# Financial Condition Report 2023

Zurich Life Insurance Company Ltd

# Zurich Life Insurance Company Ltd

## Contents[1]



1 The information published in this report is consistent with the information published in the Annual Report 2023 of Zurich Life Insurance Company Ltd, as well as the regulatory reporting of the Zurich Life Insurance Company Ltd for the year 2023, including the regulatory reporting to the Swiss Financial Market Supervisory Authority FINMA (FINMA) on the Swiss Solvency Test, in accordance with art. 25 ISA and art. 53 ISO. While the financial statements and the information therein were subject to audit by the statutory auditor of Zurich Life Insurance Company Ltd, Ernst & Young Ltd (see Appendix 2), there was no external audit or review of this report. Please further note that, while this report has been filed with FINMA, FINMA has not reviewed the report. The SST calculation for the year ended December 31, 2023 has been filed with FINMA in the 2023 SST reporting in April 2024. In line with the normal timeline for FINMA reporting, the ZLIC 2023 SST reporting remains subject to regulatory review.

All amounts are shown in Swiss francs and rounded to the nearest million unless otherwise stated, with the consequence that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

# Zurich Life Insurance Company Ltd (continued)

## Overview

### Business profile

Zurich Life Insurance Company Ltd (ZLIC), a life insurance company domiciled in Zurich, Switzerland, is operating primarily in Switzerland. ZLIC is 100 percent owned by Zurich Insurance Company Ltd (ZIC), which in turn is fully owned by Zurich Insurance Group Ltd (ZIG).

Gross written premiums (GWP)

CHF 1.2 billion

Net income after taxes

CHF 117 million

Total investments

CHF 16.1 billion

### System of governance

ZLIC has a strong corporate governance framework that is implemented in its daily business, which provides the basis for ZLIC to create sustainable value for all of its stakeholders.

Our enterprise risk management framework (ERM) supports ZLIC in achieving its strategy and helps protect our policyholders, capital, liquidity, earnings and reputation.

### Risk profile

Taking risk is inherent to the insurance business but such risk-taking needs to be done in an informed and disciplined way, and within a pre-determined risk appetite and tolerance. This is the primary objective of Zurich's risk management.

ZLIC uses its Total Risk Profiling™ process to monitor both external and internal risks to our strategy and financial plan. ZLIC's key risks in 2023 were focusing on uncertainties related to asset market volatility and investment returns, reserve adequacy, data protection and privacy, IT security, capability and capacity to advise in protection and savings in all distribution channels and business resilience. The significant risks for ZLIC, as measured by Swiss Solvency Test economic capital metrics, are: market, insurance and credit risk.

### Financial condition

Total shareholders' equity (according to Swiss local statutory reporting)

CHF 1 billion

Swiss Solvency Test ratio as of January 1, 2024

254%

# Acronyms

| | |
|---|---|
| AG | Aktiengesellschaft |
| AGM | Annual General Meeting |
| ALM | asset liability management |
| ALMIC | Asset Liability Management and Investment Committee |
| ARC | Audit & Risk Committee |
| Board | Board of Directors |
| bn | billion |
| BU | business unit |
| BVG | Occupational Retirement, Survivors' and Disability Provision |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CHF | Swiss francs |
| CLP | Corporate Life & Pensions |
| Company | Zurich Life Insurance Company Ltd |
| CRO | Chief Risk Officer |
| ERM | Enterprise risk management |
| EUR | euro |
| EY | Ernst & Young Ltd |
| FCR | Financial Condition Report |
| FINMA | Financial Market Supervisory Authority |
| GA | Group Audit (internal audit) |
| Group | Zurich Insurance Group Ltd and its subsidiaries |
| GWP | gross written premiums |
| HR | Human Resources |
| IFSR | Insurer Financial Strength Rating |
| IFRS | International Financial Reporting Standards |
| IIA | Institute of Internal Auditors |
| ISA | Swiss Insurance Supervision Act |
| ISL | Swiss Insurance Supervision Law |
| ISO | Swiss Insurance Supervision Ordinance |
| IT | information technology |
| LoB | Line of Business |
| Ltd | limited |
| m | million |
| MCBS | market-consistent balance sheet |
| MVM | market value margin |
| OEM | Operational Event Management |
| ORSA | Own Risk and Solvency Assessment |
| Q | quarter |
| SAA | strategic asset allocation |
| SFCR | Solvency & Financial Conditions Report |
| SST | Swiss Solvency Test |
| TRP | Total Risk Profiling™ |
| USD | U.S. dollar |
| ZIAG | Zurich Invest AG |
| ZIC | Zurich Insurance Company Ltd |
| ZIG | Zurich Insurance Group Ltd (holding company) |
| ZIP | Zurich Insurance plc |
| ZLIC | Zurich Life Insurance Company Ltd |
| ZRP | Zurich Risk Policy |
| Zurich | Zurich Insurance Group |

# Introduction

### Introduction

The Zurich Life Insurance Company Ltd (ZLIC) financial condition report is prepared in compliance with Art. 25 Swiss Insurance Supervision Act (ISA) and FINMA's Circular 2016/2 'Disclosure – insurers' and is not audited. The report focuses on the 2023 financial year, and should be read in conjunction with the audited ZLIC Annual Report 2023 (available on: http://www.zurich.com/en/investor-relations/results-and-reports/other-statutory-filings). Wherever applicable, this report makes reference to the Zurich Insurance Group Financial Condition Report or the Zurich Insurance Group Annual Report. Refer to these reports for more information.

ZLIC is part of the Zurich Insurance Group, which maintains a strong capital position. As of December 31, 2023, the Insurer Financial Strength Rating (IFSR) of ZIC was rated 'AA/stable' by Standard and Poor's, 'Aa3/positive' by Moody's and 'A+/stable' by A.M. Best. Furthermore, Zurich Insurance Group's unaudited estimated SST ratio was 223 percent as of December 31, 2023.

The ZLIC Financial Condition Report (FCR) is a standalone report reflecting the current situation of ZLIC. The results will be consolidated into the Zurich Insurance Group Financial Condition Report.

## 1. Executive summary

The Financial Condition Report was produced in accordance with FINMA Circular 2016/2 'Disclosure – insurers: Fundamental principles in reporting the financial position'.

### Business activities

Zurich Life Insurance Company Ltd (ZLIC or the Company) is a life insurance company domiciled in Zurich, Switzerland offering both Individual Life and Group Life propositions. ZLIC belongs to the top five life insurers in the Swiss market in terms of gross written premiums (excluding Corporate Life savings premiums).

### Performance

ZLIC reported net income after taxes of CHF 117 million in 2023, which is a decrease of 27 percent compared with the previous year's result of CHF 160 million. The overall decrease of net income after taxes compared with the prior year was mainly attributable to the challenging economic environment. ZLIC, however, maintained a strong capital position with total shareholders' equity of CHF 1,021 million and CHF 1,139 million as of December 31, 2023 and 2022 respectively.

Gross written premiums decreased by 8 percent to CHF 1,215 million compared with 2022. This decrease was mainly driven by the Group Life business which faces a competitive and cost-sensitive market. However, the Individual Life business remained strong and is at a similar level as the prior year.

### Corporate governance and risk management

Several governance bodies exist in ZLIC with the aim of ensuring adequate oversight of ZLIC. In line with legal and regulatory requirements, ZLIC has a Board of Directors (Board), an Audit & Risk Committee (ARC) at Board level, and a Management Board. These bodies meet regularly (at least four times per year) to ensure appropriate oversight and control (including activities on branch/business). There are also quarterly branch/business oversight meetings to support the oversight and control process on a Board and Management Board level.

ZLIC has established a 'three lines of defense' approach, aimed at clearly identifying, assessing, owning, and managing risks.

- As the first line of defense, business management takes risks and is responsible for day-to-day risk management (i.e., risks are identified and monitored, mitigation actions are implemented, and internal controls are in place and operating effectively).
- The second line of defense consists of the two control functions, risk management and compliance. Both functions provide independent assurance. The risk management function provides the overall risk management framework, independent challenge, oversight, monitoring and advice to support the first line in managing risks. Compliance supports ZLIC in establishing and assessing principles, processes, and control structures that support adherence to legal, regulatory and internal requirements. For certain compliance risks, Compliance provides specialized assistance to the risk owner(s) through risk-specific policies, risk evaluations, process and control analysis and advice, training and awareness, designing controls and monitoring operations.
- Internal audit (the third line of defense) provides independent and objective assurance regarding the adequacy and effectiveness of risk management, internal controls and governance processes.

Other governance and advisory functions, such as legal and actuarial, help business management to manage and control specific types of risks.

An internal control system is in place to provide assurance around ZLIC's operations.

# Introduction (continued)

### Risk profile and solvency

FINMA established the Swiss Solvency Test (SST) to quantitatively measure risk. ZLIC files the SST ratio annually with FINMA. ZLIC's largest risk is market risk, which constitutes approximately 48 percent of the total CHF 2.6 billion undiversified target capital. Credit migration and default risks contribute a further 16 percent. Morbidity is a further important risk for ZLIC. ZLIC faces expense risk and there is also longevity risk related to Swiss annuities. Once a year, ZLIC's key risks including operational risks are also assessed in a Total Risk Profiling™ (TRP) analysis. Mitigation actions are defined where necessary and tracked.

For reporting SST, assets and liabilities are valued on a market-consistent basis in ZLIC's market-consistent balance sheet (MCBS). In 2023 the risk-bearing capital for ZLIC decreased by CHF 0.5 billion compared with 2022 due to the introduction of the market value margin in insurance liabilities due to the ISO changes effective January 1, 2024 as well as economic variances, modelling and assumption changes made through the year.

ZLIC's capital management is mainly governed by SST, statutory equity, tied asset and liquidity requirements, which ZLIC follows in accordance with FINMA guidelines and statutory law. For the tied assets coverage, reserves are calculated on a prudent, statutory basis.

The ZLIC SST ratio as of January 1, 2024 declined to 254 percent, down from 299 percent one year earlier due to operating assumptions and modelling changes made through the year, economic variances, and the impact of the proposed dividend. ZLIC's capitalization remains strong as measured by SST.

The data, methods, and results of the Swiss Solvency Test for ZLIC are produced in accordance with the Insurance Supervision Ordinance (ISO, art. 21 seqq.). ZLIC's SST is calculated using the SST standard model.

#### Dividend

In 2023, ZLIC paid a cash dividend of CHF 235 million to ZIC. The ZLIC Annual General Meeting held on April 16, 2024 approved a cash dividend of CHF 175 million. According to the applicable SST valuation requirements, ZLIC's SST ratio as of January 1, 2024 published in this report reflects the dividend payment of CHF 175 million.

### Outlook

The key priorities in 2024 will be to focus on addressing customer needs by promoting a balanced product mix, further leveraging bank and collaborations distribution, enhancing investments in essential IT infrastructure, and establishing a strong customer service culture. This will allow ZLIC to deliver sustainable, profitable growth in a changing and more competitive business environment.

On January 1, 2024, the revised Insurance Supervision Act (ISA) and the revised Insurance Supervision Ordinance (ISO) entered into force. Following this revision, the requirements resulting from the delegation provisions will now be implemented at FINMA level. The total revision of the FINMA Insurance Supervision Ordinance (ISO-FINMA) and the revision of a series of FINMA circulars for insurance companies cover various points, including

- Regulation on technical details of the Swiss Solvency Test (SST);
- Implementation of the provisions on technical reserves;
- Additional regulation in the area of supervision of insurance intermediaries.

The Company's management continues to carefully monitor developments in regulatory and legal requirements.

## 2. Approval of the Financial Condition Report

The 2023 ZLIC FCR was reviewed by the Management Board and then approved by the Board of Directors on April 22, 2024.

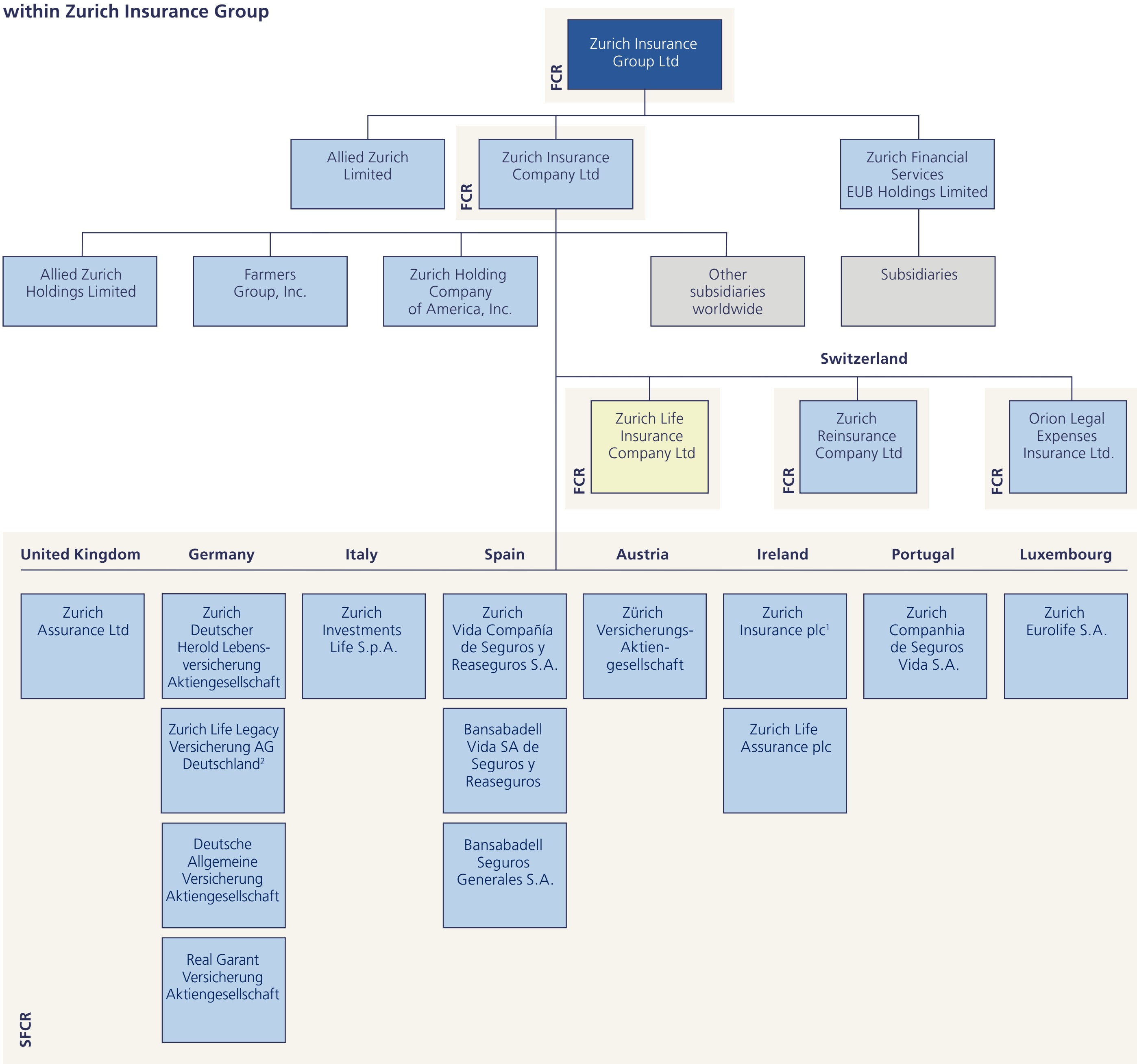
# A. Business activities

## A.1 Legal structure and major subsidiaries and branches

ZLIC is a life insurance provider serving both retail and corporate customers, primarily in Switzerland as well as through its branch in UAE. ZLIC is part of the Zurich Insurance Group ('Zurich' or 'the Group').

The Group discloses more information on its risk and capital management in its risk review, an integral part of the Zurich Insurance Group Annual Report available on www.zurich.com.

### Public reporting on solvency and financial condition within Zurich Insurance Group




**SFCR:** Solvency and Financial Condition Report (local regulation based on Solvency II; from 2016) **FCR:** Financial Condition Report (Swiss regulation; from 2017)

Subsidiary Group of subsidiaries Current disclosure

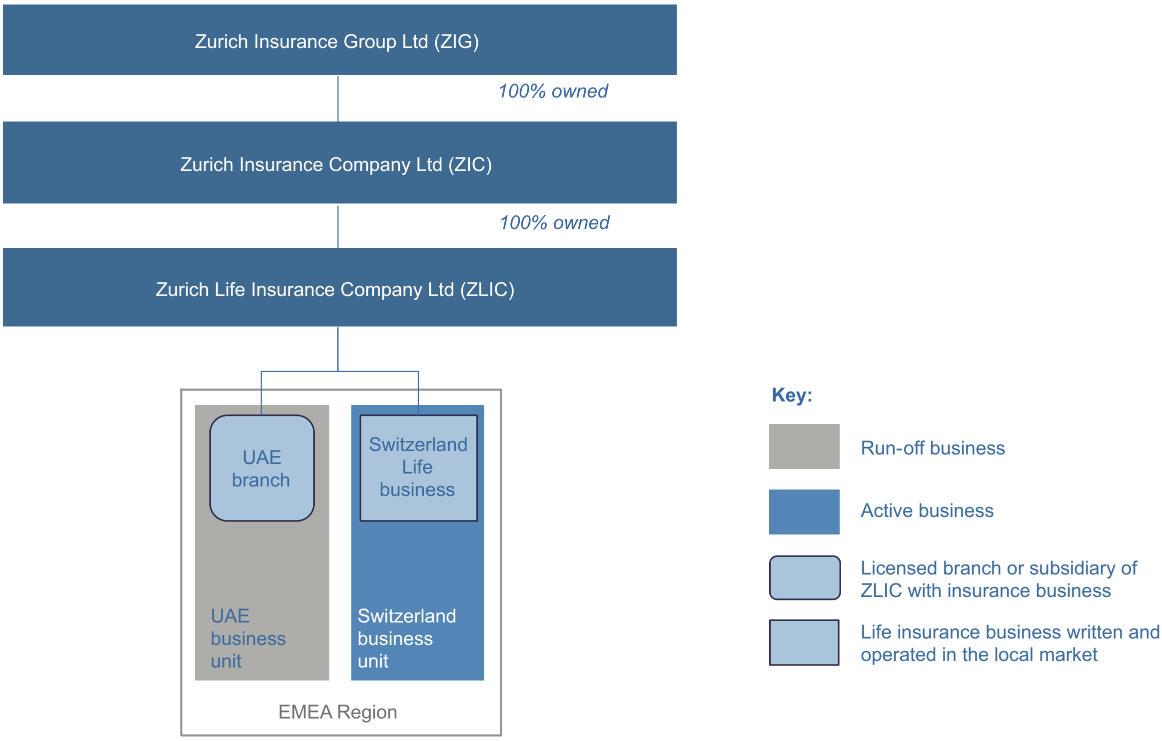
Note: The purpose of the chart above is to provide a simplified overview of the Group's major subsidiaries (as of December 31, 2023), with special focus on the public reporting of their solvency and financial condition. Please note that this is a simplified representation showing entities that must publish such a report and therefore it may not comprehensively reflect the detailed legal ownership structure of the entities included in the overview. The ordering of the legal entities under each country is not indicative of ownership; these are independent legal entities.

1 Effective January 2, 2024, the registered head office of Zurich Insurance plc (ZIP) was moved from Dublin, Ireland, to Frankfurt, Germany, by means of a cross-border conversion under the European Directive on cross-border conversions, mergers and divisions. While ZIP has converted to a German AG known as Zurich Insurance Europe AG (ZIE), it has preserved its legal personality in the conversion (i.e., no transfer of assets, dissolution or winding up were involved in this move).
2 Life insurance business as from October 2023.

# A. Business activities (continued)

## ZLIC entity structure

The chart below shows the simplified ZLIC entity structure as of December 31, 2023.




### Significant subsidiaries and shareholdings

The chart above shows the simplified ZLIC entity structure as of December 31, 2023.

### Significant indirect subsidiaries

ZLIC had no significant indirect subsidiaries as of December 31, 2023.

### Quantitative and qualitative information about special purpose vehicles (e.g., risk transfer and capital transfer companies) and joint ventures

ZLIC does not currently hold any special purpose vehicles.

# A. Business activities (continued)

## A.2 Information about the company's strategy, objectives and key business segments

ZLIC strategy is derived from and consistent with the Group strategy. The ZLIC strategy is reviewed on an annual basis. In 2023 ZLIC confirmed the strategic focus areas and it retains the main aspects as outlined below:

- ZLIC's strategic focus remains on protection and capital-efficient savings products in full alignment with the Group's approach.
- ZLIC will continue to leverage the business model in cooperation with the Vita foundations and Zurich Invest AG in Switzerland.
- ZLIC will continue to promote profitable top-line growth by focusing on specific strategic market segments.

### Switzerland

ZLIC offers retail products including pure risk, endowment, annuities, unit-linked and hybrid products. Group Life propositions cover risk-only solutions and joint foundations business of the Swiss pension system plus international group risks solutions for Swiss multinationals and NGOs.

In line with its business strategy, ZLIC continued to improve operationally through simplification, process management and digitalization. All relevant customer touchpoints were monitored on an ongoing basis and the customer service in Group Life has been recertified under the ISAE 3402 standard (type 1 and type 2). The Company also continued to focus on intelligent protection and capital efficient solutions and on maintaining a strict underwriting discipline throughout all product lines.

The sales support model has been aligned to further identify and improve cross-selling opportunities. At the same time, ZLIC has continued to leverage its main distribution channels, through agents and brokers, while seeking to establish alternative distribution channels to expand sales potential.

### Sourcing agreement between ZLIC and ZIC (sourcing provider)

ZLIC and ZIC maintain a comprehensive outsourcing agreement with ZIC acting as service provider to ZLIC. ZLIC has outsourced all business, management and control function services (excluding non-transferable tasks, board duties and branch business) to ZIC.

# A. Business activities (continued)

## A.3 Information about the company's external auditors as per Article 28 ISA 8

ZLIC's external auditors for 2023 were Ernst & Young Ltd. ZLIC's Annual Report 2023 including the auditor's opinion is available at https://www.zurich.com/en/investor-relations/results-and-reports/other-statutory-filings.

## A.4 Significant unusual events

For significant events during 2023 and thereafter, please refer to the Annual Report 2023 of Zurich Life Insurance Company and Zurich Insurance Group, respectively, as well as to the news releases available at https://www.zurich.com/en/media.

During 2023, though the rate of inflation slowed, most economies saw central banks continue to tighten monetary policy through higher interest rates.

ZLIC has no direct exposure to the armed conflict in Israel and the Gaza Strip and does not anticipate any material effects on its financial position or performance. While the direct exposure is limited, conflicts of this nature can contribute to uncertainty in the financial markets, potentially affecting monetary policies, oil prices and inflation. As reported earlier, ZLIC's exposure to Russia and Ukraine is also immaterial.

In this political and macro environment, the continuation of ZLIC's capital-light and protection-oriented strategy paid off once more. Strengthened in-force activities, especially client retention initiatives, contributed to the stabilization of ZLIC's core business in Switzerland.

# B. Performance

## B.1 Underwriting performance

### B.1.1 Gross written premiums

Gross written premiums decreased by 8 percent to CHF 1,215 million compared with 2022. This decrease was mainly driven by the Group Life business which faced a competitive and cost sensitive market. However, the Individual Life business remained strong and is at a similar level as the prior year.

**Gross written premiums by type of business**

| in CHF millions, for the years ended December 31 | 2022 | **2023** |
|---|---|---|
| Group insurance | 606 | 495 |
| Individual insurance | 272 | 299 |
| Unit-linked insurance | 444 | 421 |
| **Gross written premiums** | **1,322** | **1,215** |

### B.1.2 Claims paid, annuities and loss adjustments expenses, gross of reinsurance

Total claims paid, annuities and loss adjustment expenses, gross, increased by CHF 326 million to CHF 1,941 million from CHF 1,615 million in 2022. This development compared to prior year is mainly attributable to the increase in claims paid due to higher surrenders in Switzerland.

**Claims paid, annuities and loss adjustment expenses, gross**

| in CHF millions, for the years ended December 31 | 2022 | **2023** |
|---|---|---|
| Maturity benefits | (544) | (479) |
| Death benefits | (136) | (116) |
| Annuity payments | (368) | (358) |
| Disability and health benefits | (188) | (186) |
| Surrenders | (379) | (802) |
| **Claims paid, annuities and loss adjustment expenses, gross** | **(1,615)** | **(1,941)** |

# B. Performance (continued)

## B.2 Investment performance

### B.2.1 Investment income

Investment income increased by CHF 178 million or 36 percent to CHF 674 million in 2023 from CHF 496 million in 2022. This was mainly driven by higher real estate sales compared with the previous year.

**Investment income**

| in CHF millions, for the years ended December 31 | Current income | | Realized capital gains | | Write-ups | | Totals | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 |
| Real estate | 134 | 139 | 41 | 343 | – | – | 175 | 481 |
| Investments in subsidiaries and associates | 0 | 0 | – | – | – | – | 0 | 0 |
| Debt securities | 83 | 79 | 57 | 10 | 30 | – | 170 | 88 |
| Policyholders' loans and other loans | 2 | 1 | – | – | – | – | 2 | 1 |
| Mortgage loans | 28 | 27 | – | – | 0 | 0 | 28 | 27 |
| Equity securities | 9 | 10 | 88 | 30 | 9 | 0 | 106 | 40 |
| Mixed investments funds | 5 | 9 | – | – | – | – | 5 | 9 |
| Other investments | 10 | 27 | 0 | 0 | – | – | 10 | 27 |
| **Investment income** | **271** | **291** | **185** | **382** | **39** | **0** | **496** | **674** |

### B.2.2 Investment expenses

Investment expenses increased by CHF 127 million or 60 percent to CHF 341 million in 2023 from CHF 214 million in 2022. This was mainly driven by the overall market and interest development in 2023 leading to higher write-downs in most of the investment categories in 2023 compared with 2022.

**Investment expenses**

| in CHF millions, for the years ended December 31 | Realized capital losses | | Write-downs | | Totals | |
|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 |
| Real estate | (40) | (3) | (34) | (12) | (74) | (15) |
| Investments in subsidiaries and associates | – | – | (2) | – | (2) | – |
| Debt securities | (11) | (12) | (42) | (225) | (53) | (238) |
| Policyholders' loans and other loans | (6) | – | – | – | (6) | – |
| Mortgage loans | – | (1) | – | – | – | (1) |
| Equity securities | (9) | (2) | (10) | (23) | (19) | (25) |
| Mixed investments funds | – | – | (9) | – | (9) | – |
| Other investments | (0) | (0) | – | – | (0) | (0) |
| Other investment expenses | n.a. | n.a. | n.a. | n.a. | (51) | (61) |
| **Investment expenses** | **(65)** | **(19)** | **(98)** | **(261)** | **(214)** | **(341)** |

# B. Performance (continued)

## B.3 Performance of other activities

### B.3.1 Administrative and other expenses

Administrative and other expenses decreased by CHF 57 million to CHF 70 million in 2023 compared with CHF 127 million in 2022. This was mainly driven by higher gains resulting from forwards and lower administration and other general expenses, partly offset by higher foreign currency losses in 2023 compared with the previous year.

**Administrative and other expenses**

| in CHF millions, for the years ended December 31 | 2022 | **2023** |
|---|---|---|
| Administration and other general expenses | (139) | (131) |
| Gains and losses on foreign currency derivatives | 103 | 249 |
| Personnel expenses | (48) | (48) |
| Foreign currency transaction gains and losses | (43) | (141) |
| **Administrative and other expenses** | **(127)** | **(70)** |

### B.3.2 Other income

No significant other income was realized in 2023, when other income totaled CHF 60 million, including release of non-technical provisions of CHF 50 million. That compared with other income of CHF 24 million in 2022.

### B.3.3 Comments to the income statement in appendix 1: quantitative templates

#### Net income before taxes

The net income before taxes decreased by CHF 47 million compared with 2023. The overall decrease of net income before taxes compared with prior year was mainly attributable to the challenging economic environment.

#### Gross written premiums

Gross written premiums decreased by 8 percent to CHF 1,215 million compared with 2022. This decrease was mainly driven by the Group Life business which faced a competitive and cost sensitive market. However, the Individual Life business remained strong and is at a similar level as the prior year.

#### Investment income

Investment income increased by CHF 178 million or 36 percent to CHF 674 million in 2023 from CHF 496 million in 2022. This was mainly driven by higher real estate sales compared with the previous year.

#### Unit-linked business

The investment result on unit-linked investments increased by CHF 294 million to a gain of CHF 74 million in 2023 from a loss of CHF 220 million in 2022. This significant increase was driven by market performance and lower impairments and write-downs than in 2022.

# C. Corporate governance and risk management

## C.1 Corporate governance

ZLIC is subject to insurance supervision by FINMA. The Swiss Insurance Supervision Act (ISA) requires Swiss insurance companies to establish and maintain a corporate governance structure including an effective risk management and internal control system that is appropriate to their business activities. In addition to the supervision exercised by FINMA, ZLIC and its branch are supervised according to the requirements of relevant local supervisory authorities.

Within ZLIC there are several governance bodies that aim to ensure adequate oversight. In line with legal and regulatory requirements, ZLIC has a Board of Directors (Board), an Audit & Risk Committee (ARC) at Board level, and a Management Board. These bodies meet regularly (at least four times a year) to ensure appropriate oversight and control (including activities on branch/business level). There are also quarterly branch/business oversight meetings to support the oversight and control process on the Board and Management Board levels.

- ZLIC has established a ‘three lines of defense’ approach, aimed at clearly identifying, assessing, owning, and managing risks.
- As the first line of defense, business management takes risks and is responsible for day-to-day risk management (i.e., risks are identified and monitored, mitigation actions are implemented, and internal controls are in place and operating effectively). The second line of defense forms the risk management and the compliance function: Both functions provide independent assurance. The risk management function provides oversees the overall risk management framework, independent challenge, oversight, monitoring and advice to support the first line in managing risks.
- Compliance supports ZLIC in establishing and assessing principles, processes, and control structures that support adherence to legal, regulatory and internal requirements. For certain Compliance risks, Compliance provides specialized assistance to the risk owner(s) through risk-specific policies, risk evaluations, process and control analysis and advice, training and awareness, designing controls and monitoring operations.
- Internal audit (the third line of defense) provides independent and objective assurance regarding the adequacy and effectiveness of risk management, internal controls and governance processes.

Other governance and advisory functions, such as legal and actuarial, help business management to manage and control specific types of risks.

### C.1.1 Board of Directors (Board)

The Board, under the leadership of its chair, is responsible for determining the overall strategy of ZLIC and the supervision of management. Except for decisions on matters reserved for the shareholders’ general meetings, it holds the ultimate decision-making authority for ZLIC. The Board prepares the AGM and implements its resolutions. In particular, the Board is mainly responsible for taking actions in the following areas:

- ZLIC strategy and business development: The Board regularly reviews and discusses ZLIC’s business portfolio including its target market, customer and intermediary strategies The Board regularly discusses and approves major developments, pertaining, for example, to acquisitions and disposals of businesses and assets, investments, new business opportunities, mergers, joint ventures, cooperations and restructurings of books of business, as set out in the Organizational Rules of ZLIC.
- Finance: The Board approves the financial and operating plan annually and establishes guidelines for capital allocation and financial planning. The Board also reviews and approves the annual and quarterly financial statements and supervises the compilation of the annual report.
- Structure and organization of ZLIC: The Board determines and regularly reviews the basic principles of the structure and major changes within the management. The Board also reviews the corporate governance documentation (Articles of Association, Organizational Rules, Audit and Risk Committee Charter) which is under its competence.
- Risk appetite statement: The Board signs-off the risk appetite statement annually.

#### Audit & Risk Committee (ARC)

Management is responsible for preparing ZLIC’s financial statements, managing risk, developing and maintaining internal controls and ensuring appropriate governance processes. The ARC serves as a focal point for discussion and communicating matters related to financial reporting oversight, internal controls, compliance and risk management, and reports on these matters to the full Board. To perform these tasks, the ARC regularly receives information about important audit findings, including adverse opinions, mitigation actions and management concerns. Internal audit, risk management and compliance functions and ZLIC’s management ensure that issues affecting ZLIC’s operations are brought to ARC’s attention, and that action is taken as necessary.

# C. Corporate governance and risk management (continued)

**Composition of Board and Audit & Risk Committee (as of December 31, 2023)**

| Name | Residence | Position held |
| --- | --- | --- |
| Christian Felderer | Zurich, Switzerland | Chair of the Board (independent) |
| Justine Kelly | Richterswil. Switzerland | Vice-Chair of the Board |
| Helene Westerlind | Estoril, Portugal | Member of the Board<br>Member of the Audit & Risk Committee |
| Thomas Hull | Uster, Switzerland | Member of the Board (independent)<br>Chair of the Audit & Risk Committee |
| Richard Burden | London, Great Britain | Member of the Board |

### Changes to composition of Board and Audit & Risk Committee in 2023

The composition of the Board and the ARC of ZLIC changed during 2023 as follows:

– Resignation of Barry John Perkins as member of the Board and the Audit & Risk Committee per November 28, 2023.

## C.1.2 Executive management

In accordance with the Articles of Association and the Organizational Rules of ZLIC, the Board appoints a CEO for the Company and delegated authorities to the CEO. The CEO is responsible for managing the business and representing the Company, subject to the Organizational Rules enacted by the Board.

The Board also appoints the members of the executive management board (Management Board).

Under the supervision of the CEO, members of the Management Board are individually responsible for the business functions assigned to them.

The individual members of the Management Board, in particular, are entrusted with the following responsibilities:

– Implementing the overall strategy and developing individual units, subject to any overriding directives and to the principles of a decentralized management organization.
– Achieving the strategic and operational objectives of the individual business units.
– Supporting and supervising the heads of the individual businesses as required, taking into account their needs and their level of competence.
– Promoting know-how transfer within the company and, in particular, within their area of responsibility.
– Representing the interests of their area of responsibility.
– Coordinating activities in countries with branches.
– Reporting regularly to the CEO. Upon invitation of the CEO or the Chairman, the members of the Management Board also present their reports at the meetings of the Board.

**Composition of Management Board (as of December 31, 2023)**

| Name | Residence | Position held |
| --- | --- | --- |
| Juan José Beer | Möriken-Wildegg, Switzerland | Chief Executive Officer |
| Andreas Henke | Zurich, Switzerland | Chief Financial Officer |
| Sandro Meyer | Horgen, Switzerland | Head of Life |
| Andreas Fischer | Wollerau, Switzerland | Chief Investment Officer |
| Sébastien Crouzet | Wangen b. Dübendorf, Switzerland | Chief Life Actuary Switzerland |

### Changes to composition of the Management Board in 2023

– Sébastien Crouzet replaced Erik Erixon as Chief Life Actuary Switzerland on November 9, 2023.

# C. Corporate governance and risk management (continued)

## C.2 Risk management

### C.2.1 Risk management framework

Enterprise risk management (ERM) is embedded in the system of governance and is designed to support the decision-making procedures by providing consistent, reliable and timely risk information and protecting Zurich's capital, earnings and reputation from risks that exceed established risk tolerances. These risk tolerances define maximum willingness and ability to take risk overall and with respect to specific risk types. Actions are defined where necessary to mitigate potential negative consequences.

ZLIC has a defined risk appetite. The risk appetite is fixed through existing limits, e.g., severity categories for the TRP and various limits defined in the Zurich Risk Policy. ZLIC's risk appetite statement is reviewed by the Management Board. Once approved, it is signed off by the Board at least annually, and adjusted if necessary, during the year. As part of the ERM, the risk management function calculates risk tolerance limits annually and evaluates actual and potential breaches. Compliance with the risk appetite statement, however, lies with the Management Board (refer to the tasks of Management Board). The risk management function and other functions, such as compliance, legal, actuarial and finance, develop and operate methodologies to identify, manage and mitigate all types of risks. Escalation procedures are in place for all risk types. The risk management function monitors overall risks, including specific risk types, and escalates any risk that exceeds the level of defined risk tolerance, in line with the governance system.

The risk management framework is based on a governance process that sets forth clear responsibilities for taking, managing, monitoring and reporting risks.

The Key Risk Management Principles outline the ZLIC risk management objectives, and the principles for risk governance and risk culture, risk appetite and tolerance, risk identification and risk assessment, risk response, risk monitoring, and risk reporting. These principles are applied to the overarching risk management approach across all risk types throughout ZLIC. They include ZLIC's risk management objectives, structure including risk aspects along the three lines of defense, as well as risk appetite and tolerance, risk assessment and reporting. The principles are elaborated on in further detail in the Zurich Risk Policy and related risk policy manuals as well as in the Compliance Charter and the Zurich Compliance Program (ZCP).

The Zurich Risk Policy is the Group's main risk governance document and therefore fully applies to ZLIC. It sets standards for effective risk management throughout the Group. The Policy describes Zurich's risk management framework, provides a standardized set of risk types and defines the Group's appetite for risks at Group level. Risk-specific policy manuals provide guidelines and procedures to implement the principles of the Zurich Risk Policy. Ongoing assessments verify that requirements are met.

An Own Risk and Solvency Assessment (ORSA) for ZLIC is completed annually. The ZLIC ORSA was submitted to the regulator in January 2024. To ensure the Board is adequately involved in the ORSA process, the ZLIC CRO provides a quarterly update, thus allowing the Board to challenge findings and consider its views in its decision-making process.

### C.2.2 Risk management organization

The ZLIC CRO leads the ZLIC Risk Management function, which aims to ensure that risks are identified, measured, managed, monitored and reported throughout the entity. The ZLIC CRO is responsible for oversight of risks across the legal entity.

The ZLIC CRO has a functional reporting line to the EMEA head of risk and an administrative reporting line to the ZLIC CEO. The ZLIC CRO regularly provides risk updates to the Management Board and the Audit & Risk Committee of the Board of Directors of ZLIC.

The ZLIC risk management team is part of Zurich's Group Risk Management organization, which consists of central functions at Group level and a decentralized risk management network at regional, BU and functional levels.

### C.2.3 Risk assessment and reporting

Risk profile reports are generated regularly at local, and ZLIC levels. ZLIC has procedures (e.g., ZLIC Risk Appetite Statement, TRP, control frameworks) to identify and report risks to senior management and the Board in a timely way. To foster risk transparency, the ARC receives the Quarterly Assurance Report and other additional updates throughout the year.

ZLIC assesses risks systematically and from a strategic perspective through its proprietary TRP process, which allows ZLIC to identify and evaluate the probability and severity of risk scenarios. As part of the TRP process, mitigation actions are defined and executed by the business, while risk management monitors improvements. The TRP process is integral to how Zurich deals with change, including changes in the business environment and other factors that could affect its business, and is particularly suited to evaluating strategic risks as well as risks to Zurich's reputation, capital and earnings. This process is conducted annually, reviewed quarterly and is closely tied to the strategy and planning processes of ZLIC.

# C. Corporate governance and risk management (continued)

## C.3 Internal control system

At Zurich, various governance and control functions help to identify and appropriately manage risks. Internal controls are in place for all material risks and Zurich seeks to ensure that they operate effectively. This coordinated effort to ensure that ZLIC's risk and control environment works appropriately is referred to as 'integrated assessment and assurance'. The Board is ultimately responsible for supervising these assurance activities. Although each party in the process maintains its distinct mandate and responsibilities, those involved work closely together, regularly exchange information, and engage in planning and other activities. This approach supports management in its responsibilities and provides confidence that risks are appropriately addressed and that adequate mitigation actions are implemented.

With regard to internal controls, ZLIC follows the framework and guidelines prescribed by the Group. The Board has overall responsibility to determine the strategy and scope and set out the goals of the internal control system. In particular, the Board regulates and supervises the internal control system. The Board has appointed the ARC to review and submit the strategy and scope of the Company's internal control system for approval to the Board on an annual basis; the ARC receives and reviews periodic reports from internal audit, risk management and compliance functions concerning the internal control system.

ZLIC considers controls to be key instruments for monitoring and managing financial reporting, compliance and operational risks. The internal control system for ZLIC aims to ensure the reliability of ZLIC's financial reporting, make operations more effective and ensure legal and regulatory compliance. ZLIC bases its internal control system on the Zurich Insurance Group's internal control system methodology.

ZLIC broadens the scope of the internal control system by using a risk-based approach and by taking into account the Group's requirements. In particular, this includes controls over statutory and regulatory reporting, compliance-related controls to ensure legal and regulatory compliance as well as operational key controls. The scope of the internal control system takes into consideration the inherent risk to the operation, for example, due to processes, systems and people.

## C.4 Compliance

ZLIC is committed to complying with all applicable laws, regulations and internal rules.

Compliance is a second line of defense function responsible for:

- Enabling the business to manage its compliance risks.
- Being a trusted advisor.
- Independently challenging, monitoring and providing assurance.
- Assisting management to promote a culture of compliance and ethical behaviors.

ZLIC's Compliance function is vertically integrated and is led by the appointed ZLIC Chief Compliance Officer. The ZLIC Chief Compliance Officer has direct access to the chairman of the Audit & Risk Committee of ZLIC. The ZLIC CEO acts as matrix manager of ZLIC's Chief Compliance Officer. In addition, there is a vertically integrated reporting line to Group compliance EMEA level. The ZLIC Chief Compliance Officer regularly provides compliance updates to the management team and the Audit & Risk Committee of ZLIC.

ZLIC's Compliance function performs its activities according to the annual compliance plan and reports on progress measured against the plan, as well as outcomes and insights to management, the Board of Directors of ZLIC and Group compliance. The annual compliance plan is a risk-based plan and is prepared based on an independent forward-looking compliance risk assessment, assurance outcomes and taking into account key risk drivers in both the internal and external environments.

ZLIC's Compliance function provides an independent compliance view on the key compliance risks to the business and performs independent risk-based assurance activities.

ZLIC's Compliance function also contributes to the internal control system by providing oversight to embed awareness of group-relevant and locally relevant compliance risks and advising the business functions on possible control activities. In addition, Compliance carries out independent testing of compliance risk-related controls.

ZLIC's Compliance function implements Group compliance policies and issues additional compliance policies for ZLIC if required. ZLIC's Compliance function supports a strong compliance culture within ZLIC through training and awareness initiatives in line with Zurich's code of conduct.

Zurich encourages its employees to report improper conduct that they believe is illegal, unethical, or violates Zurich's code of conduct, Group and local policies and/or other internal requirements. Employees are free to report their concerns to management, human resources, the Group's legal department, its compliance function, or anonymously through the Zurich ethics line (or similar service provided locally). ZLIC does not tolerate retaliation against any employee who reports such concerns in good faith.

# C. Corporate governance and risk management (continued)

## C.5 Internal audit

The internal audit function, Group Audit (GA), is responsible for providing independent and objective assurance to the Board, the ARC, the CEO and management, on the adequacy and effectiveness of ZLIC's risk management, internal control and governance processes.

GA develops and delivers an annual risk-based audit plan, which is updated as risks change. The audit plan takes into account the full spectrum of business risks, including concerns and issues raised by the ARC, management and other stakeholders. The ARC is responsible for approving the annual plan and any changes to it.

GA executes the plan in accordance with GA's principles-based engagement standards, which incorporate and comply with the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA).

Audit staff are expected to be independent and objective in all assignments and to do nothing that might prejudice or be perceived as prejudicing independence or objectivity. GA has no operational responsibilities over the areas it reviews and, to ensure independence, all GA staff report (via audit managers) to the head of GA.

GA is authorized to review all areas and has full, free and unrestricted access to all activities, accounts, records, property and personnel necessary to fulfill its duties. In the course of its work, GA takes into consideration the work of other assurance functions. In particular, GA coordinates its activities with the external auditors, sharing risk assessments, work plans, audit reports and updates on audit actions.

GA is responsible for ensuring that issues which it identifies that could affect ZLIC's operations are communicated to the responsible management, CEO and the ARC. GA issues periodic reports to management and the ARC, summarizing audit findings, the status of corrective actions and the status of plan execution. A member of GA attends each ARC meeting.

The ARC assesses the independence of GA and reviews its activities, plans and organization, the quality of its work and its cooperation with the external auditors. As required by the IIA International Standards, an independent qualified assessor reviews the quality of GA at least every five years. This review was conducted most recently in 2021. The results confirmed that GA's practices comply with all IIA standards.

# C. Corporate governance and risk management (continued)

## C.6 Actuarial function

The ZLIC actuarial function provides actuarial governance and reporting in line with Swiss laws and insurance regulations.

Within ZLIC, the ZLIC chief actuary coordinates the work of the ZLIC actuarial function. The ZLIC actuarial function prepares appropriate actuarial assumptions and calculates the SST and the technical reserves for use in local statutory accounts, in addition to meeting the actuarial reporting requirements of the Group. The ZLIC-appointed actuary reports to the ZLIC chief actuary and assumes the responsibilities according to Swiss insurance supervision law.

The ZLIC chief actuary reports to the ZLIC chief financial officer. The ZLIC chief actuary and ZLIC-appointed actuary provide regular updates to the ZLIC ARC. The ZLIC actuarial function also follows the governance, reporting and process standards set by the Group actuarial function. The actuarial function at Group level is led by the Group chief actuary, reporting directly to the Group chief financial officer. The Group chief actuary reports regularly to the Group ARC on behalf of the Group actuarial function.

# D. Risk profile

## D.1 Introduction and ZLIC's key risks

ZLIC is fully integrated into Zurich's Group-wide risk assessment process. For more information on ZLIC's approach to risk management, please refer to the risk review section in the Zurich Insurance Group Annual Report 2023, which describes the Group's risk management framework and risk governance, reports on capital management and capital adequacy, and presents an analysis of the main risks. As mentioned in chapter A.1, ZLIC's financial strength is enhanced by being part of Zurich Insurance Group.

ZLIC uses two means to identify and assess risks. One way is through the risk and capital model required by the SST. This model quantifies financial risks which threaten the capital of the company over a one-year time horizon. The other way is the TRP, which identifies all risks that threaten the objectives and strategy of the company assessed by their potential impact on a yearly basis, either on capital, earnings or reputation over a three-year planning horizon. The TRP process is applied to identify, assess, control and monitor these risks. Mitigation actions are defined for key risks. The TRP is completed annually with management's participation. Tracking the actions taken and providing updates on risks is carried out quarterly. Risk management is responsible for managing these tasks on an ongoing and timely way as part of its regular quarterly activities.

The significant risks for ZLIC, as measured by capital metrics, are market risk, life insurance risk, and credit risk as shown in the following table.

The figures shown are based on the SST standard model used by ZLIC. The current information on solvency shown in the report corresponds to the information submitted to FINMA in April 2024 and is subject to regulatory review.

Capital required for various types of risk:

**Target capital by risk type**

| in CHF millions, for the years ended December 31 | 2022 | Adjustments previous period[1] | 2023 |
|---|---|---|---|
| Derivation of target capital | | | |
| Insurance risk | 794 | | 942 |
| Market risk | 1,218 | | 1,270 |
| Diversification effects | (553) | | (619) |
| Credit risk | 455 | | 436 |
| Market value margin and other effects on target capital | 312 | (458) | (146) |
| **Target capital** | **2,226** | **(458)** | **1,883** |

1 Adjustments due to the revised ISO as of January 1, 2024 which now includes the market value margin in the market-consistent value of liabilities instead of the target capital.

The figures shown in the table above include diversification within each risk type. The respective movements are explained in section G. The market value margin allows for the cost of holding capital over the duration of the in-force portfolio till it runs off, in respect of insurance risks and the unhedgeable portion of market risk. Until prior year, market value margin (MVM) was a material component of the target capital, while with the ISO update the MVM is considered in liabilities and no longer included in the target capital.

ZLIC uses its assessment processes and tools, including the TRP process, to reduce the risks of strategic business decisions. Critical key risks identified and assessed during the TRP conducted in the fourth quarter 2023 included:

- Asset market volatility and investment returns (market risk)
- Reserve adequacy (life insurance risk)
- Data protection and privacy
- Capability and capacity to advice in protection and savings in all distribution channels
- Business resilience

To reduce the likelihood or severity of key risks, mitigating actions have been developed and implemented. The status of these plans is monitored on a quarterly basis, including through a review of key risks and an assessment of the exposure.

The remainder of this section considers in turn each of the key categories of risk faced by ZLIC. ZLIC holds capital under SST for life insurance risk, market risk and credit risk.

# D. Risk profile (continued)

## D.2 Life insurance risk

The risks associated with life insurance include:

Life liability risk

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

Life business risk

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

In the course of doing business, ZLIC may be exposed to making greater-than-expected current and future payments resulting from taking on those risks. Life insurance risk exposure stems primarily from changes in the expected value of provisions.

Life insurance risk is actively monitored, primarily by the ZLIC actuaries. In calculating premiums and reserves, the actuaries rely on the relevant local mortality, longevity and morbidity tables, as well as on tables developed internally, and use forecasting tools to estimate how the book of business will likely develop. Their analyses are presented to the Management Board to determine if proposed measures are sufficient to counter any negative developments.

Concentration risk arises if a company engages in single or highly correlated risks that have a significant damage or loss potential for life insurance in underwriting and investment.

Due to diversification, concentration risk in underwriting is very low. Large risks are passed on to reinsurers. There are effective accumulation controls in place.

## D.3 Market risk

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

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

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

Market risk is significant for ZLIC when taking total risk capital requirements within the SST into account. The greatest market risks for ZLIC are credit spread, equity market price, interest rate, and real estate risk. Interest rate risk is of particular relevance to ZLIC, due to the characteristics of life insurance liabilities. Interest rate risk arises if the market value of assets declines by more or increases by less than the market value in liabilities, resulting in lower risk-bearing capital for shareholders.

The interest rate sensitivity of the investments is regularly reviewed as part of ALM analysis and in the local ALMICs, and, where necessary, managed by taking the appropriate measures. Investment management is of particular importance in this regard, as outlined in the ZRP. Duration and convexity gaps between investment portfolios and insurance liabilities must be addressed through consistent ALM. It is also important to actively review the market environment to identify potential opportunities to further reduce interest rate risk. Transactions with derivative financial instruments are undertaken exclusively for hedging purposes.

The risk of market price changes that may have a material impact on ZLIC's capital and earnings can be mitigated through rigorously defined asset-class targets and limits, as well as interest-rate sensitivity targets and limits, which are regularly monitored, reported and reviewed in the ALMIC. Investment management makes every effort to achieve adequate asset diversification and maintain good credit quality within the bond portfolio.

# D. Risk profile (continued)

Risks pertaining to single securities are limited through a well-diversified investment portfolio, as well as through an index-driven investment policy that includes specific tracking-error targets.

ZLIC's real estate portfolio is substantial. ZLIC's Swiss real estate portfolio is managed by Zurich Invest AG (ZIAG). Apart from adhering to ZRP rules and the FINMA investment directive, ZIAG carries out an annual revaluation of the property portfolio.

For ZLIC, the investment return is monitored as a key risk; investment management explores opportunities to enhance economic and accounting returns within economic capital (SST) guidelines and tied asset constraints. A potential change in real estate values represents another key risk. Investment management reviews the real estate strategy for Switzerland to ensure portfolio resilience in the event of a market correction.

Potential concentration risk in investments is limited by the appropriate level of diversification. The strategic asset allocation (SAA) aims to diversify investments across different asset classes, countries, industry sectors and issuers. To further reduce the concentration risk, the investment guidelines, which follow FINMA guidelines, as well as Swiss Insurance Supervision Law, define limits on sector and issuer, depending on asset class or issuer. Investment supervision and monitoring is done on a regular basis by the ALMIC.

To control concentration risk, ZLIC adheres to provisions set out in the ZRP and adheres to all regulatory requirements related to the mix and range of investments.

## D.4 Credit risk

Credit risk is the risk associated with a loss (default or credit migration) or potential loss due to counterparties failing to fulfill their financial obligations to ZLIC in accordance with the agreed terms.

This risk to ZLIC can arise mainly in the following areas:

- Reinsurance assets
- Receivables

ZLIC's objective in managing credit risk exposures is to maintain them within parameters that reflect their strategic objectives, and its risk appetite. Sources of credit risk are assessed and monitored on a continuous basis.

In cases in which credit risk deteriorates, receivables from policyholders are adjusted by a lump sum to avoid accumulating significant risk positions.

# D. Risk profile (continued)

## D.5 Operational risk

Operational risk is the risk of financial loss or gain, adverse reputational, legal, or regulatory impact, resulting from inadequate or failed processes, people, systems or from external events, including fraud, catastrophes, or failure in outsourcing arrangements.

### ZLIC applies the following framework to assess operational risk

Zurich has developed a comprehensive framework based on a common approach to identify, assess, quantify, mitigate, monitor, and report operational risk within the Group, which ZLIC also applies. The core components of the operational risk management framework are:

- Identification and assessment of operational risks. Risks which are identified and assessed above a certain threshold must have a risk response. Mitigating actions are documented and tracked on an ongoing basis. In the assessments, ZLIC uses sources of information such as the TRP process, internal control assessments, audit findings and operational event data.
- Operational event management (OEM): The ZRP requires documentation and evaluation of operational events above a threshold in a Group-wide database. To avoid recurring operational loss events, 'near misses' and complaints, mitigating actions are put in place.
- Reporting: Regular reports on the risk profile, current risk issues, adherence to risk policy manuals and actions to make improvements are prepared. There are procedures in place for referring risk issues to the Management Board.
- Internal control system: Internal Controls are one of ZLIC's responses to reduce material operational risks, including those in financial reporting and compliance, to an acceptable level.

The ZRP policy manuals contain requirements for managing operational risks related to the handling of data, information security, business resilience, models, security, and safety practices, third parties, internal controls, Group insurance programs and information relevant for risks pertaining to investment operations, fraud and project risks.

Operational risks pertaining to services supplied by third parties are systematically monitored based on the requirements defined in the third-party ZRP manual.

Key operational risks comprise threats to achieving the overarching strategic goals of ZLIC.

## D.6 Liquidity risk

Liquidity risk is the risk that ZLIC's liquidity sources are insufficient to meet its liquidity needs under either current conditions or possible stress in the future.

ZLIC holds a significant liquidity position in a group internal cash pool, where it can access liquidity when needed. Ownership of the cash provided to the pool lies with ZLIC.

# D. Risk profile (continued)

## D.7 Other material risks

### D.7.1 Strategic risk

ZLIC defines strategy as the long-term plan of action designed to allow ZLIC to achieve its goals and aspirations based on Zurich's purpose and values. Strategic risk is defined as the risk of the strategy, or parts thereof, being rendered sub-optimal or unachievable.

Strategic risks can arise from:

- Internal triggers such as inadequate risk-reward assessment of strategic plans or changes to underlying assumptions.
- External triggers including macroeconomic or geopolitical events or trends, regulatory or legal changes, or developments in the competitor landscape.

Strategic risks can result in:

- the expected value of the strategy, even if executed as intended, being limited; or
- creating a misalignment between the strategy and Zurich's purpose and values.

Strategic risks are further categorized as follows:

- Strategic investments, mergers and acquisitions (M&A), joint ventures, divestments
- Markets and competition
- Brand
- Sustainability

ZLIC identifies, assesses, and manages risks associated with strategic business decisions through its risk assessment processes and tools, including the Total Risk Profiling™ process.

### D.7.2 Reputational risk

Many factors can affect ZLIC's reputation including the market conduct, relationship with customers, brand image, workplace culture, corporate strategy, underwriting practices, marketing efforts, claims handling, corporate responsibility, regulatory compliance, financial performance, communications, and crisis management. Every risk type has potential consequences for ZLIC's reputation. Effectively managing each risk type supports preventing adverse reputational outcomes.

ZLIC aims to preserve its reputation by:

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

Zurich's code of conduct applies to all its employees. Employees must complete an annual training session to make them aware of ZLIC's guidelines and approach, and employee surveys are regularly carried out, offering another way to identify potential risks to Zurich's reputation.

Specific reputational risks are evaluated as part of the TRPs, and if necessary, addressed with appropriate mitigating measures. ZLIC had identified no significant reputational risks as of December 31, 2023.

# E. Valuation

## E.1 Overarching valuation principles

For SST calculations, all assets and liabilities are valued in accordance with economic principles in a market-consistent manner and their valuations are presented in the MCBS. In general, the MCBS applies the same fair value measurement and hierarchy as the Group IFRS annual financial statement, unless stated otherwise. In such cases, fair value is determined on a best-estimate valuation basis, without margins, using assumptions and parameters as defined by FINMA or based on management's judgment.

To summarize, the following valuation hierarchy applies for assets:

**MCBS valuation principles**

| | | |
|---|---|---|
| **Mark-to-market** | Highest priority for third-party assets, IFRS equity instruments and eligible capital instruments | Fair value as defined in the consolidated IFRS financial statements; |
| **Mark-to-model** | If mark-to-market cannot be applied | Fair value as defined in the consolidated IFRS financial statements; or<br><br>Best estimate valuation using parameters or assumptions explicitly stipulated by FINMA (e.g., liabilities valued at discounted cash flows using risk-free rate, thus, without consideration of own credit risk). |
| **IFRS carrying value** | | As a practical expedient, IFRS carrying value other than fair value is used as proxy to market-consistent valuation provided such measurement can be considered reasonable. For example, IFRS carrying value may be considered as a reasonable proxy based on the following considerations:<br>– It represents current balances (e.g., cash accounts); or<br>– It involves high-frequency turnover with daily settlements (e.g., operational clearing accounts); or<br>– It is expected to be settled/realized within a relatively short period after origination (generally, within three months and always less than twelve months) and is exposed to only insignificant risk of changes in value. |

When applying the mark-to-model method, adequate and best-practice valuation models and methodologies are used and sufficiently documented.

Within asset classes, investments accounted for at fair value under IFRS will be valued the same in MCBS. This includes fair value through other comprehensive income (OCI) and fair value through profit or loss equity and debt instruments, real estate for investment, investment trusts, hedge funds, derivatives and unit-linked investments.

For investments accounted for at nominal value, at amortized cost or at equity method under IFRS, the market-consistent value will not be equal to IFRS carrying value and will be determined using IFRS fair value principles. This includes amortized cost bonds, real estate held for own use or for sale and mortgages.

Within the Zurich Insurance Group, the MCBS value of intra-group loans is symmetrical. It is based on IFRS carrying values and adjusted, as needed, to allow for valuation at risk-free interest rates.

# E. Valuation (continued)

## E.2 Market-consistent balance sheet following SST principles

### Asset valuation MCBS vs Swiss local statutory

| in CHF millions, for the years ended December 31 | 2022 (SST) | **2023 (SST)** | Difference to 2022 (SST) | **2023 (Swiss local stat.)** | Difference SST to Swiss local stat. |
|---|---|---|---|---|---|
| Market-consistent value of investments | | | | | |
| Real estate | 3,837 | 3,504 | (333) | 1,955 | 1,549 |
| Participations | – | – | – | 3 | (3) |
| Fixed-income securities | 10,188 | 10,091 | (97) | 10,546 | (455) |
| Loans | 95 | 87 | (8) | 87 | 1 |
| Mortgages | 1,857 | 1,791 | (65) | 1,809 | (18) |
| Equities | 478 | 513 | 35 | 1,048 | (535) |
| Other investments | 1,427 | 1,681 | 254 | 656 | 1,025 |
| Collective investment schemes | 391 | 549 | 158 | 111 | 438 |
| Alternative investments | 464 | 595 | 131 | – | 595 |
| Structured products | – | – | – | – | – |
| Other investments | 572 | 537 | (36) | 545 | (8) |
| **Total investments** | **17,882** | **17,667** | **(215)** | **16,103** | **1,564** |
| Market-consistent value of other assets | | | | | |
| Financial investments from unit-linked life insurance | 986 | 1,169 | 184 | 1,238 | (69) |
| Receivables from derivative financial instruments | 255 | 445 | 191 | 194 | 251 |
| Deposits made under assumed reinsurance contracts | – | – | – | – | – |
| Cash and cash equivalents | 1,768 | 1,749 | (18) | 509 | 1,241 |
| Reinsurers' share of best estimate of provisions for insurance liabilities | 22 | 27 | 4 | 31 | (5) |
| Direct insurance: life insurance business (excluding unit linked life insurance) | 22 | 27 | 4 | 31 | (5) |
| Reinsurance: life insurance business (excluding unit linked life insurance) | – | – | – | – | – |
| Direct insurance: non-life insurance business | – | – | – | – | – |
| Direct insurance: health insurance business | – | – | – | – | – |
| Reinsurance: non-life insurance business | – | – | – | – | – |
| Reinsurance: health insurance business | – | – | – | – | – |
| Direct insurance: other business | – | – | – | – | – |
| Reinsurance: other business | – | – | – | – | – |
| Direct insurance: unit-linked life insurance business | – | – | – | – | – |
| Reinsurance: unit-linked life insurance business | – | – | – | – | – |
| Fixed assets | 5 | 5 | (0) | – | 5 |
| Deferred acquisition costs | – | – | – | – | – |
| Intangible assets | – | – | – | 10 | (10) |
| Receivables from insurance business | 40 | 31 | (9) | 33 | (2) |
| Other receivables | 134 | 78 | (56) | 1,329 | (1,251) |
| Other assets | 14 | 14 | (1) | – | 14 |
| Unpaid share capital | – | – | – | – | – |
| Accrued assets | 254 | 224 | (30) | 148 | 76 |
| **Total other assets** | **3,478** | **3,742** | **264** | **3,492** | **250** |
| **Total market-consistent value of assets** | **21,360** | **21,409** | **49** | **19,595** | **1,814** |

# E. Valuation (continued)

### Assets

The MCBS value of assets remained at CHF 21 billion over 2023. Likewise, the value of investment assets remained at CHF 18 billion. The value of non-investment assets, including assets for unit-linked business, receivables from derivative financial instruments and cash and cash equivalents increased to CHF 4 billion. Allocation to real estate, fixed-income securities and mortgages decreased owing to sales and maturities over the year whereas allocation to equities and other investments increased.

While assets are valued in a market-consistent manner in MCBS for SST calculations, under Swiss local statutory reporting, assets are carried at amortized cost, at cost value less impairment, at the lower of cost or market value, or at nominal value less impairment. These differences in approach can lead to material differences between the asset values as determined using IFRS, Swiss local statutory reporting or MCBS. This effect is observed in the differences in values of real estate, equities, mortgages, derivatives – in particular swaptions – and fixed income securities. In addition, hedge funds and private equity are classified as equities under Swiss local statutory reporting rather than as alternative investments in the MCBS. The aggregate value of investment assets was CHF 1.6 billion greater for SST than for Swiss local statutory reporting at year-end 2023.

There are further classification and valuation differences to be noted in the different ways that the SST and the Swiss local statutory reporting non-investment assets. Cash pooling assets are classified as receivables under Swiss local statutory reporting, whereas under SST they are classified as cash and cash equivalents. Overall, the differences in the remaining non-investment assets result in an SST valuation for year-end 2023 that is CHF 0.2 billion higher than would be the case using Swiss local statutory reporting. This is mainly due to the differences in valuation related to derivatives – swaptions in particular.

Overall, the value of assets is CHF 1.8 billion higher calculated using the market-consistent SST basis, than it is using the amortized cost value basis under Swiss local statutory reporting. That represents an increase compared with 2022, reflecting the impact of unrealized gains on fixed income securities over the year.

# E. Valuation (continued)

## Liability valuation MCBS vs Swiss local statutory

| in CHF millions, for the years ended December 31 | 2022 (SST)[2] | 2023 (SST) | Difference to 2022 (SST) | 2023 (Swiss local stat.) | Difference SST to Swiss local stat. |
|---|---|---|---|---|---|
| Market-consistent value of liabilities (including unit linked life insurance) | | | | | |
| **Best estimate of provisions for insurance liabilities** | **(12,725)** | **(13,191)** | **(466)** | **(15,223)** | **2,032** |
| Direct insurance: life insurance business (excluding unit linked life insurance) | (12,723) | (13,190) | (467) | (15,222) | 2,032 |
| Reinsurance: life insurance business (excluding unit linked life insurance) | (1) | (1) | 0 | (1) | (0) |
| Direct insurance: non-life insurance business | – | – | – | – | – |
| Direct insurance: health insurance business | – | – | – | – | – |
| Reinsurance: non-life insurance business | – | – | – | – | – |
| Reinsurance: health insurance business | – | – | – | – | – |
| Direct insurance: other business | (1) | – | 1 | (1) | 1 |
| Reinsurance: other business | – | – | – | – | – |
| **Best estimate of provisions for unit-linked life insurance liabilities** | **(803)** | **(947)** | **(144)** | **(1,145)** | **198** |
| Direct insurance: unit-linked life insurance business | (803) | (947) | (144) | (1,145) | 198 |
| Reinsurance: unit-linked life insurance business | – | – | – | – | – |
| Market value margin | (458) | (576) | (118) | – | (576) |
| **Total market-consistent value of liabilities (including unit linked life insurance)** | **(13,985)** | **(14,714)** | **(728)** | **(16,368)** | **1,655** |
| Market-consistent value of other liabilities | | | | | |
| Non-technical provisions | (9) | (4) | 5 | (144) | 140 |
| Interest-bearing liabilities | (246) | (243) | 2 | (0) | (243) |
| Liabilities from derivative financial instruments | (33) | (1) | 32 | (1) | (0) |
| Deposits retained on ceded reinsurance | (15) | (16) | (1) | (16) | (0) |
| Liabilities from insurance business | (160) | (374) | (214) | (385) | 11 |
| Other liabilities | (948) | (695) | 253 | (1,007) | 313 |
| Accrued liabilities | (437) | (410) | 26 | (122) | (289) |
| Subordinated debts | (541) | (541) | 0 | (530) | (11) |
| **Total market-consistent value of other liabilities** | **(2,389)** | **(2,285)** | **104** | **(2,205)** | **(80)** |
| Total market-consistent value of liabilities | (16,375) | (16,999) | (624) | (18,574) | 1,575 |
| | | | | | |
| **Market-consistent value of assets minus market-consistent value of liabilities** | **4,985** | **4,410** | **(575)** | **1,021** | **3,389** |

2 Adjusted due to the revised ISO as of January 1, 2024 which now includes the market value margin in the market-consistent value of liabilities instead of the target capital.

### Insurance liabilities

- For SST, liability cash flows are projected based on best-estimate demographic and policyholder behavior assumptions. These assumptions are generally company specific, in particular for expenses, and demographic assumptions. These assumptions are derived from experience analyses of historic values and industry data. Specific assumptions are described as follows:
- Demographics: Mortality, longevity, morbidity incidence and morbidity recovery assumptions are based on experience data analysis including Swiss and other industry statistics.
- Policyholder behavior: Policyholder behavior assumptions include surrenders, lapses and option take-up and are based on ZLIC's own experience.
- Further company-specific assumptions: Expenses are calculated using the CFO Forum Principles of experience analysis as a basis. No future improvements from efficiencies are considered in the calculation, and one-off expenses are also excluded.
- Management actions, such as strategic asset allocation and policyholder participation principles, are modeled consistently in line with agreed practices.

# E. Valuation (continued)

The run-off view prescribed by the FINMA standard model is used. This excludes discretionary benefits, and for Swiss Corporate Life & Pensions business, excludes future premiums after the second projection year.

For SST, economic assumptions are used as provided by FINMA and are determined such that projected cash flows are valued in line with the prices of similar cash flows that are traded on capital markets. Risk-free valuation yields are calibrated to levels matching mid-market quoted government bond prices. Market-consistent liabilities are calculated prior to shareholder tax.

Market-consistent liabilities are best estimates. They differ from the local statutory liabilities, which correspond to liabilities valued according to more prudent assumptions as required by the Swiss Code of Obligations.

Life insurance liabilities gross of reinsurance are part of the MCBS and apart from a few 'de minimis' items are all directly written. Overall, ZLIC makes limited use of reinsurance as a proportion of overall liabilities; corresponding reinsurance assets are shown on the asset side of the MCBS on the previous page.

The market value of insurance liabilities increased to CHF 15 billion after the introduction of the market value margin in insurance liabilities. This change was introduced under the ISO changes that entered into force January 1, 2024. Lower interest rates increased insurance liabilities over the year.

In contrast to the market-consistent view, valuation for Swiss local statutory reporting embeds a degree of prudence in demographic assumptions. The valuation interest rate for Swiss local statutory reserving is also set cautiously. The overall Swiss local statutory reserving basis is therefore more conservative than the best-estimate approach used for SST, and as such the overall value of best-estimate insurance liabilities was CHF 2 billion lower for SST than it was for Swiss local statutory reporting as of December 31, 2023.

### Other liabilities

These liabilities include various positions valued at market value. They include cash pooling liabilities, subordinated debt, collateral payables from hedging activities, repurchase obligations and tax provisions. For SST the total other liabilities remained at CHF 2 billion. Overall other liabilities for SST were CHF 0.1 billion higher than other liabilities for Swiss local statutory reporting, primarily due to SST provisions for deferred real estate taxes, partially offset by non-technical statutory provisions which are not relevant for best-estimate SST valuation. There are further classification and valuation differences between the SST and the Swiss local statutory reporting for other liabilities. Cash pooling liabilities are classified as payables under Swiss local statutory reporting, whereas under SST they are classified as interest bearing liabilities.

# F. Capital management

ZLIC's capital management and planning approach is embedded in the overall capital management policy of Zurich Insurance Group. The approach is designed to maximize long-term shareholder value through an optimal capital allocation, while managing the balance sheet in accordance with regulatory and solvency requirements, including managing and monitoring of local statutory capital adequacy of ZLIC operations in Switzerland, as well as in its foreign branches.

As a legal entity, ZLIC is obliged to take into account its regulatory solvency position as part of its business plans. This includes planned dividends and cash remittances, including possible risks to pay these in future.

The capital planning horizon is set in line with the overall planning cycle.

In addition to the capital and liquidity held within ZLIC, Zurich holds substantial amounts of capital and liquidity centrally at Group level. This centrally held capital can be deployed into subsidiaries if needed, providing resilience to absorb potential losses caused by very large risk events. The solvency and financial condition of ZLIC must therefore be understood in the context of the resilience and stability of the Group.

ZLIC must maintain regular monitoring to keep it within the solvency and capital requirement targets set in accordance with ZLIC's Risk Appetite Statement as described in this report and ensure adherence to local laws and regulations. In particular, ZLIC must ensure compliance with regulatory capital reporting standards such as correct classification and reporting of own fund items.

ZLIC is subject to the SST and tied asset regulations, and Swiss law on solvency more generally. Statutory shareholder equity, SST and tied assets are thus considered when planning capital or cash repatriations to the Group.

Internal target ratios and/or thresholds, as defined in ZLIC's Risk Appetite Statement, are considered when assessing and defining the potential to allow cash to be lent to, or for dividends to be paid to the Group.

Tied asset requirements are calculated and tracked according to FINMA guidelines and their development is analyzed. From a risk appetite perspective, ZLIC's Board is informed in the event that any transaction or business plan might result in ZLIC's tied asset ratio falling below defined levels.

The following table shows the composition of shareholders' equity as of December 31, 2023 and 2022 respectively (according to Swiss local statutory reporting), and before appropriation of available earnings. The CHF 0.1 billion decrease in equity capital in 2023 was driven by the CHF 0.2 billion dividend paid which was more than the CHF 0.1 billion net income after taxes.

**Shareholders' equity**

| in CHF millions, as of December 31 | 2022 | **2023** | Change |
|---|---|---|---|
| Share capital | 60 | 60 | – |
| Statutory retained earnings | 41 | 41 | – |
| Voluntary retained earnings | 878 | 803 | (75) |
| Profit carried forward | 0 | 0 | 0 |
| Net income after taxes | 160 | 117 | (43) |
| **Total shareholders' equity** | **1,139** | **1,021** | **(118)** |

Swiss local statutory shareholders' equity is CHF 3.8 billion lower than SST risk-bearing capital. As explained in more detail in the previous section, this difference is primarily due to the following: a CHF 3.4 billion difference in asset and liability valuation, together with CHF 0.5 billion eligible subordinated debt that is not treated as a liability under SST, partially offset by the CHF 0.2 billion proposed cash dividend, which reduced SST risk-bearing capital but not local statutory shareholders' equity.

# G. Solvency

ZLIC assesses its solvency under the SST. In performing the SST, ZLIC assesses its solvency and financial condition, expressed as the SST ratio. The SST ratio must be calculated as per January 1 and must be submitted to FINMA. For business focused on Switzerland, FINMA typically requires the SST standard model to be used, and in line with this ZLIC uses the SST standard model for SST.

ZLIC is part of the Zurich Insurance Group which maintains a strong capital position. As of December 31, 2023, the IFSR of ZIC was 'AA/stable' by Standard & Poor's, 'Aa3/positive' by Moody's and 'A+/stable' by A.M. Best. Furthermore, Zurich Insurance Group's unaudited estimated SST ratio was 233 percent as of January 1, 2024.

### Breakdown of target capital into essential components

ZLIC's implementation of the SST standard model follows the design principles and requirements set out by FINMA. In particular, the risks considered are market, insurance and credit risks. For ZLIC, the risks that are most material are the following:

- Market risk (ALM) covers potential adverse changes in net asset values due to movements in markets that affect, for example, interest rates, credit spreads, equity prices, real estate and foreign exchange rates, as well as respective volatilities.
- Life insurance risks comprise the risks of an adverse movement of in-force business due to developments in biometric experience relative to current expectations or resulting from unanticipated adverse changes in maintenance expenses or persistency experience.
- Credit risks comprise the risk of a decrease in the value of assets due to changes (migrations) in the credit quality of counterparties and eventual default. The SST standard model allows for both third-party investment credit risk, in which exposure consists mainly of bonds, mortgage-backed securities, mortgages, loans and cash, and other credit risks. Other credit risks include reinsurance credit risk in which the exposure consists of net reinsurance receivables, receivables credit risk, and intragroup credit risk.

For the years ended December 31, 2023 and 2022, respectively, the break-down in target capital was as follows:

**Solvency**

| in CHF millions, for the years ended December 31 | 2022 | Adjustments previous period[3] | 2023 |
|---|---|---|---|
| Derivation of risk-bearing capital | | | |
| Market-consistent value of assets minus market-consistent value of liabilities | 5,443 | (458) | 4,410 |
| Deductions (proposed dividends) | (235) | | (175) |
| Tier 1 risk-absorbing capital instruments (RAC) counted towards core capital | – | | – |
| **Core capital** | **5,208** | **(458)** | **4,235** |
| Supplementary capital | 541 | | 541 |
| **Risk-bearing capital** | **5,749** | **(458)** | **4,776** |
| | | | |
| Derivation of target capital | | | |
| Insurance risk | 794 | | 942 |
| Market risk | 1,218 | | 1,270 |
| Diversification effects | (553) | | (619) |
| Credit risk | 455 | | 436 |
| Market value margin and other effects on target capital | 312 | (458) | (146) |
| **Target capital** | **2,226** | **(458)** | **1,883** |
| | | | |
| **SST ratio** | **299%** | | **254%** |

3 Adjustments due to the revised ISO as of January 1, 2024 which now includes the market value margin in the market-consistent value of liabilities instead of the target capital.

# G. Solvency (continued)

The values shown here already reflect diversification within each risk type with regard to individual risk drivers. The item 'market value margin and other effects on target capital' consists of the market value margin (for year ended 2022), as well as run-off expenses and the reduction in target capital for the expected financial result. Due to the ISO changes that entered into force January 1, 2024, the market value margin is included under insurance liabilities for the year ended 2023. The SST ratio is defined in the Insurance Supervision Ordinance as the ratio of risk-bearing capital to target capital.

### Comments on the SST ratio

The ZLIC SST ratio of 254 percent as of January 1, 2024 was lower than 299 percent at January 1, 2023. ZLIC's capitalization remains strong as measured by SST. The SST ratio declined due to operating assumptions and modelling changes made through the year, economic variances, and the impact of the proposed dividend.

Risk-bearing capital as well as target capital reduced. The CHF 0.5 billion decrease in risk-bearing capital was driven by the introduction of the market value margin in insurance liabilities due to the ISO changes effective January 1, 2024 as well as economic variances, modelling and assumption changes made through the year. The reduction in target capital was driven by the removal of the market value margin from target capital under ISO changes, partially offset by higher insurance and market risk.

The data, methods, and results of the Swiss Solvency Test for ZLIC are produced in accordance with the Insurance Supervision Ordinance (ISO, art. 21 seqq.). ZLIC's SST is calculated using the SST standard model.

### Breakdown of market risk into essential components

The following chart shows the market risk broken down into its essential components:

- Interest rate risk refers to the risk of a reduction in risk-bearing capital due to movements in interest rates.
- Spread risk, equity risk and real estate risks refer to the risks that a decline in market prices will reduce the value of debt, equity and real estate assets, respectively. For unit-linked business, such a decline would largely be reflected in reduced liability values. For the rest of ZLIC's business, the loss in market value due to a widening of credit spreads or a fall in equity or real estate prices would not be passed on to policyholders to the same extent, reducing risk-bearing capital. Private equity and hedge fund risks are shown with equities.
- Other risk relates to the change in value of assets and/or liabilities in response to changes in implied volatilities as well as government bond vs swap spread risk.

**Solvency – Market risk**

| in CHF millions, for the years ended December 31 | 2022 | Adjustments previous period | 2023 |
|---|---|---|---|
| Market risk derivation of target capital | | | |
| Interest rate risk | 398 | | 514 |
| Spread risk | 592 | | 522 |
| Exchange rate risk | 113 | | 180 |
| Equity risk | 390 | | 515 |
| Real estate risk | 545 | | 493 |
| Other risk | 53 | | 36 |
| Diversification | (872) | | (990) |
| **Total of market risk target capital** | **1,218** | | **1,270** |

Market risk increased during 2023, primarily due to an increase in interest rate and equity risk partially offset by reductions in spread risk exposure and reductions in the exposure to real estate.

# G. Solvency (continued)

### Breakdown of life insurance risk into essential components

The following table shows the life insurance risk broken down into its essential components:

- Mortality risk is the risk that liabilities increase through higher-than-expected mortality rates.
- Longevity risk is the risk that liabilities increase through lower-than-expected mortality rates for annuitants.
- Morbidity incidence risk is the risk that liabilities increase through higher-than-expected rates of morbidity inception.
- Morbidity recovery risk is the risk that liabilities increase through lower-than-expected rates of recovery.
- Lapse risk is the risk that more policyholders than expected allow their policies to lapse or surrender their policies to the disadvantage of ZLIC.
- Expense risk is the risk that the expenses of running the in-force business are higher than expected.

**Solvency – Insurance risk**

| in CHF millions, for the years ended December 31 | 2022 | Adjustments previous period | 2023 |
|---|---|---|---|
| Insurance risk derivation of target capital | | | |
| **Life insurance liabilities** | | | |
| Mortality | 55 | | 48 |
| Longevity | 281 | | 318 |
| Morbidity incidence | 191 | | 217 |
| Morbidity recovery | 788 | | 945 |
| **Business risk** | | | |
| Expenses | 328 | | 374 |
| Lapses | 43 | | 37 |
| Option take-up | 0 | | 0 |
| Diversification | (892) | | (998) |
| **Total of insurance risk target capital** | **794** | | **942** |

Insurance risk increased to CHF 0.9 billion. The main driver of the increase was increased morbidity risk in Corporate Life & Pensions from lower interest rates and lower rates of recovery from disability.

### Breakdown of risk-bearing capital into essential components

The following table shows a breakdown of the risk-bearing capital based on its essential components. The risk-bearing capital calculation starts with assets less liabilities, as set out in the market-consistent balance sheet. The core capital is then calculated based on net assets less liabilities and deductions for proposed dividends. Subordinated debt with equity features approved by FINMA as eligible for inclusion in risk-bearing capital is included in the liabilities, and is added to the core capital to arrive at the amount of risk-bearing capital.

**Market-consistent balance sheet**

| in CHF millions as of December 31 | 2022 | Adjustments previous period[4] | 2023 |
|---|---|---|---|
| Assets | 21,360 | | 21,409 |
| Liabilities | (15,917) | (458) | (16,999) |
| Deductions (proposed dividends) | (235) | | (175) |
| Tier 1 risk-absorbing capital instruments (RAC) counted towards core capital | – | | – |
| **Core capital** | **5,208** | **(458)** | **4,235** |
| Supplementary capital | 541 | | 541 |
| **Risk-bearing capital** | **5,749** | **(458)** | **4,776** |

4 Adjustments due to the revised ISO as of January 1, 2024 which now includes the market value margin in the market-consistent value of liabilities instead of the target capital.

# Appendix 1: Quantitative templates

## Income statement Solo

| in CHF millions, for the years ended December 31 | Total | | | |
|---|---|---|---|---|
| | | | Individual Life | |
| | 2022 | **2023** | 2022 | **2023** |
| 1 Gross written premiums | 1,322 | 1,215 | 265 | 292 |
| 2 Premiums ceded to reinsurers | (30) | (25) | (1) | (1) |
| 3 Net written premiums | 1,292 | 1,190 | 264 | 291 |
| 4 Change in reserves for unearned premiums, gross | 5 | 4 | 7 | 4 |
| 5 Change in reserves for unearned premiums, ceded | (1) | 0 | – | – |
| 6 Net earned premiums | 1,297 | 1,194 | 271 | 294 |
| 7 Other income | 24 | 60 | 5 | 14 |
| **8 Total technical income** | **1,321** | **1,254** | **276** | **309** |
| 9 Claims paid, annuities and loss adjustment expenses, gross | (1,615) | (1,941) | (619) | (585) |
| 10 Claims paid, annuities and loss adjustment expenses, ceded | 89 | 9 | 0 | – |
| 11 Change in insurance reserves, gross | 603 | 809 | 270 | 98 |
| 12 Change in insurance reserves, ceded | (81) | 6 | (0) | (0) |
| 13 Change in actuarial provisions for unit-linked contracts | 98 | (180) | – | – |
| 14 Insurance benefits and losses, net of reinsurance | (907) | (1,297) | (349) | (488) |
| 15 Underwriting & policy acquisition costs, gross | (138) | (137) | (32) | (39) |
| 16 Underwriting & policy acquisition costs, ceded | 4 | 5 | 0 | 0 |
| 17 Underwriting & policy acquisition costs, net of reinsurance | (134) | (132) | (32) | (39) |
| 18 Administrative and other expense | (127) | (70) | (21) | (17) |
| **19 Total technical expense (non-life insurance only)** | **–** | **–** | **–** | **–** |
| 20 Investment income | 496 | 674 | 150 | 247 |
| 21 Investment expenses | (214) | (341) | (65) | (125) |
| **22 Net investment result** | **282** | **333** | **57** | **122** |
| 23 Net investment result on unit-linked investments | (220) | 74 | – | – |
| 24 Other financial income | 1 | 23 | 0 | 5 |
| 25 Other financial expense | (3) | (3) | (1) | (1) |
| **26 Operating result** | **214** | **181** | **(114)** | **(108)** |
| 27 Interest expense on debt and other interest expense | (44) | (57) | | |
| 28 Other income | – | – | | |
| 29 Other expense | – | – | | |
| 30 Extraordinary income/expense | – | – | | |
| **31 Net income before taxes** | **170** | **123** | | |
| 32 Direct tax expenses | (10) | (6) | | |
| **33 Net income after taxes** | **160** | **117** | | |

Line items 7, 18–22, 24–26: LoB allocated according to GWP

# Appendix 1: Quantitative templates (continued)

| Swiss business | | | | | | | | Foreign business | |
|---|---|---|---|---|---|---|---|---|---|
| Group Life | | Unit-linked | | Other | | Total | | Total | |
| 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** |
| 591 | 487 | 443 | 420 | – | – | 1,299 | 1,199 | 23 | 17 |
| (28) | (24) | – | – | – | – | (29) | (25) | (0) | (1) |
| 563 | 464 | 443 | 420 | – | – | 1,270 | 1,174 | 23 | 16 |
| (2) | (1) | – | – | – | – | 5 | 3 | 0 | 1 |
| (1) | 0 | – | – | – | – | (1) | 0 | – | – |
| 561 | 463 | 443 | 420 | – | – | 1,274 | 1,177 | 23 | 17 |
| 11 | 24 | 8 | 21 | – | – | 24 | 59 | 0 | 1 |
| **571** | **487** | **451** | **440** | **–** | **–** | **1,298** | **1,236** | **23** | **18** |
| (807) | (1,183) | (129) | (124) | – | – | (1,555) | (1,892) | (60) | (50) |
| 89 | 9 | – | – | – | – | 89 | 9 | – | – |
| 277 | 701 | (17) | (19) | – | – | 531 | 780 | 73 | 30 |
| (81) | 6 | – | – | – | – | (81) | 6 | 0 | 0 |
| – | – | 92 | (180) | – | – | 92 | (180) | 6 | 0 |
| (522) | (466) | (53) | (323) | – | – | (925) | (1,277) | 18 | (20) |
| (52) | (47) | (53) | (49) | – | – | (137) | (136) | (1) | (2) |
| 4 | 5 | – | – | – | – | 4 | 5 | 0 | 0 |
| (48) | (42) | (53) | (49) | – | – | (133) | (130) | (1) | (2) |
| (47) | (28) | (35) | (24) | – | – | (103) | (69) | (24) | (1) |
| **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| 334 | 413 | – | – | – | – | 483 | 660 | 13 | 14 |
| (144) | (209) | – | – | – | – | (208) | (334) | (5) | (7) |
| **126** | **204** | **95** | **–** | **–** | **–** | **278** | **326** | **5** | **7** |
| – | – | (220) | 74 | – | – | (220) | 74 | – | – |
| 1 | 9 | 0 | 8 | – | – | 1 | 22 | 0 | 0 |
| (1) | (1) | (1) | (1) | – | – | (3) | (3) | (0) | (0) |
| **(18)** | **162** | **329** | **124** | **–** | **–** | **196** | **178** | **18** | **3** |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |

# Appendix 1: Quantitative templates (continued)

## Market-consistent balance sheet: Market-consistent value of assets

| In CHF millions, as of December 31 | 2022 | Adjustments previous period | **2023** |
|---|---|---|---|
| Market-consistent value of investments | | | |
| Real estate | 3,837 | | 3,504 |
| Participations | – | | – |
| Fixed-income securities | 10,188 | | 10,091 |
| Loans | 95 | | 87 |
| Mortgages | 1,857 | | 1,791 |
| Equities | 478 | | 513 |
| Other investments | 1,427 | | 1,681 |
| Collective investment schemes | 391 | | 549 |
| Alternative investments | 464 | | 595 |
| Other investments | 572 | | 537 |
| **Total investments** | **17,882** | | **17,667** |
| Market-consistent value of other assets | | | |
| Financial investments from unit-linked life insurance | 986 | | 1,169 |
| Receivables from derivative financial instruments | 255 | | 445 |
| Cash and cash equivalents | 1,768 | | 1,749 |
| Reinsurers' share of best estimate of provisions for insurance liabilities | 22 | | 27 |
| Direct insurance: life insurance business (excluding unit-linked life insurance) | 22 | | 27 |
| Direct insurance : unit-linked life insurance business. | – | | – |
| Fixed assets | 5 | | 5 |
| Receivables from insurance business | 40 | | 31 |
| Other receivables | 134 | | 78 |
| Other assets | 14 | | 14 |
| Accrued assets | 254 | | 224 |
| **Total other assets** | **3,478** | | **3,742** |
| **Total market-consistent value of assets** | **21,360** | | **21,409** |

# Appendix 1: Quantitative templates (continued)

## Market-consistent balance sheet: Market-consistent value of liabilities

| In CHF millions, as of December 31 | 2022 | Adjustments previous period[5] | 2023 |
|---|---|---|---|
| Market-consistent value of liabilities (including unit linked life insurance) | | | |
| **Best estimate of provisions for insurance liabilities** | **(12,725)** | | **(13,191)** |
| **Best estimate of provisions for unit-linked life insurance liabilities** | **(803)** | | **(947)** |
| **Market value margin** | **–** | **(458)** | **(576)** |
| Market-consistent value of other liabilities | | | |
| Non-technical provisions | (9) | | (4) |
| Interest-bearing liabilities | (246) | | (243) |
| Liabilities from derivative financial instruments | (33) | | (1) |
| Deposits retained on ceded reinsurance | (15) | | (16) |
| Liabilities from insurance business | (160) | | (374) |
| Other liabilities | (948) | | (695) |
| Accrued liabilities | (437) | | (410) |
| Subordinated debts | (541) | | (541) |
| **Total market-consistent value of liabilities** | **(15,917)** | **(458)** | **(16,999)** |
| | | | |
| **Market-consistent value of assets minus market-consistent value of liabilities** | **5,443** | **(458)** | **4,410** |

5 Adjustments due to the revised ISO as of January 1, 2024 which now includes the market value margin in the market-consistent value of liabilities instead of the target capital.

## Solvency

| in CHF millions, for the years ended December 31 | 2022 | Adjustments previous period[6] | 2023 |
|---|---|---|---|
| Derivation of risk-bearing capital | | | |
| Market-consistent value of assets minus market-consistent value of liabilities | 5,443 | (458) | 4,410 |
| Deductions (proposed dividends) | (235) | | (175) |
| Tier 1 risk-absorbing capital instruments (RAC) counted towards core capital | – | | – |
| **Core capital** | **5,208** | **(458)** | **4,235** |
| Supplementary capital | 541 | | 541 |
| **Risk-bearing capital** | **5,749** | **(458)** | **4,776** |
| | | | |
| Derivation of target capital | | | |
| Insurance risk | 794 | | 942 |
| Market risk | 1,218 | | 1,270 |
| Diversification effects | (553) | | (619) |
| Credit risk | 455 | | 436 |
| Market value margin and other effects on target capital | 312 | (458) | (146) |
| **Target capital** | **2,226** | **(458)** | **1,883** |
| | | | |
| **SST ratio** | **299%** | | **254%** |

6 Adjustments due to the revised ISO as of January 1, 2024 which now includes the market value margin in the market-consistent value of liabilities instead of the target capital.

# Appendix 2: Reference to the ZLIC Annual Report including report of the statutory auditors

The Financial Condition Report is not audited.

The financial statements of Zurich Life Insurance Company Ltd, which comprise the income statement, balance sheet and notes to the financial statements for the year ended December 31, 2023, are audited. Please refer to the report of the statutory auditor in the ZLIC Annual Report 2023, page 14: https://www.zurich.com/en/investor-relations/results-and-reports/other-statutory- filings.

## 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 Life Insurance Company Ltd. Forward-looking statements include statements regarding Zurich Life Insurance Company Ltd's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding Zurich Life Insurance Company Ltd'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 Life Insurance Company Ltd 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 Life Insurance Company Ltd 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 Zurich Life Insurance Company Ltd and may be subject to regulatory, legislative, governmental and litigation- related developments affecting the extent of potential losses covered by Zurich Life Insurance Company Ltd or potentially exposing Zurich Life Insurance Company Ltd to additional losses if terms or conditions are retroactively amended by way of legislative or regulatory action. Zurich Life Insurance Company 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.

It should be noted that past performance is not a guide to future performance. Persons requiring advice should consult an independent advisor.

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.

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