 132,859 | 8,101 | 150,013 |
| 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** | **10,857** | **144,721** | **21,379** | **176,957** |
| 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.

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

Table 23.2b

| in USD millions, as of December 31, 2020 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale securities | | | | |
| Equity securities | 9,742 | 3,291 | 1,746 | 14,779 |
| Debt securities | – | 144,354 | 7,976 | 152,330 |
| Total available-for-sale securities | 9,742 | 147,645 | 9,722 | 167,109 |
| 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** | **11,583** | **160,091** | **23,990** | **195,663** |
| 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)

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

Table 23.3a

| 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 contracts[1]** | **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.

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

Table 23.3b

| 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 contracts[1]** | **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 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 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 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.

Within level 3, the 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 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 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 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 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)

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

Table 23.4a

| in USD millions | Available-for-sale securities | | Fair value through profit or loss securities | | | | |
|---|---|---|---|---|---|---|---|
| | Equity securities | Debt securities | Equity securities | Debt securities | Derivative assets | Derivative liabilities | Investment property |
| As of January 1, 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 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.

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

Table 23.4b

| in USD millions | Available-for-sale securities | | Fair value through profit or loss securities | | | | |
|---|---|---|---|---|---|---|---|
| | Equity securities | Debt securities | Equity securities | Debt securities | Derivative assets | Derivative liabilities | Investment property |
| As of January 1, 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 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 | 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 | 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.

# Consolidated financial statements (continued)

## 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.

**Analysis of financial assets – current period**

Table 24.1a

| in USD millions, as of December 31, 2021 | Debt securities | Mortgage loans | Other loans | Receivables and other financial assets | Total |
|---|---|---|---|---|---|
| Neither past due nor impaired financial assets | 145,054 | 6,068 | 7,044 | 12,242 | 170,408 |
| 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** | **14,633** | **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** | **172,576** |

**Analysis of financial assets – prior period**

Table 24.1b

| in USD millions, as of December 31, 2020 | Debt securities | Mortgage loans | Other loans | Receivables and other financial assets | Total |
|---|---|---|---|---|---|
| Neither past due nor impaired financial assets | 161,670 | 5,729 | 8,615 | 12,015 | 188,029 |
| 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** | **14,358** | **190,491** |
| 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** | **190,140** |

# 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.

**Development of allowance for impairments – current period**

Table 24.2a

| in USD millions | Mortgage loans | Other 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** |

**Development of allowance for impairments – prior period**

Table 24.2b

| in USD millions | Mortgage loans | Other 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 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 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 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)

**Fair value and carrying value of financial assets split by SPPI and other financial assets – current period**

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 | – | – | 14,008 | 14,008 | 14,008 | 14,008 |
| Debt securities | 127,622 | 127,622 | 8,383 | 8,383 | 136,005 | 136,005 |
| Total available-for-sale securities | 127,622 | 127,622 | 22,390 | 22,390 | 150,013 | 150,013 |
| **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** | **35,114** | **35,135** | **192,284** | **190,466** |

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.

**Fair value and carrying value of financial assets split by SPPI and other financial assets – prior period**

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 | – | – | 14,779 | 14,779 | 14,779 | 14,779 |
| Debt securities | 144,106 | 144,106 | 8,224 | 8,224 | 152,330 | 152,330 |
| Total available-for-sale securities | 144,106 | 144,106 | 23,003 | 23,003 | 167,109 | 167,109 |
| **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 | 13,037 | 13,037 | – | – | 13,037 | 13,037 |
| Derivative assets | – | – | 1,763 | 1,763 | 1,763 | 1,763 |
| **Total financial assets** | **175,764** | **173,028** | **36,722** | **36,702** | **212,486** | **209,731** |

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 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 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 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 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** | |
|---|---|---|---|---|---|---|---|---|
| | **Fair value** | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** | **Carrying value** |
| Available-for-sale debt securities | 127,179 | 127,179 | 418 | 418 | 26 | 26 | 127,622 | 127,622 |
| Held-to-maturity debt securities | 2,358 | 1,897 | – | – | – | – | 2,358 | 1,897 |
| Mortgage loans | 6,338 | 6,079 | 19 | 17 | 15 | 18 | 6,371 | 6,114 |
| Other loans[1] | 7,389 | 6,282 | 67 | 66 | – | – | 7,456 | 6,348 |
| Receivables | 3,195 | 3,255 | 10,150 | 10,283 | 17 | 124 | 13,362 | 13,662 |
| **Total financial assets** | **146,458** | **144,692** | **10,654** | **10,784** | **58** | **168** | **157,170** | **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 | |
|---|---|---|---|---|---|---|---|---|
| | Fair value | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value | Carrying value |
| Available-for-sale debt securities | 143,508 | 143,508 | 560 | 560 | 38 | 38 | 144,106 | 144,106 |
| Held-to-maturity debt securities | 2,927 | 2,216 | – | – | 1 | 1 | 2,928 | 2,217 |
| Mortgage loans | 6,166 | 5,750 | 12 | 12 | 28 | 29 | 6,205 | 5,791 |
| Other loans[1] | 9,461 | 7,858 | 27 | 27 | – | – | 9,488 | 7,885 |
| Receivables | 2,441 | 2,505 | 10,554 | 10,718 | 42 | 145 | 13,036 | 13,368 |
| **Total financial assets** | **164,503** | **161,838** | **11,153** | **11,316** | **108** | **213** | **175,764** | **173,367** |

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.

## 25. Related-party transactions

In the normal course of business, the 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 Group include, among others, subsidiaries, associates, joint ventures, key management personnel, and the post-employment benefit plans (see note 20). Transactions between the Group and its subsidiaries are eliminated on consolidation, and they are not disclosed in the consolidated financial statements. A list of the Group's significant subsidiaries is shown in note 28. The transactions of the Group concluded with its associates and with its joint ventures are not considered material to the 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.

## 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 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.

# Consolidated financial statements (continued)

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.

## 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.

### 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)

## Property & Casualty – Overview by segment

Table 27.1

| 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)

## Life – Overview by segment

Table 27.2

| 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)

## Business operating profit by business

Table 27.3

in USD millions, for the years ended December 31

| | 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 | 4 | (12) | 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)

| Farmers | | 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 | 163 | 131 | 167 | (90) | (109) | 5,047 | 4,903 |
| 5 | 2 | – | – | (177) | 174 | – | – | 491 | 966 |
| 180 | 191 | 155 | 163 | (46) | 340 | (90) | (109) | 5,538 | 5,869 |
| 203 | 163 | – | – | 276 | 433 | – | – | 14,388 | 7,389 |
| 73 | 89 | 123 | 133 | 31 | (9) | (266) | (342) | 1,283 | 957 |
| 5,736 | 4,967 | 432 | 291 | 362 | 873 | (356) | (451) | 68,504 | 57,863 |
| (7) | (18) | (377) | (245) | (6) | (11) | 356 | 451 | – | – |
| | | | | | | | | | |
| 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 | 471 | 380 | 59 | 88 | 5 | (74) | 8,047 | 7,228 |
| 111 | 108 | 124 | 121 | 25 | 26 | (262) | (250) | 591 | 581 |
| (29) | (64) | (70) | (78) | – | – | – | – | (411) | (363) |
| 3,908 | 3,280 | 669 | 424 | 362 | 921 | (265) | (323) | 61,195 | 52,113 |
| **1,829** | **1,687** | **(237)** | **(132)** | **–** | **(49)** | **(91)** | **(127)** | **7,310** | **5,750** |
| 59 | 72 | 14 | 12 | – | – | – | – | 351 | 380 |
| 141 | 114 | 23 | 70 | – | – | – | – | 396 | 398 |
| 12 | – | 532 | 495 | 2 | 5 | (91) | (127) | 469 | 399 |
| 1,617 | 1,501 | (806) | (709) | (1) | (54) | – | – | 6,094 | 4,574 |
| – | – | 1 | – | – | – | – | – | 352 | 332 |
| **1,617** | **1,501** | **(806)** | **(709)** | **(1)** | **(54)** | **–** | **–** | **5,742** | **4,241** |

# Consolidated financial statements (continued)

## Reconciliation of BOP to net income after income taxes

Table 27.4

in USD millions, for the years ended December 31

| | 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 of 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)

| | Farmers | | Group Functions and Operations | | Non-Core Businesses | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| | **1,617** | **1,501** | **(806)** | **(709)** | **(1)** | **(54)** | **5,742** | **4,241** |
| | | | | | | | | |
| | 18 | 9 | (58) | (172) | (19) | 18 | 1,547 | 1,080 |
| | – | – | (33) | 1 | – | – | (185) | 57 |
| | (4) | (55) | (10) | (3) | – | – | (106) | (214) |
| | – | – | – | (33) | – | – | (5) | (33) |
| | (26) | (8) | (60) | (42) | – | – | (301) | (116) |
| | | | | | | | | |
| | – | – | 1 | – | – | – | 352 | 332 |
| | 1,605 | 1,446 | (967) | (957) | (21) | (37) | 7,046 | 5,348 |
| | – | – | – | – | – | – | 275 | 46 |
| | **1,605** | **1,446** | **(967)** | **(957)** | **(21)** | **(37)** | **7,321** | **5,395** |
| | | | | | | | (1,895) | (1,323) |
| | | | | | | | (275) | (46) |
| | | | | | | | (1,621) | (1,277) |
| | | | | | | | **5,425** | **4,071** |
| | | | | | | | 223 | 238 |
| | | | | | | | 5,202 | 3,834 |

# Consolidated financial statements (continued)

## Assets and liabilities by business

Table 27.5

in USD millions, as of December 31

| | 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 | 105,203 | 124,873 |
| Equity securities | 9,038 | 9,250 | 8,267 | 9,087 |
| 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 | 242,123 | 254,670 |
| 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** | **281,590** | **287,394** |
| 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] | 13,474 | 13,986 | 24,183 | 15,478 |
| **Total liabilities** | **100,221** | **99,244** | **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 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)

| Farmers | | Group Functions and Operations | | Non-Core Businesses | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| **2021** | 2020 | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| | | | | | | | | | |
| 823 | 818 | 5,191 | 5,926 | 796 | 637 | (10,559) | (10,914) | 8,698 | 11,106 |
| 5,855 | 5,802 | 11,300 | 9,986 | 5,222 | 5,779 | (11,935) | (9,345) | 190,959 | 210,398 |
| 71 | 71 | 1,105 | 946 | 97 | 139 | – | – | 18,578 | 19,493 |
| 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 | 993 | (11,618) | (8,985) | 7,053 | 8,620 |
| – | – | 41 | 17 | – | – | – | – | 68 | 43 |
| 1,286 | 1,086 | – | – | 4,265 | 4,175 | – | – | 142,470 | 135,058 |
| 7,140 | 6,887 | 11,300 | 9,986 | 9,487 | 9,954 | (11,935) | (9,345) | 333,429 | 345,456 |
| 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 | 1,374 | 1,327 | 2,571 | 2,664 | (3,708) | (3,753) | 37,861 | 27,944 |
| **17,531** | **14,723** | **18,235** | **17,332** | **16,011** | **16,475** | **(26,481)** | **(24,092)** | **435,826** | **439,299** |
| | | | | | | | | | |
| 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) | (6,638) | 5,327 | 5,470 |
| 1,058 | – | 10,755 | 9,248 | – | – | (3,655) | (2,580) | 9,782 | 8,306 |
| 2,238 | 2,112 | 10,392 | 11,724 | 4,038 | 4,185 | (14,339) | (14,813) | 39,985 | 32,673 |
| **11,458** | **9,831** | **33,311** | **31,411** | **15,336** | **15,797** | **(26,482)** | **(24,093)** | **396,656** | **399,453** |
| | | | | | | | | | |
| | | | | | | | | 37,881 | 38,278 |
| | | | | | | | | 1,289 | 1,568 |
| | | | | | | | | 39,170 | 39,846 |
| | | | | | | | | **435,826** | **439,299** |
| | | | | | | | | | |
| 144 | 128 | 54 | 92 | – | – | – | – | 757 | 715 |

# Consolidated financial statements (continued)

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

Table 27.6

| 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)

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

Table 27.7

| in USD millions | Gross written premiums and policy fees from external customers | | | | | | Property, equipment and intangible assets | |
|---|---|---|---|---|---|---|---|---|
| | Total | | of which Commercial Insurance | | of which 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)

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

Table 27.8

| in USD millions | Gross written premiums and policy fees from external customers for the years ended December 31 | | Life insurance deposits for the years ended December 31 | | Property, equipment and intangible assets as of December 31 | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **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 |
| Other | | | | | | |
| International business | | | | | | |
| **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.

## 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.

**Significant subsidiaries – non-listed**

Table 28.1

as of December 31, 2021

| | Registered office | Voting rights % | Ownership interest % | | Nominal value of share capital (in local currency millions) |
|---|---|---|---|---|---|
| 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 |

## Significant subsidiaries – non-listed (continued)

Table 28.1

| as of December 31, 2021 | Registered office | Voting rights % | Ownership interest % | Nominal value of 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 Insurance Company Ltd | Zurich | 100 | 100 | CHF | 825.0 |
| 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 | 100 | 100 | USD | 0.001 |
| Farmers Reinsurance Company[2] | Woodland Hills, CA | 100 | 100 | USD | 58.8 |
| Farmers New World Life Insurance Company[2] | Bellevue, WA | 100 | 100 | 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 Group Ltd (ZIG) 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 Group.

## Non-controlling interests

Table 28.2

| 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.

## 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

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To the General Meeting of
Zurich Insurance Group Ltd, Zurich

Zurich, February 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 Group Ltd and its subsidiaries (the 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 3 to 112 and the audited sections of the risk review on pages 5 to 32) give a true and fair view of the consolidated financial position of the 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 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.

# Report of the statutory auditor (continued)



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.

**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.<br><br>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.<br><br>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.<br><br>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.<br><br>Additionally, reserves for catastrophes events which are usually of less frequency but higher severity, are more difficult to estimate and include expert judgments.<br><br>Accordingly, we have identified this as a key audit matter.<br><br>The accounting policies and critical accounting judgments and estimates of the 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 technics 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.

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Based on audit procedures performed, we did not identify any exceptions with regards to the valuation of property and casualty reserves.

**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.

Report of the statutory auditor (continued)



| | |
|---|---|
| | The accounting policies and critical accounting judgments and estimates of the 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. |
| **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.<br><br>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.<br><br>Our procedures included:<br>- 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.<br>- Reviewing liability adequacy testing, and related impact to Life DAC recoverability and sufficiency of the future life policyholder benefit reserves.<br>- Assessing the consistency of the life actuarial methods and best estimate assumptions used across the Group's significant business units.<br><br>For selected products, our procedures further included:<br>- 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.<br>- Reviewing actuarial models used in the determination of these life insurance assets and liabilities and their compliance with products specificities and related guarantees.<br>- 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 Group and local markets, products offered, publicly available market and macroeconomic data, and impacts of the prolonged COVID-19 pandemic.<br>- On a sample basis, independent calculation of Life DAC and future life policyholder benefit reserves balances. |

Report of the statutory auditor (continued)



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 actuarial determined life insurance assets and liabilities.

**Acquisition of MetLife's Property & Casualty business in the United States**

**Area of focus**

As of April 7, 2021, the Group's wholly-owned 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 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 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

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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.

**Recoverability of goodwill and attorney-in-fact contracts**

**Area of focus** As of December 31, 2021, the 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.

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**Our audit response**

We obtained an understanding of the Group's goodwill impairment testing and assessed the design effectiveness of selected key controls related to the 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:
  - Consistency of projected future cash flows with management's most recent estimates including those used in the Group's budgeting and forecasting process,
  - 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,
  - 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 Group'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.

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 Group 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 February 10, 2021.

Report of the statutory auditor (continued)



**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 Group Ltd, the audited sections of the risk review on pages 5 to 32, the Remuneration report of Zurich Insurance Group Ltd 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 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 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)



**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<br>Licensed audit expert<br>(Auditor in charge) | Thomas Fiepke<br>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.

THIS COMMUNICATION DOES NOT CONTAIN AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES; SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION OR EXEMPTION FROM REGISTRATION, AND ANY PUBLIC OFFERING OF SECURITIES TO BE MADE IN THE UNITED STATES WILL BE MADE BY MEANS OF A PROSPECTUS THAT MAY BE OBTAINED FROM THE ISSUER AND THAT WILL CONTAIN DETAILED INFORMATION ABOUT THE COMPANY AND MANAGEMENT, AS WELL AS FINANCIAL STATEMENTS.