FY-22 IFRS 17 Supplementary Information

Supporting slides

May 17, 2023
Investor presentation
Zurich Insurance Group

Key messages

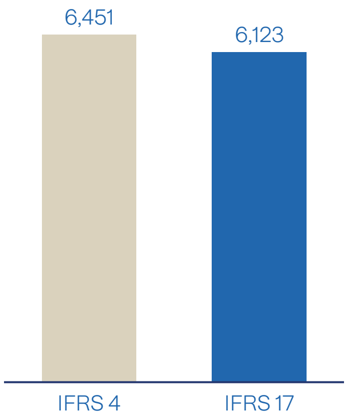
ZURICH

Underlying BOP in line with IFRS 4	Underlying IFRS 17 BOP in line with IFRS 4, but lower on a reported basis, largely driven by one-off effects related to the adoption of IFRS 17
Shareholders' equity modestly lower	Lower shareholders' equity under IFRS 17 drives uplift in BOPAT ROE in FY-22, partially offset by lower reported BOP and higher tax rate of 23.5% under IFRS 17
P&C result drivers largely aligned with IFRS 4 view	Accident year combined ratio is 95.7%, 0.6ppts lower than under IFRS 4 (96.3%), positively impacted by discounting of reserves, partially offset by change in denominator and risk adjustment
Life BOP stable on an underlying basis	Underlying Life BOP under IFRS 17 was relatively stable during 2022. Reported numbers impacted by non-recurring transition adjustments
Farmers segment largely unaffected	Farmers Exchanges'[1] result and FMS fee business unaffected by IFRS 17; Changes largely related to Farmers Life business, which sees BOP increase due to IFRS 17 dynamics and methodology change
Cash and capital generation unaffected	No impact on cash remittances and SST; No change to dividend policy

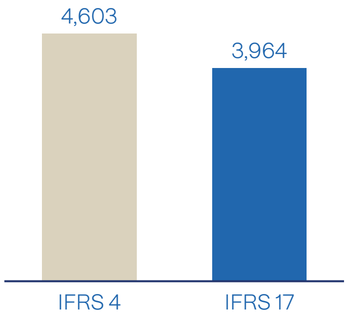
[1] For all references to Farmers Exchanges see the disclaimer and cautionary statement.

Key metrics IFRS 4 vs. IFRS 17

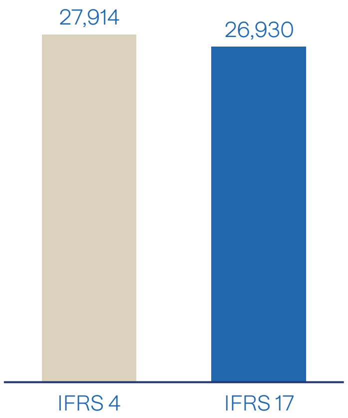
BOP (USDm)



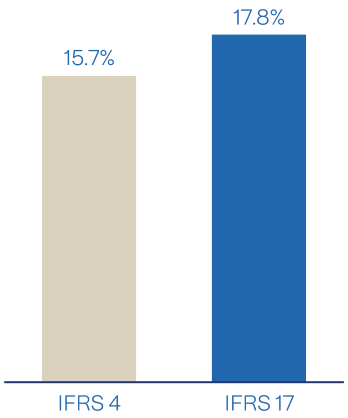
NIAS (USDm)



Shareholders' equity (USDm)[1]



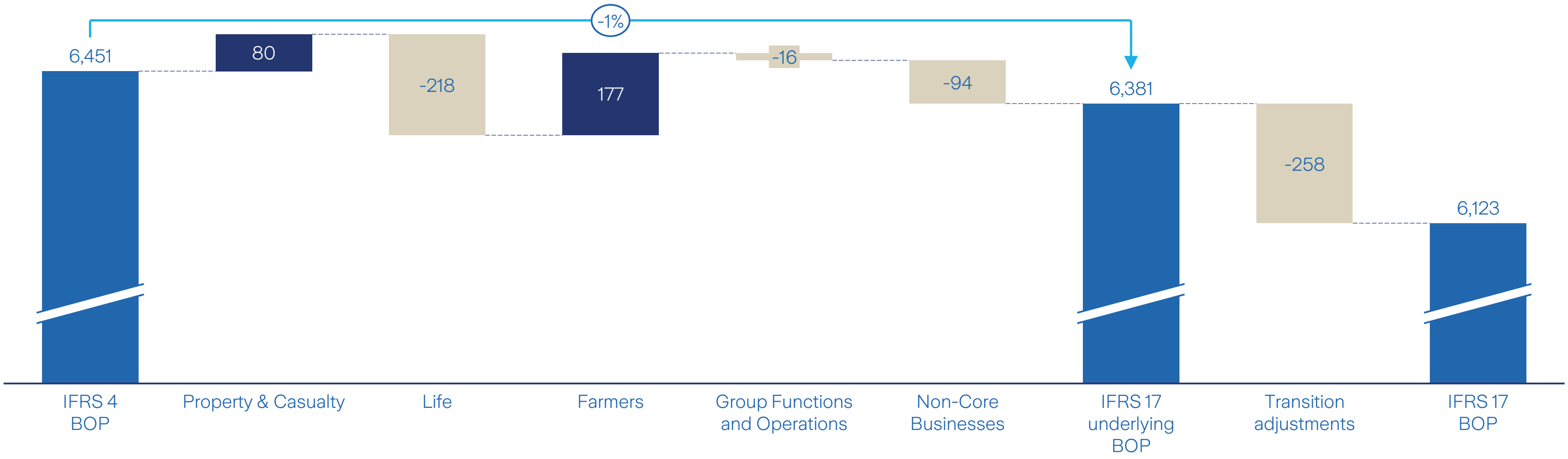
BOPAT ROE (%)[2]



1 Including non-controlling interests.
2 Business operating profit after tax return on equity, excluding unrealized gains and losses.

Underlying IFRS 17 BOP largely in line with IFRS 4, before reflecting transition adjustments related to the Life business

Group BOP (USDm)



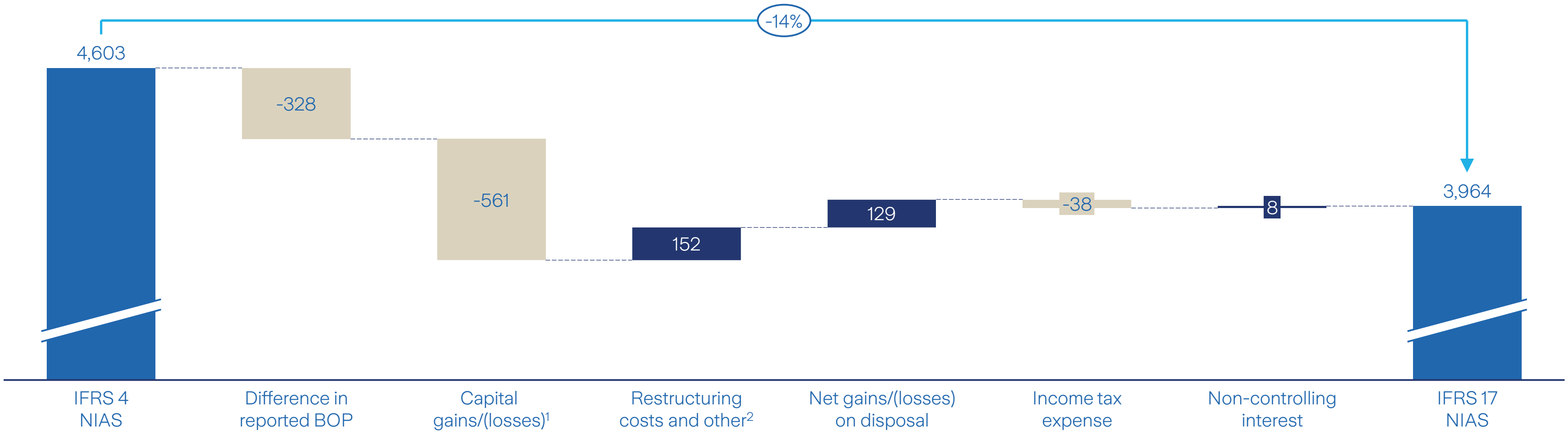
Commentary

- **P&C** BOP benefiting from discounting of reserves under IFRS 17, partially offset by the introduction of risk adjustment and other smaller impacts including loss component accounting and change in costs being deferred.
- IFRS 17 BOP in the **Life** business below IFRS 4 mainly due to the establishment of a loss component related to portfolios classified as 'onerous'.
- Increase in BOP for the **Farmers** segment mainly related to transition related methodology and model changes at Farmers Life as well as a BOP policy change impacting the amortization of M&A related intangibles at FMS.
- **Group Functions and Operations** seeing a small BOP impact linked to the life business operations reported under Zurich Global Ventures.
- Increased operating loss in **Non-Core Businesses** driven by the establishment of risk adjustment under IFRS 17.

- **Transition adjustments** summarize impacts which would otherwise have been booked to the transition balance sheet.

Reported IFRS 17 NIAS below IFRS 4 mainly driven by difference in treatment of one-off real estate valuation gain

Group NIAS (USDm)



[1] Net impact of capital gains/losses and impairments on Group investments and unit-linked investments, net of change in liabilities for investment contracts and other funds as well as re-/insurance finance income/expenses.
[2] Restructuring costs and other includes restructuring provisions, other adjustments and impairment of goodwill.

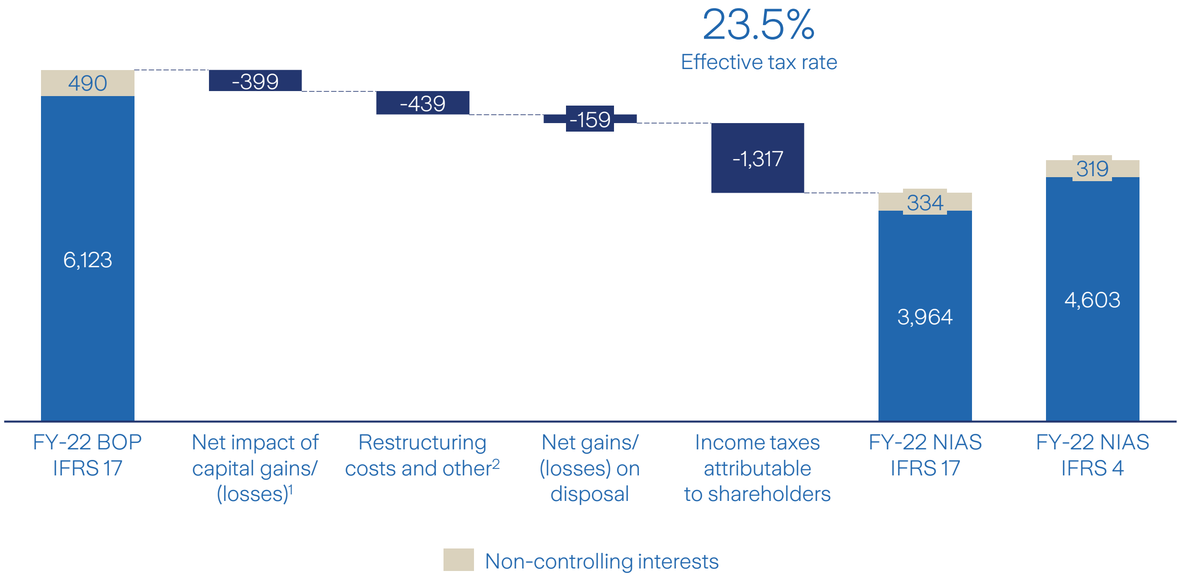
Commentary

- Underlying **BOP** under IFRS 17 largely flat compared to IFRS 4, but lower by USD 0.3 billion on a reported basis, driven by transition adjustments in the Life business.
- **Capital gains and losses** reported in NIAS are lower under IFRS 17 for FY-22, mainly driven by the difference in treatment of a one-off real estate valuation gain, which under IFRS 17 increases CSM and only impacts the P&L over time through the amortization of CSM.
- The impact shown under **restructuring costs & other** relates to changes in the BOP policy and other transition adjustments in NIAS.
- Impact of **net gains and losses on disposal** driven by a valuation difference of losses on disposal related to the Life back book transactions in FY-22.
- The **shareholders' effective tax rate** was 23.5% for FY-22, compared to 20.6% under IFRS 4.
- FY-22 reported **NIAS** under IFRS 17 is USD 0.6 billion below IFRS 4. On a per share basis, the lower NIAS results in diluted FY-22 **earnings per share** (EPS) of USD 26.5 compared to USD 30.8[1] under IFRS 4.

[1] The baseline for the 2023-25 EPS growth target was the assumed achievement of the 5% EPS CAGR target of the 2020-22 strategic cycle (i.e. EPS of USD 32.1).

Net income attributable to shareholders down as BOP growth is offset by lower realized capital gains and losses on disposal

BOP to NIAS walk (USDm)



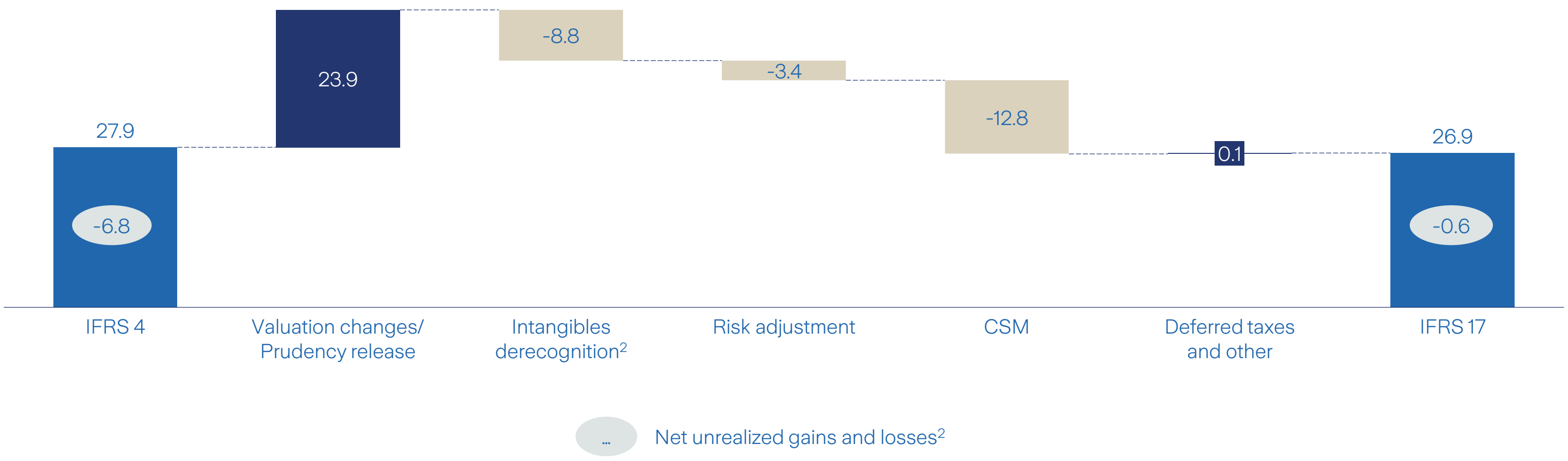
Key drivers

- FY-22 BOP under IFRS 17 is USD 6.1bn
- Net impact of capital gains/losses of USD -399m for FY-22
- USD -439m restructuring/other impacts mainly driven by integration costs, IFRS 17 implementation and a hyperinflation charge related to our Latin American business
- Net losses on disposal of USD -159m, mainly driven by the sale of the Italian back book in H2-22
- Effective tax rate for FY-22 of 23.5%, slightly below expected forward run-rate guidance of 24-26%

1 Net impact of capital gains/losses and impairments on Group investments and unit-linked investments, net of change in liabilities for investment contracts and other funds as well as re-/insurance finance income/expenses.
2 Restructuring costs and other includes restructuring provisions, other adjustments and impairment of goodwill.

Shareholders' equity modestly lower under IFRS 17

FY-22 shareholders' equity (USDbn)[1]



[1] Including non-controlling interests.
[2] Related to assets under IFRS 4; related to both assets and liabilities under IFRS 17.

Commentary

- The Group **shareholders' equity** as of FY-22 based on IFRS 17 was USD 26.9bn, USD 1.0bn below shareholders' equity based on IFRS 4. The difference was driven by the Life business, which saw a USD 5.5bn reduction, partially offset by an increase of USD 4.2bn in the P&C business and USD 0.3bn in the other segments.
- The transition effect was less pronounced than as of January 1, 2022, when shareholders' equity was USD 8.8bn lower based on IFRS 17 compared to IFRS 4. This is due to a much smaller impact of market movements on **net unrealized gains and losses** under IFRS 17, due to the offsetting effects of asset and liability valuations. With IFRS 17, net unrealized gains and losses moved from USD 2.0bn in Jan 1, 2022 to USD -0.6bn in FY-22, while moving from USD 4.1bn in to USD -6.8bn based on IFRS 4 in the same period.
- Lower shareholders' equity under IFRS 17 was driven by a lower balance of **retained earnings** (USD 35.3bn compared to USD 42.9bn based on IFRS 4), reflecting a more back-ended profit recognition for the Life business under IFRS 17.
- The **net transition impact** on shareholders' equity was mainly driven by the establishment of CSM and risk adjustment and the derecognition of deferred acquisition costs net of front-end fees, which were partially offset by the effect of discounting of P&C reserves and application of best estimate rather than locked-in prudent assumptions for Life liabilities.
- On January 1, 2023, the Group adopted **IFRS 9** prospectively, with only a partial impact on shareholders' equity of USD 0.1bn included on transition to IFRS 17 in 2022. In 2023, the net favorable impact of IFRS 9 transition to shareholders' equity is approximately USD 0.4bn, not reflected in the FY-22 number. This is mainly driven by certain debt securities held to collect contractual cash flows, which are accounted at amortized cost under IFRS 9 and previously held at fair value.

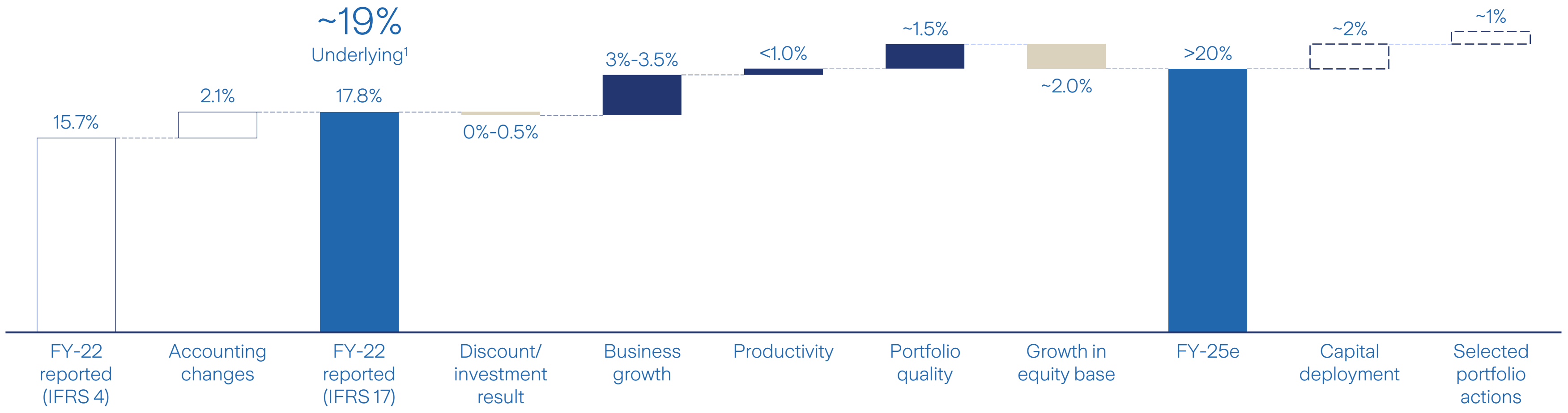
Guidance items under IFRS 17 for FY-23

Property & Casualty	• Insurance revenue expected to grow by mid-single digit percentage year-on-year • Commercial Insurance expected to maintain high level of returns; Retail and SME expected to begin seeing improving results as the impact of price increases takes effect • Losses from natural catastrophes expected to be 2.5-3.0% of P&C insurance revenue • PYD expected to be in the range of 1-2% of P&C insurance revenue • Expense ratio likely to be ~1pts higher than FY-22 given mix-driven rebound in commission • Based on current interest rate conditions, investment income expected to increase by ~USD 150-200m, current accident year discount impact to be higher than H2-22 and finance expense (unwind) expected to be ~USD 900m
Life	• Weaker macroeconomic conditions and financial market volatility expected to remain a headwind to new business sales • Life BOP growth expected to be well in excess of 10% versus the reported number for FY-22
Farmers	• Low single-digit growth expected for Farmers Exchanges[1] GWP, after adjusting for the rideshare business, given focus on improving underwriting performance through rate and non-rate actions • Reinsurance agreement of Farmers Life's in-force individual life insurance book expected to result in little to no earnings dilution to Group, given transition to IFRS 17 and ongoing share buyback
Other	• Group Functions and Operations net expenses expected to be in the normal range of USD 800-850m • Operating loss for Non-Core Businesses expected to return to more moderate level in 2023 • Effective tax rate expected to be in the range of 24-26%

1 For all references to Farmers Exchanges see the disclaimer and cautionary statement.

On track to achieve BOPAT ROE target of >20%

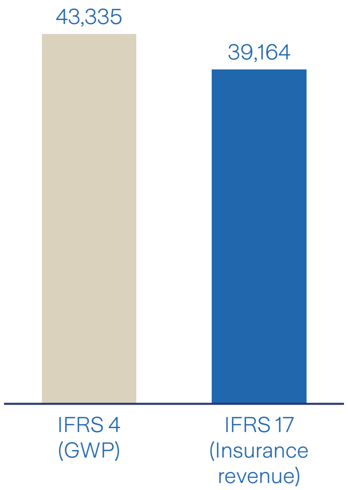
BOPAT ROE (%)[1]



1 Business operating profit after tax return on equity, excluding unrealized gains and losses.
2 Removing the impact of transition adjustments (see page 4-5 for more details).

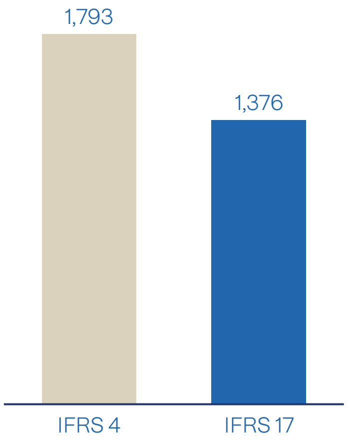
Net positive discount impact partially offset by higher reserve and risk adjustments

Top-line (USDm)



Combined ratio (%)

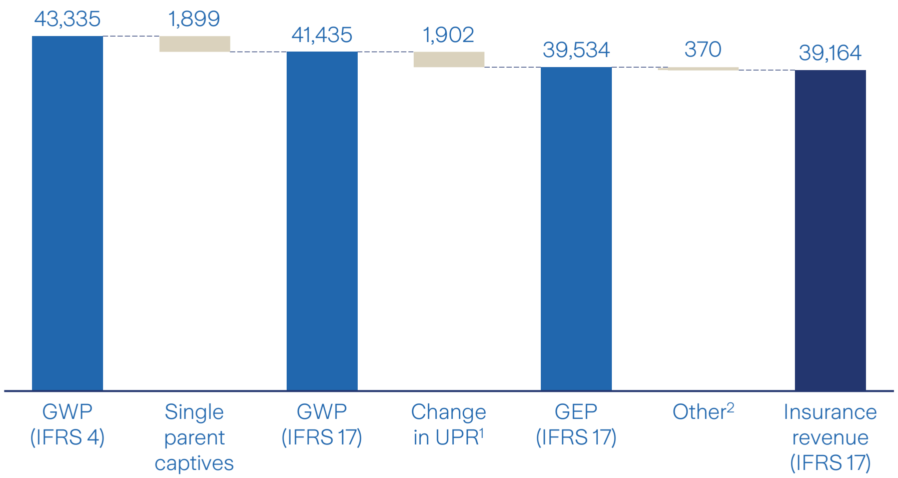
Net investment result (USDm)



BOP (USDm)

Insurance revenue similar to gross earned premiums

Top-line walk (USDm)



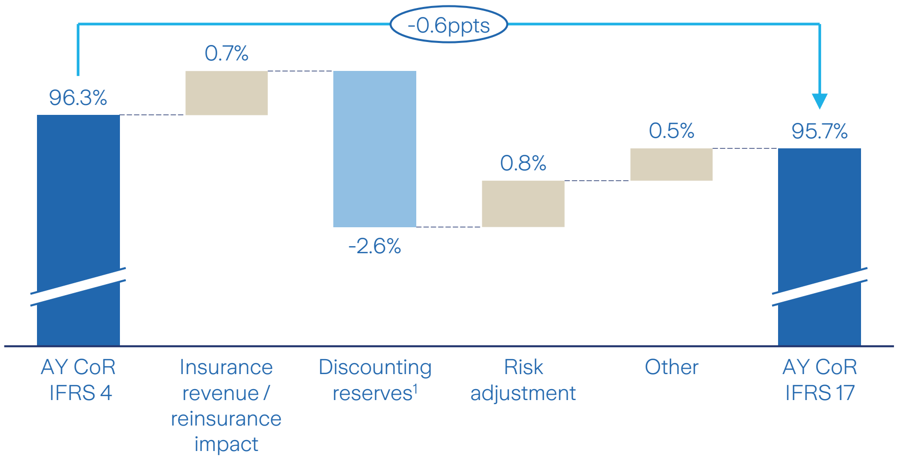
Commentary

- Difference in IFRS 4 / 17 GWP mainly driven by single parent captives
- Single parent captives accounted on a net basis within GWP under IFRS 17
- Insurance revenue comparable to gross earned premiums

1 Unearned premium reserve.
2 Includes effect of financing and investment components and commissions that are not contingent on claims for assumed business.

Discounting leads to visible combined ratio impact

Accident year combined ratio (AY CoR) (%)



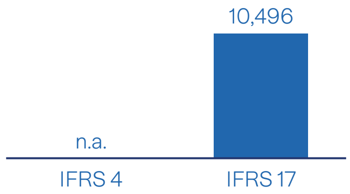
Commentary

- Change in denominator from net earned premium (NEP) to insurance revenue and cost of reinsurance being included in the numerator have a net impact of 0.7ppts on the AY CoR
- Introduction of discounting with significant impact on ratio
- Other consists of miscellaneous items including offset of long-tail business already discounted under IFRS 4, reallocation of certain income and expenses to fee service / other result, introduction of loss component accounting, change in deferred acquisition cost accounting and subsequent impairment testing, and change in reserving approach from reserve strength to allowance for limited historical evidence (ALHE)
- PYD expected to be in the range of 1-2% of insurance revenue

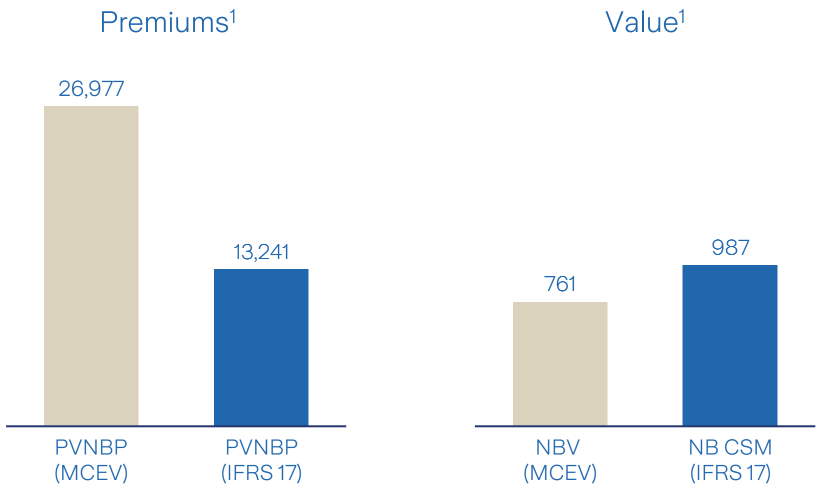
[1] Discounting impact represents the IFRS 17 impact and does not include pre-existing discounting of certain reserves under IFRS 4.

Significant changes in Life disclosures, FY-22 BOP below IFRS 4 level due to one-off impacts

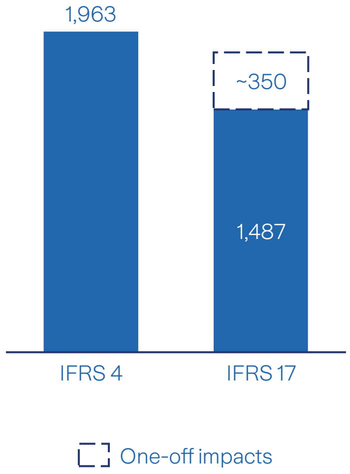
CSM (USDm)



New business (USDm)



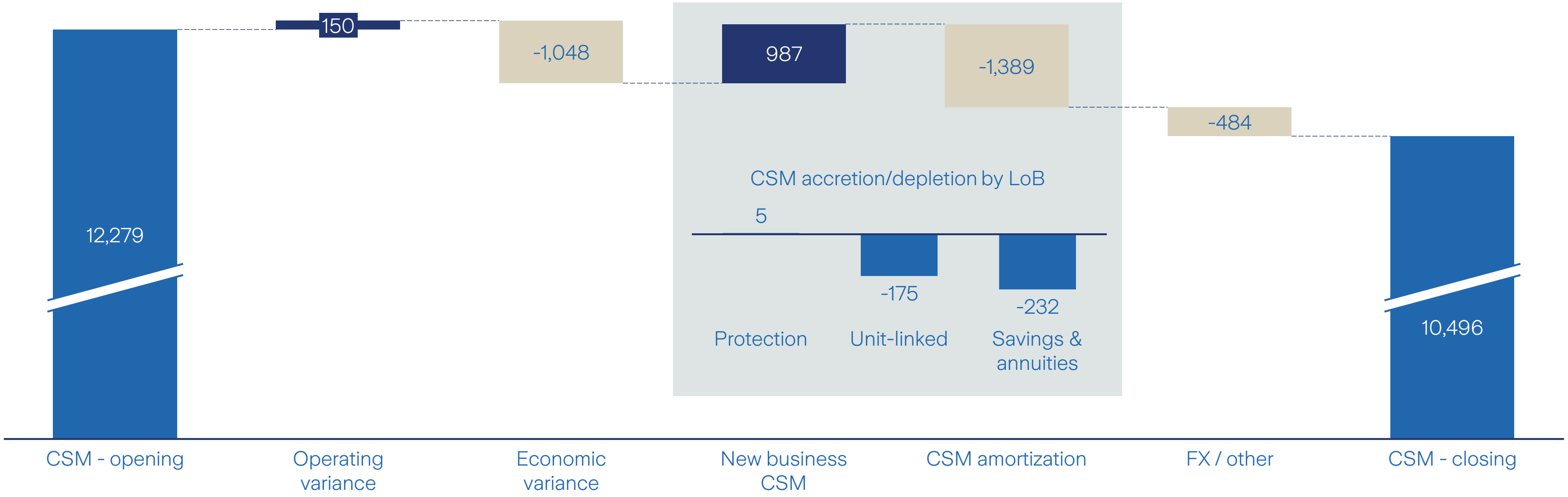
BOP (USDm)



[1] See page 19 for more details on differences between IFRS 17 and MCEV metrics.

CSM declined 15% in FY-22 mainly due to market headwinds

CSM walk (USDm)

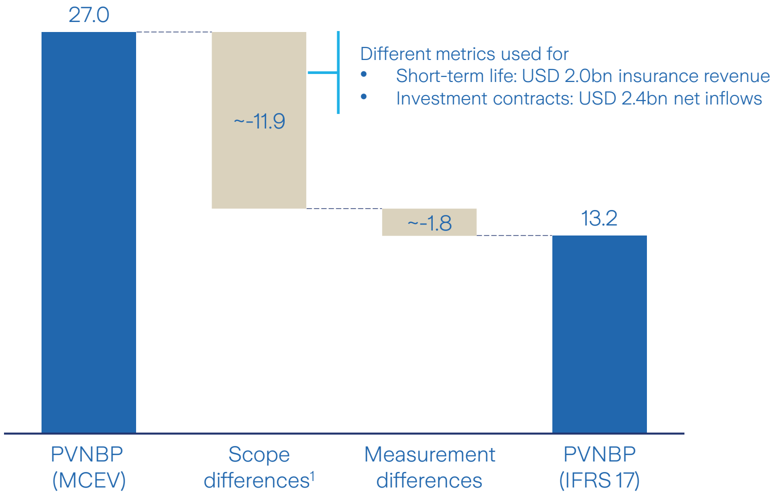


Commentary

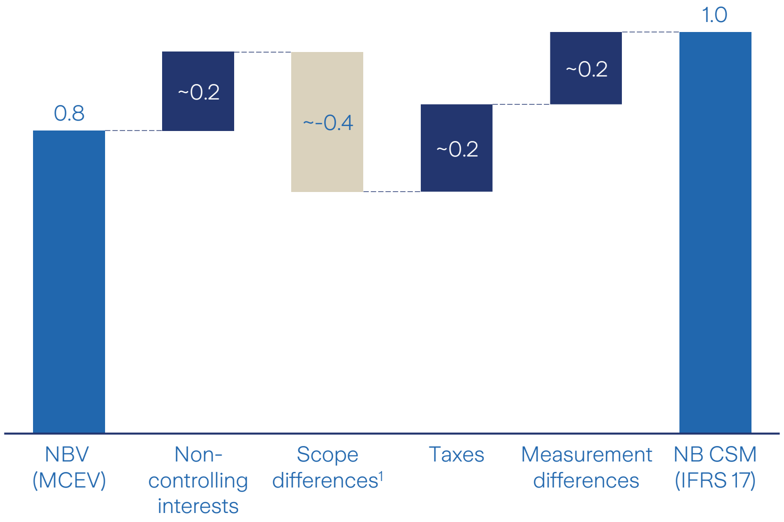
- The **Contractual Service Margin (CSM)** of the Life business declined 15% in FY-22, driven by a combination of adverse FX and other market movements. The opening balance also includes CSM related to the German back book, which was reclassified as held for sale at the end of H1-22.
- **Operating variances** increased CSM by USD 150m in FY-22 driven by by the regular assumption reviews and one-off modelling refinements.
- Adverse **economic variances,** mainly in Germany and Italy, reduced CSM by USD 1,048m driven by higher interest rates, wider credit spreads and weak equity markets, partially offset by favorable developments in real estate.
- **New business** added USD 987m of CSM. Protection and unit-linked contributed to 70% and 24% of new business CSM respectively. New business CSM was higher towards the first half of the year, mainly due to business mix differences, modelling and accounting changes and higher discount rates in the second half.
- **Amortization** into the P&L reduced CSM by USD 1,389m, with the amortized amount almost equally split between the first and second half of the year, reflecting a higher amortization rate in the second half which offset the impact of a lower CSM balance.
- Adverse **FX movements** reduced CSM by USD 584m, due to the appreciation of U.S. dollar relative to other major currencies.
- **Other** impacts, increased CSM by USD 100m in the year. This includes the favorable impact of balance sheet adjustments, mainly related to methodology changes in Australia Life after the transition balance sheet was produced, as well as the adverse impact of the disposal of the German back book.

IFRS 17 new business metrics are not directly comparable with previously reported metrics

PVNBP (USDbn)



NB CSM (USDbn)



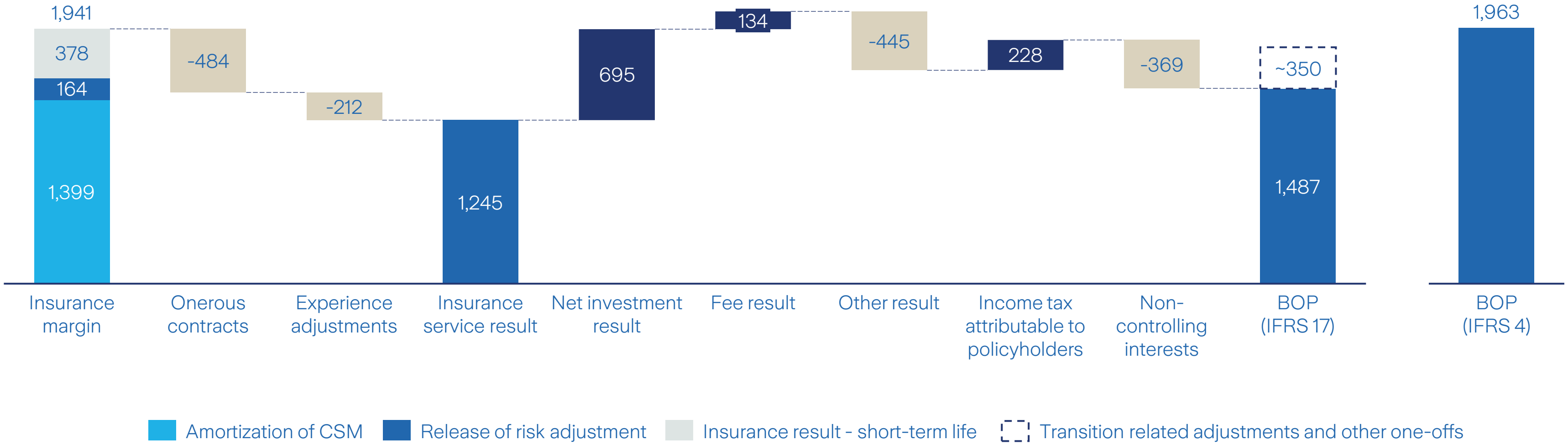
[1] IFRS 17 PVNBP does not include short-term insurance contracts, which are accounted for with the PAA approach, and investment contracts, which are accounted for with IFRS 9.

Commentary

- The Group decided to focus on **present value of new business premiums (PVNBP)** as its key new business sales metric, instead of annual premium equivalent (APE), which is no longer reported.
- PVNBP based on IFRS 17 is not directly comparable with the PVNBP, which was reported on MCEV basis, mainly due to **differences in scope** as IFRS 17 PVNBP does not include short-term life insurance and investment contracts. Other **measurement differences** are mainly related to contract boundary definitions.
- For short-term life insurance, which is accounted for with the PAA method like most of the P&C business, we focus on **insurance revenue** as the key top-line metric, while for investment contracts we focus on **net inflows**.
- The Group no longer reports NBV on an MCEV basis but focuses on **new business CSM** based on IFRS 17. The two metrics are not directly comparable, due to a combination of **scope differences** (see comments above on PVNBP), **non-controlling interests**, **taxes**, as well as certain **measurement differences** related to items such as contract boundaries, or the exclusion of non-qualifying expenses from the calculation of new business CSM.

Life BOP under IFRS 17 affected by negative one-offs

IFRS 17 - BOP walk (USDm)



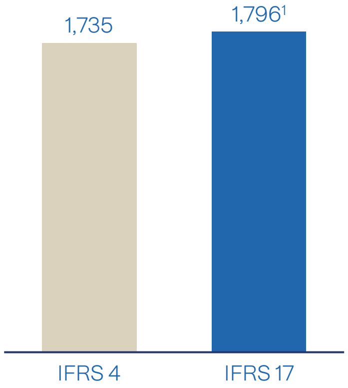
Commentary

- The **Group's Life** business generated BOP of USD 1,487m based on IFRS 17. This reflects an approximate non-recurring net unfavorable impact of ~USD 350m from changes in the loss component for onerous contracts, transition adjustments and other one-offs. This compares to USD 1,963m of BOP based on IFRS 4, which reflected a net favorable impact of management actions in EMEA contributing ~USD 100m to BOP, and favorable assumption updates and reserve releases in Asia-Pacific. Adjusting for these impacts, BOP was broadly in line with IFRS 4. FY-22 BOP also includes a positive contribution from the German back book, where disposal is expected to be completed in H2-23, subject to regulatory approval.
- **CSM amortization** is the largest driver of BOP and was stable between H1 and H2 in all regions except Asia-Pacific, which was affected by transition adjustments.
- **Short-term life insurance**, which is mainly related to the protection business in Latin America, added USD 378m of insurance service result in FY-22. The split between H1 and H2 is affected by a delayed recognition of certain H1 claims.
- The loss component for **onerous contracts** reduced BOP by USD 484m in FY-22. This reflects the non-recurring impact of model and assumption changes in several markets, which are expected to reduce the volatility of these portfolios in the coming years.
- **Experience adjustments** reduced the insurance service result by USD 212m, with the impact offset by a positive variance related to income tax attributable to policyholders.
- **Net investment result** added USD 695m of BOP in FY-22, benefiting from elevated yields especially in Latin America. With IFRS 17, the Life investment result is mainly driven by books accounted for with the BBA and PAA measurement models, with Latin America and Spain being the largest books as of FY-22.
- **Fee result**, which is predominantly driven by investment contracts written in Ireland, Switzerland and Zurich International, added USD 134m of BOP in FY-22.
- **Other result** reduced FY-22 BOP by USD 445m, mainly driven by non-qualifying expenses.

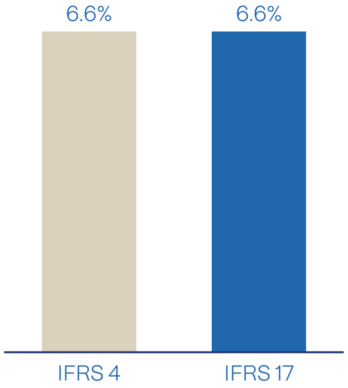
Farmers Management Services' fee business unaffected by IFRS 17; Farmers Re with benefit of reserve discounting

Farmers Management Services

BOP (USDm)

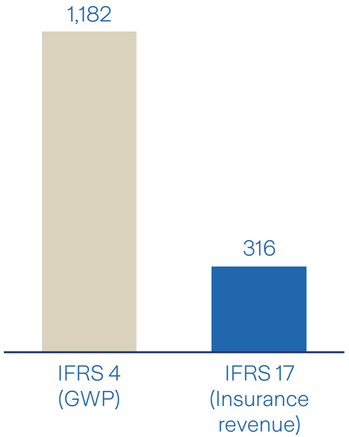


MGEP margin (%)

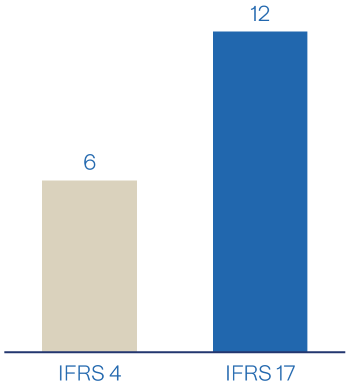


Farmers Re

Top-line (USDm)



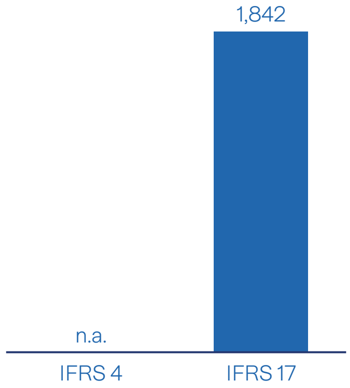
BOP (USDm)



[1] Change in BOP under IFRS 17 related to a BOP policy change impacting the amortization of M&A related intangibles at FMS.

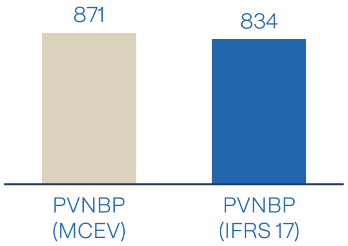
Increases in Farmers Life NB CSM and BOP under IFRS 17 largely driven by IFRS 17 methodology on post level term book

CSM (USDm)

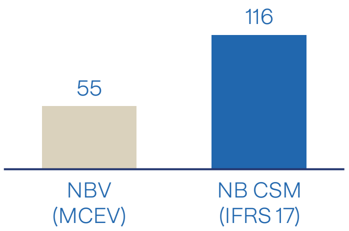


New business (USDm)

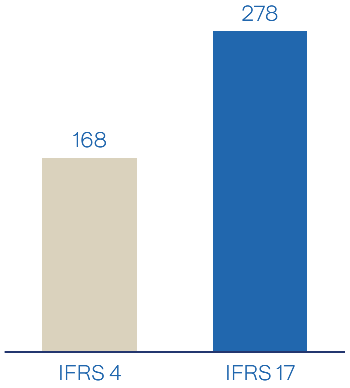
Premiums



Value

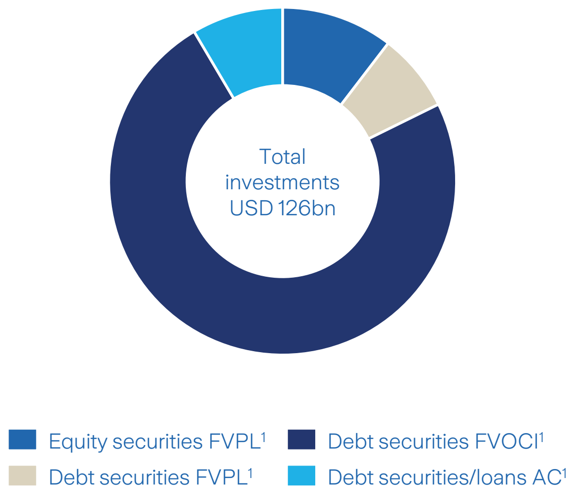


BOP (USDm)

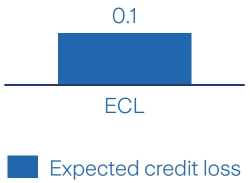


Introduction of IFRS 9 on January 1, 2023 increases shareholders' equity by USD 0.4bn; ECL newly introduced

Group investments in scope of IFRS 9 (USDbn) - as of January 01, 2023



Expected credit loss (ECL) (USDbn) - as of January 01, 2023



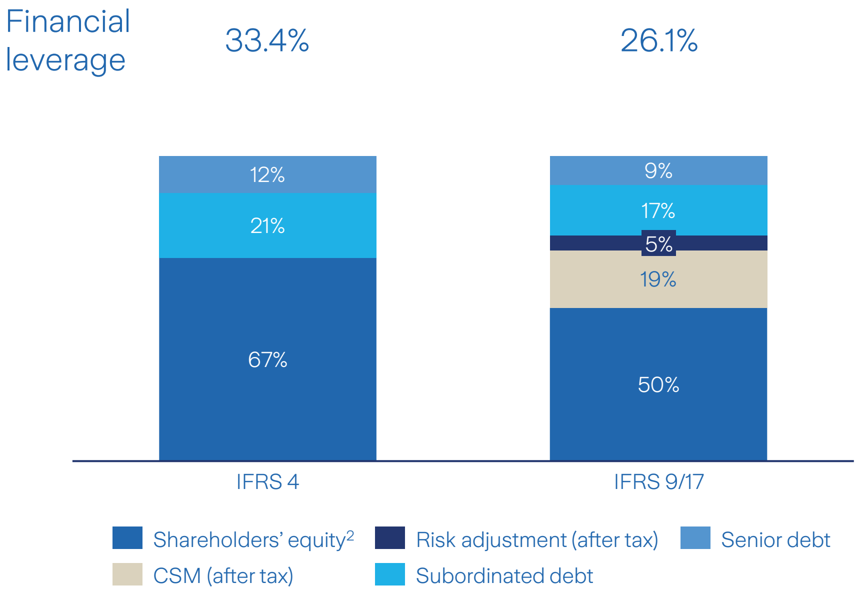
[1] FVPL = Fair Value through Profit or Loss; FVOCI = Fair Value through Other Comprehensive Income; AC = Amortized Cost.

Commentary

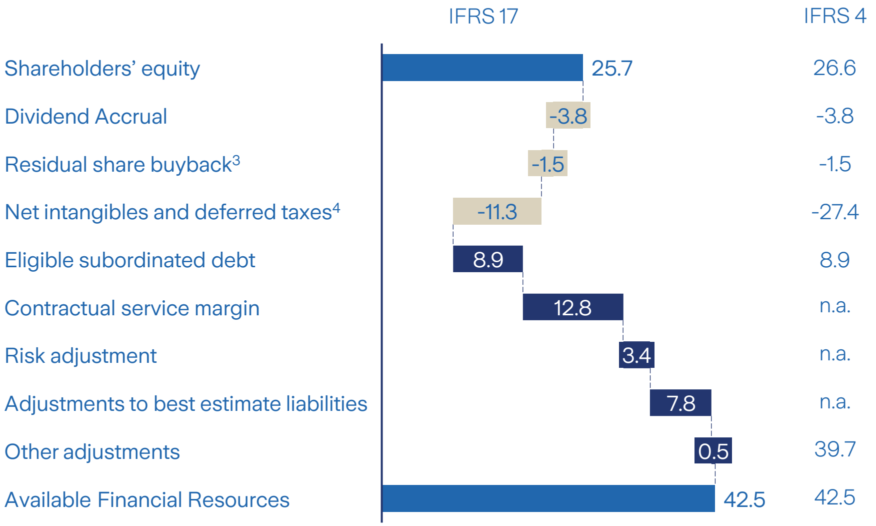
- **IFRS 9 applied from January 1, 2023** - comparative information has not been restated. Impact on total equity (including unrealized gains/losses) favorable USD 0.4bn.
- **Equity securities** will be accounted for at fair value through profit or loss (FVPL).
- Most **debt securities** will continue to be accounted for at fair value, with changes in fair value reported in other comprehensive income (FVOCI). Overall, less than 10% of debt securities will be accounted for at FVPL.
- Certain debt investments will continue to be accounted for at **amortized cost** (AC), including mortgage loans and private debt portfolios which are held to collect contractual cash flows.
- **Expected credit loss (ECL)** recorded for all debt instruments not measured at FVPL under IFRS 9. As of January 1, 2023, ECL on Group investment portfolio was USD 0.1 billion.
- Overall, given the high credit quality of the Group investment portfolio, ECL has **limited materiality** for the Group.
- Any changes in ECL (net of policyholder participation) will be **recorded in net capital gains/losses**, not impacting BOP.

Unchanged financial flexibility and SST AFR

FY-22 capital structure (%)[1]



FY-22 Available Financial Resources (USDbn)



1 Based on IFRS balance sheet.
2 Including non-controlling interests.
3 Amount not repurchased as of December 31st 2022 as part of the announced special share buyback program of CHF 1.8 billion.
4 Net intangibles excluding insurance acquisition cash flows, gross of non-controlling interests.

Commentary

- With IFRS 17 we define **financial leverage** as the ratio between debt (senior and subordinated) and total IFRS capital, which includes debt, shareholders' equity (including non-controlling interests), and the after tax amount of CSM and risk adjustment. The latter two elements, introduced by IFRS 17, have loss absorbing characteristics and, in the case of CSM, future profits can be monetized.
- **Swiss Solvency Test (SST)** ratio is not directly impacted by the transition to IFRS 17. Available financial resources (AFR) are unchanged at USD 42.5bn.
- The **reconciliation of IFRS 17 shareholders' equity to SST AFR** includes a combination of existing and new elements, such as **CSM** and **risk adjustment**.
- **Adjustments to best estimate liabilities** include the capital allowance for expected profit from non-life in-force contracts, the value in-force of investment and short-term life insurance contracts, any capital credit for future discretionary benefits and ALHE (allowance for limited historical experience), the impact of contract boundary differences between IFRS 17 and SST, as well as the impact of present value of life non-qualifying expenses, net of any insurance acquisition cash flows, deferred origination costs and origination fees.
- **Other adjustments** reflect any valuation differences for financial and other assets and subordinated debt, and any changes to non-controlling interests.

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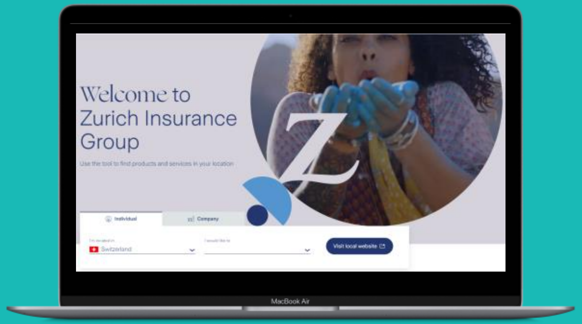

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- August 10, 2023 – Half year results 2023
- November 9, 2023 – Update for the nine months ended September 30, 2023
- November 16, 2023 – Investor Day 2023