



Zurich Insurance Company Group

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About us

Zurich Insurance Group (Zurich) is a leading multi-line insurer serving people and businesses in more than 200 countries and territories. Founded 150 years ago, Zurich is transforming insurance. In addition to providing insurance protection, Zurich is increasingly offering prevention services such as those that promote wellbeing and enhance climate resilience.

Reflecting its purpose to 'create a brighter future together,' Zurich aspires to be one of the most responsible and impactful businesses in the world. It is targeting net-zero emissions by 2050 and has the highest-possible ESG rating from MSCI. In 2020, Zurich launched the Zurich Forest project to support reforestation and biodiversity restoration in Brazil.

The Group has about 60,000 employees and is headquartered in Zurich, Switzerland. Zurich Insurance Group Ltd (ZURN), is listed on the SIX Swiss Exchange and has a level I American Depositary Receipt (ZURVY) program, which is traded over-the-counter on OTCQX. Further information is available at www.zurich.com.

Risk review

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Risk management

Basis of presentation

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

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

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

Objectives of risk management

Taking and managing risk is an integral part of the insurance business. Zurich takes risks in order to support the achievement of its strategy and serve its customers in global and local markets. Risk management contributes to enhancing the value of Zurich by embedding disciplined and conscious risk taking, where risk-reward trade-offs are transparent and understood, and risks are appropriately rewarded.

The Group's objectives in managing risks are to:

- Support achievement of its business strategy and objectives, protect capital, liquidity, earnings and reputation by identifying, assessing, responding to, monitoring and reporting risks in line with the Group's risk appetite and tolerance.
- Enable the Board of Directors (the 'Board'), senior management and other stakeholders charged with governance and oversight, to discharge their risk management responsibilities, including risk reporting and external disclosures.
- Support transparency in decision-making processes by providing consistent, reliable and timely risk information.
- Embed a culture of risk awareness and disciplined and informed risk-taking.

Enterprise Risk Management framework

To achieve its risk management objectives, the Group manages risk according to an established Enterprise Risk Management (ERM) framework. The Group's ERM framework is the structure to manage risks within the organization. It is comprised of six components: risk governance and risk culture, risk appetite and tolerance, risk identification and risk assessment, risk response, risk monitoring, and risk reporting. The Group's ERM framework is documented by both policy and non-policy documents, including the Zurich Risk Policy (ZRP) and related risk policy manuals, and is complemented by training and guidance materials.

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

The ZRP is a Group policy that articulates Zurich's approach to risks and sets mandatory requirements for risk management throughout the Group. The policy describes the Group's ERM framework and provides a standardized set of risk types. Risk-specific policy manuals provide requirements and procedures to implement the principles in the ZRP.

Risk management (continued)

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

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

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

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

Risk-based remuneration

Based on the Group's remuneration rules, the Board of Directors approves the design and structure of remuneration arrangements that support the achievement of strategic and financial objectives, without encouraging inappropriate risk-taking. Group Risk Management's role in respect of remuneration and its interaction with Board committees is described in the remuneration report.

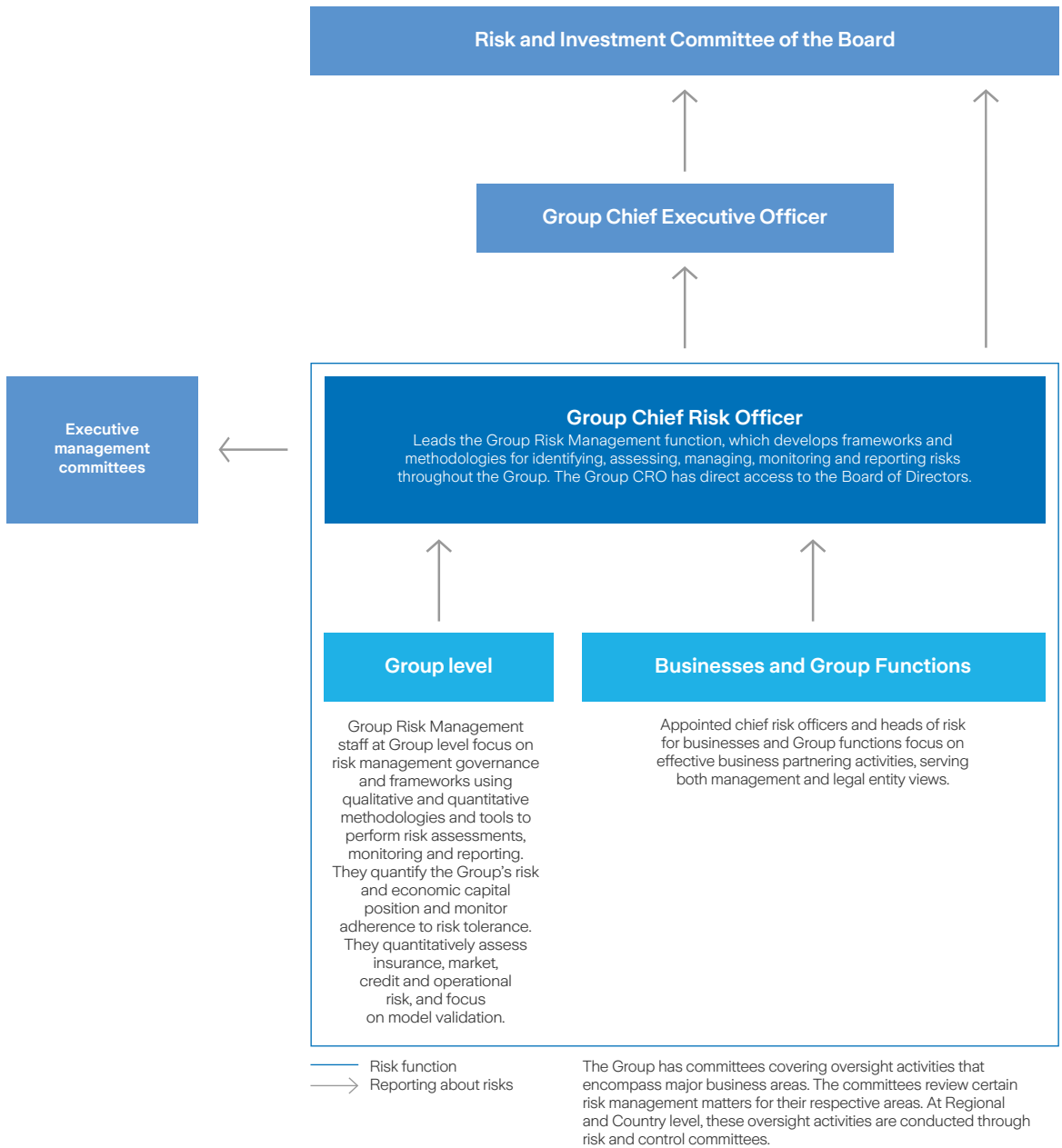
Risk management (continued)

Risk governance and risk management organization

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

Risk management organization

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



The risk function is independent of the business by being a vertically integrated function. Unless otherwise required by local laws or regulations, chief risk officers and heads of risk report into the Group CRO, except for the Farmers Chief Risk Officer, who has a matrix reporting line to the Group CRO. They independently challenge, support and advise management on business decisions from a risk perspective.

Capital management

Objectives of capital management

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

As of December 31, 2023, shareholders' equity based on IFRS Accounting Standards of USD 25.3 billion and subordinated debt of USD 8.6 billion were part of the capital available in the ZIC SST available financial resources (AFR). Further adjustments to derive SST AFR typically include deductions for proposed dividends and share buyback, goodwill and intangible assets, deferred tax assets and liabilities, as well as the market-consistent valuation of insurance liabilities, which includes market value margin (MVM) and the value of in-force business. The MVM, also known as risk margin, is the cost of future regulatory risk capital stemming from the present portfolio of assets and liabilities.

Zurich strives to simplify the Group's legal entity structure to reduce complexity and increase fungibility of capital.

From January 1, 2023 the ZIC Group applies IFRS 17 'Insurance contracts' and IFRS 9 'Financial Instruments'. For more information including the transitional effects on shareholders' equity from the transition to IFRS 9, refer to note 2 of the ZIC Group consolidated financial statements.

Capital management framework

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

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

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

Capital management program

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

The Group seeks to maintain a balance between returns for shareholders and the security that a sound capital position provides, also for our customers. Dividends, share buybacks, and issuances and redemption of debt have a significant influence on capital levels. During 2023, the Group:

- paid a dividend out of retained earnings,
- bought own shares, and
- repaid senior and hybrid debt to reduce financial leverage.

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

For more information on issuances and redemptions of debt, see note 17 of the ZIC Group consolidated financial statements. For more information on acquisitions and divestments, see note 4 of the ZIC Group consolidated financial statements.

Risk and solvency assessment

Regulatory capital adequacy

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

Regulatory solvency regimes

Regulatory requirements in Switzerland

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

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

Regulatory requirements in the European Economic Area (EEA)

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

Effective January 2, 2024, Zurich Insurance plc moved to Germany, by means of a cross-border conversion under the European Directive on cross-border conversions, mergers, and divisions. In Germany, the company operates as Zurich Insurance Europe AG. The head office move had no material impact on ZIE's organization, customer facing and business activities in the local markets ZIE operates in.

A scheduled review of the Solvency II framework is currently being conducted by the European Insurance and Occupational Pensions Authority (EIOPA) and will entail changes to the standard formula, reporting and introduces new rules around macro-prudential supervision and sustainability. The revised framework is expected to become effective in 2026.

Regulatory requirements in the UK

The United Kingdom left the EU and the EEA on January 31, 2020 and the transition period ended on December 31, 2020, meaning UK regulations can diverge from Solvency II regulatory requirements. As of December 31, 2023 the UK regulations have not materially diverged. However, a review of the regulations (now called Solvency UK) was completed by the UK government in 2022, and this identified a number of areas where the regulations should be amended to better reflect the UK market. In 2023, the PRA and UK HM Treasury have worked to enable some of the UK government's proposals, with the rest of the implementation work expected in 2024.

Regulatory requirements in the U.S.

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

Regulatory requirements in other jurisdictions

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

Risk and solvency assessment (continued)

Swiss Solvency Test (SST)

Methods and assumptions used in the SST sensitivity analysis

The use of SST sensitivities for assessing the nature and extent of risks arising from insurance contracts is deemed appropriate as SST represents a comprehensive framework that takes into account the interdependencies between risks and is used by the Group to assess and manage risks.

The sensitivity analysis provides information on how the Group's SST AFR and solvency ratio are affected by changes in risk variables. The SST AFR and solvency ratio sensitivities are presented before tax and net of external reinsurance.

SST AFR and related sensitivities are evaluated as instantaneous market or insurance shocks. All elements of the economic balance sheet and the required capital sensitive to a market or insurance parameter shock are recalculated. For example, values of all balance sheet and risk components change when foreign exchange moves by 10 percent, however, in a shock to equity markets the P&C net insurance liabilities and risks remain constant.

To assess the SST AFR and ratio sensitivities, SST balance sheet positions are fully revalued under the given shock scenarios. Each instrument is revalued separately, taking relevant product features into account. Non-linear valuation effects, where they exist, are reflected in the calculations. Valuation of the insurance liabilities under the shock scenarios is based on the replicating portfolios representing the insurance liabilities in the SST Marker Risk model. The Life business replicating portfolios are portfolios of assets that replicate the cash flows or present values of the life insurance liabilities under stochastic scenarios from the local life valuation models, according to the methodology approved by FINMA. The replicating portfolios are calibrated to match dependencies of life insurance liabilities on financial market developments in respect of interest rates, equity and property. The options and guarantees of the underlying life insurance liabilities are captured through inclusion of options in the replicating portfolios. The P&C replicating portfolios are represented by zero coupon bonds and are sensitive to interest rate shocks.

The SST required capital and market value margin are fully recalculated using parameters of a market shock as input to the risk calculations and taking into account impact of the market parameters on the base exposure, e.g., impact of the interest rate shocks on the insurance risk is reflected via revaluation of the risk exposure due to discounting effect.

In calculating the impact of a shock on the SST AFR and ratio, insurance liabilities' replicating portfolios, risk exposure (where not dependent on market parameters), and model parameters remain unchanged from the base case.

The SST AFR and related sensitivities aim to provide Zurich's investors with guidance on how its AFR and solvency ratio would move in a different economic environment. It should be noted that the shocks are linear, and they are a simplified representation of reality as the various market parameters never move in isolation or in sync within the same market class (e.g., equities).

Risk and solvency assessment (continued)

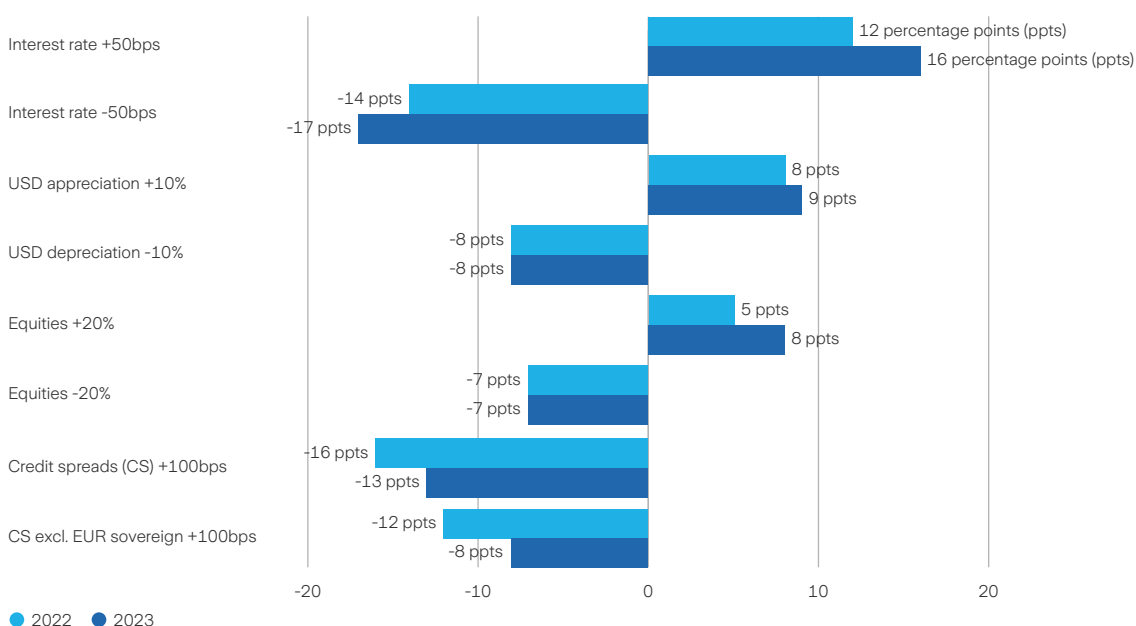
Sensitivity and scenario analysis

The Group evaluates sensitivities to, and stress scenarios on, the SST ratio, and assesses results relative to Zurich's risk appetite and tolerance. The sensitivities in the chart below capture impact on the Group SST ratio due to sensitivities to financial market movements.

Market risk sensitivities show the estimated impact on the Group's SST ratio of a half percentage-point (50 basis points, or bps) increase or decrease in yield curves, a 10 percent appreciation or depreciation in the U.S. dollar, a 20 percent rise or decline in all stock markets, and a 100 bps increase in credit spreads, with and without euro-denominated sovereign bonds. The sensitivities are considered as separate but instantaneous shocks. They are a best estimate and non-linear, for example, a change to the size of the market movement could result in disproportionately higher (or lower) impact on the SST ratio depending on the prevailing market conditions at the time.

SST sensitivities as of October 1¹

Impact on the SST ratio due to sensitivities to financial market conditions:²



1. Base ratio and sensitivities as of October 1, 2023 are calculated reflecting the separation of the legacy traditional life back book in Germany. Base ratio and sensitivities as of October 1, 2022 are calculated reflecting the Italian back book transaction completed in the fourth quarter of 2022.
2. Sensitivities are best estimate and reflect the impact on the pension plans in the UK. For the interest rate sensitivities, shocks are applied to the liquid part of the yield curve. Credit spreads (CS) include mortgages, including and excluding euro sovereign spreads. CS sensitivities of available capital include changes to the volatility adjustment applied to interest rate curves.

Insurance financial strength rating

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

On January 13, 2023, ZIC's Moody's rating of 'Aa3' changed to a positive outlook. The appropriateness of this rating was reassessed on January 22, 2024, as a reflection of "the Group's very strong market position and highly diversified business model, as well as its strong and resilient financial profile, including robust capital adequacy, earnings and financial flexibility."

Since October 2021, ZIC's AM Best Long Term Issuer Credit Rating has been 'aa-' with a positive outlook, reflecting "Zurich's consolidated balance sheet strength, which AM Best assesses as very strong, as well as its strong operating performance, very favorable business profile and appropriate Enterprise Risk Management (ERM)." The AM Best Financial Strength Rating, which is less granular, is 'A+ (Superior)'.

ZIC's S&P Global Ratings IFSR rating remains at the top of the league table of European peers, in recognition of its continuing strong operating performance with low volatility and very strong capital position.

As of January 2024, the IFSR is rated 'AA/Stable' by S&P Global Ratings, 'Aa3/positive' by Moody's, and 'A+ (Superior)/Stable' by AM Best. The Issuer Credit Rating is rated 'aa-/positive' by AM Best.

Analysis by risk type

Insurance risk

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

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

Property & Casualty (P&C) insurance risk

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

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

The Group's underwriting strategy takes advantage of the diversification of P&C risks across lines of business, customers and geographic regions. Zurich defines Group-wide governance for insurance risk including for new products. Underwriting discipline is a fundamental part of managing insurance risk. The Group sets limits on underwriting capacity and delegates authority to individuals based on their specific expertise and sets appropriate underwriting and pricing guidelines. Technical reviews assure that underwriters perform within authorities and adhere to underwriting policies.

P&C insurance reserves are regularly estimated, reviewed and monitored by qualified and experienced actuaries at local, regional and Group levels. To arrive at their reserve estimates, the actuaries take into consideration, among other things, the latest available facts, trends and patterns of loss payments.

Inflation levels remained elevated in 2023 after peaking in 2022 and continue to pose challenges globally, with various factors including supply chain constraints, components and labor costs, as well as social inflation having an impact on insurance losses, particularly on motor and property portfolios. Inflation is monitored with insights feeding into actuarial reserving models, and Zurich's underwriting processes and pricing, and the implications of a continuing high inflation environment and mitigating actions are a key focus area. The Group's existing risk management and governance processes continue to monitor and respond to the developing environment. Several actions related to inflation have also been included in the Group's Total Risk Profiling™ and measures are being taken beyond rate changes, such as in claims and portfolio management.

Additionally, there is a concerted effort to foster communication between functions that extends beyond inflation challenges. To ensure a common understanding of business insights and new trends for reserve analysis, financial plans, underwriting and pricing decisions, the Group has established a culture of continuous cross-functional collaboration. For this, underwriting, actuarial (pricing and reserving), claims, finance, sales and distribution, risk engineering and risk management contribute to quarterly meetings at local and Group level.

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

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

The Group is exposed to losses that could arise from natural and man-made catastrophes. The main concentrations of risks arising from such potential catastrophes are regularly reported to executive management.

Analysis by risk type (continued)

Natural catastrophes

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

To ensure global consistency, exposures to natural catastrophes are modeled by a dedicated Group function. Potential losses from property, motor and marine policies with material exposure in hazard-prone geographical areas are probabilistically modeled, as well as worker injury policies with material exposure in U.S. seismic zones. Losses for other lines of business are estimated based on adjustments to these modeled results. Risk modeling mainly addresses weather-induced perils such as wind, flood, tornado, and hail, and geologically-induced perils such as earthquake. The most important peril regions for natural catastrophes are North-Atlantic hurricane, California earthquake and European windstorm. The Group has internal modelling capabilities for pandemics.

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

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

Man-made catastrophes

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

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

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

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

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

The P&C business segment represents the largest concentration of risk, in terms of risk capital, with U.S. and Caribbean hurricane representing the largest concentration of risk in terms of SST ratio sensitivity.

The relative significance of premium and reserve risk (P&R) (unaudited) has increased slightly from 25 percent to 26 percent of the total SST risk capital as of January 1, 2023 and 2024, respectively, due to growth in net exposures primarily and foreign currency exchange rates.

The relative significance of natural catastrophe risk (unaudited) has decreased slightly from 7 percent to 6 percent of total SST risk capital as of January 1, 2023 and 2024, respectively, which has been driven by an increase in the contribution of market risk. Natural catastrophe risk itself saw continued increases in net exposures and small risk increases due to foreign currency exchange rates and changes in the Group's catastrophe reinsurance program, while a model update has led to a more favorable view on U.S. Hurricane.

For more information about the ZIC Group's concentration of risk within the P&C business by geographic region, using IFRS Accounting Standards as a basis, see the segment information in note 26 of the ZIC Group consolidated financial statements as of December 31, 2023.

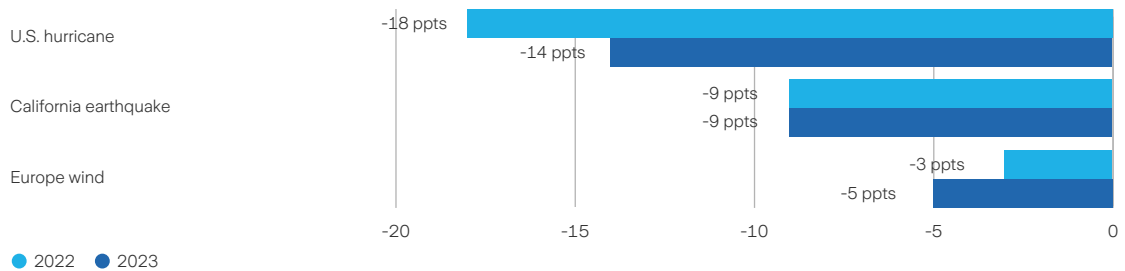
Analysis by risk type (continued)

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

The chart below shows the three largest natural catastrophe events to which the Group is exposed. Insurance risk scenarios are defined as events that have a small probability of occurring but could, if realized, negatively affect the Group's SST ratio. The impact of insurance-specific scenarios on the target capital is not taken into account.

SST property and casualty-specific scenarios as of October 1

Impact on the SST ratio due to property and casualty risk-specific scenarios:¹



¹ Scenario impact comparable to the modeled 250-year net occurrence loss for the respective peril (equivalent to a 99.6 percent probability of non-exceedance.)

Tables 1.a and 1.b show the sensitivity of net income before tax and net assets based on IFRS Accounting Standards, using the ZIC Group effective income tax rate, as a result of adverse development in the net loss ratio by one percentage point. The sensitivities do not indicate the probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the sensitivity analysis in tables 1.a and 1.b, each additional percentage-point increase in the loss ratio would have a linear impact on net income before tax and net assets.

The Group also monitors insurance risk by evaluating extreme scenarios, taking into account the non-linear effects of reinsurance contracts.

For further information about the development of net insurance losses by financial year, see note 7 of the ZIC Group consolidated financial statements.

Table 1.a

Insurance risk sensitivity for the Property & Casualty business – current period	in USD millions, for the year ended December 31, 2023						
	Europe, Middle East & Africa	North America	Asia Pacific	Latin America	Reinsurance	Total ²	
+1% in net loss ratio¹							
Net income before tax	(172)	(206)	(34)	(28)	(8)	(423)	
Net assets	(129)	(155)	(26)	(21)	(6)	(318)	

Table 1.b

Insurance risk sensitivity for the Property & Casualty business – prior period	in USD millions, for the year ended December 31, 2022						
	Europe, Middle East & Africa	North America	Asia Pacific	Latin America	Reinsurance	Total ²	
+1% in net loss ratio¹							
Net income before tax	(156)	(194)	(32)	(26)	(6)	(392)	
Net assets	(120)	(148)	(25)	(20)	(5)	(300)	

¹ the 1% change in net loss ratio is defined as a 1% change in the insurance revenue.
² total is inclusive of consolidation eliminations.

Analysis by risk type (continued)

Life insurance risk

The risks associated with life insurance include:

Life liability risk

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

Life business risk

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

Market risk

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

Credit risk

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

Management of Life insurance risk

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

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

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

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

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

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

Analysis by risk type (continued)

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

Protection products (including disability products) provide benefits linked to policyholders' life and health and mainly carry mortality and morbidity risks. Changes in, and availability of, medical treatments and lifestyle changes are among the most significant factors that could result in earlier or more claims than expected or customers claiming for longer than expected. The risk selection process is informed by medical, lifestyle and financial parameters of applicants. Access to health information can potentially be restricted through regulation or undocumented health results. Advancements in biological and genetic testing may give individuals health information inaccessible to insurers. This in turn could lead to an inability to reflect the true risk profile in pricing products, adverse claims experience and a reduced product offering. Disability, when defined in terms of the ability to perform an occupation, could also be affected by adverse economic conditions. This impact could come through, for example, an increase in claims relating to mental health conditions triggered by an economic downturn.

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

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

The Group is also exposed to investment and surrender risks related to bank-owned life insurance contracts sold in the U.S. These risks have reduced significantly in recent years as several significant policies have switched into less risky investment divisions. See heading 'Other assets at amortized cost' in note 5 of the ZIC Group consolidated financial statements for more information.

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

Furthermore, interest rate guarantees (with concentration in traditional guaranteed business in Germany and Switzerland) expose Zurich to financial losses that may arise as a result of adverse movements in interest rates combined with potential increases in policyholders surrendering their policies. These guarantees are managed through a combination of asset-liability management and hedging.

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

Higher than expected inflation could affect Life insurance business through, for example, customer affordability issues and reduced demand. The expenses to administer Life insurance business could be higher than expected, leading to higher product expense loads. This could result in a combination of higher customer premiums and reduced profitability. Potential actions to manage the effects of higher-than-expected inflation include assumption updates, customer behavior monitoring, product reviews and design and customer retention initiatives.

Diversification across regions and businesses, as further described, contributes to reducing the impacts of the risks associated with the Life business described above.

Concentration of Life insurance risk

The Group defines concentration risk in the Life business as the risk of exposure to increased losses associated with inadequately diversified portfolios of assets or obligations. Concentration risk for a life insurer may arise with respect to investments in a geographical area, economic sector, or individual issuers, or due to a concentration of business written within a geographical area, of a product type, or of underlying risks covered. The Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time.

Analysis by risk type (continued)

In respect of the life liability risk profile, on a non-diversified basis, morbidity risk accounts for over half, concentrated predominantly in the APAC region, mortality risk accounts for under one third, with concentration predominantly in the EMEA region and longevity risk accounts for approximately a sixth, concentrated predominantly in the EMEA region.

In respect of the life business risk profile, on a non-diversified basis, lapse up risk accounts for almost two thirds concentrated predominantly in the EMEA region, expense risk accounts for approximately one quarter concentrated predominantly in the EMEA region and lapse down risk accounts for a tenth with roughly equal concentrations in EMEA and APAC regions.

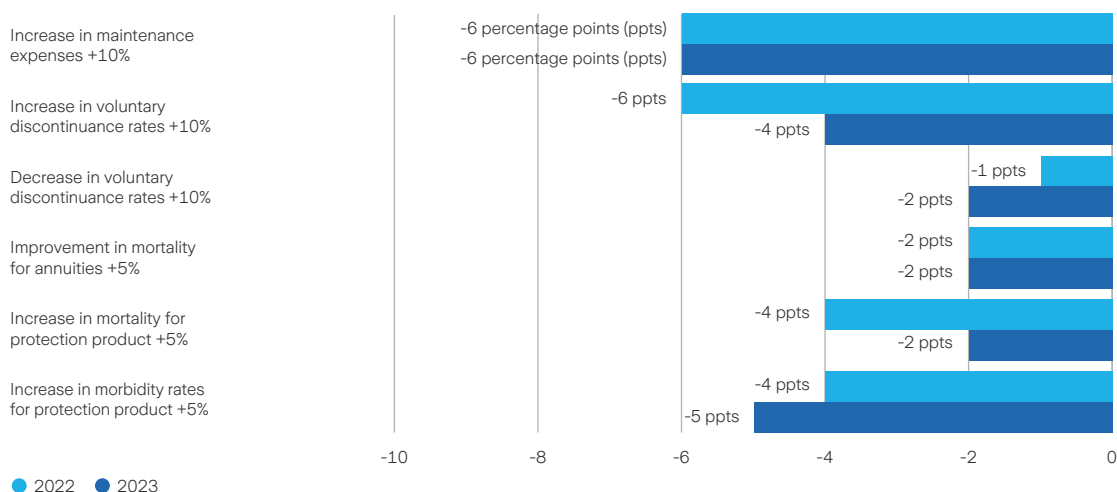
For more information about the concentration of risk within the Life business by geographic region, on an IFRS Accounting Standards basis, see the segment information in note 26 of the ZIC Group consolidated financial statements as of December 31, 2023.

Analysis of sensitivities for Life insurance risks

The chart below shows the sensitivity of the Group's SST ratio to changes in the key risk drivers. The reduced sensitivity to increased discontinuance and mortality rates is largely due to an external reinsurance arrangement effected on a portfolio of North American mortality business.

SST life-specific scenarios as of October 1¹

Impact on the SST ratio due to life risk-specific scenarios:²



1 Base ratio and sensitivities as of October 1, 2023 are calculated reflecting the separation of the legacy traditional life back book in Germany. Base ratio and sensitivities as of October 1, 2022 are calculated reflecting the Italian back book transaction completed in the fourth quarter of 2022.
2 The sensitivities are approximate and reflect only the change in AFR whereas TC and MVM have not been recalculated.

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

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

The Group structures and aligns its external reinsurance protection to its capital position to achieve an optimal risk-return ratio. This includes participation in the underlying risks through self-retentions in line with the risk appetite of each line of business. The cession rate for P&C was 17.0 percent as of December 31, 2023 (12.3 percent excluding captives, unaudited) and 17.5 percent as of December 31, 2022 (12.5 percent excluding captives, unaudited). The cession rate for Life was 14.4 percent as of December 31, 2023 and 13.1 percent as of December 31, 2022.

The Group uses traditional and collateralized reinsurance markets to protect itself against extreme single events, multiple event occurrences across regions, and increased frequency of events.

Analysis by risk type (continued)

The Group participates in the underlying risks through its retention and through its co-participation in excess layers. The Group reviews its reinsurance programs on an annual basis to reflect its risk appetite and market conditions. A global property catastrophe treaty was renewed on April 1, 2022, for a further three years.

In 2023, the Group purchased:

- Several regional catastrophe treaties.
- A new top layer catastrophe treaty for U.S. Hurricane and North American Earthquake.

All natural catastrophe reinsurance treaties are on a loss-occurrence basis.

In addition to these covers, the Group has two bilateral risk swaps, and various line of business-specific risk treaties. These covers are reviewed continuously and are subject to change in the future.

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

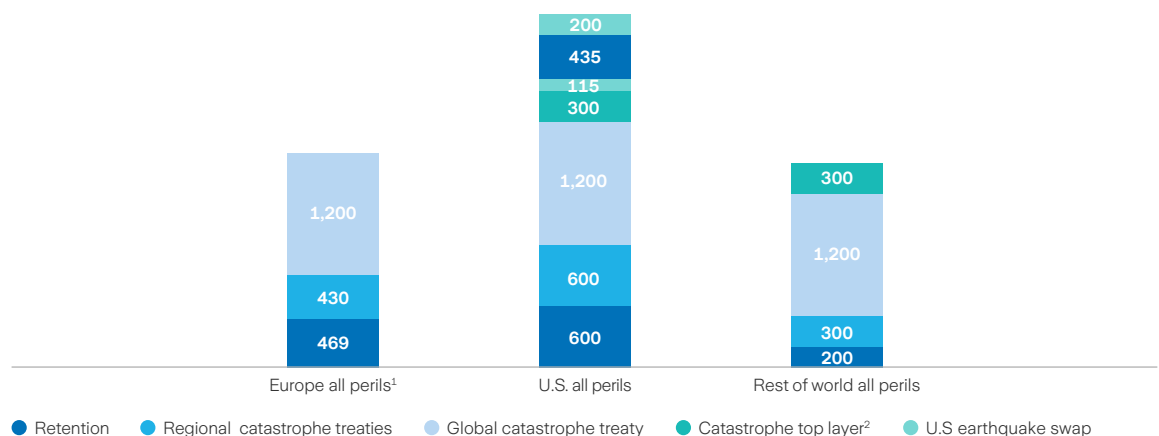
The reinsurance market continues to be challenging with reinsurers pursuing an increase in rates across most regions and lines of business. While property catastrophe and property per risk treaties are still facing pricing pressure, this has eased somewhat for property catastrophe treaties.

Terms and conditions for Casualty, especially U.S. Casualty will be put to the test. While reinsurance capacity has broadly been available, reinsurers are actively differentiating the best and most sophisticated insurance companies through their deployment of capacity.

Strategic partnerships and long-term relationships continue to provide an effective path for Zurich to execute on its reinsurance strategy.

The Group follows a strategy of diversification of reinsurance placements in order to manage its counterparty exposure. The Group's reinsurance counterparty exposure as of December 31, 2023 was within the Group's risk tolerance.

Group catastrophe reinsurance protection as of 1 April, 2023 (in USD millions)



1. Calculated with EUR/USD exchange rate of 1.10265 as of July 31, 2023
2. Relevant for U.S. named windstorms, U.S. and Canada earthquake

Analysis by risk type (continued)

Market risk, including investment credit risk

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

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

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

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

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

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

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

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

For more information on ZIC Group's investment result, including the treatment of selected financial instruments, see note 5 of the ZIC Group consolidated financial statements. For more information on derivative financial instruments and hedge accounting, see note 6 of the ZIC Group consolidated financial statements. For more information on the development of expected credit loss allowance by type of financial asset, see note 23 of the ZIC Group consolidated financial statements.

Risk from equity securities and real estate

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

Analysis by risk type (continued)

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

For additional information on equity securities and investment property, see note 5 of the ZIC Group consolidated financial statements.

Risk from interest rates and credit spreads

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

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

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

Analysis of market risk sensitivities for interest rate, equity and credit spread risks Group SST available financial resources sensitivities

The following section presents the sensitivities of Group available financial resources (AFR) under Swiss Solvency Test (SST) assumptions with respect to certain standard financial market scenarios.

The SST AFR impact – the difference between the impact on Group SST assets and liabilities – represents the economic risk related to changes in market risk factors to which the Group is exposed. Positive values represent an increase in the SST AFR, and values in parentheses represent a decrease.

SST AFR sensitivities are shown split by segment. The heading ‘Rest of the business’ includes Farmers, Group Finance and Operations and Non-Core Businesses. No allowance has been made in the economic sensitivities for the planned sale of the German traditional life insurance back book. For more information about the status of this transaction, see notes 4 and 28 of the ZIC Group consolidated financial statements.

Analysis of economic sensitivities for interest rate risk

Table 2 shows the estimated impact on the Group’s SST AFR of a 50 basis point (bps) increase or decrease in yield curves after consideration of hedges in place.

Table 2

in USD millions, as of October 1		2023	2022
Economic interest rate sensitivities on the Group’s SST AFR	50 bps increase in the interest rate yield curves		
	Property & Casualty	(88)	(115)
	Life	260	151
	Rest of the business	61	(8)
	50 bps decrease in the interest rate yield curves		
	Property & Casualty	109	92
	Life	(410)	(323)
	Rest of the business	(62)	(31)

Analysis by risk type (continued)

Analysis of economic sensitivities for equity risk

Table 3 shows the estimated impact on the Group's SST AFR from a 20 percent decline in stock markets, after consideration of hedges in place.

Table 3

Economic equity price sensitivities on the Group's SST AFR	in USD millions, as of October 1	
	2023	2022
20% decline in stock markets		
Property & Casualty	(1,183)	(1,132)
Life	(1,168)	(878)
Rest of the business	(81)	(171)

Analysis of economic sensitivities for credit spread risk

Table 4 shows the estimated impact on the Group's SST AFR from a 100 basis point increase in corporate credit spreads. The sensitivities apply to all fixed-income instruments, excluding government, supranational and similar debt securities.

Table 4

Economic credit spread sensitivities on the Group's SST AFR	in USD millions, as of October 1	
	2023	2022
100 bps increase in credit spreads		
Property & Casualty	(1,404)	(1,449)
Life	(1,449)	(1,739)
Rest of the business	(169)	(395)

Risks from defaults of counterparties

Debt securities

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

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

For information on the ZIC Group's debt securities by rating of issuer and the corresponding allowance for expected credit losses, see note 23 of the ZIC Group consolidated financial statements.

As of December 31, 2023, the largest concentration in the ZIC Group's debt securities portfolio was government related at 51 percent of all debt securities. In all other categories, a total of USD 19.7 billion (38 percent) was secured. As of December 31, 2022, 48 percent of the ZIC Group's debt portfolio was invested in government-related securities. In all other categories, a total of USD 21.6 billion (40 percent) was secured.

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

Cash and cash equivalents

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

Cash and cash equivalents amounted to USD 7.3 billion as of December 31, 2023 and USD 7.5 billion as of December 31, 2022. The risk-weighted average rating of the overall cash portfolio was 'A-' as of December 31, 2023 and 'A-' as of December 31, 2022. The ten largest bank exposures represent 50 percent of the total cash and cash equivalents amount, of which the risk-weighted average rating was 'A-' as of December 31, 2023 and 'A' as of December 31, 2022.

Mortgage loans and other loans

Mortgage loans amounted to USD 4.3 billion as of December 31, 2023 and USD 5.5 billion as of December 31, 2022. The ZIC Group's largest mortgage loan portfolios are held in Switzerland (USD 3.0 billion), in Italy (USD 0.5 billion) and in Germany (USD 0.5 billion); these are predominantly secured against residential property but also include mortgages secured by commercial property.

Analysis by risk type (continued)

Derivatives

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

To limit credit risk, derivative financial instruments are executed with counterparties rated 'BBB' or higher as per Zurich Risk Policy requirements. The Group's standard practice is to only transact derivatives with those counterparties for which the Group has in place an ISDA Master Agreement, with a Credit Support Annex. This mitigates credit exposures from over-the-counter transactions due to close-out netting and requires the counterparty to post collateral when the derivative position exceeds an agreed threshold. The Group further mitigates credit exposures from derivative transactions by using exchange-traded or centrally cleared instruments whenever possible.

Risk from currency exchange rates

Currency risk is the risk of loss resulting from changes in exchange rates. The Group operates internationally and therefore is exposed to the financial impact of changes in the exchange rates of various currencies. The Group's presentation currency is the U.S. dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in euro, Swiss franc, British pound and U.S. dollar. On entity balance sheets a currency mismatch may cause a balance sheet's net asset value to fluctuate, either through income or directly through equity. The Group manages this risk by matching foreign currency positions on entity balance sheets within prescribed limits. Residual entity mismatches are reported centrally to make use of the netting effect across the Group. Zurich hedges these residual entity mismatches within an established limit through a central balance sheet. For information on net gains/losses on foreign currency transactions included in the consolidated income statements, see note 1 of the ZIC Group consolidated financial statements. The monetary currency risk exposure on entity balance sheets is considered immaterial.

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

Table 5 shows the sensitivity of total equity based on IFRS Accounting Standards to changes in exchange rates for the main functional currencies to which the ZIC Group is exposed. Positive values represent an increase in the value of the ZIC Group's total equity.

Table 5

Sensitivity of the ZIC Group's total equity to exchange rate fluctuations	in USD millions, as of December 31	
	2023	2022
10% increase in		
EUR/USD rate	313	171
GBP/USD rate	18	50
CHF/USD rate	591	165
BRL/USD rate	128	110
AUD/USD rate	311	287
JPY/USD rate	104	110
Other currencies/USD rates	472	445

The sensitivities show only the effects of a change in the exchange rates, while other assumptions remain unchanged. The sensitivity analysis does not consider management actions that might be taken to mitigate such changes. The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent Zurich's view of expected future market changes. While table 6 shows the effect of a 10 percent increase in currency exchange rates, a decrease of 10 percent would have the converse effect.

For additional information about foreign currency translation and transactions, see notes 1, 3 and 6 of the ZIC Group consolidated financial statements.

Other credit risk

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

- Reinsurance assets.
- Receivables.

Analysis by risk type (continued)

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

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

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

On-balance sheet exposures are the main source of credit risk. Off-balance sheet credit exposures are related primarily to certain insurance products, reinsurance and collateral used to protect underlying credit exposures on the balance sheet. The ZIC Group has no material amount of off-balance sheet exposures related to undrawn loan commitments as of December 31, 2023. See note 21 of the ZIC Group consolidated financial statements for undrawn loan commitments.

Credit risk related to reinsurance assets

The Group's Corporate Reinsurance Security Committee oversees the credit quality of cessions and reinsurance assets. The Group typically only cedes new business to authorized reinsurers with a minimum rating of 'A-'. Of the exposure ceded to reinsurers that are rated below 'A-' or are not rated, 60 percent was collateralized as of December 31, 2023 and 46 percent as of December 31, 2022. Of the exposure ceded to reinsurers that are rated below 'A-' or are not rated, 62 percent was ceded to captive insurance companies in 2023, and 57 percent in 2022.

Reinsurance assets included reinsurance recoverables (the reinsurers' share of reserves for insurance contracts) of USD 27.1 billion and USD 28.1 billion, and receivables arising from ceded reinsurance of USD 2.1 billion and USD 1.8 billion as of December 31, 2023 and 2022, respectively, gross of allowance for impairment. Reserves for potentially uncollectible reinsurance assets amounted to USD 117 million as of December 31, 2023 and USD 130 million as of December 31, 2022. The Group's policy on impairment charges takes into account both specific charges for known situations (e.g., financial distress or litigation) and a general, prudent provision for unanticipated impairments.

Reinsurance recoverables in table 6 are shown before taking into account collateral such as cash or bank letters of credit and deposits received under ceded reinsurance contracts. Unsecured reinsurance recoverables shown are after deducting collateral. Bank issuing letters of credit for the benefit of ZIC Group are, on average, 'A' rated. The value of the collateral received amounts to USD 17.2 billion and USD 11.6 billion as of December 31, 2023 and 2022, respectively.

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

Table 6

as of December 31

Reinsurance recoverable and unsecured reinsurance recoverable by rating of reinsurer and captive	2023								2022			
	Reinsurance recoverable				Unsecured reinsurance recoverable				Unsecured reinsurance recoverable			
	USD		% of		USD		% of		USD		% of	
	millions	total	millions	total	millions	total	millions	total	millions	total	millions	total
Rating												
AAA	5	0.0%	–	0.0%	22	0.1%	1	0.0%				
AA	4,969	18.4%	4,493	29.4%	7,278	26.0%	6,610	35.2%				
A	14,669	54.2%	7,804	51.1%	13,342	47.6%	8,101	43.1%				
BBB	2,563	9.5%	586	3.8%	3,912	14.0%	2,566	13.7%				
BB	822	3.0%	419	2.7%	528	1.9%	226	1.2%				
B and below	172	0.6%	70	0.5%	184	0.6%	75	0.4%				
Unrated	3,873	14.3%	1,915	12.5%	2,764	9.8%	1,207	6.4%				
Total	27,073	100.0%	15,287	100.0%	28,030	100.0%	18,786	100.0%				

Analysis by risk type (continued)

Credit risk related to receivables

The largest amount of the ZIC Group's credit risk exposure to receivables is related to third-party agents, brokers and other intermediaries.

Receivables are diversified across a large number of counterparties and do not pose significant single name concentration risk. The biggest individual exposures are related to the large global insurance brokers; however, exposure to these brokers is small if compared to total receivables, and these brokers are not among the top individual counterparties where the Group has significant concentration of credit risk. The ZIC Group has policies and standards to manage and monitor credit risk related to intermediaries.

The ZIC Group strives to keep the balance of past-due positions as low as possible.

Receivables from ceded reinsurance are part of reinsurance assets and managed accordingly. For more information about receivables see note 14 of the ZIC Group consolidated financial statements and for more information about the calculation of expected credit losses see notes 3 and 23 of the ZIC Group consolidated financial statements.

Operational risk

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

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

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

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

Liquidity risk

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

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

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

Analysis by risk type (continued)

The Group regularly analyzes the liquidity of the investment assets and ensures that the liquidity of assets stays in line with liquidity requirements. In 2023, the Group's holdings in illiquid assets were within its capacity.

For more information on debt obligation maturities, see note 17 of the ZIC Group consolidated financial statements, and for information on commitments and guarantees, see note 21 of the ZIC Group consolidated financial statements.

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

For more information on the ZIC Group's other financial liabilities, see note 15 of the ZIC Group consolidated financial statements. See note 5 of the ZIC Group consolidated financial statements for information on the maturity of debt securities.

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty during the term of the investment (generally three to five years) and must be funded by the Group on a timely basis. See note 21 of the ZIC Group consolidated financial statements for more information.

Strategic risk and risks to the Group's reputation

Strategic risk

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

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

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

Risks to the Group's reputation (unaudited)

Many factors can affect Zurich's reputation including the Group's 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 Zurich's reputation. Effectively managing each risk type supports preventing adverse reputational outcomes.

The Group aims to preserve its reputation by:

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

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

Financial overview

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The information contained within the financial overview is unaudited and is based on the consolidated results of the Zurich Insurance Company Ltd and its subsidiaries (collectively the Zurich Insurance Company Group or ZIC Group) for the years ended December 31, 2023 and 2022. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated, with the consequence that the rounded amounts may not always add up to the rounded total. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts. This document should be read in conjunction with the 2023 Annual Results of the ZIC Group and in particular with its consolidated financial statements for the year ended December 31, 2023. The ZIC Group adopted IFRS 17 'Insurance Contracts' retrospectively from January 1, 2022; therefore, the comparative figures as presented in this financial overview have been restated for the effect of the adoption of IFRS 17.

In addition to the figures stated in accordance with IFRS Accounting Standards, the ZIC Group uses business operating profit (BOP), new business metrics and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the glossary. These should be viewed as complementary to, and not as substitutes for, the IFRS figures. For a reconciliation of BOP to net income attributable to shareholders (NIAS), see note 26 (table 26.4) of the ZIC Group audited consolidated financial statements for the year ended December 31, 2023.

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

Financial overview (continued)

Financial highlights

in USD millions, for the years ended December 31		Restated	
	2023	2022	Change ¹
Business operating profit	7,286	6,007	21%
Net income attributable to shareholders	4,270	3,849	11%
P&C business operating profit	3,893	3,634	7%
P&C insurance revenue	42,293	39,164	8%
P&C combined ratio	94.5%	94.5%	0.0 pts
Life business operating profit	2,060	1,487	39%
Life contractual service margin (CSM) ²	11,526	10,496	10%
Life present value of new business premiums (PVNBP) ³	16,384	13,241	24%
Life new business CSM (NB CSM) ²	1,037	987	5%
Life new business margin (as % of PVNBP) ⁴	6.3%	7.5%	(1.1 pts)
Farmers business operating profit	2,195	1,991	10%
Farmers Management Services managed gross earned premium margin	7.0%	6.6%	0.5 pts
Average Group investments ⁵	144,480	169,783	(15%)
Net investment result on Group investments ⁵	4,620	3,238	43%
Net investment return on Group investments ^{5,6}	3.2%	1.9%	1.3 pts
Total return on Group investments ^{5,6}	6.2%	(11.9%)	18.0 pts
Shareholders' equity ⁷	25,329	26,817	(6%)
Return on common shareholders' equity (ROE) ⁸	17.1%	14.6%	2.5 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE) ⁸	21.9%	17.4%	4.5 pts

1 Parentheses around numbers represent an adverse variance.

2 CSM and new business CSM are net of external reinsurance and before the effect of non-controlling interests.

3 Present value of new business premiums (PVNBP) is gross of reinsurance and before the effect of non-controlling interests.

4 Calculated as new business CSM divided by PVNBP.

5 Including investment cash and derivatives.

6 Calculated on average Group investments.

7 Restated for impacts of IFRS 9 transition.

8 Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses).

Overall ZIC Group business operating profit (BOP) increased 21 percent to USD 7.3 billion in 2023, driven by strong performances across P&C, Life and Farmers.

Net income attributable to shareholders (NIAS) increased 11 percent in 2023, with BOP growth partially offset by higher capital losses and restructuring costs.

Operating update

Property & Casualty (P&C)

in USD millions, for the years ended December 31

	Business operating profit (BOP)		Total
	2023	Restated 2022	
Insurance revenue	42,293	39,164	8%
Insurance service result	3,186	2,928	9%
Net investment result	1,529	1,376	11%
Fee result	115	89	29%
Other result	(807)	(637)	(27%)
Business operating profit	3,893	3,634	7%
Loss ratio	66.2%	67.2%	0.9 pts
Expense ratio	28.3%	27.3%	(0.9 pts)
Combined ratio	94.5%	94.5%	0.0 pts

Insurance revenue in Property & Casualty (P&C) for the year ended 2023 rose 8 percent, benefiting from the earn-through of growth in gross written premiums, which increased strongly supported by higher premium rates of 6 percent.

The net investment result was USD 153 million above the prior year, mainly due to a USD 345 million improvement in investment income compared with 2022. This improvement was due to earn-through of higher yields as well as realized capital gains of USD 225 million from the ZIC Group's hedge fund portfolio, which reported a loss of USD 21 million in the previous year. These gains were partially offset by a year-on-year increase in insurance finance expenses of USD 448 million, driven by an increase in the unwind of the discount.

The contribution of other items, which include the net non-technical result, fee result and non-controlling interests, decreased by USD 151 million compared with the previous year, mainly reflecting the absence of a one-off gain from a real estate transaction in 2022. This was partially offset by an increase of USD 26 million in the fee result compared with the prior year.

Business operating profit increased 7 percent to USD 3.9 billion compared with the prior year, driven by higher insurance revenue and an increase of the investment result, which was partially offset by the absence of a non-recurring real estate transaction in the prior year.

The combined ratio of 94.5 percent in 2023 was flat compared with the prior year. The loss ratio improved by 0.9 percentage points to 66.2 percent. The expense ratio of 28.3 percent in 2023 was 0.9 percentage points higher than in the previous year.

BOP by segment

in USD millions, for the years ended December 31

	Business operating profit (BOP)		
	2023	Restated 2022	Change
Europe, Middle East & Africa (EMEA)	816	1,300	(37%)
North America	2,647	2,030	30%
Asia Pacific	290	331	(12%)
Latin America	181	215	(16%)
Group Reinsurance	(42)	(243)	83%
Total	3,893	3,634	7%

Operating update (continued)

The reduction in Europe, Middle East & Africa (EMEA) business operating profit was driven by elevated losses in 2023 and a non-recurring gain related to a real estate transaction in the prior year.

North America business operating profit was 30 percent above prior year as a result of higher insurance revenue, an improved investment result and a lower combined ratio.

Asia Pacific business operating profit was 1.2 percent below prior year due to a higher combined ratio in P&C.

Latin America business operating profit was down 16 percent as the result was impacted by hyperinflation accounting for the Argentinian business.

Combined ratio	in %, for the years ended December 31	Combined ratio		
		2023	Restated 2022	Change
Europe, Middle East & Africa (EMEA)		98.0%	95.6%	(2.4 pts)
North America		91.5%	93.0%	1.5 pts
Asia Pacific		93.6%	91.8%	(1.8 pts)
Latin America		96.3%	95.6%	(0.7 pts)
Group Reinsurance		nm	nm	nm
Total		94.5%	94.5%	0.0 pts

In EMEA, the combined ratio deteriorated 2.4 percentage points, driven by elevated losses and an uptick in expenses.

In North America, the combined ratio improved 1.5 percentage points compared with the prior year, mainly due to lower levels of catastrophe losses.

The Asia Pacific combined ratio deteriorated 1.8 percentage points compared with the prior year, driven by an increase in the commission ratio which reflects the impact of recovering travel business sales and elevated losses.

The Latin America combined ratio deteriorated 0.7 percentage points compared with the prior year. A higher expense ratio was partially offset by a lower loss ratio.

Operating update (continued)

Life

in USD millions, for the years ended December 31		Restated		
	2023	2022		Change
Insurance service result	2,281	1,245		83%
Net investment result	592	695		(15%)
Fee result	256	134		91%
Business operating profit	2,060	1,487		39%
Assets under management ¹	259,488	232,368		12%
Contractual service margin	11,526	10,496		10%

1 Assets under management comprise balance sheet Group investments and unit-linked investments plus assets that are managed by third parties, on which fees are earned.

BOP by segment

in USD millions, for the years ended December 31		Restated		
	2023	2022		Change
Europe, Middle East & Africa (EMEA)	1,268	994		28%
North America	108	(30)		nm
Asia Pacific	275	146		88%
Latin America	404	373		8%
Group Reinsurance	5	4		25%
Total	2,060	1,487		39%

In 2023, the ZIC Group's Life business generated a business operating profit of USD 2.1 billion for 2023, 39 percent higher than in the prior year. The business operating profit did not include the contribution of the German traditional life back book and the Chilean annuity book, which have been accounted for as held for sale.

In EMEA, business operating profit of USD 1.3 billion was 28 percent higher than in the prior year, reflecting the non-recurrence of adverse transition-related adjustments and one-offs in the prior year, as well as higher amortization of the contractual service margin (CSM) in 2023 due to an increased CSM balance.

In North America, business operating profit increased by USD 138 million to USD 108 million, mainly driven by a favorable net impact from onerous contracts, as opposed to net negative impacts in the prior year.

In Asia Pacific, business operating profit increased 88 percent to USD 275 million, driven by favorable experience mainly related to assumption updates and re-pricing actions.

In Latin America, business operating profit grew 8 percent year over year, mainly driven by revenue growth.

Assets under management (AuM) increased 12 percent in 2023 to USD 259.5 billion, driven by a combination of positive net inflows and favorable market and foreign exchange movements.

The CSM increased 10 percent to USD 11.5 billion on a reported basis. This was driven by a combination of favorable economic variances, foreign exchange movements and underlying CSM accretion.

Operating update (continued)

NB CSM, PVNBP and NBM by Segment¹

in USD millions, for the years ended December 31

	Present value of new business premiums (PVNBP) ²		New business contractual service margin (NB CSM) ³		New business margin (as % of PVNBP) (NBM) ⁴	
	Restated		Restated		Restated	
	2023	2022	2023	2022	2023	2022
Europe, Middle East & Africa (EMEA)	8,818	7,660	600	643	6.8%	8.4%
North America	333	521	7	8	(1.1%)	1.5%
Asia Pacific	2,939	2,129	326	253	11.1%	11.9%
Latin America	4,296	2,931	105	87	2.4%	3.0%
Total	16,384	13,241	1,037	987	6.3%	7.5%

1 For long-term life insurance contracts. Does not include short-term life insurance contracts, which are accounted for with premium allocation approach (PAA), or investment contracts, which are accounted for with IFRS 9.

2 Present value of new business premiums (PVNBP) is gross of reinsurance and before the effect of non-controlling interests.

3 New business CSM is net of external reinsurance and before the effect of non-controlling interests.

4 Calculated as new business CSM divided by PVNBP.

PVNBP increased 24 percent on a reported basis and 26 percent on a like-for-like basis, with growth in EMEA, Asia Pacific and Latin America.

In EMEA, PVNBP grew 12 percent on a like-for-like basis, compared with the same period in 2022, reflecting large sales volumes of a retail savings product in Spain, written by the ZIC Group's joint venture with Banco Sabadell, as well as higher unit-linked sales in Germany and Spain. These increases more than offset the adverse impact of lower sales volumes in Italy and Switzerland and higher discount rates in the region.

In North America, PVNBP was 36 percent lower on a like-for-like basis compared with the prior year, driven by lower sales in the corporate business.

In Asia Pacific, PVNBP grew 44 percent on a like-for-like basis. This was driven by higher protection sales in Japan, which rebounded from a low level in the prior year, as well as in Australia, which benefited from increased volumes of corporate business.

In Latin America, PVNBP increased 61 percent on a like-for-like basis, benefiting primarily from higher sales in Brazil through the ZIC Group's joint venture with Banco Santander.

New business written in 2023 added USD 1 billion of CSM, 5 percent more than in the prior year. This was due to higher sales volumes which more than offset the impact of reduced new business margin of 6.3 percent (compared with 7.5 percent in the prior year) due to a less favorable business mix.

PVNBP and NB CSM do not include short-term life insurance or investment contracts, which are accounted for with the premium allocation approach (PAA) method and IFRS 9, respectively. Insurance revenues from short-term life insurance, which is mainly related to protection business in Latin America, grew 9 percent on a like-for-like basis. Fee revenues for investment contracts, which are mainly written in EMEA, grew 19 percent on a like-for-like basis compared with the prior year, which was affected by negative market performance.

Operating update (continued)

Farmers

in USD millions, for the years ended December 31

	2023	Restated 2022	Change
Farmers Management Services (FMS)	1,879	1,713	10%
Farmers Re	116	12	nm
Farmers Life	200	265	(24%)
Total business operating profit	2,195	1,991	10%

Farmers Management Services (FMS) business operating profit increased 10 percent compared with the prior year. This was mainly driven by the higher earned premium base of the Farmers Exchanges and a managed gross earned premium margin of 7.0 percent.

Farmers Re reported a business operating profit of USD 117 million for 2023. This was due to a lower combined ratio at a higher reinsurance participation percentage of 8.5 percent, compared with 1.75 percent in the prior year, and higher interest income.

Farmers Life business operating profit was 25 percent below the prior year, driven by a lower insurance service result, as Farmers Life entered into a reinsurance transaction with Resolution Life for its in-force book. The transaction completed on August 1, 2023.

Farmers Exchanges

The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims services and ancillary services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

Financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Re.

in USD millions, for the years ended December 31

	2023	2022	Change
Gross written premiums	27,351	26,519	3%
Gross earned premiums	26,702	25,842	3%

The Farmers Exchanges reported growth in gross written premiums of 3 percent in 2023, driven by growth in most books of business due to rate actions, partially offset by a decrease in the commercial rideshare business. Gross earned premiums increased 3 percent over the same period.

Operating update (continued)

Group Functions and Operations

in USD millions, for the years ended December 31		Restated		
	2023	2022		Change
Holding and Financing	(471)	(421)		(12%)
Headquarters	(325)	(337)		4%
Zurich Global Ventures ¹	(29)	(58)		49%
Total business operating profit	(825)	(816)		(1%)

1. Includes only central initiatives.

Group Functions and Operations reported net expenses of USD 825 million, a 1 percent increase compared with the prior year. This was mainly driven by higher interest rates.

Non-Core Businesses

in USD millions, for the years ended December 31		Restated		
	2023	2022		Change
Zurich Legacy Solutions	4	(230)		nm
Other run-off	(41)	(59)		30%
Total business operating profit	(37)	(288)		87%

The ZIC Group's Non-Core Businesses, which comprise run-off portfolios that are managed with the intention of proactively reducing risk and releasing capital, reported an operating loss of USD 37 million for 2023, compared with a loss of USD 288 million in 2022. The prior year was unfavorably impacted by adverse movements on run-off portfolios.

Consolidated financial statements

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Consolidated financial statements (continued)

Consolidated income statements

in USD millions, for the years ended December 31			
	Notes	2023	Restated 2022
Insurance revenue	9	56,099	50,792
Insurance service expense		(47,422)	(43,446)
Net expenses from reinsurance contracts held		(2,981)	(3,119)
Insurance service result		5,696	4,227
Net investment income on Group investments		5,387	5,129
Net capital gains/(losses) and impairments on Group investments		(767)	(1,892)
Net investment result on Group investments	5	4,620	3,238
Net investment result on unit-linked investments		14,191	(12,320)
Change in liabilities for investment contracts and other funds		(6,378)	5,818
Re-/insurance finance income/(expenses)		(10,963)	4,970
Net investment result		1,470	1,706
Fee income	10	5,885	5,746
Fee business expenses	10	(3,583)	(3,757)
Fee result		2,303	1,989
Other revenues		221	350
Net gains/(losses) on divestment of businesses	4	(104)	(159)
Interest expense on debt		(473)	(445)
Other expenses	11	(2,688)	(2,361)
Other result		(3,044)	(2,614)
Net income before income taxes		6,425	5,307
of which: Attributable to non-controlling interests		612	565
Income tax (expense)/benefit	16	(1,725)	(1,056)
attributable to policyholders		(172)	241
attributable to shareholders		(1,552)	(1,297)
of which: Attributable to non-controlling interests		(182)	(162)
Net income after taxes		4,700	4,252
attributable to non-controlling interests		430	403
attributable to shareholders		4,270	3,849

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

Consolidated financial statements (continued)

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31

	Net income attributable to shareholders	Net unreal. gains/ (losses) on financial assets	Change in discount rate for insurance/ reinsurance contracts	Change in fair value of underlying items through OCI	Cumulative foreign currency translation adjustment
Restated					
2022					
Comprehensive income for the period	3,849	(17,363)	6,401	8,373	(986)
Details of movements during the period					
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(22,193)	8,106	10,941	(978)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		394	–	–	(8)
Reclassification to retained earnings		–	–	–	–
Income tax (before foreign currency translation effects)		5,023	(1,723)	(3,024)	–
Foreign currency translation effects		(588)	18	456	–
2023					
Comprehensive income for the period	4,270	2,966	(977)	(1,250)	(693)
Details of movements during the period					
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		2,950	(1,401)	(1,631)	(705)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		1,289	–	–	11
Reclassification to retained earnings		–	–	–	–
Income tax (before foreign currency translation effects)		(1,106)	309	335	–
Foreign currency translation effects		(168)	116	46	–

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

Consolidated financial statements (continued)

Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
(3,575)	7	253	260	(3,316)	533	242	775
(4,124)	10	155	164	(3,959)			
386	-	-	-	386			
-	-	-	-	-			
276	(2)	(37)	(40)	236			
(114)	-	135	135	21			
45	(18)	(447)	(464)	(419)	3,851	459	4,310
(787)	(18)	(464)	(482)	(1,269)			
1,301	-	-	-	1,301			
-	(5)	-	(5)	(5)			
(462)	6	120	126	(336)			
(6)	-	(103)	(103)	(109)			

Consolidated financial statements (continued)

Consolidated balance sheets

Assets	in USD millions, as of		Restated	Restated
	Notes	12/31/23	12/31/22	01/01/22
Assets				
Cash and cash equivalents		7,273	7,547	8,673
Total Group investments	5	142,200	143,061	192,632
Equity securities		14,452	14,133	19,530
Debt securities		105,924	103,740	150,329
Investment property		13,684	14,798	14,070
Mortgage loans at amortized cost		4,324	5,497	6,106
Other assets at amortized cost		3,682	4,801	2,529
Investments in associates and joint ventures		135	92	68
Investments for unit-linked contracts		141,144	122,461	142,838
Total investments		283,344	265,522	335,470
Insurance contract assets	7	580	676	720
Reinsurance contract assets	7	21,942	19,878	20,208
Receivables and other assets	14	10,385	8,713	8,060
Deferred tax assets	16	1,700	1,736	1,909
Assets held for sale ¹	4	23,758	21,142	11,504
Property and equipment	12	2,091	2,223	2,436
Attorney-in-fact contracts	13	2,650	2,650	2,650
Goodwill	13	4,541	4,420	4,344
Other intangible assets	13	4,337	3,835	3,858
Total assets		362,601	338,345	399,831

1 As of December 31, 2023, the ZIC Group had USD 23.8 billion of assets held for sale based on agreements signed to sell portfolios of Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft, Zurich Chile Seguros de Vida S.A., Zurich Insurance plc and Zurich Insurance Company Ltd (UK Branch) (see note 4). In 2022, the ZIC Group had USD 21.1 billion of assets held for sale based on agreements signed to sell portfolios of Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft and Zurich Insurance plc (Spain Medical Malpractice and UK Employers' Liability portfolios) (see note 4).

Consolidated financial statements (continued)

Liabilities and equity

in USD millions, as of			Restated	Restated
	Notes	12/31/23	12/31/22	01/01/22
Liabilities				
Liabilities for investment contracts	8	60,270	50,557	60,430
Insurance contract liabilities	7	216,962	203,837	262,641
Reinsurance contract liabilities	7	504	367	150
Obligation to repurchase securities		796	1,069	1,381
Other liabilities ¹	15, 21	17,096	18,070	15,044
Deferred tax liabilities	16	2,300	2,047	2,903
Liabilities held for sale ²	4	23,860	20,568	11,389
Senior debt	17	5,202	5,077	5,327
Subordinated debt	17	8,559	8,899	9,782
Total liabilities		335,549	310,491	369,047
Equity				
Share capital	18	660	660	660
Additional paid-in capital	18	11,761	11,761	11,761
Net unreal. gains/(losses) on financial assets		(4,306)	(7,775)	9,589
Change in discount rate for (re)insurance contract		4,288	5,264	(1,137)
Change in fair value of underlying items		1,053	2,041	(6,331)
Cumulative foreign currency translation adjustment		(8,946)	(8,846)	(8,096)
Revaluation reserves		254	272	265
Retained earnings		20,566	22,927	22,006
Shareholders' equity		25,329	26,304	28,716
Non-controlling interests ³		1,724	1,549	2,069
Total equity		27,052	27,853	30,785
Total liabilities and equity		362,601	338,345	399,831

1 Includes restructuring provisions, litigation and regulatory provisions (see note 15) and other provisions.

2 As of December 31, 2023, the ZIC Group had USD 23.9 billion of liabilities held for sale based on agreements signed to sell portfolios of Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft, Zurich Chile Seguros de Vida S.A., Zurich Insurance plc and Zurich Insurance Company Ltd (UK Branch) (see note 4). In 2022, the ZIC Group had USD 20.6 billion of liabilities held for sale based on agreements signed to sell portfolios of Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft and Zurich Insurance plc (Spain Medical Malpractice and UK Employers' Liability portfolios) (see note 4).

3 Refer to footnote 2 on the consolidated statement of changes in equity.

Consolidated financial statements (continued)

Consolidated statements of cash flows

in USD millions, for the years ended December 31	2023	Restated 2022
Cash flows from operating activities		
Net income attributable to shareholders	4,270	3,849
Adjustments for:		
Net (gains)/losses on divestment of businesses	104	159
(Income)/expense from equity method accounted investments	(2)	4
Depreciation, amortization and impairments of fixed and intangible assets	852	756
Other non-cash items	39	190
Underwriting activities:	11,101	(12,104)
Insurance contracts assets/liabilities	5,063	(6,966)
Reinsurance contracts assets/liabilities	(1,357)	(143)
Liabilities for investment contracts	7,395	(4,996)
Investments:	(5,242)	10,901
Net capital (gains)/losses on total investments and impairments	(12,316)	15,490
Net change in derivatives	(56)	(477)
Net change in money market investments	(429)	90
Sales and maturities		
Debt securities	63,555	51,564
Equity securities	53,763	53,199
Other	9,044	7,446
Purchases		
Debt securities	(60,812)	(54,925)
Equity securities	(52,493)	(51,789)
Other	(5,498)	(9,698)
Net changes in sale and repurchase agreements	(355)	(266)
Movements in receivables and payables	(797)	(1,032)
Net changes in other operational assets and liabilities	(2,451)	2,285
Deferred income tax, net	(209)	(400)
Net cash provided by/(used in) operating activities	7,311	4,342

Consolidated financial statements (continued)

in USD millions, for the years ended December 31	2023	Restated 2022
Cash flows from investing activities		
Additions to tangible and intangible assets	(418)	(535)
Disposals of tangible and intangible assets	57	54
(Acquisitions)/disposals of equity method accounted investments, net	(39)	–
Acquisitions of companies, net of cash acquired	(734)	(328)
Divestments of companies, net of cash divested	–	155
Dividends from equity method accounted investments	2	–
Net cash provided by/(used in) investing activities	(1,132)	(654)
Cash flows from financing activities		
Dividends paid	(6,105)	(3,833)
Net movement in treasury shares	–	–
Issuance of debt	556	2,568
Repayment of debt	(1,202)	(3,078)
Lease principal repayments	(211)	(220)
Net cash provided by/(used in) financing activities	(6,962)	(4,563)
Foreign currency translation effects on cash and cash equivalents	278	(288)
Change in cash and cash equivalents ¹	(505)	(1,163)
Cash and cash equivalents as of January 1	8,143	9,306
Cash and cash equivalents as of December 31	7,638	8,143
of which: Cash and cash equivalents	7,273	7,547
of which: Unit-linked ²	365	596
Other supplementary cash flow disclosures³		
Other interest income received	5,004	4,874
Dividend income received	1,164	1,439
Other interest expense paid	(551)	(523)
Income taxes paid	(1,644)	(1,444)

1 Includes USD 56 million as of December 31, 2023 and USD 51 million as of December 31, 2022 of cash and cash equivalents reclassified to assets held for sale, which has been recognized in net changes in other operational assets and liabilities (see note 4).

2 These amounts are included within 'Investments for unit-linked contracts' on the balance sheet.

3 These amounts are primarily included in the operating activities of the cash flow statement.

Cash and cash equivalents

in USD millions, as of December 31	2023	2022
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	6,553	7,107
Cash equivalents	1,085	1,036
Total	7,638	8,143

For the periods ended December 31, 2023 and 2022, cash and cash equivalents held to meet local regulatory requirements were USD 373 million and USD 406 million, respectively.

Consolidated financial statements (continued)

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital	Net unreal. gains/(losses) on financial assets
Balance as of December 31, 2021 as previously reported	660	11,761	4,182
Effect of adoption IFRS 17 ¹	–	–	5,406
Balance as of January 1, 2022 after the adoption of IFRS 17	660	11,761	9,589
Issuance of share capital	–	–	–
Dividends to shareholders ²	–	–	–
Share-based payment transactions	–	–	–
Treasury share transactions	–	–	–
of which: share buy-back program	–	–	–
Cumulative foreign currency translation adj. hyperinflation	–	–	–
Reclassification from revaluation reserves	–	–	–
Other ³	–	–	–
Total comprehensive income for the period, net of tax	–	–	(17,363)
Net income	–	–	–
Net unreal. gains/(losses) on financial assets	–	–	(17,363)
Change in discount rate for insurance/reinsurance contracts	–	–	–
Change in fair value of underlying items through OCI	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of December 31, 2022	660	11,761	(7,775)
Balance as of December 31, 2022 after the adoption of IFRS 17	660	11,761	(7,775)
Effect of adoption IFRS 9 ⁴	–	–	503
Effect of adoption IAS 29 and restatement under IFRIC 7 ⁵	–	–	–
Balance as of January 1, 2023 after the adoption of IFRS 9, IAS 29 and restatement under IFRIC 7	660	11,761	(7,272)
Issuance of share capital	–	–	–
Dividends to shareholders	–	–	–
Share-based payment transactions	–	–	–
Treasury share transactions	–	–	–
of which: share buy-back program	–	–	–
Cumulative foreign currency translation adj. hyperinflation	–	–	–
Reclassification from revaluation reserves	–	–	–
Other	–	–	–
Total comprehensive income for the period, net of tax	–	–	2,966
Net income	–	–	–
Net unreal. gains/(losses) on financial assets	–	–	2,966
Change in discount rate for insurance/reinsurance contracts	–	–	–
Change in fair value of underlying items through OCI	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of December 31, 2023	660	11,761	(4,306)

1 The ZIC Group adopted IFRS 17 'Insurance Contracts' retrospectively from January 1, 2022; therefore, the comparative figures have been restated for the effect of the adoption of IFRS 17. Please see note 2 for details.

2 Includes a reclassification of USD 485 million between non-controlling interests and retained earnings (without impact to total equity) to reflect Zurich Insurance Group Ltd's 4.62% ownership of Farmers Group, Inc.

3 This mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

4 Impacts to retained earnings include the impact of deferred tax revaluations of USD 6 million, and exclude the effect of USD 522 million related to the overlay approach applied in 2022 for presentation of the comparative period balances for certain financial assets backing direct participating insurance contracts.

5 Effect of adoption of IAS 29 'Financial Reporting in Hyperinflation Economies' and Restatement under IFRIC 7 in Turkey.

Consolidated financial statements (continued)

Change in discount rate for insurance/reinsurance contracts	Change in fair value of underlying items through OCI	Cumulative foreign currency translation adjustment	Revaluation Reserves	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
-	-	(8,095)	265	28,770	37,542	2,058	39,600
(1,137)	(6,331)	-	-	(6,764)	(8,826)	11	(8,816)
(1,137)	(6,331)	(8,096)	265	22,006	28,716	2,069	30,785
-	-	-	-	-	-	-	-
-	-	-	-	(3,064)	(3,064)	(769)	(3,833)
-	-	-	-	45	45	-	45
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	235	-	39	275	21	296
-	-	-	-	-	-	-	-
-	-	-	-	(200)	(200)	(10)	(210)
6,401	8,373	(986)	7	4,101	533	242	775
-	-	-	-	3,849	3,849	-	-
-	-	-	-	-	(17,363)	-	-
6,401	-	-	-	-	6,401	-	-
-	8,373	-	-	-	8,373	-	-
-	-	(986)	-	-	(986)	-	-
-	-	-	7	-	7	-	-
-	-	-	-	253	253	-	-
-	-	-	-	-	-	(4)	(4)
5,264	2,041	(8,846)	272	22,927	26,304	1,549	27,853
5,264	2,041	(8,846)	272	22,927	26,304	1,549	27,853
-	262	-	-	(391)	374	2	376
-	-	226	-	(86)	139	-	139
5,264	2,303	(8,621)	272	22,450	26,817	1,552	28,369
-	-	-	-	-	-	-	-
-	-	-	-	(5,796)	(5,796)	(309)	(6,105)
-	-	-	-	115	115	-	115
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	368	-	(31)	336	22	358
-	-	-	-	5	5	-	5
-	-	-	-	-	-	-	-
(977)	(1,250)	(693)	(18)	3,823	3,851	459	4,310
-	-	-	-	4,270	4,270	-	-
-	-	-	-	-	2,966	-	-
(977)	-	-	-	-	(977)	-	-
-	(1,250)	-	-	-	(1,250)	-	-
-	-	(693)	-	-	(693)	-	-
-	-	-	(18)	-	(18)	-	-
-	-	-	-	(447)	(447)	-	-
-	-	-	-	-	-	-	-
4,288	1,053	(8,946)	254	20,566	25,329	1,724	27,052

Consolidated financial statements (continued)

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

Zurich Insurance Company Ltd is incorporated in Zurich, Switzerland. The registered office address is at Mythenquai 2, 8002 Zurich, Switzerland. Zurich Insurance Company Ltd is a wholly owned subsidiary of Zurich Insurance Group Ltd and together with its subsidiaries forms part of the Zurich Insurance Group (collectively the Group).

On March 13, 2024, the Board of Directors of Zurich Insurance Company Ltd authorized these consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on April 10, 2024.

1. Basis of presentation

General information

The consolidated financial statements of the ZIC Group have been prepared in accordance with IFRS Accounting Standards and comply with Swiss Law. Accounting policies are established for the Group and are equally applicable to the ZIC Group. The accounting policies used to prepare the consolidated financial statements comply with IFRS Accounting Standards, including the adoption and implementation of new accounting standards and amendments for the financial year beginning January 1, 2023 as set out in note 2.

The ZIC Group adopted IFRS 17 'Insurance Contracts' retrospectively from January 1, 2022; therefore, the comparative figures as presented in this annual report have been restated for the effect of the adoption of IFRS 17. The ZIC Group also adopted IFRS 9 'Financial Instruments' from January 1, 2023. As permitted by IFRS 9 transition provisions, the ZIC Group did not restate the comparative information for the effects of adoption of IFRS 9, except for the application of the classification overlay for certain financial assets backing participating insurance contracts. The effects of the application of these standards are significant to the ZIC Group and are discussed in note 2.

The accounting policies applied by the reportable segments are the same as those applied by the ZIC Group. The ZIC Group accounts for intersegment revenues and transfers as if the transactions were with third parties at current market prices. Dividends and realized capital gains and losses, as well as gains and losses on the transfer of net assets, are eliminated within the segment, whereas all other intercompany gains and losses are eliminated at Group level. In the audited consolidated financial statements, intersegment revenues and transfers are eliminated.

Certain amounts recorded in the consolidated financial statements reflect estimates and assumptions made by management about insurance and reinsurance contract assets and liabilities, investment valuations, interest rates and other factors. For more information about significant judgments applied, please see note 3.

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

The ZIC Group 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, the ZIC Group's exposure to Russia and Ukraine is also immaterial.

During 2023, though the rate of inflation slowed, most economies saw continued tightening of monetary policy through increasing interest rates by central banks. The bond markets improved, buoyed by rising yields and falling inflation and mixed experience in the equities market which generally remained flat. Investment valuation and interest rates incorporate these market conditions as of December 31, 2023 and December 31, 2022, and recoverability of intangible assets has been tested where the value of these intangible assets, including goodwill, is sensitive to prevailing market conditions. For more information on investments and fair value, please see notes 5 and 23, respectively. For more information on intangible assets, please see note 13.

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).

Consolidated financial statements (continued)

Effect of regulatory frameworks

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

Hyperinflation and rates

The ZIC Group considers various factors to determine whether an economy in a country where a foreign operation is situated is hyperinflationary. Any material translation adjustments resulting from initial application of hyperinflationary accounting is recognized directly in equity.

As of January 1, 2023, the ZIC Group initially adopted hyperinflationary accounting for its operations in Turkey. For the effect of the adoption and current year effect of IAS 29 'Financial Reporting in Hyperinflationary Economies,' please refer to the consolidated statements of changes in equity.

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the audited consolidated income statements were USD (99) million and USD (58) million for the years ended December 31, 2023 and 2022, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (226) million and USD (398) million for the years ended December 31, 2023 and 2022, respectively.

Table 1.1

Principal exchange rates

USD per foreign currency unit

	Consolidated balance sheets		Consolidated income statements and cash flows	
	at end-of-period exchange rates		at average exchange rates	
	12/31/23	12/31/22	12/31/23	12/31/22
Euro	1.1053	1.0684	1.0813	1.0538
Swiss franc	1.1874	1.0813	1.1132	1.0482
British pound	1.2737	1.2049	1.2434	1.2372
Brazilian real	0.2059	0.1894	0.2003	0.1940
Australian dollar	0.6817	0.6797	0.6644	0.6950
Japanese yen	0.0071	0.0076	0.0071	0.0077

Tables 1.2 and 1.3 summarize the closing discount rates used for the measurement of the ZIC Group's (re-)insurance contract assets and liabilities as of December 31, 2023 and 2022, respectively, by major currency:

Table 1.2

Discount rates by major currency – liquid products

as of December 31	2023				2022			
	US dollar	Swiss franc	Euro	British pound	US dollar	Swiss franc	Euro	British pound
1 year	4.76%	1.17%	3.36%	4.73%	5.07%	1.06%	3.18%	4.46%
5 years	3.50%	1.05%	2.32%	3.35%	3.95%	1.34%	3.13%	4.06%
10 years	3.45%	1.16%	2.39%	3.28%	3.75%	1.49%	3.09%	3.71%
20 years	3.46%	1.49%	2.41%	3.43%	3.63%	1.58%	2.76%	3.54%
40 years	3.18%	1.86%	2.69%	3.16%	2.82%	1.90%	2.85%	3.15%

Table 1.3

Discount rates by major currency – more illiquid products

as of December 31	2023				2022			
	US dollar	Swiss franc	Euro	British pound	US dollar	Swiss franc	Euro	British pound
1 year	5.23%	1.53%	3.55%	5.03%	5.59%	1.04%	3.37%	4.75%
5 years	3.97%	1.41%	2.51%	3.65%	4.47%	1.32%	3.32%	4.35%
10 years	3.92%	1.52%	2.58%	3.58%	4.27%	1.47%	3.28%	4.00%
20 years	3.93%	1.83%	2.60%	3.73%	4.15%	1.56%	2.95%	3.83%
40 years	3.60%	2.09%	2.82%	3.46%	3.34%	1.89%	2.98%	3.44%

Consolidated financial statements (continued)

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early adopted as of January 1, 2023 and relevant for the ZIC Group's operations

Table 2.1 shows new accounting standards or amendments to, and interpretations of, standards relevant to the ZIC Group that have been implemented for the financial year beginning January 1, 2023. The effects of the application of the new standards are discussed below. Changes resulting from the amended standards did not have a material impact on the ZIC Group's consolidated financial statements.

Table 2.1

Standard/ Interpretation		Effective date
	New standards/interpretations	
IFRS 9	Financial Instruments	January 1, 2023
IFRS 17	Insurance Contracts	January 1, 2023
	Amended standards	
IAS 1	Disclosure of Accounting Policies	January 1, 2023
IAS 8	Definition of Accounting Estimates	January 1, 2023
IAS 12	International Tax Reform – Pillar II Model Rules	January 1, 2023

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' provides comprehensive guidance on accounting for (re-)insurance contracts issued including investment contracts with discretionary participation features and reinsurance contracts held. It has a significant impact on the measurement of these contracts and the presentation of the insurance revenue and insurance service result. The impact is more pronounced for long-duration life contracts, where the measurement under IFRS 17 includes the recognition of a separate component of the insurance liability, contractual service margin (CSM), representing unearned profits from in-force contracts. For short duration contracts, all the liabilities for incurred claims are discounted under IFRS 17, which allows for consistency in presentation of short- and long-tail businesses. IFRS 17 further introduces a risk adjustment for non-financial risk, a separate component of the liability covering the uncertainty in the amount and timing of future cash flows.

IFRS 17 introduces different measurement models for (re-)insurance contract assets and liabilities reflecting the different extent of policyholder participation in investment performance or performance of the insurance entity: non-participating or indirect participating (general model or the building block approach (BBA)) and direct participating (the variable fee approach (VFA)). For short-duration contracts, IFRS 17 permits a simplified approach (the premium allocation approach (PAA)), which can be applied to contracts that have a coverage period of 12 months or less or for which such simplification would produce a measurement of the liability for remaining coverage that would not differ materially from the one that would be produced applying BBA.

The ZIC Group applied IFRS 17 to (re-)insurance contracts issued and reinsurance contracts held retrospectively from January 1, 2022, in accordance with the accounting policies outlined in note 3. The 2022 comparative figures as presented in this annual report have been restated for the adoption of IFRS 17.

In October 2022, the IFRS Interpretations Committee published the final agenda decision clarifying the treatment of multi-currency groups of insurance contracts where the underlying cash flows are denominated in more than one currency. The ZIC Group amended its accounting policy to require each group of contracts to be denominated in a single predominant currency of the cash flows within the group of contracts, which is not necessarily the same as the functional currency of the reporting entity issuing such insurance contracts. The ZIC Group completed the implementation of the amended accounting policy as of December 31, 2023. The resulting impact was not material to the ZIC Group's financial statements and is therefore included in the current period profit or loss.

Summary of IFRS 17 transition approach and effect

The ZIC Group determined the transition approach for groups of insurance contracts, depending on the availability of reasonable and supportable historic information. The selected transition approach affected the measurement of the CSM on initial adoption of IFRS 17 as follows:

- Fully retrospective approach – the CSM is based on initial assumptions when groups of contracts were inceptioned and rolled forward to the date of transition as if IFRS 17 had always been applied;
- Modified retrospective approach – the CSM is calculated using modifications allowed by IFRS 17, taking into account the actual pre-transition fulfillment cash flows; and
- Fair value approach – the CSM at transition is calculated as the difference between the fair value of a group of contracts, without the consideration of the demand deposit floor requirement, and the respective fulfillment cash flows measured at the transition date.

Consolidated financial statements (continued)

When a fully retrospective approach was considered impracticable due to lack of historical data or application of hindsight, the ZIC Group chose between a modified retrospective approach or a fair value approach. The ZIC Group applied a retrospective transition approach whenever practical, resulting in a large proportion of CSM from groups of (re-)insurance contracts measured under either a fully retrospective or a modified retrospective approach.

In applying the modified retrospective and fair value approaches for certain groups of non-life and life (re-)insurance contracts prior to the transition date, the ZIC Group used the modifications allowed under IFRS 17, such as grouping contracts issued more than one year apart into a single group for measurement purposes or applying interest rates as of the transition date and setting the cumulative amount of (re-)insurance finance income or expense recognized in other comprehensive income to nil. All such contracts were accounted for under BBA. In addition, the ZIC Group applied a modification for certain groups of non-life insurance contracts with long-tail outstanding claims at the transition date. The unwinding of the discount on the liability for incurred claims was based on the locked-in discount rates as of the transition date instead of the locked-in accident year discount rates. Furthermore, where the ZIC Group applied a modification for certain groups of life direct participating insurance contracts that were accounted for under VFA where the ZIC Group holds the underlying items, the cumulative difference in OCI was set equal to the cumulative amount recognized in OCI on the underlying items as of the transition date.

In applying the fair value approach, the ZIC Group determined the fair value of a group of insurance contracts as the price that the ZIC Group would pay to (or receive from) an average market participant for transferring a group of insurance contracts at the transition date. The cost of capital within a range of 6–9 percent was used to determine the remuneration an average market participant would require to hold the required capital over the period of run-off of the insurance contracts in the group, depending on the appropriateness of the respective cost of capital for a specific portfolio or in a specific market. Other input parameters included the required capital and the target surplus, as well as non-attributable expenses from the perspective of an average market participant. The CSM for a group of contracts was determined as the difference between the fair value of the group of contracts and the fulfillment cash flows as of the transition date.

For the presentation of the effects from adoption of IFRS 17 as of the transition date (i.e., January 1, 2022), please refer to the 2022 Annual Report. Due to significant increases in interest rates during 2022 and other market movements, we observed a significant reduction in unrealized gains from debt securities, which contributed to the reduction in the ZIC Group's shareholders' equity as published in the 2022 Annual Report. The effect on shareholders' equity from applying IFRS 17 was much less pronounced due to offsetting effects between asset and liability valuations. Therefore, the difference in shareholders' equity reduced from USD 8.8 billion as of January 1, 2022 to USD 984 million as of December 31, 2022.

The relevant disclosures for insurance and reinsurance contracts are presented in note 7.

IFRS 9 'Financial Instruments'

The ZIC Group adopted the requirements of IFRS 9 'Financial Instruments,' including all the relevant amendments, from January 1, 2023. The ZIC Group assessed the business model for managing financial assets based on facts and circumstances as of January 1, 2023. The contractual characteristics test (also referred as the 'SPPI test') was conducted based on the contractual terms at initial recognition of the financial assets. The classification, measurement and expected credit loss (ECL) requirements were applied retrospectively by adjusting the opening balance sheet at the date of initial application. The ZIC Group applies IFRS 9 for all designated hedge relationships. As permitted by IFRS 9, the ZIC Group has not restated comparative periods, and only applied the IFRS 9 classification overlay, a transition option available under IFRS 17 in the comparative period presented on initial application of IFRS 17. The ZIC Group applied the IFRS 9 classification overlay for selected asset portfolios backing direct participating insurance contracts. Furthermore, the ZIC Group discontinued certain cash flow hedges of reinvestment risk arising from assets backing direct participating contracts as these derivatives are part of the underlying items held for these contracts. With the adoption of IFRS 17, these derivatives are presented as trading derivatives with the unrealized gains/losses included in the measurement of direct participating contracts.

The accounting policies for the recognition and measurement of financial assets and liabilities have been amended for the adoption of IFRS 9 and are presented in note 3 alongside comparative accounting policies.

Upon the adoption of IFRS 9, the ZIC Group made other presentation changes, including the reclassification of certain commercial real estate loans from mortgage loans to other loans, with the measurement basis continuing to be at amortized cost, to better reflect the nature of the instrument and the way the exposure is managed by the ZIC Group.

Table 2.2 below provides a summary of the effect of the adoption of IFRS 9, including presentation changes from 2022 impacted by the overlay approach and amended classification and measurement requirements on the ZIC Group's consolidated balance sheet.

Consolidated financial statements (continued)

Table 2.2

Classification of financial assets and liabilities at the date of initial application of IFRS 9

in USD millions as of

	December 31, 2022 (IAS 39 carrying amount)	Impact of adoption of IFRS 17	IFRS 9 reclassification	Reversal of IAS 39 loss allowance and recognition of IFRS 9 ECL	IFRS 9 remeasurement	January 1, 2023 (IFRS 9 carrying amount)
Cash and cash equivalents	7,547	-	-	-	-	7,547
Equity securities:	-	-	-	-	-	-
From FV through profit or loss (IAS 39)	3,540	-	-	-	-	-
To FV through OCI debt securities	-	-	(38)	-	-	-
To FV through profit or loss	-	-	(3,502)	-	-	-
From available-for-sale (IAS 39)	10,593	-	-	-	-	-
To FV through OCI not recycled	-	-	-	-	-	-
To FV through profit or loss	-	-	(10,593)	-	-	-
Equity securities (IAS 39)	14,133	-	(14,133)	-	-	-
To FV through OCI not recycled (IFRS 9)	-	-	-	-	-	-
From available-for-sale	-	-	-	-	-	-
To FV through profit or loss (IFRS 9)	-	-	-	-	-	-
From FV through profit or loss	-	-	3,502	-	-	3,502
From available-for-sale	-	-	10,593	-	-	10,593
Equity securities (IFRS 9)	-	-	14,095	-	-	14,095
Debt securities:	-	-	-	-	-	-
From FV through profit or loss (IAS 39) ¹	6,386	-	-	-	-	-
To FV through OCI	-	-	(3,191)	-	-	-
To FV through profit or loss	-	-	(3,195)	-	-	-
From available-for-sale (IAS 39)	94,440	-	-	-	-	-
To FV through OCI	-	-	(84,264)	-	-	-
To FV through profit or loss	-	-	(5,984)	-	-	-
To amortized cost	-	-	(4,192)	-	-	-
From held-to-maturity (IAS 39)	2,838	-	-	-	-	-
To FV through OCI	-	-	(1,806)	-	-	-
To amortized cost	-	-	(1,032)	-	-	-
Debt securities (IAS 39)	103,664	-	(103,664)	-	-	-
To FV through OCI (IFRS 9)	-	-	-	-	-	-
From FV through profit or loss (debt and equity)	-	-	3,229	-	-	3,229
From available-for-sale	-	-	84,264	-	-	84,264
From held-to-maturity	-	-	1,806	-	101	1,907
From other loans at amortized cost	-	-	20	-	(1)	19
To FV through profit or loss (IFRS 9)	-	-	-	-	-	-
From FV through profit or loss	-	-	3,195	-	-	3,195
From available-for-sale	-	-	5,984	-	-	5,984
From held-to-maturity	-	-	-	-	(1)	(1)
To amortized cost (IFRS 9)	-	-	-	-	-	-
From available-for-sale	-	-	4,192	-	483	4,674
From held-to-maturity	-	-	1,032	(3)	-	1,029
Debt securities (IFRS 9)	-	-	103,721	(3)	583	104,301
Investment property	14,798	-	-	-	-	14,798
Mortgage loans at amortized cost:	-	-	-	-	-	-
From mortgage loans at amortized cost (IAS 39)	5,497	-	-	-	-	-
To mortgage loans at amortized cost	-	-	(4,584)	-	-	-
To other loans at amortized cost	-	-	(912)	-	-	-
Mortgage loans at amortized cost (IAS 39)	5,497	-	(5,497)	-	-	-
To mortgage loans at amortized cost (IFRS 9)	-	-	-	-	-	-
From mortgage loans at amortized cost	-	-	4,584	2	-	4,587
Mortgage loans at amortized cost (IFRS 9)	-	-	4,584	2	-	4,587

Consolidated financial statements (continued)

Table 2.2 (continued)

Classification of financial assets and liabilities at the date of initial application of IFRS 9

in USD millions as of

	December 31, 2022 (IAS 39 carrying amount)	Impact of adoption of IFRS 17	IFRS 9 reclassification	Reversal of IAS 39 loss allowance and recognition of IFRS 9 ECL	IFRS 9 remeasurement	January 1, 2023 (IFRS 9 carrying amount)
Other loans:	-	-	-	-	-	-
From other loans (IAS 39)	5,391	(590)	-	-	-	-
To other loans at amortized cost	-	-	(4,781)	-	-	-
To FV through OCI debt securities	-	-	(20)	-	-	-
Other loans (IAS 39)	5,391	(590)	(4,801)	-	-	-
To other loans at amortized cost (IFRS 9)	-	-	-	-	-	-
From other loans	-	-	4,781	(6)	-	4,775
From mortgage loans at amortized cost	-	-	912	-	-	912
Other financial assets at amortized cost (IFRS 9)	-	-	5,694	(6)	-	5,687
Investments in associates and joint ventures	92	-	-	-	-	92
Investments for unit-linked contracts	121,989	557	-	-	-	122,546
Receivables in scope of IFRS 9	16,810	(12,215)	-	(15)	-	4,580
Other assets – derivative assets:	-	-	-	-	-	-
From trading (IAS 39)	531	(49)	-	-	-	-
To trading	-	-	(481)	-	-	-
From hedge accounting (IAS 39)	304	-	-	-	-	-
To trading	-	-	(203)	-	-	-
To hedge accounting	-	-	(101)	-	-	-
Derivative assets (IAS 39)	835	(49)	(786)	-	-	-
To hedge accounting (IFRS 9) from hedge accounting	-	-	101	-	-	101
To trading (IFRS 9)	-	-	-	-	-	-
From hedge accounting	-	-	203	-	-	203
From trading	-	-	481	-	-	481
Derivative assets (IFRS 9)	-	-	786	-	-	786
All other assets	4,119	(787)	-	-	-	3,332
Deferred taxes assets	-	-	-	-	-	-
Assets held for sale	22,152	(1,010)	-	-	-	21,142
Total financial assets	317,027	(14,094)	-	(22)	583	303,493
Liabilities for investment contracts:	-	-	-	-	-	-
Amortized cost	518	-	-	-	-	518
Unit-linked	56,938	(6,899)	-	-	-	50,039
Liabilities for investment contracts	57,456	(6,899)	-	-	-	50,557
Obligation to repurchase securities	1,069	-	-	-	-	1,069
Other liabilities	18,771	(1,834)	-	-	-	16,936
Derivative liabilities:	-	-	-	-	-	-
From trading (IAS 39)	393	-	-	-	-	-
To trading	-	-	(393)	-	-	-
From hedge accounting (IAS 39)	803	(31)	-	-	-	-
To trading	-	-	(707)	-	-	-
To hedge accounting	-	-	(65)	-	-	-
Derivative liabilities (IAS 39)	1,196	(31)	(1,165)	-	-	-
To hedge accounting (IFRS 9)	-	-	-	-	-	-
From hedge accounting	-	-	65	-	-	65
To trading (IFRS 9)	-	-	-	-	-	-
From hedge accounting	-	-	707	-	-	707
From trading	-	-	393	-	-	393
Derivative liabilities (IFRS 9)	-	-	1,165	-	-	1,165
Senior and subordinated debt	13,976	-	-	-	9	13,985
Liabilities held for sale	21,295	(727)	-	-	-	20,568
Total financial liabilities	113,763	(9,491)	-	-	9	104,280

Consolidated financial statements (continued)

Table 2.2 (continued)

Classification of financial assets and liabilities at the date of initial application of IFRS 9

in USD millions as of

	December 31, 2022 (IAS 39 carrying amount)	Impact of adoption of IFRS 17	IFRS 9 reclassification	Reversal of IAS 39 loss allowance and recognition of IFRS 9 ECL	IFRS 9 remeasurement	January 1, 2023 (IFRS 9 carrying amount)
Unrealized gains/(losses) on investments:						
Unrealized gains/(losses) on investments – FX	1,563	(1,601)	–	–	–	(38)
Unrealized gains/(losses) on assets held for sale – IFRS 5	(51)	153	–	5	(74)	34
Unrealized holding gains/(losses)	(3)	–	–	–	–	(3)
Unrealized gains/(losses) on investments (IAS 39)	1,510	(1,448)	–	5	(74)	(7)
From available-for-sale to FV through PL – FX	–	–	–	–	38	38
Held-to-maturity position with OCI component	–	–	–	–	1	1
Unrealized gains/(losses) on investments (IFRS 9)	1,510	(1,448)	–	5	(34)	32
Unrealized gains/(losses) on FVOCI equity securities (IAS 39)	242	–	–	–	–	242
Impact due to reclassification:						
From available-for-sale to FV through PL	–	–	–	–	(398)	(398)
Unrealized gains/(losses) on FVOCI equity securities (IFRS 9)	242	–	–	–	(398)	(156)
Unrealized gains/(losses) on FVOCI debt securities (IAS 39)	(10,218)	(88)	–	–	–	(10,306)
Impact/remeasurement due to reclassification:						
From FV through PL to FV through OCI	–	–	–	–	(177)	(177)
From available-for-sale to FV through PL	–	–	–	–	817	817
From available-for-sale to amortized cost	–	–	–	–	480	480
From held-to-maturity to FV through OCI	–	–	–	–	101	101
From other loans to FV through OCI	–	–	–	–	(236)	(236)
Unrealized gains/(losses) on FVOCI debt securities (IFRS 9)	(10,218)	(88)	–	–	985	(9,321)
Loss allowance on FVOCI debt securities	–	–	–	86	–	86
Cash flow hedges (IAS 39)	134	(642)	–	–	–	(508)
From cash flow hedge to FV hedge	–	–	–	–	497	497
From FV hedge to cash flow hedge	–	–	–	–	(4)	(4)
Cash flow hedges (IFRS 9)	134	(642)	–	–	492	(15)
Retained earnings (IAS 39)	30,536	(7,028)	–	–	–	23,508
Impact due to remeasurements:						
From FV through PL to FV through OCI debt securities ³	–	–	–	–	181	181
From available-for-sale to FV through PL debt securities ³	–	–	–	–	(1,149)	(1,149)
From held-to-maturity to FV through PL debt securities ³	–	–	–	–	1	1
From available-for-sale to FV through PL equity securities ³	–	–	–	–	161	161
Due to modification gains/losses	–	–	–	–	(8)	(8)
Held-to-maturity position with OCI component	–	–	–	–	1	1
Impact due to reversal of IAS 39 loss allowance	–	–	–	46	–	46
Impact due to IFRS 9 ECL recognition:						
From FV through profit or loss (IAS 39)	–	–	–	(2)	–	(2)
From other IAS 39 classification categories	–	–	–	(156)	–	(156)
Impact due to deferred tax	–	–	–	–	6	6
Impact due to hyperinflation ²	–	–	–	–	(86)	(86)
Retained earnings (IFRS 9)	30,536	(7,028)	–	(112)	(894)	22,503
Total impact on shareholders' equity	22,203	(9,206)	–	(20)	151	13,128

1 Financial assets that were previously designated at FV through profit or loss under IAS 39 which have been mandatorily de-designated at transition to IFRS 9 amounted at USD 3.0 billion. The remaining assets with carrying amount of USD 194.2 million have been de-designated on a voluntarily basis.

2 Impacts from hyperinflation are due to adoption of hyperinflationary accounting for operations in Turkey, see note 1 for details.

3 The reclassification of underlying investments backing insurance contract liabilities accounted under the variable fee approach resulted in a negative adjustment of USD 377.0 million on the opening balance of retained earnings as of January 1, 2023. The impact was mainly driven by the reclassification of underlying debt investments from AFS to FVPL.

Consolidated financial statements (continued)

Table 2.3 below provides a summary of how the IAS 39 loss allowance reconciles to the IFRS 9 ECL allowance by asset class.

Table 2.3

Reconciliation from IAS 39 loss allowance to IFRS 9 ECL allowance	in USD millions, as of January 1, 2023				
	IAS 39 loss	Reversal of	Credit	IFRS 9 ECL	IFRS 9 ECL
	allowance	IAS 39 loss	impaired	IFRS 9 ECL	IFRS 9 ECL
		allowance	financial	recognition	allowance
			assets		
Loss allowance on amortized cost debt securities	–	–	–	(3)	(3)
Loss allowance on mortgage loans at amortized cost	(10)	5	5	(2)	(2)
Loss allowance on other loans at amortized cost	(1)	–	1	(7)	(7)
Loss allowance on receivables in scope of IFRS 9	(44)	40	4	(56)	(56)
Loss allowance on FVOCI debt securities	–	–	–	(86)	(86)

The adoption of IFRS 9 resulted in a reduction of USD 391 million of retained earnings as of January 1, 2023, excluding the effect of the overlay approach applied in 2022 of USD 522 million. The main effects of transition to IFRS 9 for the ZIC Group were as follows:

- Available-for-sale (AFS) equity instruments with a carrying amount of USD 10.6 billion as of December 31, 2022 are measured at fair value through profit or loss on transition to IFRS 9, as the ZIC Group decided not to apply the option to irrevocably designate equity instruments at fair value through OCI (without recycling). This application did not have a material impact on the ZIC Group's consolidated financial statements as of January 1, 2023.
- USD 84.3 billion of debt securities previously classified as AFS were determined to be managed under the core business model of the ZIC Group, 'held to collect contractual cash flows and for sale' (HtC&S). Debt securities previously reported as held-to-maturity (HTM) under IAS 39 with a carrying amount of USD 1.8 billion that passed the IFRS 9 contractual characteristics test were assigned to the HtC&S business model and were measured at fair value through OCI upon transition to IFRS 9. The fair value of the instruments was determined at the transition date and unrealized capital gains/(losses) of USD 101.0 million were recorded in other comprehensive income.
- Certain AFS private debt portfolios with a carrying amount of USD 4.2 billion as of December 31, 2022 (for example, commercial real estate, infrastructure and other private debt) originally measured at fair value through OCI that passed the contractual cash flows characteristics test were classified under the 'held to collect contractual cash flows' (HtC) business model, and accordingly, were measured at amortized cost upon adoption of IFRS 9. The cumulative unrealized capital gains/(losses) in the AFS reserve amounting to USD (480.3) million as of December 31, 2022 were reversed against the carrying value of the debt instrument.
- The ZIC Group has assigned the HtC business model to positions classified as mortgages, other loans and receivables, and other financial assets under IAS 39 with a carrying amount of USD 13.1 billion as of December 31, 2022. These positions met the contractual characteristics test, and therefore remain measured at amortized cost under IFRS 9.
- The ZIC Group has designated USD 122.6 billion of financial assets held for unit-linked investment and insurance contracts at fair value through profit or loss in order to eliminate or significantly reduce accounting mismatches that would arise from measuring assets and liabilities on different bases.
- Under the previous accounting policies, certain debt instruments were designated at fair value through profit or loss under the fair value option (FVO) to eliminate or reduce accounting mismatches that would otherwise arise from measuring financial assets and insurance liabilities on a different basis. To the extent the adoption of IFRS 17 and IFRS 9 resulted in the elimination of such mismatches, the ZIC Group has revoked the FVO designation of certain debt securities with a carrying amount of USD 3.2 billion. These securities are now predominantly managed under the HtC&S business model, and accordingly were measured at fair value through OCI if they pass the contractual characteristics test. The ZIC Group has also decided to revoke the FVO designation of certain debt securities with a carrying amount of USD 194.2 million as of December 31, 2022, as their business model was determined as HtC&S. For these securities, the reversal of cumulative unrealized capital gains/(losses) had a positive impact on the opening balance of retained earnings as of January 1, 2023 of USD 177.1 million.
- USD 6.0 billion of debt securities previously classified as AFS were newly measured at fair value through profit or loss upon transition to IFRS 9, either because their contractual characteristics do not represent solely payments of principal and interest on the principal amount outstanding or as a result of FVO designation. Indeed, USD 4.0 billion of debt securities are designated with the FVO in order to eliminate or significantly reduce accounting mismatches that would arise from measuring assets and liabilities on different bases at transition to IFRS 9. For these debt securities previously classified as AFS, the fair value was determined as of January 1, 2023, reducing the opening balance of the retained earnings by USD 360.5 million.
- As a result of the adoption of the expected credit losses model for all debt instruments not accounted for at fair value through profit or loss, the ZIC Group recognized a total transition effect of a USD 111.6 million reduction to retained earnings. Specifically, the reversal of loss allowances recognized as of December 31, 2022 amounted to USD 45.7 million, and USD 157.3 million of expected credit losses were recognized as of January 1, 2023.

Consolidated financial statements (continued)

- The ZIC Group retrospectively applied IFRS 9 requirements for recognition of modification gains/(losses) on the refinancing of some financial liabilities, which reduced the opening balance of retained earnings by USD 8.5 million.
- Derivatives assets/(liabilities) with a fair value of USD 202.7 million and USD (707.0) million, respectively, were reclassified to derivatives held for trading as a result of the discontinuation of hedging relationships. Under the amended accounting policies, equity instruments held by the ZIC Group, including fund investments, are generally accounted for at fair value through profit or loss. As a result, fair value hedges related to foreign currency exposure no longer require hedge accounting and are replaced with economic hedges, as both changes in the fair value of equity instruments and changes in the fair value of derivative instruments are recorded in profit or loss. The ZIC Group also discontinued certain cash flow hedges of reinvestment risk arising from assets backing direct participating contracts as these derivatives are part of the underlying items held for direct participating contracts.
- Upon transition to IFRS 9, deferred tax recognition impacted the opening balance of retained earnings by USD 5.9 million.

Amendments to IAS 12 'Income Tax'

The ZIC Group has adopted the amendments to IAS 12 'Income Taxes' for the financial year beginning January 1, 2023, and has applied the exception to recognize and disclose information about deferred tax assets and liabilities related to Pillar II minimum income taxes proposed by the Economic Co-operation and Development (OECD) Framework on Base Erosion and Profit Shifting (BEPS).

The model rules and other documents issued by the OECD on the Pillar II of BEPS (BEPS-Pillar II) aim to ensure that large multinational groups pay a minimum amount of tax on income in each jurisdiction they operate. The minimum effective tax of 15 percent is based on a pre-defined tax basis (GloBE income) and the so-called covered tax, using IFRS Accounting Standards as a starting point with defined adjustments to achieve a uniform basis to derive the effective tax rate.

The BEPS-Pillar II requirements for the ZIC Group are applicable for fiscal years 2024 onwards; therefore, the impact, if any, will need to be reflected in the ZIC Group's consolidated financial statements starting from January 1, 2024. The ZIC Group's implementation efforts on the model rules are well progressed. While it is considered not practicable at this point to fully quantify the potential impact on the ZIC Group's financial position or performance, given the dependency on the future tax basis in each jurisdiction, changing tax laws and the continued need to interpret the BEPS-Pillar II rules, the ZIC Group expects, based on its analysis to date, that the implementation will not have a material adverse impact on the ZIC Group's financial position or performance. The selection of jurisdictions in which the ZIC Group's subsidiaries and affiliated companies operate is driven by business reasons and not the avoidance of tax. Only a very limited number of subsidiaries and affiliated companies are located in low or nil tax rate jurisdictions, some of which are in the process of implementing changes to their local corporate tax laws, and all of these subsidiaries and affiliated companies carry out operative insurance, reinsurance and asset management activities.

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

Table 2.4 shows new accounting standards or amendments to, and interpretations of, standards relevant to the ZIC Group, which are not yet effective or adopted by the ZIC Group. These standards, amendments and interpretations are expected to have no impact on the ZIC Group's financial position or performance.

Table 2.4

Standard/ Interpretation		Effective date
	Amended standards	
IFRS 16	Lease Liability in a Sale and Leaseback	January 1, 2024
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2024
IAS 1	Non-current Liabilities with Covenants	January 1, 2024
IAS 7/IFRS 7	Supplier Finance Arrangements	January 1, 2024
IAS 21	Lack of Exchangeability	January 1, 2025

Consolidated financial statements (continued)

3. Summary of material accounting policies and critical accounting estimates and judgments

Material accounting policies applied in these consolidated financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Following the adoption of IFRS 9, the ZIC Group amended its accounting policies for Group investments, other financial assets, derivative financial instruments and hedge accounting. The amended accounting policies applicable for the period ended December 31, 2023 and the comparative accounting policies applicable for the prior period ended December 31, 2022 are outlined below.

Following the adoption of IFRS 17, the ZIC Group amended its accounting policies for (re-)insurance contracts issued and reinsurance contracts held. The amended accounting policies are outlined below and replace the accounting policies within note 3 section c) of the consolidated financial statements in the 2022 Annual Report. The 2022 comparative figures as presented in this Annual Report have been restated, where indicated, for the adoption of IFRS 17. The relevant disclosures for (re-)insurance contracts issued and reinsurance contracts held are presented in note 7.

Other accounting policies are presented as part of the respective note disclosures.

Critical accounting estimates and judgments

The preparation of these consolidated financial statements requires critical accounting estimates that involve discretionary judgments and the use of assumptions which are susceptible to change due to inherent uncertainties. Because of the uncertainties involved, actual results could differ significantly from the assumptions and estimates made by management.

Such critical accounting estimates are of significance to consolidation principles, measurement of insurance contracts issued and reinsurance contracts held, the determination of fair value for financial assets and liabilities, expected credit losses, impairment of goodwill and attorney-in-fact contracts, employee benefits and deferred taxes.

a) Consolidation principles

The ZIC Group's consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Company Ltd and its subsidiaries. A subsidiary is an entity that Zurich Insurance Company Ltd either directly or indirectly controls. Generally, control is achieved by holding the majority of the voting rights which allows the Group to control relevant activities of the subsidiary. The ZIC Group may hold significant interests in investment entities, where the voting rights are not the dominant factor of control. To the extent the ZIC Group is involved in the design and has significant exposure to the risks and variable returns from such investment entities, the ZIC Group is deemed to have control and consolidates such investment entities. The results of subsidiaries acquired are included in the consolidated financial statements from the date of acquisition or from the date on which control is obtained. The results of subsidiaries that have been divested during the year are included up to the date control ceased. All intra-Group balances, profits and transactions are eliminated.

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

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

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

Critical accounting estimates and judgments

Farmers Group, Inc. (FGI), a wholly owned subsidiary of the Group, provides non-claims services and certain ancillary services to the Farmers Exchanges as attorney-in-fact and receives fees for its services (see section g) for details). Farmers Exchanges are owned by their policyholders and directed by the Board of Governors. The Group does not consolidate Farmers Exchanges as the Group does not have control over the relevant activities of Farmers Exchanges.

Consolidated financial statements (continued)

b) Foreign currency translation and transactions

Foreign currency translation

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

Foreign currency transactions and balances

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

- Foreign currency translation differences that are recognized in OCI in conjunction with the recognition of unrealized gains or losses on debt securities held to collect contractual cash flows and for sale, changes in the discount rate for insurance contracts and reinsurance contracts held, and changes in the fair value of underlying items for insurance contracts; and
- Foreign currency translation differences arising on monetary items that form part of net investments in foreign operations, as well as foreign currency translation differences arising from monetary items that are designated as hedging instruments in a qualifying net investment hedge relationship, are included directly in OCI as CTA.

Hyperinflation

The ZIC Group considers various factors to determine whether an economy in a country where a foreign operation is situated is hyperinflationary, including the cumulative three-year inflation rate. If an economy becomes hyperinflationary, the financial statements of foreign operations with the functional currency of the hyperinflationary economy are restated to reflect the current purchasing power at the end of the reporting period using the official consumer price indices commonly used in the respective country. The restatement includes all balance sheet amounts that are not expressed in terms of the measuring unit current at the balance sheet date and items of comprehensive income for the current year by applying the change in the price index from the dates when the items of income and expense were originally recorded. The restated financial statements of a foreign operation are translated into the ZIC Group's presentation currency at closing rates. Any translation adjustment resulting from initial application of the hyperinflationary accounting is recognized directly in equity. The ZIC Group applies hyperinflationary accounting to its foreign operations with the functional currency of Argentinian Peso (from January 1, 2019) and Turkish Lira (from January 1, 2023).

c) Insurance contracts issued and reinsurance contracts held

Scope

The ZIC Group applies accounting policies outlined in this section to insurance contracts issued that transfer significant insurance risk from policyholders or other insurance companies to the ZIC Group and reinsurance contracts held that transfer significant insurance risk from the ZIC Group to third party reinsurers. The significant insurance risk transfer is determined by comparing the present value of benefits payable if an insured event occurred with the present value of benefits payable if the insured event did not occur. This assessment is made on a contract-by-contract basis at initial recognition and not subsequently reassessed unless the contract has been modified (see below). Investment contracts with discretionary participation features (DPF) are accounted for as insurance contracts if the reporting entity also issues insurance contracts. Furthermore, financial guarantee contracts and certain fixed-fee service contracts (e.g., roadside assistance) issued by the insurance entities in the normal course of business are also accounted for as insurance contracts.

Separating components

The ZIC Group assesses its insurance contracts issued and reinsurance contracts held to determine whether they contain any of the following components which need to be separated and accounted for under another IFRS Accounting Standard:

- Derivatives embedded in insurance contracts where the economic characteristics and risks of the derivative contract are not closely related to those of the host contract, and a separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- Investment components that are not highly interrelated with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction are accounted for as investment contracts; or
- Distinct service components, such as unattached risk engineering service contracts, claims handling service contracts provided to policyholders within their layer of risk retention or captive fronting services are accounted for as service contracts.

Consolidated financial statements (continued)

Level of aggregation

Generally, a single contract is the smallest unit of account. However, under certain circumstances, a single contract contains components that are separated and treated as if they were stand-alone contracts, provided the criteria below are fulfilled:

- The insurance components are priced separately and are, or could be, sold separately in the same jurisdiction;
- The substance of the contract to be separated is the same as issuing multiple separate contracts; or
- There is no interdependency between the different risks covered and a lapse or cancellation of one insurance component does not cause a lapse or cancellation of another insurance component.

Similarly, for insurance and reinsurance contracts entered into with the same counterparty, the ZIC Group makes an evaluation of whether they are designed to achieve an overall commercial effect and therefore need to be combined and treated as one contract. The ZIC Group combines certain captive arrangements, where the policyholder and the captive reinsurer are the same counterparty, that are designed to achieve an overall commercial effect, which results in the net retention by the ZIC Group presented both on balance sheet and in profit or loss.

The level of aggregation is determined by dividing the business written into portfolios comprising contracts subject to similar risks and managed together. Portfolios are further divided into annual cohorts with contracts issued no more than one year apart, which are divided into groups of contracts based on their expected profitability: (i) onerous contracts, if any; (ii) contracts with no significant possibility of becoming onerous, if any; and (iii) remaining contracts, if any. Depending on the characteristics of the portfolio, an annual cohort may consist of just one group. The ZIC Group chose to group together those contracts that would fall into different groups only because law or regulation specifically constrains its practical ability to set a different price or level of benefits for policyholders with different characteristics. The effect of such grouping is not material to the ZIC Group.

Initial recognition

The ZIC Group recognizes groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts;
- The date when the first payment from a policyholder becomes due (or when the first payment is received, if there is no due date); or
- An earlier date, if facts and circumstances indicate that the group is onerous.

Contract boundary

The measurement of a group of insurance contracts includes all future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the ZIC Group can compel the policyholder to pay the premiums, or in which the Group has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

- The ZIC Group has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks, or
- Both of the following criteria are satisfied: (i) the ZIC Group has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and (ii) the pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

Insurance contract classification

The ZIC Group issues non-life products including a variety of motor, home and commercial products for individuals as well as small and large businesses on both local and global basis predominantly through its Property & Casualty (P&C) operations. The majority of such insurance contracts are short-term and either have a contract boundary of one year or less or qualify for the simplified approach (or the premium allocation approach (PAA)) because the measurement of the liability for remaining coverage under PAA does not deviate significantly from the measurement that would apply under the general model (or the building block approach (BBA)). Therefore, such contracts are measured under PAA. Some non-life entities also issue individual accident and health products with a long-term contract boundary which are accounted for under BBA. The proportion of contracts accounted for under BBA is not material in the context of P&C insurance contract assets and liabilities.

Consolidated financial statements (continued)

Moreover, the ZIC Group issues life insurance products on both an individual and a group basis, including annuities, endowment and term insurance, unit-linked and traditional savings products, as well as private health, supplemental health and long-term care insurance. The majority of such insurance contracts are long-term and measured under BBA. Some life entities also issue short-term protection products that fulfill the eligibility criteria and are accounted for under PAA. The proportion of contracts accounted for under PAA is not material in the context of life insurance contract assets and liabilities. Unit-linked insurance contracts and some traditional savings contracts issued in Switzerland, Germany, Italy, Portugal and Austria include policyholder participation features. Such contracts are classified as direct participating contracts and measured under the variable fee approach (VFA) if, at inception, all of the following criteria are met:

- The contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- The Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- The Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

Some participating contracts do not meet the above criteria to be measured under VFA because of either the ZIC Group's discretion over the cash flows to be paid to policyholders (either in their timing or in their amount), or absence of a clearly identifiable pool of underlying items. Those contracts are accounted for under BBA indirect participating and presented as contracts measured under BBA in note 7. Furthermore, the ZIC Group applies BBA indirect participating measurement to certain contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders. For example, BBA indirect participating approach is applied to contracts where contractual cash flows are adjusted for inflation based on a market-observable index of prices or rates.

Insurance acquisition cash flows (IACF)

Insurance acquisition costs are selling, underwriting and initiating costs typically incurred prior to or at the start of the coverage period of a contract that are directly attributable to the acquisition of portfolios of insurance contracts, including, for example, sales commissions, direct response marketing, premium taxes and in-house expenses directly attributable to sales and policy issuance activities.

The ZIC Group allocates IACF to groups of insurance contracts in a systematic and rational way, differentiating between groups of contracts that have been recognized as of the reporting date and groups of contracts that will be recognized in the future, including expected contract renewals. IACF allocated to groups of insurance contracts not yet recognized as of reporting date are recognized as an asset presented within the insurance contract asset or liability attributable to the portfolio of insurance contracts until they are included in the measurement of the group of contracts recognized. At each reporting date, the ZIC Group assesses the recoverability of such assets for pre-coverage IACF based on the expected fulfillment cash flows of the related groups of contracts, if facts and circumstances indicate that the asset may be impaired.

IACF are amortized in a systematic way over the coverage period using the same pattern as for insurance revenue recognition. For contracts accounted for under PAA, certain acquisition cash flows are expensed as incurred for contracts where the coverage period of each contract in the group does not exceed one year.

Insurance service expenses

These expenses consist of claims and other insurance service expenses that the ZIC Group incurs in order to fulfill its obligations toward the policyholders that arise within the contract boundary of the underlying (re-)insurance contracts. They also include amortization of insurance acquisition cash flows, changes in the fulfillment cash flows relating the liability for incurred claims (LIC), losses on groups of onerous contracts and reversals of such losses, and impairment and reversal of impairment of assets for pre-coverage insurance acquisition cash flows. Costs incurred that cannot be directly attributed to portfolios of insurance contracts (e.g., cost incurred in connection with future business opportunities) are excluded.

Investment components

Investment components that are not separated based on the requirements outlined above are accounted for as part of the underlying insurance contract. Such investment components, which are treated as non-distinct components, represent amounts that the ZIC Group is required to repay to a policyholder under the terms of the insurance contract in all circumstances, regardless of whether an insured event occurs. For most life products measured under VFA, particularly for unit-linked insurance contracts, the ZIC Group defines the cash surrender value as the non-distinct investment component. Any cash flows related to investment components are excluded from insurance revenue and insurance service expenses.

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Measurement under PAA

For non-participating insurance contracts that are eligible for PAA, the measurement of the liability for remaining coverage (unexpired risk) is simplified as compared with the measurement under BBA and is accounted for separately from incurred claims (expired risk).

The liability for remaining coverage (LRC) is measured initially based on the premium received less any payments that relate to eligible IACF. Subsequently, the LRC is reduced by the amount recognized as insurance revenue for services provided in the period less any amortization of IACF recognized as an expense in the period. Insurance revenue is generally recognized on a straight-line basis, unless a different pattern represents a better approximation of the release from risk under the insurance contract. Certain insurance contracts (e.g., extended warranty contracts) may include a significant financing component when the premium from the policyholder is due more than 12 months before the ZIC Group provides insurance coverage. In this case, the LRC is adjusted for the time value of money.

Where facts and circumstances indicate that a group of contracts is onerous at initial recognition, the ZIC Group performs additional analysis to determine if a net outflow is expected. The net outflow is recorded immediately in profit or loss, resulting in the recognition of a loss component for the liability for remaining coverage and the carrying amount of the liability for the group of contracts being equal to the fulfillment cash flows.

The liability for incurred claims (LIC) reflects a current, explicit, unbiased and probability-weighted estimate of the present value of the expected future cash outflows considering all reasonable and supportable information available without undue cost or effort about the amount, timing, and uncertainty of those future cash flows. It includes an explicit adjustment for non-financial risk (the risk adjustment, see below). The risk adjustment is recognized as and when the claims are incurred and subsequently released to insurance service expense as the uncertainty associated with the amount and timing of claim payments is resolved.

Generally, the LIC is adjusted for the effect of time value of money and financial risk, unless the respective claims are expected to be paid within one year of being incurred. The ZIC Group selected the accounting policy to disaggregate the movement in the LIC resulting from changes in discount rates and to present this in OCI. The unwind of the discount on the LIC based on locked-in accident year discount rates is presented in profit or loss.

Any premium receivables or accrued premium or claims payables that remain outstanding as of the reporting date are presented as part of the insurance contract assets or liabilities.

Measurement under BBA (including indirect participating BBA)

Each group of insurance contracts under BBA is measured as the sum of the fulfillment cash flows, comprising (i) estimates of future cash flows and (ii) risk adjustment for non-financial risk (see below), and the contractual service margin (CSM). The estimates of the future cash flows represent a current, present value, probability-weighted estimate that is consistent with observable market information and is adjusted to reflect financial risk. The CSM represents the margin the ZIC Group is charging for the service it provides in addition to the compensation it requires for bearing risk.

On initial recognition, the CSM is measured as the difference between the expected present value of cash inflows and cash outflows, after adjusting for uncertainty and any cash flows received or paid before or on initial recognition.

Subsequently, at the end of each reporting period, each group of insurance contracts is measured as the sum of (i) the liability for remaining coverage reflecting the fulfillment cash flows related to future service; (ii) the CSM; and (iii) the liability for incurred claims reflecting the fulfillment cash flows related to past service. The liability for incurred claims is created when the ZIC Group has an obligation to pay valid claims for insured events that already occurred and other amounts related to past service.

The ZIC Group recognizes income and expense for the following changes in the carrying amount of the LRC:

- Insurance revenue – for the reduction in the LRC due to services provided in the period, excluding any investment components (see note 9 for the composition of insurance revenue recognized in the period);
- Insurance service expenses – for losses on groups of onerous contracts, and reversals of such losses; and
- Insurance finance income or expense – for the effect of the time value of money and financial risk.

The ZIC Group recognizes income and expense for the following changes in the carrying amount of the LIC:

- Insurance service expense – for the increase in the liability because of claims and expenses incurred in the period, excluding any investment components;
- Insurance service expense – for any subsequent changes in fulfillment cash flows relating to incurred claims and incurred expenses; and
- Insurance finance income or expense – for the effect of the time value of money and financial risk.

Consolidated financial statements (continued)

As part of the subsequent measurement, the fulfillment cash flows are updated to reflect current estimates, and the changes in the fulfillment cash flows are treated as follows:

- Experience adjustments that relate to current or past service are recognized immediately in profit or loss;
- Changes related to future service adjust the CSM measured using the discount rates as described below;
- Changes resulting from changes in discount rates are presented in OCI. The ZIC Group selected the accounting policy of disaggregating the movement in fulfillment cash flows between profit or loss and OCI; and
- Changes in estimates that arise as a result of changes in the application of discretion for groups of BBA indirect participating contracts, such as changes in the crediting percentage for policyholder participation, affect the future consideration that the ZIC Group will receive from the contract and adjust the CSM.

The CSM at the end of the reporting period is allocated over the current and remaining coverage period based on the coverage units. The coverage units represent the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under the contract and its expected coverage period. The ZIC Group has determined the sum assured (or annuity) in force as the main driver of coverage units for insurance contract service for non-participating contracts. The CSM allocated to coverage units provided in the period is recognized in profit or loss as insurance revenue.

The ZIC Group may provide an investment-return service in addition to insurance contract service under some traditional savings insurance contracts without direct participating features (e.g., endowment contracts). Such service is deemed to exist only if such contracts involve an investment component or the policyholder has a right to withdraw an amount. The ZIC Group expects the investment component or amount the policyholder has a right to withdraw to include an investment return and the ZIC Group expects to perform investment activity to generate that investment return. Whenever the ZIC Group provides both insurance contract and investment-return services to the policyholder, the coverage units are appropriately weighted to reflect both services to allocate the CSM over the current and remaining coverage period. The ZIC Group has determined the assets under management (or equivalent) as the main driver of coverage units for investment-return service.

The risk adjustment is released as part of insurance revenue as the uncertainty associated with the amount and timing of benefit payments is decreased or resolved.

(Re-)insurance finance income or expense recognized in profit or loss are determined by a systematic allocation of the expected total finance income or expense over the duration of the group of insurance contracts. Depending on the nature of the insurance contracts, it reflects the effect of time value of money and financial risk as follows:

- For groups of contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to the policyholder (e.g., term life contracts), the systematic allocation is determined using a risk-free rate, plus an illiquidity premium that is locked at the inception of the group of contracts; and
- For groups of contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders (e.g., savings contracts with policyholder participation based on an index or a rate or other indirect participating contracts), the systematic allocation is determined using a rate that allocates the remaining revised expected insurance finance income or expense over the remaining duration of the group of contracts at a constant rate (effective yield).

Measurement under variable fee approach (VFA)

Insurance contracts that fulfill all the participating contracts criteria specified above are measured under VFA. These criteria ensure that insurance contracts with direct participation features are contracts under which the ZIC Group's obligation to the policyholder is the net of:

- The obligation to pay the policyholder an amount equal to the fair value of the underlying items; and
- A variable fee that the ZIC Group will deduct from the above in exchange for the future service provided by the insurance contract, consisted of the amount of the ZIC Group's share of the fair value of the underlying items less fulfillment cash flows that do not vary based on the returns on underlying items.

The underlying items for unit-linked insurance contracts are the unit-linked assets typically held in pooled investment vehicles that meet the specific investment objective of the policyholders, who fundamentally bear the credit, market and liquidity risk of the related investments. The underlying items for traditional savings contracts issued in Switzerland, Germany, Italy, Portugal and Austria are the net assets, or a specified subset of the net assets, of the issuing insurance entity. The net assets, or a subset of the net assets, typically include financial instruments held in the ZIC Group investment portfolio (debt securities, equity securities, investment properties, mortgage loans and other assets).

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For such contracts, in addition to the insurance contract service, the ZIC Group provides an investment-related service to the policyholders managing the underlying items on their behalf. The coverage units are appropriately weighted to reflect both services to allocate the CSM over the current and remaining coverage period. For these direct participating contracts and other savings contracts, sum assured in force and assets under management (or equivalent) are included to reflect the weighting for insurance and investment services and the pattern of delivery of those services.

Measurement under VFA reflects the nature of participating contracts; therefore, changes in the amount of the entity's share of the fair value of the underlying items relate to future service and adjust the CSM. Similarly, the change in the effect of time value of money and financial risks not arising from the underlying items (for example, the effect of financial guarantees) relates to future service and adjusts the CSM, except where risk mitigation applies.

Risk mitigation applies in limited circumstances where the ZIC Group hedges the risks associated with such financial guarantees using derivative financial instruments or reinsurance contracts held under a documented risk management objective and strategy. In such cases, the changes in the effect of financial guarantees are recognized immediately in profit or loss in the same way as the changes in fair value of the derivative instruments. Other changes in the fulfillment cash flows are treated consistently with BBA measurement, i.e., they adjust CSM if related to future service, or are recognized immediately in profit or loss if related to current or past service. However, as opposed to BBA, all the adjustments are measured using current discount rates.

Where the underlying items are the net assets or a specified subset of the net assets of the issuing insurance entity, in addition to the participation in the returns from underlying financial assets, the policyholder participates in the risk and/or expense results. While the risk and expense results are included within the insurance service results, the policyholder participation thereon is included within the insurance finance income or expense.

Changes in the obligation to pay the policyholder an amount equal to the fair value of the underlying items do not relate to future service and do not adjust the CSM.

For all contracts with direct participation features where the ZIC Group holds the underlying items, the ZIC Group applies the accounting policy choice of disaggregating insurance finance income or expense for the period to include in profit or loss an amount that eliminates accounting mismatches, with income or expense included in profit or loss on the underlying items held.

Reinsurance contracts held

The ZIC Group enters into reinsurance contracts in the normal course of business to limit the potential for losses arising from certain exposures. Reinsurance contracts do not relieve the ZIC Group as the originating insurer of its liability. Reinsurance contracts held are recorded separately unless the contract combination criteria specified above are fulfilled.

Similar to insurance contracts issued, reinsurance contracts held are accounted for under PAA, if the qualifying criteria for PAA are fulfilled, or BBA in all other cases. The following differences specifically apply to reinsurance contracts held:

- Classification: Reinsurance contracts held can never be classified as direct participating contracts; hence, measurement under VFA does not apply.
- Level of aggregation: Reinsurance contracts held cannot be onerous; therefore, at initial recognition, the groups of reinsurance contracts held comprise (i) contracts in a net gain position, if any; (ii) contracts with no significant possibility of turning into a net gain position subsequently, if any; and (iii) remaining contracts, if any.
- Recognition of the CSM: As reinsurance contracts held cannot be onerous, for the groups of reinsurance contracts held accounted for under BBA, the CSM is recognized regardless of whether the reinsurance contract is a net gain or a net cost for the ZIC Group.
- Recognition of the risk of non-performance: The measurement of reinsurance contracts held includes the effect of non-performance risk of the reinsurer which considers the reinsurer's credit rating and the expected recovery period.
- Presentation: The ZIC Group presents the income or expense from reinsurance contracts held, other than reinsurance finance income or expense, as a single amount in profit or loss.

Reinsurance contracts held are measured using assumptions consistent with the assumptions used for the underlying insurance contracts for the fulfillment cash flows. The risk adjustment for non-financial risk represents the amount of risk being transferred by the holder of the reinsurance contract to the issuer of that contract. Consistent with the underlying insurance contracts, the ZIC Group made an accounting policy choice of disaggregating the reinsurance finance income or expense between profit or loss and OCI.

If reinsurance contracts held cover underlying onerous insurance contracts, a loss recovery component is recognized only if the reinsurance contract held was entered into before or at the same time as the underlying onerous insurance contracts. The loss recovery component is measured by reference to the percentage of claims from underlying onerous insurance contracts expected to be recovered from the reinsurance contracts held.

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Critical accounting estimates and judgments

Non-life contracts

The ZIC Group is required to establish a LIC for payment of losses and loss adjustment expenses that arise from the ZIC Group's non-life products. These liabilities represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the balance sheet date. The ZIC Group establishes its liabilities by product line, type and extent of coverage, and year of occurrence. There are two categories of the LIC: liability for reported losses, and liability for incurred but not reported (IBNR) losses. Additionally, the LIC is held for loss adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

The ZIC Group's liability for reported losses and loss adjustment expenses is based on estimates of future payments to settle reported claims. The ZIC Group bases such estimates on the facts available at the time the liability is established, considering the estimated costs of bringing pending claims to final settlement. The liability takes into account inflation, as well as other factors that can influence the amount required to fulfil the ZIC Group's obligations, some of which are subjective and some of which are dependent on future events. In determining the level of the liability, the ZIC Group considers historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions, economic conditions and public attitudes may affect the ultimate cost of settlement and, as a result, the ZIC Group's estimation of the liability. Between the reporting and final settlement of a claim, circumstances may change which may result in changes to established liability. Items such as changes in law and interpretations of relevant case law, results of litigation or changes in medical costs, as well as costs of vehicle and home repair materials and labor rates can substantially impact ultimate settlement costs. Accordingly, the ZIC Group reviews and reevaluates claims and their liabilities on a regular basis. Amounts ultimately paid for losses and loss adjustment expenses can vary significantly from the level of liabilities originally set.

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

The time required to learn of and settle claims is an important consideration in establishing the ZIC Group's LIC. Short-tail claims, such as those for motor and property damage, are normally reported soon after the incident and are generally settled within months. Long-tail claims, such as bodily injury, pollution, asbestos and product liability, can take years to develop and additional time to settle. For these claims, information concerning the event, such as the required medical treatment for bodily injury claims and the required measures to clean up pollution, may not be readily available. Accordingly, the reserving analysis of long-tail lines of business is generally more difficult and subject to greater uncertainties than for short-tail claims.

Since the ZIC Group does not establish a liability for catastrophes in advance of the occurrence of such events, these events may cause volatility in the levels of its LIC subject to the effects of reinsurance recoveries. This volatility may also be contingent upon political and legal developments after the occurrence of the event.

The ZIC Group uses a number of accepted actuarial methods to estimate and evaluate the amount of the LIC. The nature of the claims being reserved for and the geographic location of the claims influence the techniques used by the ZIC Group's actuaries. Additionally, the ZIC Group's Corporate Center actuaries perform periodic reserve reviews of the ZIC Group's businesses throughout the world. Management considers the results of these reviews and adjusts its liabilities, where necessary.

The process of establishing the amount of the LIC is complex and deals with uncertainty, requiring the use of informed estimates and judgments considering the time value of money and the uncertainty about the amount and timing of the cash flows that arise from non-financial risk. Any changes in estimates or judgments are reflected in profit or loss in the period in which estimates and judgments are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The LIC is determined on the basis of the information available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

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Life contracts

The measurement of life insurance contracts involves a number of assumptions regarding mortality or longevity, lapses, surrenders, expenses, future policyholder participation (or profit sharing), discount rates and investment returns. These assumptions can vary by country, year of policy issuance and product type, and are determined with reference to past experience adjusted for new trends, current market conditions and future expectations. As such, the amounts included in future cash flows may not represent the ultimate amounts paid out to policyholders. For example:

- The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty arises because of the potential for pandemics and wide-ranging lifestyle changes, such as changes in eating, smoking and exercise habits, which could result in earlier deaths for age groups in which the ZIC Group has significant exposure to mortality risk.
- For contracts that insure the risk of longevity, such as annuity contracts, an appropriate allowance is made for people living longer. Continuing improvements in medical care and social conditions could result in further improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the ZIC Group is exposed to longevity risk.
- Under certain contracts, the ZIC Group has offered product guarantees (or options to take up product guarantees), including fixed minimum crediting interest rate or fixed minimum annuity benefits. In determining the value of these options and/or benefits, estimates have been made as to the percentage of policyholders that may exercise them. Changes in investment conditions could result in significantly more policyholders exercising their options and/or benefits than had been assumed.
- Estimates are made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions are determined with reference to current and historical customer data, as well as industry data. Assumptions also reflect expected earnings on the assets supporting the future policyholder benefits. The information used by the ZIC Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions and available experience studies based on internal and external data. Expert judgment is involved in setting these assumptions, which are subject to a review and governance process that involves significant effort; therefore, it is generally performed on an annual basis.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the ZIC Group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts that arises from non-financial risk (insurance risk and other non-financial risk such as lapse risk). The risk adjustment is an explicit adjustment to the estimates of future cash flows to reflect the compensation the ZIC Group would require to make it indifferent between fulfilling a liability that has a range of possible outcomes arising from non-financial risk and fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts.

The ZIC Group estimates the risk adjustment using a confidence level approach, taking into account the Group's internal view of the level of capital required in order to continue operating on a going-concern basis based on the Group's target Swiss Solvency Test (SST) ratio. The risk adjustment is calibrated as the value at risk (VaR) at the defined target confidence level minus the expected value of the future cash flows using simulations of the distribution of the future cash flows. This distribution is based on the SST framework and model, with a few modifications considering the different purpose of the IFRS 17 risk adjustment.

Separate target confidence levels apply to the distribution of cash flows of long-duration (predominantly life) and short-duration (predominantly non-life) (re-)insurance contracts. The confidence levels fall within the following ranges: 74–79 percent for short-duration and 90–95 percent for long-duration (re-)insurance contracts.

In line with the internal capital model used by the Group, these ranges are defined net of external reinsurance. The risk adjustment for the reinsurance contracts held is determined consistently with the risk adjustment for insurance contracts issued.

The ZIC Group disaggregates the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expense, and the latter between profit or loss and OCI, so that the movement in risk adjustment resulting from changes in discount rates is presented in OCI.

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Critical accounting estimates and judgments

The risk adjustment is the measure of the compensation required by the ZIC Group for the uncertainty arising from non-financial risks. As such, it is based on subjective considerations that take into account the ZIC Group's internal view of the capital required in order to continue operating on a going-concern basis.

To support the selection of the confidence levels, a quantitative analysis is performed. This quantitative analysis is aimed at defining ranges of justifiable percentiles for life and non-life businesses separately, determined by calculating, with different sets of assumptions, the financial compensation the ZIC Group requires on the SST capital (defined accordingly with the internal capital targets) to cover the non-financial risks over the outstanding run-off period of the insurance liabilities.

As with any other risk capital model, the SST model is subject to simplification and application of expert judgments. These include, for example, assumptions on the shape of the distributions and on the geographical and risk dependencies, amongst others. The full list of assumptions, simplifications and expert judgments applied in the model are outlined in the documentation regularly provided to FINMA. These are validated regularly by the ZIC Group to ensure the overall adequacy of the risk model.

The ZIC Group percentiles selected for life and non-life businesses are expected to fall within these ranges described above. However, an additional uplift factor may be applied locally to the risk adjustment for specific contracts or groups of contracts, where there is a higher level of uncertainty around the compensation required for bearing non-financial risks. For example, an uplift factor may be applied to a specific contract or group of contracts where key long-term best estimate assumptions used to project the fulfillment cashflows have been set based on expert judgment in the absence of credible experience data.

The key assumptions in the determination of the risk adjustment percentiles are:

- Assumed cost of capital rate: the long-term mean of the weighted average cost of capital is used;
- Level of group diversification: the risk adjustment allows for diversification of non-financial risks among the Group's reporting entities as well as diversification of non-financial risks with financial risks;
- Target capitalization under the Group's internal capital model: the Group's target capitalization under SST is used. Under SST, the Group has defined a minimum solvency ratio target requirement only (≥ 160 percent SST ratio); hence, assumptions are made on the level of capitalization that Zurich would be expected to maintain on a going-concern basis over and above the minimum target;
- Level of segmentation: separate percentiles are defined for life and non-life businesses; and
- Higher levels of expert judgment in the absence of credible demographic assumptions used in cashflow projection: an uplift may be applied to the risk adjustment in respect of a portfolio or product where the ZIC Group has concerns over the credibility of assumptions used.

Discount rates

The ZIC Group applies bottom-up discount rates for most groups of insurance contracts issued and reinsurance contracts held. Bottom-up discount rates are constructed using risk-free rates, plus an illiquidity premium, where applicable. Risk-free rates are determined by reference to the market interest rates (either swap rates or yields of highly liquid sovereign securities) in the currency of the underlying cash flows for the groups of (re-)insurance contracts. Whenever the expected timing of the cash flows exceeds the liquid part of the yield curve in the respective currency (the last liquid point), the risk-free interest rate is extrapolated to converge toward a long-term rate (the ultimate forward rate) using widely accepted extrapolation techniques (Smith-Wilson algorithm). The illiquidity premium is determined by reference to observable market spreads for illiquid instruments (e.g., corporate debt, etc.) adequately corrected to remove credit risk.

Derecognition and contract modification

The ZIC Group derecognizes an insurance contract only when the obligation specified in the insurance contract expires or is discharged or canceled, or if the contract is modified in a way that requires derecognition of the original contract and recognition of the new contract with modified terms. The exercise of a right included in the terms of a contract is not a modification.

When an insurance contract is extinguished, the entity is no longer at risk and is therefore no longer required to transfer any economic resources to satisfy the insurance contract. Typically, when the ZIC Group buys reinsurance, the underlying insurance contract(s) continue to be recognized as the respective obligations are not extinguished.

If the terms of an insurance contract are modified, for example, by agreement between the parties to the contract or by a change in regulation, the ZIC Group derecognizes the original contract and recognizes the modified contract as a new contract, if any of the conditions below are satisfied:

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- a) If the modified terms had been included at contract inception:
- The modified contract would not be an insurance contract; or
 - The ZIC Group would have separated different components from the host insurance contract resulting in a different insurance contract; or
 - The modified contract would have had a substantially different contract boundary; or
 - The modified contract would have been included in a different group of contracts.
- b) The original contract met the definition of an insurance contract with direct participation features, but the modified contract no longer meets that definition, or vice versa; or
- c) The entity applied the premium allocation approach to the original contract, but the modifications indicate that the contract no longer meets PAA eligibility criteria.

If a contract modification meets none of the above conditions, the changes in cash flows caused by the modification are treated as changes in estimates of fulfillment cash flows.

A reinsurance contract is derecognized when the contractual rights to the cash flows expire.

d) Liabilities for investment contracts (without DPF)

Investment contracts are those contracts that do not transfer significant insurance risk and do not include discretionary participation features. The ZIC Group predominantly issues investment contracts without fixed terms (refer to unit-linked investment contracts below) and to a lesser extent investment contracts with fixed and guaranteed terms (e.g., fixed interest rate), which are measured at amortized cost using the effective interest rate method.

Unit-linked investment contracts

Unit-linked investment contracts are contracts referencing unit-linked asset portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks related to the investments. The liabilities are carried at fair value, which is determined by reference to the underlying financial assets. Changes in fair value are recorded in profit or loss. The related assets for unit-linked investment contracts are designated at fair value through profit or loss (FVPL) in order to reduce measurement inconsistencies. The services provided by the ZIC Group under such contracts are investment management and policy administration services that are provided over time and are not contingent on meeting specified performance criteria. Fees from such services are recognized ratably over the service period as fee income. Refer to note 10 for further information.

e) Group investments, investments for unit-linked contracts and other financial assets excluding derivative financial instruments

Classification, measurement and presentation of financial assets

The classification and measurement of Group investments is driven by the business model under which these assets are held and by their contractual cash flow characteristics. The combined effect of the business model and contractual terms assessment (also referred to as 'solely payment on principal and interests test' (SPPI test)) determines whether the debt instruments are measured at amortized cost, fair value with changes recognized in other comprehensive income (FVOCI) or fair value through profit or loss (FVPL).

The ZIC Group primarily holds financial assets to fund insurance liabilities. Specifically, financial assets and insurance liabilities are economically linked and jointly managed with the aim of matching the duration of the assets with the expected obligation toward policyholders. In order to ensure that the contractual cash flows from the financial assets are sufficient to settle insurance liabilities as they become due, the ZIC Group may undertake significant buying and selling activities on a regular basis to rebalance its asset portfolio and to meet day-to-day cash flow needs as they arise. Consequently, the majority of the financial assets, including government and supra-national bonds, mortgage and other asset backed securities (ABS/MBS), as well as syndicated loans and other corporate debt, are 'held to collect contractual cash flows and for sale' (HtC&S). Furthermore, the ZIC Group has identified specific portfolios that are managed with the aim of holding assets only to collect contractual cash flows over the life of the instrument. These financial assets are managed in the business model 'held to collect contractual cash flows' (HtC) and include certain private debt portfolios (for example, commercial real estate, infrastructure and other private debt), mortgage loans and other financial assets (bank deposits, lease and trade receivables), as well as high-quality government bonds held in the Zurich Italy Bank S.p.A.'s proprietary portfolio to cover structural excess liquidity.

Debt instruments with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) are measured at either amortized cost or FVOCI, unless they are managed on a fair value basis.

Consolidated financial statements (continued)

Debt instruments held under the HtC&S business model that pass the SPPI test are measured at FVOCI. Interest income is determined using the effective interest rate method and included in net investment income. The cumulative unrealized gains or losses recorded in OCI are net of the expected loss allowance and income taxes. When financial assets measured at fair value through OCI are derecognized, the cumulative gains or losses are reclassified from OCI to profit or loss as net capital gains/(losses) on investments. Loss allowances for expected credit losses and any subsequent changes are recorded in profit or loss within net capital gains/(losses) on investments.

Debt instruments held under the HtC business model that pass the SPPI test are carried at amortized cost using the effective interest rate method. Loss allowances for expected credit losses and individual credit impairments are recognized in profit or loss within net capital gains/(losses) on investments, with a corresponding reduction in the gross carrying amount of the financial asset.

Financial assets that fail the SPPI test are always measured at fair value through profit or loss (FVPL). Such assets include equities, fund investments, callable bonds with significant prepayment features, hybrid bonds with certain cash flows at the discretion of the issuer and some ABS/MBS that do not fulfill the SPPI criteria for contractually linked instruments. The significance of the prepayment feature is assessed at the date of the initial recognition of the financial asset as well as whenever additional purchases of the same instrument occur within the same portfolio.

In addition to financial assets that fail the SPPI test, the ZIC Group designates investments held for unit-linked insurance and investment contracts as well as some other investment portfolios backing specific portfolios of insurance contracts at FVPL in order to eliminate or significantly reduce a measurement inconsistency that would otherwise arise from measuring assets or recognizing the gains and losses on these assets on a different basis to the liabilities. Realized and unrealized gains and losses arising from changes in the fair value of such investments are recognized in profit or loss within net capital gains/(losses) on investments in the period in which they arise. Interest income determined using the effective interest rate method and dividend income from financial assets at FVPL are included in net investment income.

The ZIC Group did not make use of the option to present changes in fair value of certain equity instruments that are not held for trading in OCI with no subsequent reclassification of realized gains or losses to profit or loss.

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

Group investments are grouped together based on their nature and considering the shared risk characteristics as follows:

- Equity securities and unconsolidated investment funds include equity instruments held that do not result in control or significant influence by the ZIC Group, and fund investments where the ZIC Group does not have control over the investment vehicle;
- Debt securities include government and supra-national bonds, corporate debt and ABS/MBS;
- Mortgage loans include predominantly retail residential mortgages; and
- Other loans mainly include private debt investments (such as infrastructure and commercial real estate loans and private placements) typically managed by third-party asset managers and subject to a ratings-based approach for credit risk monitoring, as well as lease receivables and non-unit-linked deposits held as part of Group investments.

Group investments further include investment property accounted for at FVPL. Rental income from investment property is recognized on a straight-line basis over the lease term and included in net investment income, net of operating rental expenses. Please see note 5 for further information on Group investments.

Cash on hand, deposits held at call with banks, cash collateral received and other highly liquid investments with maturities of three months or less from the date of acquisition that are readily convertible into cash and are subject to an insignificant risk of changes in fair value are included in cash and cash equivalents.

Trade receivables are presented as part of other assets.

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Critical accounting estimates and judgments

In determining the fair values of investments in debt and equity instruments traded on exchanges and in over-the-counter (OTC) markets, the ZIC Group makes extensive use of independent, reliable and reputable third-party pricing providers, and only in rare cases places reliance on valuations that are derived from internal models.

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

Valuations can be subject to significant judgment, especially when the fair value is determined based on at least one significant unobservable input parameter; such items are classified within level 3 of the fair value hierarchy. See notes 5 and 22 for further information regarding the estimate of fair value.

Recognition of expected credit losses

Expected credit loss (ECL) is recognized for debt securities measured at amortized cost, debt securities measured at FVOCI, mortgage loans, lease and trade receivables, and reflects the difference between the contractual cash flows of the instrument and the cash flows the ZIC Group expects to receive. ECL is recognized on the following basis:

- 12-months ECL is recognized from the initial recognition of a debt instrument and reflects a portion of lifetime expected credit losses that would result from default events that are possible within 12 months after the reporting date (12-months ECL). The ZIC Group applies the low credit risk simplification to recognize 12-months ECL for all financial instruments that have an internal or external investment grade credit rating. Instruments for which 12-months ECL is recognized are referred to as stage 1; and
- Lifetime ECL is recognized in the event of a significant increase in credit risk (SICR) since initial recognition and reflects lifetime expected credit losses over the expected life of the financial instrument (lifetime ECL). The ZIC Group applies a permitted simplification to recognize lifetime ECL for all trade receivables. Instruments with lifetime ECL are referred to as stage 2. Lifetime ECL is also recognized for credit-impaired financial instruments, referred to as stage 3. Stage 3 includes instruments that are non-performing or for which a default event has occurred. The ZIC Group presents the gross carrying amount of such assets net of lifetime ECL.

At each reporting date, an assessment is conducted to determine whether a SICR has occurred since the initial recognition of a financial asset not covered by the low credit risk practical expedient and/or whether the financial asset has become credit impaired.

Critical accounting estimates and judgments

In the assessment for SICR, the ZIC Group considers all relevant reasonable and supportable information, including information about past events and current and future economic conditions, available either on an individual or on a collective basis.

When an external or internal rating is available, the ZIC Group applies the low credit risk practical expedient by assuming that no increase in credit risk has occurred since initial recognition for financial assets that have an external or internal rating equivalent to 'investment grade' (i.e., AAA to BBB-) at the reporting date. This approach is applied to government and supra-national bonds, mortgage and other asset backed securities, as well as corporate debt, including commercial real estate, infrastructure and other private debt.

For all debt instruments rated below investment grade, the ZIC Group determines SICR thresholds that vary depending on the credit rating at initial recognition and the residual life of the instruments. The SICR threshold is calibrated such that the lower the probability of default at inception, the higher the relative credit deterioration is required to trigger a SICR. If the credit rating of the instrument at the reporting date is equal to or below the trigger level, the instrument is deemed to have experienced SICR.

Irrespective of the SICR assessment based on default probabilities, credit risk is generally deemed to have significantly increased if the contractual payments are more than 30 days past due. SICR is no longer observed if the rating at the reporting date is above the trigger level indicated in the notching table and the rating has improved by at least one notch since the previous reporting date, in which case the instrument transitions back to stage 1.

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For all material exposures, including those with low credit risk at the reporting date, the SICR assessment outlined above is supplemented by a qualitative assessment of the issuer's credit quality through a forward-looking watch list that includes exposures with negative rating outlook and downward rating momentum and that are close to the thresholds for stage change. This is further complemented by fundamental research and expert opinion and presented to the Credit Valuation Committee (CVC) comprising representatives of Group Investment Management, Group Risk and Group Finance. The CVC takes the final decision on the stage allocation.

The mortgage loan portfolio is predominantly consisted of residential and small commercial real estate loans. The exposures are grouped into homogenous buckets in terms of geographic location (mainly Switzerland, Germany, Italy) and property type (residential versus commercial). The forward-looking loan to value (LTV) is within the range of 40–67 percent for the Swiss portfolio and 10–25 percent for the German portfolio. The SCIR is assessed using the number of past due days, the actual affordability on the customer level as well as forward-looking LTV, which is derived from the expected evolution in the property prices.

Forward-looking scenarios and measurement of expected credit losses

Expected credit losses reflect an unbiased, probability-weighted estimate based on possible default events either over the next 12 months or over the remaining life of a financial instrument. The ECL is calculated using a combination of the following main input parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

For originated residential and small commercial mortgage loan portfolios, the forward-looking parameters are derived from the evolution of the real estate prices by property type, as well as actual affordability of the loan for a customer. The ZIC Group records expected credit losses on mortgages; however, the ECL amount may be rather insignificant for mortgages with very low LTV.

For unrated exposures, for example, trade receivables, the ECL is measured using an expected loss rate provision matrix, based on historical observed default rates (adjusted and regularly updated for forward-looking estimates), depending on the past due status. For this purpose, the exposures are grouped into sub-portfolios that are homogeneous in terms of loss pattern, and specific loss rates are assigned depending on the number of days past due. From the provision matrix, the calculation of the ECL is determined by multiplying the gross carrying amount of the exposure by the given expected loss rate.

Critical accounting estimates and judgments

For rated debt securities, the ZIC Group determines the forward-looking inputs by evaluating a range of possible outcomes. A scenario-based approach is applied whereby three scenarios (downside scenario, base case and upside scenario) are modelled once a year considering potential development of relevant macroeconomic variables (GDP growth, 10-year interest rates and credit spreads) in the U.S. and Eurozone over a 1-year horizon. If no internal or external credit rating is available (e.g., due to timing constraints), the Group assigns a fallback rating which is used to derive the ECL parameters (i.e., exposures are assigned A– if the issuer is domiciled in a country with investment grade sovereign rating, while B– is assigned to other exposures).

Each of the forward-looking scenarios applied is based on management assumptions about future macroeconomic conditions. Additional judgment is required to assign a weight to each scenario which reflects the probabilities that the respective set of macroeconomic variables will materialize. The economic scenarios are developed by Group Investment Management – Market Strategy and Macroeconomics, which proposes the scenario weightings based on ZIC Group forward-looking expectations. The final decision on scenario weighting lies with the CVC where ZIC Group functions can challenge the selection and weights of different scenarios. Changes to the scenario weights and macroeconomic assumptions taken could have a significant effect on ECL –see note 23 for further details.

Exchange or modification of financial assets

The ZIC Group may enter into transactions involving the exchange of financial assets with one or multiple financial assets. Furthermore, the terms of financial assets may be modified subsequent to initial recognition. When the contractual terms of the financial asset(s) received in an exchange transaction or upon modification are significantly different from the original financial asset, the ZIC Group derecognizes the original asset. In certain cases, such exchange or modification results from the financial distress of the original debtor, in which case an exchange or modification of financial assets may involve recognition of purchased or originated credit-impaired (POCI) financial instruments. POCI financial instruments are initially recognized at fair value with interest income subsequently being accrued based on a credit-adjusted effective interest rate. Changes in lifetime ECL since initial recognition are recognized in profit or loss within net capital gains/(losses) on investments.

Consolidated financial statements (continued)

If an exchange or modification does not result in derecognition of the financial asset held, any modification gain or loss is recorded in profit or loss within net capital gains/(losses) on investments. Furthermore, the SICR assessment is performed by comparing the current risk of default with the risk of default at initial recognition based on the original and unmodified contractual terms.

Defaulted and credit-impaired financial assets

The ZIC Group considers the financial asset as defaulted when one or a combination of events with detrimental impact on the estimated cash flows of the financial asset have occurred (i.e., an incurred credit loss event). The ZIC Group places emphasis on counterparty specific factors, such as significant financial difficulty, default or delinquency on interest or principal payments. In addition, the ZIC Group usually considers that default does not occur later than when a financial asset is 90 days past due. Nevertheless, for certain exposures, such as Swiss residential mortgage loans, historical evidence indicates there is no correlation between default and payments being more than 90 days past due, but such correlation can be identified, for example, when payments are more than 180 days past due. Therefore, these latter exposures are considered defaulted when payment is overdue for more than 180 days. If one or more default events have occurred, the ZIC Group considers the financial assets as credit impaired and recognizes individual credit impairment directly as a reduction of the gross carrying amount. In the rare case of default on mortgage loans, the ZIC Group may enter forbearance measures, including temporary postponement of contractual payments, to enable the recovery of the mortgage loan.

Financial assets and the related credit impairment allowances are partially or fully written off when the ZIC Group has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. The write-offs represent partial or full derecognition events.

Comparative accounting policies applicable prior to January 1, 2023

Prior to January 1, 2023, Group investments were accounted for at either (a) fair value through OCI; (b) fair value through profit or loss; or (c) amortized cost. The majority of Group investments were accounted for at fair value through OCI (available-for-sale financial assets) and included debt and equity securities as well as fund investments. Such assets were carried at fair value, with changes in fair value recognized in OCI, until the securities were either sold or impaired. Interest income determined using the effective interest rate method and dividend income from financial assets at fair value through OCI was included in net investment income. The cumulative unrealized gains or losses recorded in OCI were net of cumulative deferred income taxes, certain related life policyholder liabilities and deferred acquisition costs. When available-for-sale financial assets were sold, impaired or otherwise disposed of, the cumulative gains or losses were reclassified from OCI to profit or loss as net capital gains/(losses) on investments and impairments.

Group investments at fair value through profit or loss included debt and equity securities backing certain life insurance contracts with participation features, and financial assets evaluated on a fair value basis. The designation of these assets at fair value through profit or loss eliminated or significantly reduced a measurement inconsistency that would otherwise arise from measuring assets or recognizing the gains and losses on these assets on a different basis to the liabilities.

Group investments at amortized cost included debt securities for which the ZIC Group had the positive intention and ability to hold to maturity (held-to-maturity financial assets) as well as mortgage and other loans (loans and receivables). Such investments were carried at amortized cost using the effective interest rate method, less any charges for impairment. When an impairment was determined to have occurred, the carrying amount of held-to-maturity investments and loans and receivables was reduced through the use of an allowance account, and the movement in the impairment allowance was recognized in profit or loss as an impairment loss.

The ZIC Group assessed at each reporting date whether there was objective evidence that loss events had occurred that negatively affected the estimated future cash flows of a financial asset or a group of financial assets. A financial asset was considered impaired if there was objective evidence of impairment as a result of one or more occurred loss events that had an impact on the estimated future cash flows of the financial asset. The evaluation of whether an available-for-sale debt security was impaired required analysis of the credit standing of a particular issuer and involved management judgment. When assessing impairment of available-for-sale debt securities, the ZIC Group placed emphasis on issuer specific factors, such as significant financial difficulty, default or delinquency on interest or principal payments. A credit rating downgrade, worsened liquidity or decline in fair value below the weighted-average cost was not by itself considered a loss event, but rather incorporated in the impairment analysis along with other available information.

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

- Its fair value was below the weighted-average cost by an amount significantly in excess of the volatility threshold determined quarterly for the respective equity market (such as North America, Asia Pacific, UK, Switzerland and other European countries); or
- Its fair value had been below the weighted-average cost for a period of 24 consecutive months or longer.

Consolidated financial statements (continued)

f) Derivative financial instruments and hedge accounting

Derivative financial instruments are used by the ZIC Group to economically hedge risks. Derivative financial instruments are carried at fair value. The changes in fair value of derivative financial instruments are recognized in profit or loss, except where such derivative financial instruments are designated under a qualifying cash flow or net investment hedge relationship.

Derivative financial instruments that qualify for hedge accounting

In limited circumstances, derivative financial instruments are designated as hedging instruments for accounting purposes in:

- Fair value hedges, which are hedges of the exposure to changes in the fair value of a recognized asset or liability;
- Cash flow hedges, which are hedges of the exposure to variability in cash flows attributable to a particular risk either associated with a recognized asset or liability, or a highly probable forecast transaction that could affect profit or loss; or
- Net investment hedges, which are hedges of a net investment in a foreign operation.

All hedge relationships are formally documented, including the risk management objectives and strategy for undertaking the hedge, the identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the hedge effectiveness assessment is made, including the analysis or sources of hedge ineffectiveness and description of how the hedge ratio is determined. Differences in critical terms, the effect of credit risk or differences in the time value of money could be sources of ineffectiveness. To a limited extent, ineffectiveness may also arise from the currency basis spread of cross currency swaps, or from the forward elements of forward contracts, if these are not excluded from the hedge designation.

At inception of a hedge, the hedge relationship is formally assessed to determine whether the hedging instruments are expected to be highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. Subsequently, the hedge effectiveness is assessed on a quarterly basis (or upon a significant change in circumstances) on a forward-looking basis. Any ineffectiveness is recorded in profit or loss.

Hedge accounting is not discontinued on a voluntary basis as long as the risk management objective is still being pursued and other qualifying criteria are fulfilled. If the qualifying criteria for the application of hedge accounting are no longer met for the entire hedging instrument (or a part of it), the hedge relationship is discontinued prospectively, in which case the hedging instrument and the hedged item are then subsequently reported independently in accordance with the respective accounting policy.

The accounting treatment of qualifying hedge relationships is further described in note 6.

Comparative accounting policies applicable prior to January 1, 2023

The treatment of derivative financial instruments prior to January 1, 2023 was largely the same as outlined above with the following differences relating to derivative financial instruments that qualify for hedge accounting:

At inception of a hedge and on an ongoing basis, the hedge relationship was formally assessed to determine whether the hedging instruments are expected to be (prospective assessment) and have been (retrospective assessment) highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. If the qualifying criteria for the application of hedge accounting were no longer met, the hedge relationship was discontinued prospectively, in which case the hedging instrument and the hedged item were subsequently reported independently in accordance with the respective accounting policy.

Hedge accounting could be discontinued prospectively on a voluntary basis.

g) Goodwill and attorney-in-fact contracts (AIF)

Goodwill

Goodwill is recognized at the amount of the consideration transferred in a business combination in excess of the fair value of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized but tested for impairment annually, or more frequently if there are indications that the amount of goodwill is not recoverable. For the purpose of impairment testing, goodwill is allocated to cash-generating units (CGUs) based on the level at which management monitors operations and makes decisions related to the continuation or disposal of assets and operations. The ZIC Group has defined the CGUs according to regions, separating P&C, Life businesses and other (see note 26). The CGUs which carry the majority of goodwill and AIF contracts are presented in table 3.1. If goodwill has been allocated to a CGU and an operation within that unit is disposed of, the carrying amount of the operation includes attributable goodwill when determining the gain or loss on disposal.

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AIF contracts

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

The services provided by FGI under such contracts are non-claims services including risk selection, preparation and mailing of policy documents and invoices, premium collection, management of the investment portfolios and certain other administrative functions. The multiple performance obligations covered by the consideration received are considered to be a series with the same pattern of transfer; therefore, the performance obligations are not separated. The fee income for the services provided includes Farmers management fees, membership fees and revenues for ancillary services. Farmers management fees are determined as a percentage of gross premiums earned by the Farmers Exchanges and recognized ratably over the period the services are provided. Membership fees are one-time fees charged at the time of the policy issuance that do not cover a distinct performance obligation. Such fees are recognized as revenue over the expected life of the customer relationship. The revenue for ancillary services includes remuneration for services provided that are not covered by Farmers management fees where FGI acts as a principal. Typically, these services are provided over time, so that the revenue is also recognized over time. The incremental costs incurred in connection with the customer setup activity are recognized as an asset and subsequently amortized using the same pattern as the related revenue. Please see notes 10 and 25 for further information.

Critical accounting estimates and judgments

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

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

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

Table 3.1 sets out for the major CGUs the applied discount rates and the perpetual nominal growth rates beyond the projection period that depend on expectations about country-specific growth rates and inflation as of the date of valuation, as well as the value of goodwill and AIF contracts as of December 31, 2023 and 2022:

Table 3.1

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

		in USD	Discount rates in %	Discount rates in %	Perpetual nominal growth rate in %	Perpetual nominal growth rate in %
	Business	millions	2023	2022	2023	2022
Farmers	Farmers	3,914	9.7	9.4	2.1	2.0
North America	P&C	350	9.4	9.3	2.1	2.0
Europe, Middle East & Africa	P&C	456	9.4	8.9	2.0	2.0
Europe, Middle East & Africa	Life	218	8.4	–	1.6	–
Asia Pacific	P&C	785	9.2	9.8	2.2	2.1
Asia Pacific	Life	1,122	9.0	10.0	1.9	2.1
Latin America	P&C	264	29.3	21.1	11.3	8.0
Latin America	Life	72	21.1	17.0	6.2	5.6

Consolidated financial statements (continued)

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

Quantitative sensitivity tests have been performed for all CGUs, by applying a reasonably possible change to each of the key assumptions to capture potential future variations in market conditions: a decrease in cash flows of up to 20 percent, an increase in the discount rate of 2.0 percentage points and a decrease in the perpetual growth rate of 2.0 percentage points. Under each individual scenario, reasonably possible changes in key assumptions did not impair goodwill and AIF contracts.

h) Other intangible assets

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

Distribution agreements

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

Qualitative analyses have been performed on distribution agreements, typically comprising an analysis of the current financial performance and any change in the conditions in the agreement and environment that would indicate an impairment. Please see notes 5, 12, 13 and 14 for further information on impairment of assets.

Software

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

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

The useful lives of software licenses and capitalized internal software development costs generally range from three to five years. In limited circumstances, capitalized software development costs may be amortized over a period of up to 10 years, taking into account the effects of obsolescence, technology, competition and other economic and legal factors. Changes in the expected useful life are recognized prospectively as changes in accounting estimates.

i) Employee benefits

Share-based compensation and cash incentive plans

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

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

Please see note 20 for further information regarding share-based compensation and cash incentive plans.

Post-employment benefits

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

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

Consolidated financial statements (continued)

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

The ZIC Group's expense related to these plans is accrued over the employees' service periods based on the actuarially determined cost for the period. Net interest is determined by applying the discount rate to the net defined benefit liability or asset. Actuarial gains and losses and the effect of the asset ceiling are recognized in full in OCI in the period in which they occur. Past service costs, which result from plan amendments and curtailments, are recognized in profit or loss on the earlier of when the plan amendment or curtailment occurs (which is the date from which the plan change is irrevocable) and the date on which a constructive obligation arises. Settlement gains or losses are recognized in profit or loss when the settlement occurs.

Other post-employment benefits

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

Critical accounting estimates and judgments

In assessing the ZIC Group's liability for defined benefit plans and other post-employment plans, critical judgments include estimates of mortality rates, rates of employment turnover, disability, early retirement, discount rates, future salary and pension increases, and increases in long-term healthcare costs. Discount rates for significant plans are based on a yield curve approach. The ZIC Group sets the discount rate by creating a hypothetical portfolio of high-quality corporate bonds for which the timing and amount of cash flows approximate the estimated pay-outs of the defined benefit plan. These assumptions may differ from actual results due to changing economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. These differences may result in variability of pension income or expense recorded in future years. Please see note 19 for further information on employee benefits.

j) Leases

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

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

The right-of-use asset is depreciated over the shorter of the leased asset's useful life or the lease term on a straight-line basis. The right-of-use asset is included in property and equipment and disclosed separately in note 12. The carrying amount of the lease liability is increased to reflect the unwinding of the discount so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period and is reduced by the lease payments made during the period. Lease payments include fixed payments and variable payments that depend on a non-leveraged index or a rate. Lease liabilities are included within other liabilities.

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

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

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k) Current and deferred taxes

Current income taxes payables (receivables) are measured at the amount expected to be paid (recovered) in accordance with the rules established by the taxation authorities, using the tax rates and tax laws that are enacted or substantively enacted as of the reporting date.

Deferred tax assets are recognized if sufficient future taxable income, including income from the reversal of existing taxable temporary differences and available tax planning strategies, is available for realization. The utilization of deferred tax assets arising from temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases depends on the generation of sufficient taxable profits in the period in which the underlying asset or liability is recovered or settled. If applicable tax law acknowledges different types of expenses to be tax deductible, deferred tax assets are only recognized if they give rise to deductions against the same type of taxable income. The utilization of deferred tax assets arising from unused tax losses or tax credits depends on the generation of sufficient taxable profits before the unused tax losses or tax credits expire.

Deferred tax liabilities are recognized for all taxable temporary differences unless they arise:

- From the initial recognition of goodwill; or
- An asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; or
- Are associated with investments in subsidiaries, branches, associates and interest in joint ventures if the ZIC Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Critical accounting estimates and judgments

As of each balance sheet date, management evaluates the recoverability of deferred tax assets and, if it is considered probable that all or a portion of the deferred tax asset will not be utilized, then a valuation allowance is recognized. Please see note 16 for further information on deferred taxes.

Consolidated financial statements (continued)

4. Acquisitions and divestments**Transactions in 2023****Acquisitions***Agency brokerage network acquisition*

On December 28, 2023, Farmers Group, Inc., a wholly owned subsidiary of the Group, acquired three brokerage entities (Kraft Lake Insurance Agency Inc., Western Star Insurance Services, Inc. and Farmers General Insurance Agency, Inc.) from the Farmers Exchanges, along with the flood servicing business of the Farmers Exchanges, for USD 760 million. The acquisition included access to the distribution networks of the Farmers Exchanges via an agency access agreement as well as the rights to renewal commissions on existing business.

Table 4.1 shows the preliminary opening balance sheet line items as of the acquisition date, representing the fair value of tangible and intangible assets.

Table 4.1

Agency brokerage network balance sheet as of the acquisition date

in USD millions, as of December 28, 2023		Total
Cash and cash equivalents		26
Receivables and other assets ¹		159
Deferred tax assets		8
Goodwill		26
Other intangible assets		560
Assets acquired		780
Other liabilities		20
Liabilities acquired		20
Net assets acquired		760
Cash consideration		760

1. Includes a receivable for contingent consideration with a fair value value of USD 149 million.

Kotak Mahindra General Insurance Company Limited

On November 2, 2023, the Group entered into a strategic alliance with Kotak Mahindra Bank Limited, through the proposed acquisition of a 51 percent stake in Kotak Mahindra General Insurance Company Limited for USD 488 million, through a combination of fresh growth capital and share purchase. Furthermore, Zurich will acquire an additional stake of up to 19 percent over time. The transaction is subject to regulatory approvals and is expected to complete in the first half of 2024.

Divestments**Held for sale**

As of December 31, 2023, the total assets and liabilities reclassified to held for sale were USD 23.8 billion and USD 23.9 billion, respectively, as per transactions below.

Zurich Chile Seguros de Vida S.A. annuity book

On May 8, 2023, Inversiones Suizo-Chilena S.A. entered into an agreement to sell the annuity book of Zurich Chile Seguros de Vida S.A of approximately USD 2.6 billion in reserves to Ohio National Seguros de Vida S.A., a Chilean life insurance company and indirect subsidiary of Constellation Insurance, Inc. The transaction is subject to regulatory approvals and is expected to complete in 2024. As of December 31, 2023, assets and liabilities reclassified to held for sale were USD 2.4 billion and USD 2.6 billion, respectively.

Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft life book

On June 24, 2022, Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft agreed to sell its legacy traditional life insurance back book in Germany to Viridium Holding AG (Viridium), a leading specialist in the management of life insurance portfolios (run-off) in Germany. The transaction includes the transfer of approximately USD 20 billion of net reserves, mainly related to annuity and endowment products underwritten more than five years ago. The sale will not change the contractual obligations to customers and distribution partners. On October 20, 2023, the life book was transferred by way of spin-off after regulatory approval to a separate ZIC Group subsidiary, the Zurich Life Legacy Versicherung AG (Deutschland) (Zurich Life Legacy). For developments on the status of the sale, please see note 28. As of December 31, 2023, assets and liabilities reclassified to held for sale were USD 20.0 billion and USD 19.9 billion, respectively.

Consolidated financial statements (continued)

Spain Medical Malpractice portfolio

On December 9, 2021, Zurich Insurance plc entered into an agreement to sell its legacy medical malpractice portfolio in Spain to RiverStone Insurance UK Limited ('Spain Medical Malpractice portfolio'). The transaction is subject to regulatory approval and is expected to be completed in 2024. As of December 31, 2023, assets and liabilities reclassified to held for sale were USD 78 million and USD 86 million, respectively.

UK Employers' liability portfolio

On December 14, 2018, Zurich Insurance plc entered into an agreement with Catalina Holdings (Bermuda) Ltd and certain of its subsidiaries to transfer a portfolio of pre-2007 United Kingdom legacy employers' liability policies to Catalina Worthing Insurance Limited ('UK Employers' Liability portfolio'), subject to regulatory and court approvals. With effect from January 1, 2022, the UK Employers' Liability portfolio was transferred to Zurich Insurance Company Ltd, UK Branch, under a Part VII transfer together with the rights and obligations of Zurich Insurance plc under the agreement. The transfer to Catalina Worthing Insurance Limited is expected to be completed in 2025. As of December 31, 2023, assets and liabilities reclassified to held for sale were USD 1.2 billion and USD 1.2 billion, respectively.

Transactions in 2022

Acquisitions

Deutsche Bank Italian Financial Advisors network acquisition

On August 4, 2021, Zurich Insurance Company Ltd reached an agreement to acquire the network of Financial Advisors of the Deutsche Bank Group in Italy. The terms of the agreement provide for the transfer of a business unit, mainly active in the financial advisory and investment products offering and distribution, consisting of approximately 1,085 financial advisors, 97 employees and EUR 16.5 billion of assets under management. The acquisition allows Zurich in Italy to further develop its financial and insurance distribution network in the Italian market. On October 14, 2022, the ZIC Group, through its subsidiary Zurich Italy Bank S.p.A., completed the acquisition for USD 328 million.

Table 4.2 shows the preliminary opening balance sheet line items as of the acquisition date, representing the fair value of tangible and intangible assets.

Table 4.2

DB Italian Financial Advisors network balance sheet as of the acquisition date	in USD millions, as of October 14, 2022	Total
	Cash and cash equivalents	1,092
	Total investments	78
	Receivables and other assets	79
	Property and equipment	21
	Goodwill	211
	Software	1
	Other intangible assets	136
	Assets acquired	1,617
	Other liabilities	76
	Deposits (only for banks)	1,214
	Liabilities acquired	1,289
	Net assets acquired	328
	Cash consideration	328

In 2023, there was an adjustment to the purchase price allocation which resulted in a reduction of the purchase price to USD 316 million, resulting in the reduction in value of goodwill by USD 8 million and other intangibles by USD 4 million.

Consolidated financial statements (continued)

Divested

Joint Stock Company Insurance Company 'Zurich' (Zurich Russia)

On May 19, 2022, ZIC Group agreed to sell its business in Russia to 11 members of the unit's team. Under its new owners, the business will operate independently under a different brand, while Zurich will no longer conduct business operations in Russia. The sale of Zurich Russia was completed on July 8, 2022, with a pre-tax loss of USD 30 million recognized in profit or loss.

Zurich Investments Life S.p.A. portfolio

On January 2, 2022, Zurich Investments Life S.p.A. agreed to sell part of its life and pension back book, composed of both traditional and multi-class products, to the Portuguese insurance company GamaLife – Companhia de Seguros de Vida, S.A. On November 30, 2022, the ZIC Group completed the sale with a pre-tax loss of USD 230 million, of which USD 144 million was recognized as of December 31, 2021, in profit or loss.

Zurich International Life portfolio

On December 22, 2020, Zurich International Life Limited (ZILL) entered into an agreement with Monument Re Limited to sell the closed book portfolio of ZILL's Singapore long-term life insurance business. On November 1, 2022, the ZIC Group completed the sale with a pre-tax gain of USD 2 million recognized in profit or loss.

Consolidated financial statements (continued)

5. Group investments

Group investments are those for which the ZIC Group bears part or all of the investment risk. They include investments related to insurance and investment contracts other than unit-linked insurance and investment contracts where the investment risk is borne by the holders of such contracts. Net investment result on Group investments includes returns on investment-related cash, which is included in cash and cash equivalents in the audited consolidated balance sheets.

Table 5.1

Net investment result
on Group investmentsin USD millions, for the years
ended December 31.

	Net investment income		Net capital gains/(losses)				Net investment result	
			Change of ECL allowance ¹		Other net capital gains/(losses) ¹			
	2023	2022	2023	2022	2023	2022	2023	2022
Investment-related cash	41	8	–		–	–	41	8
Equity securities:								
Fair value through profit or loss	389	415	–		932	(366)	1,322	49
Available-for-sale		–				412		412
Total equity securities	390	415	–		932	46	1,322	461
Debt securities:								
Fair value through profit or loss ²	347	–	–		299	(935)	647	(935)
Fair value through comprehensive income	3,785		(31)		(1,202)		2,552	
Available-for-sale		4,133				(750)		3,384
Amortized cost	182		(1)		(68)		114	
Total debt securities	4,314	4,133	(32)		(970)	(1,684)	3,312	2,449
Investment property ³	497	453	–		(674)	623	(177)	1,076
Mortgage loans at amortized cost	100	159	–		(2)	(2)	98	156
Other financial assets at amortized cost	255	152	(5)		(93)	33	157	185
Investments in associates and joint ventures	2	(4)	–		(10)	(27)	(9)	(31)
Derivative financial instruments	–	–	–		186	(822)	186	(822)
Investment result on Group investments, gross	5,599	5,315	(38)		(631)	(1,832)	4,931	3,483
Investment expenses on Group investments	(212)	(186)					(212)	(186)
Foreign currency gains/(losses)					(99)	(60)	(99)	(60)
Investment result on Group investments, net	5,387	5,129	(38)		(729)	(1,892)	4,620	3,238

1 No ECL balances are reported for 2022 as IFRS 9 was adopted as of January 1, 2023. Impairment losses reported under IAS 39 are included within Other net capital gains/(losses).

2 Net capital gains/(losses) related to debt securities designated at fair value through profit and loss amounted to USD 103 million and USD (936) million for the years ended December 31, 2023 and 2022, respectively.

3 Rental operating expenses for investment property amounted to USD (143) million and USD (134) million for the years ended December 31, 2023 and 2022, respectively.

Consolidated financial statements (continued)

Table 5.2

Details of Group investments by classification category

as of December 31	2023		2022	
	USD millions	% of total	USD millions	% of total
Equity securities:				
Fair value through profit or loss	14,452	10.2	3,540	2.5
Available-for-sale			10,593	7.4
Total equity securities	14,452	10.2	14,133	9.9
Debt securities:				
Fair value through profit or loss ¹	8,390	5.9	6,386	4.5
Fair value through comprehensive income	92,965	65.4		
Available-for-sale			95,638	66.9
Amortized cost	4,568	3.2		
Held-to-maturity			1,716	1.2
Total debt securities	105,924	74.5	103,740	72.5
Investment property	13,684	9.6	14,798	10.3
Mortgage loans at amortized cost	4,324	3.0	5,497	3.8
Other financial assets at amortized cost	3,682	2.6	4,801	3.4
Investments in associates and joint ventures	135	0.1	92	0.1
Total Group investments	142,200	100.0	143,061	100.0

1. Includes debt securities designated at fair value through profit and loss of USD 3.9 billion and USD 6.4 billion as of December 31, 2023 and 2022, respectively.

Investments with a carrying value of USD 5.5 billion and USD 5.6 billion are held to meet local regulatory requirements as of December 31, 2023 and 2022, respectively.

Table 5.3a

Debt securities maturity analysis – current period

in USD millions, as of December 31, 2023

	Fair value through profit or loss	Fair value through OCI	Amortized cost	Total
Bonds and corporate securities:				
< 1 year	340	9,438	121	9,899
1 to 5 years	1,462	32,605	1,795	35,863
5 to 10 years	1,709	19,636	1,180	22,525
> 10 years	3,300	21,228	1,472	26,000
Subtotal	6,811	82,908	4,568	94,287
Mortgage and asset-backed securities:				
< 1 year	1	9	–	10
1 to 5 years	225	1,087	–	1,312
5 to 10 years	183	2,672	–	2,855
> 10 years	1,171	6,289	–	7,459
Subtotal	1,579	10,057	–	11,636
Total	8,390	92,965	4,568	105,924

Table 5.3b

Debt securities maturity analysis – prior period

in USD millions, as of December 31, 2022

	Fair value through profit or loss	Available-for-sale	Held-to-maturity	Total
Bonds and corporate securities:				
< 1 year	900	5,996	453	7,349
1 to 5 years	2,049	29,891	831	32,772
5 to 10 years	1,442	20,852	411	22,705
> 10 years	1,545	25,695	21	27,262
Subtotal	5,937	82,434	1,716	90,087
Mortgage and asset-backed securities:				
< 1 year	1	17	–	18
1 to 5 years	118	1,234	–	1,352
5 to 10 years	107	2,596	–	2,704
> 10 years	223	9,357	–	9,580
Subtotal	449	13,204	–	13,653
Total	6,386	95,638	1,716	103,740

Consolidated financial statements (continued)

The analysis in table 5.3 is provided by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Table 5.4

Investment property	in USD millions	Total	
		2023	2022
Carrying value as of January 1		14,798	14,070
Additions and capital improvements		187	887
Acquisitions/(divestments)		(360)	3
Disposals		(832)	(256)
Market value revaluation ¹		(874)	586
Transfer from/(to) assets held for own use		-	3
Transfer (to) assets held for sale		-	(35)
Foreign currency translation effects ²		764	(459)
As of December 31		13,684	14,798

1. Decrease is mainly driven by revaluation impacts on real estate in Germany and United States. The fair value decrease is driven by the commercial real estate market.

2. Increase is mainly driven by foreign exchange-related impacts on real estate in Germany and Switzerland as the U.S. dollar weakened against the Euro and Swiss franc.

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

Table 5.5

Net changes on financial assets and (re-)insurance contracts included in other comprehensive income	in USD millions, as of December 31	Total	
		2023	2022
Equity securities:			
Available-for-sale			392
Total equity securities		-	392
Debt securities:			
Fair value through comprehensive income		(5,324)	
Available-for-sale			(10,801)
ECL allowance on fair value through comprehensive income		105	
Total debt securities		(5,219)	(10,801)
Other		149	725
Total gross unrealized gains/(losses) on financial assets		(5,070)	(9,684)
Less other amounts recognized in other comprehensive income attributable to:			
Change in fair value of underlying investment		1,497	2,703
Change in discount rate for (re-)insurance contracts		5,524	6,776
Current and deferred income taxes		(866)	(236)
Non-controlling interests		(51)	(28)
Total¹		1,034	(469)

1. Net unrealized gains/(losses) on financial assets include net losses recorded in the cash flow hedge reserve of USD (21) million and net gains of USD 15 million as of December 31, 2023 and 2022, respectively.

Consolidated financial statements (continued)

Table 5.6

Repurchase agreements and reverse repurchase agreements	in USD millions, as of December 31	Total	
		2023	2022
Repurchase agreements			
Securities sold under repurchase agreements ¹		802	1,081
Obligations to repurchase securities		796	1,069
Reverse repurchase agreements			
Securities purchased under reverse repurchase agreements ²		1,729	654
Receivables under reverse repurchase agreements		1,716	649

1 Non-cash collateral pledged on repurchase agreements amounted to USD 802 million and USD 1,082 million as of December 31, 2023 and 2022, respectively. The ZIC Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 0 million and USD 1 million as of December 31, 2023 and 2022, respectively. The majority of these assets were debt securities.

2 Non-cash collateral held on reverse repurchase agreements amounted to USD 1,729 million and USD 655 million as of December 31, 2023 and 2022, respectively. The ZIC Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 147 million and USD 1 million as of December 31, 2023 and 2022, respectively.

Under the terms of securities lending or repurchase agreements, the ZIC Group retains substantially all the risks and rewards of ownership of the transferred securities, and also retains contractual rights to the cash flows from these securities. These securities are therefore not derecognized from the ZIC Group's balance sheet. Cash received as collateral is recorded as an asset, and a corresponding liability is established. Interest expense is charged to profit or loss using the effective interest rate method over the life of the agreement. Securities lending was nil in 2023 and not material in 2022.

Under a reverse repurchase agreement, the securities received are not recognized on the balance sheet, as long as the risk and rewards of ownership have not been transferred to the ZIC Group. The cash delivered by the ZIC Group is derecognized and a corresponding receivable is recorded within receivables and other assets. Interest income is recognized in profit or loss using the effective interest rate method over the life of the agreement.

Consolidated financial statements (continued)

6. Group derivative financial instruments and hedge accounting

The ZIC Group uses derivative financial instruments mainly for economic hedging purposes to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates. Derivative financial instruments with a positive fair value are reported in receivables and other assets (please see note 14) and those with a negative fair value are reported in other liabilities (please see note 15).

Table 6.1 shows the fair value and notional amounts for all group derivatives as of December 31, 2023 and 2022 separated by risks. While these notional amounts express the extent of the ZIC Group's involvement in derivative transactions, they do not, however, represent the amounts at risk.

Table 6.1

Maturity analysis of notional amounts and fair values of Group derivative financial instruments	in USD millions, as of December 31									
	Maturity by notional amount						2023			2022
	< 1 year	1 to 5 years	> 5 years	Notional amounts	Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values	
Interest rate contracts ¹	2,106	8,358	2,938	13,402	540	(756)	13,436	508	(956)	
Equity contracts	828	635	722	2,185	55	(21)	1,911	55	(16)	
Foreign exchange contracts	20,651	473	115	21,239	352	(475)	20,732	222	(193)	
Total Group derivative financial instruments	23,584	9,466	3,775	36,825	947	(1,252)	36,078	786	(1,165)	
Thereof exchange traded	491	884	221	1,597	1	(497)	2,160	9	(701)	
Thereof OTC (over the counter)	23,093	8,582	3,554	35,229	945	(755)	33,918	776	(464)	

1. Include USD 1.7 billion and USD 1.2 billion notional related to derivatives which are centrally cleared as of December 31, 2023 and 2022, respectively. Please note that derivatives centrally cleared that are not designated under qualifying hedge accounting relationship, are presented net of corresponding variation margin payments under 'Amounts due from investment brokers' (see note 14) and 'Amounts due to investment brokers' (see note 15) as of December 31, 2023 and 2022, respectively.

Interest rate contracts

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

Equity contracts

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

Foreign exchange contracts

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

Credit contracts

The ZIC Group may from time to time enter into credit contracts. Credit contracts are credit default swaps entered into, either on a portfolio or on a macro level, to limit market risks arising from the investment portfolios against a change in credit spreads or to manage the risk return profile of the credit exposures. As of December 31, 2023, the ZIC Group does not hold credit default swaps.

Other contracts

Other contracts predominantly include stable value products (SVPs) issued to insurance company separate accounts in connection with certain life insurance policies (Bank Owned Life Insurance (BOLI) and Company Owned Life Insurance (COLI)) with an account value of USD 9.8 billion and USD 11.0 billion as of December 31, 2023 and 2022, respectively, and with a market value of the underlying investments of USD 9.0 billion and USD 9.9 billion as of December 31, 2023 and 2022, respectively (not included in the table above). The ZIC Group includes the likelihood of surrender as one of the input parameters to determine the fair value of the SVPs, which was nil as of December 31, 2023 and 2022.

In certain circumstances, derivative financial instruments meet the requirements of an effective hedge for accounting purposes. Where this is the case, hedge accounting may be applied. Financial information for these instruments is set out in table 6.2.

Consolidated financial statements (continued)

Table 6.2

Notional and fair values of Group hedge accounting derivative financial instruments	in USD millions, as of December 31	2023			2022		
		Notional principal amounts	Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
		Fair value hedge:					
Interest rate contracts ¹		1,526	17	(18)	–	–	–
Foreign currency contracts		–	–	–	407	–	(61)
Total fair value hedges		1,526	17	(18)	407	–	(61)
Cash flow hedge:							
Interest rate contracts ¹		13	6	(5)	433	61	(5)
Foreign currency contracts		857	24	(77)	256	15	(4)
Total cash flow hedges		870	30	(82)	690	75	(9)
Net investment hedge:							
Foreign currency contracts		1,814	61	–	2,713	26	(1)
Total net investment hedges		1,814	61	–	2,713	26	(1)

¹ Fair value hedge include USD 763 million of notional related to derivatives which are centrally cleared as of December 31, 2023. Cash flow hedge include USD 326 million of notional related to derivatives which are centrally cleared as of December 31, 2022.

Fair value hedges

In 2023, the ZIC Group entered into fair value hedge relationships consisting of interest rate swaps to protect the ZIC Group from interest rate exposure arising from certain debt securities.

Changes in the fair value of the derivative financial instruments designated as fair value hedges and changes in the fair value of the hedged item in relation to the risk being hedged are both recognized in income. The critical terms of the designated derivatives closely match the terms of the hedge items, so that the hedges are highly effective.

Table 6.3 sets out gains and losses arising from fair value hedges:

Table 6.3

Gains/(losses) arising from fair value hedges	in USD millions, for the years ended December 31	2023	2022
		Gains/(losses)	
on hedging instruments ¹		(31)	(29)
on hedged items attributable to the hedged risk		31	33

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

Consolidated financial statements (continued)

Cash flow hedges

The ZIC Group uses interest rate swaps and cross currency swaps for cash flow hedging to protect against the exposure to variability of cash flows attributable to interest rate and currency risk arising predominantly from debt securities. The hedging instrument is measured at fair value, with the effective portion of changes in its fair value recognized in OCI. The effective portion, related to spot rate changes in the fair value of the hedging instrument, is reclassified to profit or loss in the same period or periods in which the hedged expected future cash flows affect profit or loss.

The net change of gains/(losses) deferred in OCI on derivative financial instruments designated as cash flow hedges was USD 5 million and USD (38) million before tax for the years ended December 31, 2023 and 2022, respectively.

The ZIC Group recognized hedging gains/(losses) for interest rate risk of USD 1 million and USD (3) million in the consolidated income statements within net investment income on Group investments for the years ended December 31, 2023 and 2022, respectively. The ZIC Group also recognized net hedging gains for currency risk of USD 12 million and USD 9 million within other net capital gains/(losses) on Group investments for the years ended December 31, 2023 and 2022 respectively, as an offset to the foreign currency revaluation on the underlying hedged items.

A nil amount for the years ended December 31, 2023 and 2022, was recognized in net capital gains/(losses) and impairments due to hedge ineffectiveness.

Net investment hedges

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

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

The net change of gains/(losses) deferred in OCI were USD 132 million and USD (41) million before tax for the years ended December 31, 2023 and 2022, respectively, as a result of a hedge relationship by foreign exchange forwards and swaps.

The ZIC Group has also designated certain debt issuances as hedging instruments on a non-derivative net investment hedge relationship. The notional amount of these financial instruments was USD 10 billion and USD 12 billion for the years ended December 31, 2023 and 2022. The net gains/(losses) deferred in OCI were USD 783 million and USD 187 million before tax for the years ended December 31, 2023 and 2022, respectively. Information on debt issuances designated as hedging instruments in a net investment hedge relationship is set out in note 17.

Ineffectiveness of net investment hedges of USD 0 million and USD 21 million was recognized in foreign currency translation within other net capital gains/(losses) on Group investments for the year ended December 31, 2023, and within administrative and other operating expenses for the year ended December 31, 2022.

Consolidated financial statements (continued)

Derivative financial instruments: offsetting of financial assets and liabilities

Table 6.4 shows the net asset and liability position of ZIC Group derivative financial instruments subject to enforceable master netting arrangements and collateral agreements. Master netting arrangements are used by the ZIC Group to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. These arrangements commonly create a right of offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or other circumstances which would not be expected to arise in the normal course of business.

Table 6.4

Group derivative financial instruments subject to enforceable master netting arrangements and collateral agreements	in USD millions, as of December 31	Derivative assets		Derivative liabilities	
		2023	2022	2023	2022
Netting recognized on the balance sheet					
	Gross amounts of financial assets and liabilities ¹	949	786	(1,257)	(1,165)
	Cash collateral (received)/pledged that are set off ²	–	(3)	3	–
	Net amount recognized presented in the balance	949	783	(1,254)	(1,165)
Netting potential not recognized on the balance sheet					
	Related amounts not offset	(151)	(131)	164	106
	Cash collateral (received)/pledged ²	(729)	(612)	496	337
	Non-cash collateral (received)/pledged	(2)	(7)	543	709
	Net amount³	67	32	(51)	(13)

1 Includes USD 3.4 million and USD 49.4 million of derivative assets and USD 4.7 million and USD 0 million of derivative liabilities centrally cleared before netting against variation margin as of December 31, 2023 and 2022, respectively.

2 Includes USD 0 million and USD 48.9 million of cash collateral for derivative assets centrally cleared through central counterparty (CCP) as well as USD 2.9 million and USD 0 million derivative liabilities centrally cleared as of December 31, 2023 and 2022, respectively.

3 Includes USD 1.6 million and USD 0.4 million of total potential exposure to centrally cleared derivatives as of December 31, 2023 and 2022, respectively.

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7. Insurance and reinsurance contracts

Insurance and reinsurance contracts presented within this note include (re-)insurance contracts issued, including investment contracts with discretionary participation features and reinsurance contracts held accounted for under the respective accounting policies outlined in note 3.

Portfolios of (re-)insurance contracts issued are presented separately from portfolios of reinsurance contracts held. Portfolios of (re-)insurance contracts issued are presented within insurance contract liabilities, unless such portfolios are in a net asset position, in which case they are reclassified and presented as insurance contract assets. Similarly, portfolios of reinsurance contracts held are presented within reinsurance contract assets, unless such portfolios are in a net liability position, in which case they are reclassified and presented as reinsurance contract liabilities.

Unless specifically indicated, the disclosures within this note exclude the impacts of hyperinflation and are presented separately for groups of (re-)insurance contracts issued and reinsurance contracts held depending on the measurement model (please see note 3 for further details):

- Simplified or premium allocation approach (PAA) – for short-term (re-)insurance contracts issued and reinsurance contracts held that are eligible for PAA;
- General model (BBA) – for non-participating and indirect participating (re-)insurance contracts issued and reinsurance contracts held; and
- Variable fee approach (VFA) – for direct participating insurance contracts issued.

A summary of key financial figures for (re-)insurance contracts issued and reinsurance contracts held are shown in table 7.1a by asset and liability positions and by measurement model applied:

Table 7.1a

Overview of insurance contract issued and reinsurance contract held	in USD millions, as of December 31							
	2023				2022			
	Measured under PAA	Measured under BBA	Measured under VFA	Total	Measured under PAA	Measured under BBA	Measured under VFA	Total
Insurance contract assets	–	(571)	(9)	(580)	–	(668)	(8)	(676)
Insurance contract liabilities	65,694	27,672	123,596	216,962	61,819	29,007	113,011	203,837
Insurance contract (assets)/liabilities	65,694	27,101	123,587	216,381	61,819	28,339	113,002	203,161
Reinsurance contract assets	(13,903)	(8,039)	–	(21,942)	(12,988)	(6,890)	–	(19,878)
Reinsurance contract liabilities	–	504	–	504	–	367	–	367
Reinsurance contract (assets)/liabilities	(13,903)	(7,535)	–	(21,438)	(12,988)	(6,524)	–	(19,512)

For (re-)insurance contracts accounted for under PAA, the increase of USD 3 billion for the year ended December 31, 2023 is driven primarily by an increase in the LRC of USD 1 billion and USD 2.2 billion from LIC movements due to currency movements and growth of business. This is offset by net favorable prior year reserve development amounting to USD 654 million, mainly related to the release of risk adjustment and underlying favorable run-off.

For insurance contracts accounted for under BBA, the decrease of USD 1.2 billion for the year ended December 31, 2023 is driven primarily by the recognition of the sale of the annuity book by Inversiones Suizo-Chilena S.A. of USD 2.6 billion partially offset by currency movements of USD 0.6 billion and the insurance finance expense of USD 1.3 billion.

For insurance contracts accounted for under VFA, the increase of USD 10.6 billion for the year ended December 31, 2023 is mainly due to changes in financial market conditions driven by a positive performance on assets of USD 11.7 billion as well as currency movements of USD 5.1 billion, partially offset by net cash outflows of USD 5.3 billion.

For reinsurance contracts accounted for under BBA, the increase of USD 1.0 billion for the year ended December 31, 2023 primarily relates to the reinsurance of the in-force individual life book of Farmers New World Life Insurance Company, a subsidiary of Farmers Group, Inc.

Consolidated financial statements (continued)

The CSM of the ZIC Group included in insurance contract (assets)/liabilities amount to USD 16.7 billion and USD 15.1 billion as of December 31, 2023 and 2022, respectively, and the CSM included in reinsurance contract (assets)/liabilities amounts to USD (4.2) billion and USD (2.9) billion as of December 31, 2023 and 2022, respectively, as shown in Table 7.1b below.

Table 7.1b

Overview of CSM

			2023			2022
	Measured under BBA	Measured under VFA	Total	Measured under BBA	Measured under VFA	Total
CSM included in insurance contract assets	590	39	629	571	32	603
CSM included in insurance contract liabilities	6,825	9,283	16,108	5,775	8,739	14,514
CSM included in insurance contract (assets)/liabilities	7,415	9,322	16,737	6,346	8,771	15,117
CSM included in reinsurance contract assets	(2,802)	–	(2,802)	(2,064)	–	(2,064)
CSM included in reinsurance contract liabilities	(1,428)	–	(1,428)	(235)	–	(235)
CSM included in reinsurance contract (assets)/liabilities	(4,230)	–	(4,230)	(2,299)	–	(2,299)

Consolidated financial statements (continued)

Table 7.2a

Reconciliation of insurance contracts issued, measured under PAA – current period

in USD millions

	Liability for remaining coverage		Liability for incurred claims			Assets for insurance acquisition cash flows ¹	Total ¹
	Excluding loss component	Loss component	Estimate of the present value of future cash flows		Risk adjustment		
			flows				
Insurance contract liabilities, as of January 1, 2023	8,658	334	51,890		1,453	(542)	61,793
Insurance contract assets, as of January 1, 2023	–	–	–		–	–	–
Net insurance contracts as of January 1, 2023	8,658	334	51,890		1,453	(542)	61,793
Insurance revenue	(45,950)	–	–		–	–	(45,950)
Insurance service expenses							
Incurred claims and other incurred insurance service expenses	–	–	33,357		398	–	33,755
Amortization of insurance acquisition cash flows	6,703	–	–		–	–	6,703
Changes that relate to past service	–	–	(36)		(635)	–	(671)
Losses and reversal of losses on onerous contracts	–	(89)	–		–	–	(89)
Impairment and reversal of impairment of assets for insurance acquisition cash flows	–	–	–		–	(19)	(19)
Insurance service expenses	6,703	(89)	33,321		(237)	(19)	39,679
Total gross insurance service result	(39,247)	(89)	33,321		(237)	(19)	(6,272)
Cash in/(out)flows in the period							
Premiums received	47,593	–	–		–	–	47,593
Insurance acquisition cash flows	(7,086)	–	–		–	(326)	(7,412)
Claims and other insurance service expenses paid, including investment components	–	–	(33,636)		–	–	(33,636)
Net cash inflows/(outflows)	40,507	–	(33,636)		–	(326)	6,545
Allocation from assets for insurance acquisition cash flows to insurance contracts	(288)	–	–		–	288	–
Investment components	(324)	–	324		–	–	–
Insurance finance (income)/expense recognized in P&L	92	–	1,138		29	–	1,258
Insurance finance (income)/expense recognized in OCI	–	–	1,318		44	–	1,362
Acquisitions/(divestments) and transfers	1	–	27		–	–	28
Foreign currency translation effects	254	13	1,045		22	(45)	1,288
Other changes ²	(60)	1	(250)		(1)	–	(309)
Total changes not related to provision of insurance service	(324)	14	3,601		94	243	3,627
Insurance contract liabilities, as of December 31, 2023	9,595	259	55,176		1,310	(645)	65,694
Insurance contract assets, as of December 31, 2023	–	–	–		–	–	–
Net insurance contracts as of December 31, 2023	9,595	259	55,176		1,310	(645)	65,694

1 January 1, 2023 balances are impacted by hyperinflation, please see note 1 for details.

2 Other changes mainly driven by non-recurring IFRS 9 balance sheet transition adjustments, hyperinflation adjustments and US reclassification of deductible receivables to insurance contract liabilities.

Consolidated financial statements (continued)

Table 7.2b

Reconciliation of insurance contracts issued, measured under PAA – prior period

in USD millions	Liability for remaining coverage		Liability for incurred claims			Assets for insurance acquisition cash flows	Total
	Excluding loss component	Loss component	Estimate of the present value of future cash flows		Risk adjustment		
			flows	adjustment			
Insurance contract liabilities, as of January 1, 2022	7,853	381	57,692	1,305	(512)	66,720	
Insurance contract assets, as of January 1, 2022	–	–	–	–	–	–	
Net insurance contracts as of January 1, 2022	7,853	381	57,692	1,305	(512)	66,720	
Insurance revenue	(41,343)	–	–	–	–	(41,343)	
Insurance service expenses							
Incurred claims and other incurred insurance service expenses	–	–	29,288	402	–	29,691	
Amortization of insurance acquisition cash flows	6,077	–	–	–	–	6,077	
Changes that relate to past service	–	–	(320)	(104)	–	(423)	
Losses and reversal of losses on onerous contracts	–	(36)	–	–	–	(36)	
Impairment and reversal of impairment of assets for insurance acquisition cash flows	–	–	–	–	45	45	
Insurance service expenses	6,077	(36)	28,969	299	45	35,354	
Total gross insurance service result	(35,266)	(36)	28,969	299	45	(5,989)	
Cash in/(out)flows in the period							
Premiums received	43,239	–	–	–	–	43,239	
Insurance acquisition cash flows	(6,534)	–	–	–	(177)	(6,711)	
Claims and other insurance service expenses paid, including investment components	–	–	(28,881)	–	–	(28,881)	
Net cash inflows/(outflows)	36,705	–	(28,881)	–	(177)	7,648	
Allocation from assets for insurance acquisition cash flows to insurance contracts	(133)	–	–	–	133	–	
Investment components	(280)	–	280	–	–	–	
Insurance finance (income)/expense recognized in P&L	43	–	470	9	–	522	
Insurance finance (income)/expense recognized in OCI	–	–	(5,117)	(123)	–	(5,240)	
Acquisitions/(divestments) and transfers ¹	(12)	–	99	–	–	87	
Foreign currency translation effects	(239)	(11)	(1,731)	(40)	4	(2,017)	
Other changes ²	(12)	–	109	3	(8)	91	
Total changes not related to provision of insurance service	(634)	(11)	(5,891)	(151)	128	(6,558)	
Insurance contract liabilities, as of December 31, 2022	8,658	334	51,890	1,453	(516)	61,819	
Insurance contract assets, as of December 31, 2022	–	–	–	–	–	–	
Net insurance contracts as of December 31, 2022	8,658	334	51,890	1,453	(516)	61,819	

1 In 2022, movement is related to the sale of Joint Stock Company Insurance Company (Zurich Russia) and the reclassification of reserves to liabilities held for sale of Zurich Insurance plc (Spain Medical Malpractice portfolio and UK Employers' liability portfolio) (see note 4).
2 Other changes related to balance sheet reclassifications during the transition period.

Consolidated financial statements (continued)

Table 7.3a

**Reconciliation of
reinsurance contracts
held, measured under
PAA – current period**

in USD millions

	Assets for remaining coverage		Assets for incurred claims		Total
	Excluding loss-recovery component	Loss-recovery component	Estimate of the present value of the future cash flows	Risk adjustment	
Reinsurance contract assets, as of January 1, 2023	1,773	16	10,909	290	12,988
Reinsurance contract liabilities, as of January 1, 2023	–	–	–	–	–
Net reinsurance contracts as of January 1, 2023	1,773	16	10,909	290	12,988
Reinsurance premiums	(7,886)	–	–	–	(7,886)
Amounts recovered from reinsurance					
Recoveries of incurred claims and other insurance service expenses	–	–	5,120	96	5,216
Changes to recoveries of incurred claims that relate to past service	–	–	110	(127)	(17)
Changes that relate to onerous underlying contracts	–	(5)	–	–	(5)
Changes that relate to future services	1	–	–	–	1
Amounts recovered from reinsurance	1	(5)	5,231	(31)	5,196
Total reinsurance service result	(7,885)	(5)	5,231	(31)	(2,690)
Cash (in)/outflows in the period					
Reinsurance premiums paid	7,740	–	–	–	7,740
Amounts received under reinsurance contracts held, including investment components	–	–	(4,946)	–	(4,946)
Net cash (inflows)/outflows	7,740	–	(4,946)	–	2,794
Reinsurance finance income/(expense) recognized in P&L	51	–	282	7	340
Reinsurance finance income/(expense) recognized in OCI	5	–	247	9	260
Acquisitions/(divestments) and transfers	3	–	12	–	15
Foreign currency translation effects	43	–	134	2	178
Other changes	19	–	(1)	(1)	17
Total changes not related to provision of reinsurance services	121	–	674	16	811
Reinsurance contract assets, as of December 31, 2023	1,749	12	11,868	275	13,903
Reinsurance contract liabilities, as of December 31, 2023	–	–	–	–	–
Net reinsurance contracts as of December 31, 2023	1,749	12	11,868	275	13,903

Consolidated financial statements (continued)

Table 7.3b

Reconciliation of reinsurance contracts held, measured under PAA – prior period

in USD millions

	Assets for remaining coverage		Assets for incurred claims		Total
	Excluding loss-recovery component	Loss-recovery component	Estimate of the present value of the future cash flows	Risk adjustment	
Reinsurance contract assets, as of January 1, 2022	1,903	39	11,345	240	13,526
Reinsurance contract liabilities, as of January 1, 2022	–	–	–	–	–
Net reinsurance contracts as of January 1, 2022	1,903	39	11,345	240	13,526
Reinsurance premiums	(7,266)	–	–	–	(7,266)
Amounts recovered from reinsurance					
Recoveries of incurred claims and other insurance service expenses	–	–	4,296	92	4,388
Changes to recoveries of incurred claims that relate to past service	–	–	(56)	(19)	(76)
Changes that relate to onerous underlying contracts	–	(23)	–	–	(23)
Changes that relate to future services	3	–	–	–	3
Amounts recovered from reinsurance	3	(23)	4,240	73	4,293
Total reinsurance service result	(7,263)	(23)	4,240	73	(2,973)
Cash (in)/outflows in the period					
Reinsurance premiums paid	7,077	–	–	–	7,077
Amounts received under reinsurance contracts held, including investment components	–	–	(3,883)	–	(3,883)
Net cash (inflows)/outflows	7,077	–	(3,883)	–	3,194
Reinsurance finance income/(expense) recognized in P&L	(16)	–	123	3	110
Reinsurance finance income/(expense) recognized in OCI	(10)	–	(718)	(20)	(748)
Acquisitions/(divestments) and transfers ¹	81	–	43	–	124
Foreign currency translation effects	(27)	–	(236)	(6)	(268)
Other changes ²	27	–	(5)	1	23
Total changes not related to provision of reinsurance services	56	–	(792)	(22)	(759)
Reinsurance contract assets, as of December 31, 2022	1,773	16	10,909	290	12,988
Reinsurance contract liabilities, as of December 31, 2022	–	–	–	–	–
Net reinsurance contracts as of December 31, 2022	1,773	16	10,909	290	12,988

1 In 2022, movement is related to the sale of Joint Stock Company Insurance Company (Zurich Russia) and the reclassification of reserves to assets held for sale of Zurich Insurance plc (Spain Medical Malpractice portfolio and UK Employers' liability portfolio) (see note 4).
2 Other changes related to balance sheet reclassifications during the transition period.

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Table 7.4

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
in USD millions, as of December 31											
Development of insurance losses, measured under the PAA, net	Undiscounted liabilities for incurred claims, net of reinsurance	54,703	53,739	52,773	55,623	50,627	48,223	50,094	50,031	50,091	53,259
	Effects of discounting								(9,110)	(9,951)	
	Effect of the risk adjustment for non-financial risk									1,163	1,035
	Total liabilities for incurred claims, net of reinsurance	54,703	53,739	52,773	55,623	50,627	48,223	50,094	50,031	42,143	44,343
	Cumulative claims paid, net of reinsurance:										
	One year later	(12,576)	(11,690)	(10,994)	(11,586)	(10,831)	(9,921)	(9,756)	(10,592)	(11,665)	
	Two years later	(19,460)	(18,562)	(17,808)	(18,277)	(16,727)	(15,594)	(15,858)	(16,995)		
	Three years later	(24,475)	(23,590)	(22,540)	(22,606)	(20,805)	(20,285)	(20,732)			
	Four years later	(28,105)	(27,106)	(25,764)	(25,662)	(24,348)	(24,188)				
	Five years later	(30,667)	(29,569)	(28,012)	(28,222)	(27,439)					
Six years later	(32,375)	(31,167)	(29,902)	(30,599)							
Seven years later	(33,639)	(32,588)	(31,729)								
Eight years later	(34,720)	(34,054)									
Nine years later	(35,895)										
Undiscounted liabilities for incurred claims re-estimated, net of reinsurance:											
One year later	54,852	53,575	52,131	54,949	50,044	47,815	49,494	49,958	49,889		
Two years later	54,677	52,633	51,415	54,108	49,197	47,150	49,247	49,792			
Three years later	54,265	52,073	50,462	53,251	48,610	47,021	49,204				
Four years later	53,880	51,337	49,538	52,597	48,180	47,086					
Five years later	53,321	50,482	48,971	52,040	48,158						
Six years later	52,657	50,076	48,418	51,885							
Seven years later	52,359	49,712	48,275								
Eight years later	52,047	49,596									
Nine years later	52,077										

Table 7.4 summarizes the cumulative paid claims compared with previous estimates of the undiscounted amount of the incurred claims, net of reinsurance. The ZIC Group presents the information by financial year, not by accident year (i.e., insurance losses and the development thereof are for all accident years in that financial year).

The top section of the table shows the estimated undiscounted amount of future payments for losses and loss adjustment expenses incurred in that year and in prior years and the corresponding effects of discounting and risk adjustment for non-financial risk, which correspond to the liabilities for incurred claims (LIC), net of reinsurance, as of December 31, 2023 and 2022.

The cumulative claims paid, net of reinsurance section of the table presents the cumulative amounts paid in each subsequent year in respect of the LIC established at each year end. The undiscounted liabilities for incurred claims re-estimated, net of reinsurance, show the re-estimation of the initially recorded liabilities as of each subsequent year end. The amounts are presented gross of non-distinct investment component. The figures disclosed in this table for information published from 2021 and prior are as published previously and have not been restated for changes resulting from the application of IFRS 17. The effects from the application of IFRS 17 did not have a material effect and were primarily attributable to scope changes (e.g., incurred claims and expenses from short-term life insurance contracts were previously not included).

Changes to incurred claims estimates are made as more information becomes known about the actual insurance losses for which the initial LIC were established. Conditions and trends that have affected the development of insurance losses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in this table.

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Table 7.5a

Reconciliation of insurance contracts issued, measured under BBA – current period

in USD millions

	Liability for remaining coverage			Liability for incurred claims	Assets for insurance acquisition cash flows	Total
	Excluding loss component	Loss component				
Insurance contract liabilities, as of January 1, 2023	22,577	1,780	4,652	(2)	29,007	
Insurance contract assets, as of January 1, 2023	(489)	2	586	(766)	(668)	
Net insurance contracts, as of January 1, 2023	22,088	1,782	5,237	(768)	28,339	
Insurance revenue						
Insurance revenue	(6,360)	–	–	–	(6,360)	
Insurance service expenses						
Incurred claims and other incurred insurance service expenses	–	–	4,477	–	4,477	
Amortization of insurance acquisition cash flows	629	–	–	–	629	
Changes that relate to past services	–	–	166	–	166	
Losses on onerous contracts and reversal of those losses	–	(205)	–	–	(205)	
Impairment and reversal of impairment of assets for insurance acquisition cash flows	–	–	–	1	1	
Insurance service expenses	629	(205)	4,643	1	5,067	
Total gross insurance service result	(5,732)	(205)	4,643	1	(1,293)	
Cash in/(out)flows in the period						
Premiums received	9,193	–	–	–	9,193	
Insurance acquisition cash flows	(882)	–	–	(137)	(1,018)	
Claims and other insurance service expenses paid, including investment components	13	–	(7,433)	–	(7,420)	
Net cash inflows/(outflows)	8,325	–	(7,433)	(137)	755	
Allocation from assets for insurance acquisition cash flows	(106)	–	–	106	–	
Investment components	(2,901)	–	2,901	–	–	
Insurance finance (income)/expenses recognized in P&L	634	66	91	–	791	
Insurance finance (income)/expenses recognized in OCI	523	–	5	–	529	
Acquisitions/(divestments) and transfers ¹	(2,463)	(164)	–	–	(2,626)	
Foreign currency translation effects	462	7	99	(3)	566	
Other changes	35	7	(2)	–	40	
Total changes not related to provision of insurance services	(3,814)	(84)	3,094	103	(700)	
Insurance contract liabilities, as of December 31, 2023	21,278	1,491	4,908	(5)	27,672	
Insurance contract assets, as of December 31, 2023	(411)	3	634	(797)	(571)	
Net insurance contracts, as of December 31, 2023	20,867	1,494	5,542	(802)	27,101	

1. In 2023, the decrease related to an agreement entered into by Inversiones Suizo-Chilena S.A. to sell the annuity book of Zurich Chile Seguros de Vida S.A. (see note 4).

Consolidated financial statements (continued)

Table 7.5b

Reconciliation of insurance contracts issued, measured under BBA – prior period

in USD millions	Liability for remaining coverage			Liability for incurred claims	Assets for insurance acquisition cash flows	Total
	Excluding loss component	Loss component				
Insurance contract liabilities, as of January 1, 2022	25,708	1,466	6,883	(162)	33,895	
Insurance contract assets, as of January 1, 2022	(613)	–	278	(377)	(712)	
Net insurance contracts, as of January 1, 2022	25,095	1,466	7,161	(540)	33,183	
Insurance revenue						
Insurance revenue	(5,983)	–	–	–	(5,983)	
Insurance service expenses						
Incurred claims and other incurred insurance service expenses						
Incurred claims and other incurred insurance service expenses	–	–	4,372	–	4,372	
Amortization of insurance acquisition cash flows	581	–	–	–	581	
Changes that relate to past services	–	–	23	–	23	
Losses on onerous contracts and reversal of those losses	–	375	–	–	375	
Impairment and reversal of impairment of assets for insurance acquisition cash flows						
Impairment and reversal of impairment of assets for insurance acquisition cash flows	–	–	–	8	8	
Insurance service expenses	581	375	4,396	8	5,360	
Total gross insurance service result	(5,402)	375	4,396	8	(623)	
Cash in/(out)flows in the period						
Premiums received	7,607	–	–	–	7,607	
Insurance acquisition cash flows	(772)	–	–	(111)	(884)	
Claims and other insurance service expenses paid, including investment components						
Claims and other insurance service expenses paid, including investment components	(4)	–	(6,162)	–	(6,166)	
Net cash inflows/(outflows)	6,831	–	(6,162)	(111)	557	
Allocation from assets for insurance acquisition cash flows						
Allocation from assets for insurance acquisition cash flows	(100)	–	–	100	–	
Investment components	(1,818)	–	1,818	–	–	
Insurance finance (income)/expenses recognized in P&L	560	15	(208)	–	367	
Insurance finance (income)/expenses recognized in OCI	(3,903)	–	(98)	–	(4,001)	
Acquisitions/(divestments) and transfers	(13)	–	–	–	(13)	
Foreign currency translation effects	(1,165)	(113)	(302)	41	(1,539)	
Other changes ¹	2,004	38	(1,368)	(266)	408	
Total changes not related to provision of insurance services	(4,436)	(60)	(157)	(125)	(4,778)	
Insurance contract liabilities, as of December 31, 2022	22,577	1,780	4,652	(2)	29,007	
Insurance contract assets, as of December 31, 2022	(489)	2	586	(766)	(668)	
Net insurance contracts, as of December 31, 2022	22,088	1,782	5,237	(768)	28,339	

1. Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

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Table 7.6a

Reconciliation of measurement components of insurance contracts issued, measured under BBA – current period	in USD millions	Present value of		Contractual	Total
		future cash flows	Risk adjustment	service margin	
Insurance contract liabilities, as of January 1, 2023		21,268	1,964	5,775	29,007
Insurance contract assets, as of January 1, 2023		(1,401)	163	571	(668)
Net insurance contracts, as of January 1, 2023		19,867	2,127	6,346	28,339
Changes that relate to future services					
Changes in estimates that adjust the CSM		(593)	(31)	625	–
Changes in estimates that result in onerous contract losses or reversal of losses		105	(236)	–	(131)
Contracts initially recognized in the period		(1,601)	294	1,319	12
Changes that relate to current services					
CSM recognized for the services provided		–	–	(1,071)	(1,071)
Risk adjustment recognized for the risk expired		–	(179)	–	(179)
Experience adjustments		(89)	–	–	(89)
Changes that relate to past services					
Changes in fulfilment cash flows relating to incurred claims		198	(32)	–	166
Changes related to provision of insurance services		(1,982)	(184)	873	(1,293)
Cash in/(out)flows in the period					
Premiums received		9,193	–	–	9,193
Insurance acquisition cash flows		(1,018)	–	–	(1,018)
Claims and other insurance service expenses paid, including investment components		(7,420)	–	–	(7,420)
Net cash inflows/(outflows)		755	–	–	755
Insurance finance (income)/expenses		1,079	126	115	1,319
Foreign currency translation effects		496	(25)	96	566
Other changes ¹		(2,540)	(32)	(14)	(2,586)
Total changes not related to provision of insurance services		(966)	68	197	(700)
Insurance contract liabilities, as of December 31, 2023		19,014	1,833	6,825	27,672
Insurance contract assets, as of December 31, 2023		(1,339)	178	590	(571)
Net insurance contracts, as of December 31, 2023		17,675	2,011	7,415	27,101

1. In 2023, the decrease mainly related to an agreement entered into by Inversiones Suizo-Chilena S.A. to sell the annuity book of Zurich Chile Seguros de Vida S.A. (see note 4).

Consolidated financial statements (continued)

Table 7.6b

Reconciliation of measurement components of insurance contracts issued, measured under BBA – prior period	in USD millions	Present value of		Contractual service margin	Total
		future cash flows	Risk adjustment		
Insurance contract liabilities, as of January 1, 2022		27,511	2,314	4,070	33,895
Insurance contract assets, as of January 1, 2022		(2,550)	377	1,461	(712)
Net insurance contracts, as of January 1, 2022		24,961	2,690	5,531	33,183
Changes that relate to future services					
Changes in estimates that adjust the CSM		(226)	(133)	358	–
Changes in estimates that result in onerous contract losses or reversal of losses		419	7	–	426
Contracts initially recognized in the period		(1,055)	192	912	49
Changes that relate to current services					
CSM recognized for the services provided		–	–	(987)	(987)
Risk adjustment recognized for the risk expired		–	(180)	–	(180)
Experience adjustments		45	–	–	45
Changes that relate to past services					
Changes in fulfilment cash flows relating to incurred claims		66	(43)	–	23
Changes related to provision of insurance services		(751)	(156)	284	(623)
Cash in/(out)flows in the period					
Premiums received		7,607	–	–	7,607
Insurance acquisition cash flows		(884)	–	–	(884)
Claims and other insurance service expenses paid, including investment components		(6,166)	–	–	(6,166)
Net cash inflows/(outflows)		557	–	–	557
Insurance finance (income)/expenses		(3,298)	(401)	65	(3,634)
Foreign currency translation effects		(956)	(214)	(369)	(1,539)
Other changes ¹		(647)	207	835	395
Total changes not related to provision of insurance services		(4,901)	(408)	531	(4,778)
Insurance contract liabilities, as of December 31, 2022		21,268	1,964	5,775	29,007
Insurance contract assets, as of December 31, 2022		(1,401)	163	571	(668)
Net insurance contracts, as of December 31, 2022		19,867	2,127	6,346	28,339

1. Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

Consolidated financial statements (continued)

Table 7.7a

Reconciliation of insurance contracts issued, measured under VFA – current period	in USD millions	Liability for remaining coverage			Total
		Excluding loss component		Liability for incurred claims	
		Excluding loss component	Loss component		
Insurance contract liabilities, as of January 1, 2023		111,688	107	1,215	113,011
Insurance contract assets, as of January 1, 2023		(8)	–	–	(8)
Net insurance contracts, as of January 1, 2023		111,680	107	1,215	113,002
Insurance revenue					
Insurance revenue		(3,766)	–	–	(3,766)
Insurance service expenses					
Incurred claims and other incurred insurance service expenses		–	–	2,152	2,152
Amortization of insurance acquisition cash flows		556	–	–	556
Changes that relate to past services		–	–	(30)	(30)
Losses on onerous contracts and reversal of those losses		–	(12)	–	(12)
Insurance service expenses		556	(12)	2,123	2,667
Total gross insurance service result		(3,210)	(12)	2,123	(1,099)
Cash in/(out)flows in the period					
Premiums received		11,191	–	–	11,191
Insurance acquisition cash flows		(505)	–	–	(505)
Claims and other insurance service expenses paid, including investment components		(33)	–	(15,958)	(15,991)
Net cash inflows/(outflows)		10,654	–	(15,958)	(5,305)
Investment components		(13,910)	–	13,910	–
Insurance finance (income)/expenses recognized in P&L		9,320	11	7	9,337
Insurance finance (income)/expenses recognized in OCI		2,362	–	–	2,362
Acquisitions/(divestments) and transfers		374	–	(14)	360
Foreign currency translation effects		5,102	–	28	5,130
Other changes		(214)	–	13	(201)
Total changes not related to provision of insurance services		3,034	11	13,944	16,989
Insurance contract liabilities, as of December 31, 2023		122,167	106	1,324	123,596
Insurance contract assets, as of December 31, 2023		(9)	–	–	(9)
Net insurance contracts, as of December 31, 2023		122,157	106	1,324	123,587

Consolidated financial statements (continued)

Table 7.7b

in USD millions	Liability for remaining coverage			Total
	Excluding loss component	Loss component	Liability for incurred claims	
Insurance contract liabilities, as of January 1, 2022	160,083	60	1,884	162,026
Insurance contract assets, as of January 1, 2022	(8)	–	–	(8)
Net insurance contracts, as of January 1, 2022	160,075	60	1,884	162,018
Insurance revenue				
Insurance revenue	(3,433)	–	–	(3,433)
Insurance service expenses				
Incurred claims and other incurred insurance service expenses	–	–	2,179	2,179
Amortization of insurance acquisition cash flows	544	–	–	544
Changes that relate to past services	–	–	(56)	(56)
Losses on onerous contracts and reversal of those losses	–	56	–	56
Insurance service expenses	544	56	2,122	2,722
Total gross insurance service result	(2,889)	56	2,122	(711)
Cash in/(out)flows in the period				
Premiums received	11,326	–	–	11,326
Insurance acquisition cash flows	(579)	–	–	(579)
Claims and other insurance service expenses paid, including investment components	7	–	(13,783)	(13,776)
Net cash inflows/(outflows)	10,755	–	(13,783)	(3,028)
Investment components	(11,448)	–	11,448	–
Insurance finance (income)/expenses recognized in P&L	(5,800)	1	(103)	(5,902)
Insurance finance (income)/expenses recognized in OCI	(13,965)	–	–	(13,965)
Acquisitions/(divestments) and transfers ¹	(17,666)	2	99	(17,565)
Foreign currency translation effects	(7,736)	(3)	(21)	(7,760)
Other change ²	353	(8)	(431)	(85)
Total changes not related to provision of insurance services	(56,261)	(8)	10,992	(45,277)
Insurance contract liabilities, as of December 31, 2022	111,688	107	1,215	113,011
Insurance contract assets, as of December 31, 2022	(8)	–	–	(8)
Net insurance contracts, as of December 31, 2022	111,680	107	1,215	113,002

1 In 2022, movement is mainly related to agreements entered into by Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft to sell its legacy traditional life insurance book and Zurich Investments Life S.p.A. to sell part of its life and pension back book (see note 4).

2 Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

Consolidated financial statements (continued)

Table 7.8a

Reconciliation of measurement components of insurance contracts issued, measured under VFA – current period	in USD millions	Present value of		Contractual	Total
		future cash flows	Risk adjustment	service margin	
Insurance contract liabilities, as of January 1, 2023		103,755	517	8,739	113,011
Insurance contract assets, as of January 1, 2023		(42)	1	32	(8)
Net insurance contracts, as of January 1, 2023		103,713	518	8,771	113,002
Changes that relate to future services					
Changes in estimates that adjust the CSM		(553)	119	434	–
Changes in estimates that result in onerous contract losses or reversal of losses		(7)	2	–	(5)
Contracts initially recognized in the period		(342)	23	324	5
Changes that relate to current services					
CSM recognized for the services provided		–	–	(824)	(824)
Risk adjustment recognized for the risk expired		–	(43)	–	(43)
Experience adjustments		(203)	–	–	(203)
Changes that relate to past services					
Changes in fulfilment cash flows relating to incurred claims		(29)	–	–	(30)
Changes related to provision of insurance services		(1,134)	101	(66)	(1,099)
Cash in/(out)flows in the period					
Premiums received		11,191	–	–	11,191
Insurance acquisition cash flows		(505)	–	–	(505)
Claims and other insurance service expenses paid, including investment components		(15,991)	–	–	(15,991)
Net cash inflows/(outflows)		(5,305)	–	–	(5,305)
Insurance finance (income)/expenses		11,682	17	–	11,699
Foreign currency translation effects		4,517	40	574	5,130
Other changes		102	14	43	159
Total changes not related to provision of insurance services		16,301	71	617	16,989
Insurance contract liabilities, as of December 31, 2023		113,624	689	9,283	123,596
Insurance contract assets, as of December 31, 2023		(49)	1	39	(9)
Net insurance contracts, as of December 31, 2023		113,575	690	9,322	123,587

Consolidated financial statements (continued)

Table 7.8b

Reconciliation of measurement components of insurance contracts issued, measured under VFA – prior period	in USD millions	Present value of		Contractual service margin	Total
		future cash flows	Risk adjustment		
Insurance contract liabilities, as of January 1, 2022		150,356	727	10,943	162,026
Insurance contract assets, as of January 1, 2022		(41)	1	32	(8)
Net insurance contracts, as of January 1, 2022		150,315	728	10,975	162,018
Changes that relate to future services					
Changes in estimates that adjust the CSM		1,073	(101)	(973)	–
Changes in estimates that result in onerous contract losses or reversal of losses		58	(6)	–	52
Contracts initially recognized in the period		(372)	31	351	10
Changes that relate to current services					
CSM recognized for the services provided		–	–	(835)	(835)
Risk adjustment recognized for the risk expired		–	(47)	–	(47)
Experience adjustments		166	–	–	166
Changes that relate to past services					
Changes in fulfilment cash flows relating to incurred claims		(56)	–	–	(56)
Changes related to provision of insurance services		868	(122)	(1,457)	(711)
Cash in/(out)flows in the period					
Premiums received		11,326	–	–	11,326
Insurance acquisition cash flows		(579)	–	–	(579)
Claims and other insurance service expenses paid, including investment components		(13,776)	–	–	(13,776)
Net cash inflows/(outflows)		(3,028)	–	–	(3,028)
Insurance finance (income)/expenses		(19,849)	(18)	–	(19,867)
Foreign currency translation effects		(7,277)	(34)	(450)	(7,760)
Other changes ^{1,2}		(17,316)	(36)	(298)	(17,650)
Total changes not related to provision of insurance services		(44,442)	(87)	(748)	(45,277)
Insurance contract liabilities, as of December 31, 2022		103,755	517	8,739	113,011
Insurance contract assets, as of December 31, 2022		(42)	1	32	(8)
Net insurance contracts, as of December 31, 2022		103,713	518	8,771	113,002

1 In 2022, movement is mainly related to agreements entered into by Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft to sell its legacy traditional life insurance book and Zurich Investments Life S.p.A. to sell part of its life and pension back book (see note 4).

2 Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

Table 7.9

FV of the underlying items for participating contracts	in USD millions, for the years ended December 31	2023	2022
		Cash and cash equivalents	(1,633)
Equity securities	(3,177)	(3,441)	
Debt securities	(23,474)	(22,249)	
Mortgage loans	(3,020)	(3,297)	
Other investments	(1,858)	(1,048)	
Unit-linked investments	(81,649)	(72,471)	
Real estate	(7,288)	(7,886)	
Other assets and liabilities	(1,850)	(2,333)	
Total		(123,948)	(114,473)

Consolidated financial statements (continued)

Table 7.10a

**Reconciliation of
reinsurance contracts
held, measured under
BBA – current period**

in USD millions

	Assets for remaining coverage			Assets for incurred claims	Total
	Excluding	Loss-recovery component	Loss-recovery component		
	loss-recovery component				
Reinsurance contract assets, as of January 1, 2023	5,158	171	1,561	6,890	
Reinsurance contract liabilities, as of January 1, 2023	(436)	–	70	(367)	
Net reinsurance contracts, as of January 1, 2023	4,722	171	1,631	6,524	
Reinsurance premiums	(1,349)	–	–	(1,349)	
Amounts recovered from reinsurance					
Recoveries of incurred claims and other insurance service expense	3	–	1,039	1,042	
Changes to recoveries of incurred claims that relate to past services	–	–	21	21	
Changes that relate to onerous underlying contracts	–	(4)	–	(4)	
Amounts recovered from reinsurance	3	(4)	1,060	1,059	
Total reinsurance service result	(1,347)	(4)	1,060	(291)	
Cash (in)/outflows in the period					
Reinsurance premiums paid	2,412	–	–	2,412	
Amounts received under reinsurance contracts held, including investment components	5	–	(1,382)	(1,378)	
Net cash (inflows)/outflows	2,417	–	(1,382)	1,035	
Reinsurance investment components	(458)	–	458	–	
Effect of changes in the risk of non-performance of reinsurers	5	–	(4)	1	
Reinsurance finance income/(expenses) recognized in P&L	125	5	8	138	
Reinsurance finance income/(expenses) recognized in OCI	(19)	–	–	(19)	
Acquisitions/(divestments) and transfers	(6)	–	–	(6)	
Foreign currency translation effects	27	2	11	40	
Other changes	(5)	–	118	114	
Total changes not related to reinsurance services received	(331)	7	591	267	
Reinsurance contract assets, as of December 31, 2023	6,112	174	1,753	8,039	
Reinsurance contract liabilities, as of December 31, 2023	(650)	–	146	(504)	
Net reinsurance contracts, as of December 31, 2023	5,462	174	1,899	7,535	

Consolidated financial statements (continued)

Table 7.10b

**Reconciliation of
reinsurance contracts
held, measured under
BBA – prior period**

in USD millions	Assets for remaining coverage		Assets for incurred claims	Total
	Excluding loss-recovery component	Loss-recovery component		
Reinsurance contract assets, as of January 1, 2022	4,349	156	2,177	6,682
Reinsurance contract liabilities, as of January 1, 2022	(269)	–	119	(150)
Net reinsurance contracts, as of January 1, 2022	4,080	156	2,296	6,532
Reinsurance premiums	(1,141)	–	–	(1,141)
Amounts recovered from reinsurance				
Recoveries of incurred claims and other insurance service expense	–	–	958	958
Changes to recoveries of incurred claims that relate to past services	–	–	4	4
Changes that relate to onerous underlying contracts	–	33	–	33
Amounts recovered from reinsurance	–	33	962	996
Total reinsurance service result	(1,141)	33	962	(146)
Cash (in)/outflows in the period				
Reinsurance premiums paid	1,132	–	–	1,132
Amounts received under reinsurance contracts held, including investment components	29	–	(1,218)	(1,189)
Net cash (inflows)/outflows	1,161	–	(1,218)	(57)
Reinsurance investment components	(288)	–	288	–
Effect of changes in the risk of non-performance of reinsurers	5	–	–	5
Reinsurance finance income/(expenses) recognized in P&L	87	1	(14)	74
Reinsurance finance income/(expenses) recognized in OCI	201	–	(6)	195
Acquisitions/(divestments) and transfers	3	–	–	3
Foreign currency translation effects	(81)	(11)	(77)	(169)
Other changes ¹	696	(8)	(601)	87
Total changes not related to reinsurance services received	623	(18)	(409)	195
Reinsurance contract assets, as of December 31, 2022	5,158	171	1,561	6,890
Reinsurance contract liabilities, as of December 31, 2022	(436)	–	70	(367)
Net reinsurance contracts, as of December 31, 2022	4,722	171	1,631	6,524

1. Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

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Table 7.11a

Reconciliation of measurement components of reinsurance contracts held, measured under BBA – current period	in USD millions	Estimate of the present value of the future		Contractual	Total
		cash flows	Risk adjustment	service margin	
Reinsurance contract assets, as of January 1, 2023		4,451	376	2,064	6,890
Reinsurance contract liabilities, as of January 1, 2023		(625)	24	235	(367)
Net reinsurance contracts, as of January 1, 2023		3,825	400	2,299	6,524
Changes that relate to future services					
Changes in estimates that adjust the CSM		277	(10)	(267)	–
Changes in estimates that relates to loss-recovery and reversal of loss-recovery on onerous underlying contracts		21	(9)	–	11
Contracts initially recognized in the period ¹		(2,755)	450	2,305	–
Changes that relate to current services					
CSM recognized in P&L for services received		–	–	(262)	(262)
Changes in the risk adjustment for non-financial risk		–	(40)	–	(40)
Experience adjustments		(22)	–	–	(22)
Changes that relate to past services					
Changes that relate to assets for incurred claims		31	(11)	–	21
Changes related to reinsurance services received		(2,448)	380	1,777	(291)
Cash (in)/outflows in the period					
Reinsurance premiums paid		2,412	–	–	2,412
Amounts received under reinsurance contracts held, including investment components		(1,378)	–	–	(1,378)
Net cash (inflows)/outflows		1,035	–	–	1,035
Effect of changes in the risk of non-performance of reinsurers		1	–	–	1
Reinsurance finance income/(expenses)		(16)	47	88	118
Foreign currency translation effects		(32)	8	63	40
Other changes		104	–	3	108
Total changes not related to reinsurance services received		57	56	154	267
Reinsurance contract assets, as of December 31, 2023		4,803	434	2,802	8,039
Reinsurance contract liabilities, as of December 31, 2023		(2,334)	402	1,428	(504)
Net reinsurance contracts, as of December 31, 2023		2,469	836	4,230	7,535

1. In 2023, it mainly relates to the reinsurance of the in-force individual life insurance book of Farmers New World Life Insurance Company, a subsidiary of Farmers Group, Inc.

Consolidated financial statements (continued)

Table 7.11b

Reconciliation of measurement components of reinsurance contracts held, measured under BBA – prior period	in USD millions	Estimate of the present value of the future		Contractual service margin	Total
		cash flows	Risk adjustment		
Reinsurance contract assets, as of January 1, 2022		4,862	429	1,391	6,682
Reinsurance contract liabilities, as of January 1, 2022		(973)	126	697	(150)
Net reinsurance contracts, as of January 1, 2022		3,889	554	2,089	6,532
Changes that relate to future services					
Changes in estimates that adjust the CSM		(356)	(27)	384	–
Changes in estimates that relates to loss-recovery and reversal of loss-recovery on onerous underlying contracts		43	(7)	–	36
Contracts initially recognized in the period ¹		(181)	48	134	1
Changes that relate to current services					
CSM recognized in P&L for services received		–	–	(190)	(190)
Changes in the risk adjustment for non-financial risk		–	(24)	–	(24)
Experience adjustments		28	–	–	28
Changes that relate to past services					
Changes that relate to assets for incurred claims		15	(10)	–	4
Changes related to reinsurance services received		(452)	(22)	328	(146)
Cash (in)/outflows in the period					
Reinsurance premiums paid		1,132	–	–	1,132
Amounts received under reinsurance contracts held, including investment components		(1,189)	–	–	(1,189)
Net cash (inflows)/outflows		(57)	–	–	(57)
Effect of changes in the risk of non-performance of reinsurers		4	–	–	5
Reinsurance finance income/(expenses)		353	(103)	19	269
Foreign currency translation effects		43	(40)	(172)	(169)
Other changes ¹		45	10	35	90
Total changes not related to reinsurance services received		445	(133)	(117)	195
Reinsurance contract assets, as of December 31, 2022		4,451	376	2,064	6,890
Reinsurance contract liabilities, as of December 31, 2022		(625)	24	235	(367)
Net reinsurance contracts, as of December 31, 2022		3,825	400	2,299	6,524

1. Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

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Amounts in tables 7.12 are included within the reconciliations of insurance and reinsurance contracts within this note.

Table 7.12a

Effect of insurance and reinsurance contracts initially recognized, measured under the BBA and VFA – current period	In USD millions, as of December 31, 2023	Insurance	Insurance	Reinsurance contracts held ²
		contracts issued	contracts issued	
		– profitable contracts ¹	– onerous contracts	
Estimates of present value of future cash outflows, excluding insurance acquisition cash flows		14,346	369	13,993
Estimates of insurance acquisition cash flows		1,528	14	–
Estimates of present value of future cash inflows		(17,830)	(370)	(11,239)
Risk adjustment for non-financial risk		313	4	(450)
CSM		1,643	–	(2,305)
Losses/(gains) recognized at initial recognition		–	17	–

1 Includes changes in contract boundaries in Bansabadell Vida S.A. de Seguros y Reaseguros.

2 Includes the reinsurance of the in-force individual life insurance book of Farmers New World Life Insurance Company, a subsidiary of Farmers Group, Inc.

Table 7.12b

Effect of insurance and reinsurance contracts initially recognized, measured under the BBA and VFA – prior period	In USD millions, as of December 31, 2022	Insurance	Insurance	Reinsurance contracts held
		contracts issued	contracts issued	
		– profitable contracts	– onerous contracts	
Estimates of present value of future cash outflows, excluding insurance acquisition cash flows		11,041	946	16
Estimates of insurance acquisition cash flows		1,258	165	–
Estimates of present value of future cash inflows		(13,759)	(1,079)	165
Risk adjustment for non-financial risk		196	27	(48)
CSM		1,263	–	(134)
Losses/(gains) recognized at initial recognition		–	59	(1)

Table 7.13 shows the expected pattern of recognition of the CSM from existing contracts in profit or loss.

Table 7.13

Expected recognition of the CSM in the P&L	In USD millions, as of December 31	2023			2022			
		Insurance contracts measured under BBA	Insurance contracts measured under VFA	Reinsurance contracts measured under BBA	Insurance contracts measured under BBA	Insurance contracts measured under VFA	Reinsurance contracts measured under BBA	
		< 1 year	810	487	(241)	744	517	(181)
		1 to 2 years	598	527	(250)	516	617	(159)
2 to 3 years	533	504	(244)	473	570	(150)		
3 to 4 years	483	481	(256)	432	438	(142)		
4 to 5 years	436	455	(222)	392	417	(129)		
5 to 10 years	1,694	1,936	(942)	1,522	1,772	(529)		
> 10 years	2,860	4,931	(2,074)	2,267	4,439	(1,009)		
Total amount of unamortized CSM	7,415	9,322	(4,230)	6,346	8,771	(2,299)		

For insurance contracts measured under the BBA, a large proportion of the CSM is expected to be released within the next 10 years, consistent with the coverage period of the respective insurance contracts in force. The expected pattern for the CSM recognition for reinsurance contracts held is consistent with insurance contracts under the BBA. Due to significantly longer coverage period of insurance contracts measured under the VFA, the expected CSM release pattern is much slower, with a significant proportion of CSM to be recognized in P&L in more than 10 years.

On transition to IFRS 17, the Group applied transition modifications as described in note 2, including those affecting the amount of OCI recognized for groups of (re-)insurance contracts under the modified retrospective or fair value approaches. Table 7.14 below provides a reconciliation of the cumulative amounts included in OCI for financial assets measured at fair value through OCI (FVOCI) related to these groups of (re-)insurance contracts as of December 31, 2023 and 2022, respectively.

Consolidated financial statements (continued)

Table 7.14

Reconciliation of the cumulative amounts in OCI for financial assets measured at FVOCI	in USD millions	
	2023	2022
Cumulative amount included in OCI for financial assets measured at FVOCI as of January 1	(4,759)	9,862
Gains/(losses) recognized in OCI in the period	2,409	(16,662)
Gains/(losses) previously recognized in OCI in previous periods reclassified in the period to P&L	568	218
Foreign currency translation effects	(123)	(533)
Other changes ¹	(326)	2,162
Cumulative amount included in OCI for financial assets measured at FVOCI as of December 31	(2,231)	(4,953)

¹ Other changes are related to assets and liabilities held for sale based on agreements signed to sell portfolios of Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft and Zurich Insurance plc (Spain Medical Malpractice and UK Employers' Liability portfolios), see note 4.

The following tables provide a summary of the movement in the CSM by transition approach for the years ended December 31, 2023 and 2022, respectively:

Table 7.15a

CSM by transition approach for groups of insurance contracts issued – current period	in USD millions			
	Modified retrospective	Fair value	All other insurance contracts	Total
Contractual service margin as of January 1, 2023	7,734	1,969	5,413	15,117
Changes that relate to future services				
Changes in estimates that adjust the CSM	135	602	323	1,059
Contracts initially recognized in the period	–	–	1,643	1,643
Changes that relate to current services				
CSM recognized for services provided in P&L	(697)	(254)	(945)	(1,895)
Changes related to provision of insurance services	(562)	348	1,021	807
Foreign currency translation effects	474	35	160	669
Insurance finance (income)/expense	9	22	84	115
Other changes	(94)	(11)	134	29
Total other changes	389	46	378	813
Contractual service margin as of December 31, 2023	7,561	2,363	6,813	16,737

Table 7.15b

CSM by transition approach for groups of insurance contracts issued – prior period	in USD millions			
	Modified retrospective	Fair value	All other insurance contracts	Total
Contractual service margin as of January 1, 2022	10,426	1,949	4,131	16,506
Changes that relate to future services				
Changes in estimates that adjust the CSM	(957)	(152)	495	(614)
Contracts initially recognized in the period	–	–	1,263	1,263
Changes that relate to current services				
CSM recognized for services provided in P&L	(729)	(224)	(869)	(1,822)
Changes related to provision of insurance services	(1,686)	(376)	890	(1,173)
Foreign currency translation effects	(448)	(76)	(295)	(819)
Insurance finance (income)/expense	12	14	40	65
Other changes ¹	(570)	459	648	537
Total other changes	(1,005)	396	393	(217)
Contractual service margin as of December 31, 2022	7,734	1,969	5,413	15,117

¹ Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

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Table 7.16a

CSM by transition approach for groups of reinsurance contracts held – current period

in USD millions		Modified retrospective	Fair value	All other insurance contracts	Total
Contractual service margin as of January 1, 2023		171	429	1,700	2,299
Changes that relate to future services					
Changes in estimates that adjust the CSM		(122)	(109)	(36)	(267)
Contracts initially recognized in the period		–	–	2,305	2,305
Changes that relate to current services					
CSM recognized in P&L to reflect the transfer of services		(20)	(69)	(173)	(262)
Changes related to provision of reinsurance services received		(142)	(178)	2,096	1,777
Foreign currency translation effects		1	(1)	63	63
Reinsurance finance income/(expense)		9	23	55	88
Other changes		17	(74)	61	3
Total other changes		27	(52)	179	154
Contractual service margin as of December 31, 2023		56	199	3,975	4,230

Table 7.16b

CSM by transition approach for groups of reinsurance contracts held – prior period

in USD millions		Modified retrospective	Fair value	All other insurance contracts	Total
Contractual service margin as of January 1, 2022		196	246	1,647	2,089
Changes that relate to future services					
Changes in estimates that adjust the CSM		33	46	304	384
Contracts initially recognized in the period		–	–	134	134
Changes that relate to current services					
CSM recognized in P&L to reflect the transfer of services		(25)	(47)	(118)	(190)
Changes related to provision of reinsurance services received		8	(1)	320	328
Foreign currency translation effects		(12)	(14)	(146)	(172)
Reinsurance finance income/(expense)		1	3	15	19
Other changes ¹		(23)	196	(138)	35
Total other changes		(34)	184	(268)	(117)
Contractual service margin as of December 31, 2022		171	429	1,700	2,299

1. Other changes mainly consisted of non-recurring IFRS 17 transition and other cumulative adjustments recorded during the transition period.

Table 7.17

Maturity analysis of insurance and reinsurance contract liabilities

	in USD millions, as of December 31							2023	2022
	Insurance contract liabilities			Reinsurance contract liabilities	Insurance contract liabilities			Reinsurance contract liabilities	
	Measured under PAA	Measured under BBA	Measured under VFA	Measured under BBA	Measured under PAA	Measured under BBA	Measured under VFA	Measured under BBA	
On demand	6	–	–	–	7	65	(30)	–	
< 1 year	15,929	2,681	4,997	38	17,133	2,057	2,728	(7)	
1 to 2 years	8,685	778	4,602	173	9,016	563	2,641	31	
2 to 3 years	5,833	639	3,931	168	5,891	491	3,244	38	
3 to 4 years	4,121	566	3,908	160	3,987	534	2,724	38	
4 to 5 years	2,915	488	3,536	150	2,762	576	2,764	38	
> 5 years	17,687	13,867	92,651	1,645	13,093	17,750	89,684	487	
Total maturity	55,176	19,019	113,624	2,334	51,890	22,036	103,755	625	

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Table 7.18

Expected derecognition of assets for insurance acquisition cash flows	In USD millions, as of December 31	2023				2022	
		Contracts measured under		Contracts measured under		Contracts measured under	Contracts measured under
		PAA	BBA and VFA	PAA	BBA and VFA	PAA	BBA and VFA
< 1 year		370	37	311	49		
1 year		88	40	59	37		
2 years		65	41	43	35		
3 years		48	41	30	39		
4 years		54	39	29	37		
5 to 10 years		21	180	43	175		
> 10 years		0	424	0	397		
Total		645	802	516	768		

Nature and extent of risks that arise from (re-)insurance contracts

(Re-)insurance contracts issued and reinsurance contracts held give rise to insurance and financial risks, including credit and market risk. The Group manages risks arising from such contracts using the internal model approved by the Swiss Financial Market Supervisory Authority FINMA for use under the Swiss Solvency Test (SST). SST represents a comprehensive framework that takes into account the interdependencies between risks. Within the internal model, premium and reserve risk, as well as natural catastrophe risk, cover insurance risks arising from short-term contracts, whereas business risk and life insurance risk cover insurance risks arising from long-term contracts, including contracts with policyholder participation accounted for as direct participating contracts. Market risks arise from assets backing insurance contracts, and also covers risks arising from the asset/liability mismatches and credit risk of investments. From a risk perspective, long-term life contracts include investment contracts that do not transfer significant insurance risk and are accounted for as investment contracts.

The approaches implemented by the Group to manage these risks and risk concentrations are further described in the 2023 Risk Review which forms an integral part of the consolidated financial statements. Furthermore, the 2023 Risk Review provides a comprehensive overview of the exposures per risk type as well as the Group approach to mitigate insurance risk concentrations by entering into reinsurance contracts held.

The tables below provide sensitivities to changes in key risk variables arising from (re-)insurance contracts issued after the risk mitigation by reinsurance contracts held, as this is the basis on which exposures are presented to the key management personnel.

Insurance risk sensitivity

Tables 7.19a and 7.19b show the sensitivity of net income before tax and net assets as a result of adverse development in the net loss ratio by one percentage point using the Group effective income tax rate. The sensitivities do not indicate the probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the sensitivity analysis in tables 7.19a and 7.19b, each additional percentage point increase in the loss ratio would have a linear impact on net income before tax and net assets. The Group also monitors insurance risk by evaluating extreme scenarios, taking into account the non-linear effects of reinsurance contracts.

Table 7.19a

Insurance risk sensitivity for the Property & Casualty business – current period	in USD millions, for the year ended December 31, 2023	Europe, Middle East & Africa					North America		Latin America		Total ²
		Europe, Middle East & Africa		North America		Latin America					
		Europe, Middle East & Africa	North America	North America	Latin America	Reinsurance					
+1% in net loss ratio ¹											
Net income before tax		(172)	(206)	(34)	(28)	(8)	(423)				
Net assets		(129)	(155)	(26)	(21)	(6)	(318)				

1 A 1 percent change in net loss ratio is defined as a 1 percent change in insurance revenue.
2 Includes the impact of eliminations upon consolidation.

Consolidated financial statements (continued)

Table 7.19b

Insurance risk sensitivity for the Property & Casualty business – prior period

in USD millions, for the year ended December 31, 2022		Europe,	North		Latin		Total ²
		Middle East	America	Asia Pacific	America	Reinsurance	
		& Africa					
+1% in net loss ratio¹							
Net income before tax		(156)	(194)	(32)	(26)	(6)	(392)
Net assets		(120)	(148)	(25)	(20)	(5)	(300)

1 A 1 percent change in net loss ratio is defined as a 1 percent change in insurance revenue.
2 Includes the impact of eliminations upon consolidation.

The Group is exposed to risk arising from natural catastrophes, with North-Atlantic hurricane, California earthquake and Europe windstorm being the most material in terms of risk concentration. Though these events have a small probability of occurring, they could, if realized, negatively affect the net income before tax and net assets. The impacts of insurance-specific scenarios would have been a decrease of net income before tax and net assets of USD 1.8 billion, USD 1.2 billion and USD 0.7 billion, respectively. Note that the scenario impacts are comparable to the modelled 250-year net occurrence loss for the respective peril (equivalent to a 99.6 percent probability of non-exceedance).

Market risk sensitivity

The Group manages the market risk of assets relative to liabilities on an economic total balance sheet basis. This is done to achieve the maximum risk-adjusted excess return on assets relative to the liability benchmark, while also taking into account the Group's risk tolerance and local regulatory constraints. Therefore, economic risk sensitivities are evaluated by the Group based on their effects on available financial resources (AFR) or available capital in SST, taking into account interdependencies between the effects of the shocks on financial assets held by the Group and insurance contracts net of reinsurance contracts held. The sensitivities as a result of predefined interest rate yield curve, stock market and credit spread shocks are presented in tables 7.20 to 7.22.

Table 7.20

Economic interest rate sensitivities on SST AFR

in USD millions, as of October 1		2023	2022
50 bps increase in the interest rate yield curves			
Property & Casualty		(88)	(115)
Life		260	151
Rest of the business		61	(8)
50 bps decrease in the interest rate yield curves			
Property & Casualty		109	92
Life		(410)	(323)
Rest of the business		(62)	(31)

Table 7.21

Economic equity price sensitivities on SST AFR

in USD millions, as of October 1		2023	2022
20% decline in stock markets			
Property & Casualty		(1,183)	(1,132)
Life		(1,168)	(878)
Rest of the business		(81)	(171)

Table 7.22

Economic credit spread sensitivities on SST AFR

in USD millions, as of October 1		2023	2022
100 bps increase in credit spreads			
Property & Casualty		(1,404)	(1,449)
Life		(1,449)	(1,739)
Rest of the business		(169)	(395)

Consolidated financial statements (continued)

8. Liabilities for investment contracts

Table 8.1

Liabilities for investment contracts	in USD millions, as of December 31	
	2023	2022
Unit-linked investment contracts	59,807	50,039
Investment contracts (amortized cost)	463	518
Total	60,270	50,557

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

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

Table 8.2

Development of liabilities for investment contracts	in USD millions	
	2023	2022
As of January 1	50,557	60,430
Premiums	6,940	5,671
Claims	(5,232)	(4,485)
Fee income and other expenses	(422)	(358)
Interest and bonuses credited to policyholders	6,109	(5,823)
Acquisitions/(divestments) and transfers	-	7
Foreign currency translation effects	2,318	(4,885)
As of December 31	60,270	50,557

Consolidated financial statements (continued)

Tables 8.3a and 8.3b provide an analysis of investment contract liabilities according to maturity, based on expected cash flows as of December 31, 2023 and 2022. The undiscounted contractual cash flows for investment contract liabilities are USD 60 billion as of December 31, 2023 and 51 billion as of December 31, 2022. Liabilities for unit-linked investment contracts amounted to USD 60 billion and USD 50 billion as of December 31, 2023 and 2022, respectively. Policyholders of unit-linked investment contracts can generally surrender their contracts at any time, leading the underlying assets to be liquidated. Risks arising from liquidation of unit-linked assets are borne by the policyholders. The ZIC Group actively manages the Life in-force business to improve persistency and retention.

Table 8.3a

Expected maturity analysis for liabilities for investment contracts – current period	in USD millions, as of December 31, 2023	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Total
< 1 year		3,789	280	4,069
1 to 5 years		7,350	72	7,422
5 to 10 years		8,334	42	8,377
10 to 20 years		12,456	43	12,499
> 20 years		27,879	25	27,905
Total		59,807	463	60,270

Table 8.3b

Expected maturity analysis for liabilities for investment contracts – prior period	in USD millions, as of December 31, 2022	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Total
< 1 year		3,357	336	3,693
1 to 5 years		7,022	76	7,099
5 to 10 years		8,053	46	8,099
10 to 20 years		6,505	45	6,550
> 20 years		25,101	15	25,117
Total		50,039	518	50,557

Consolidated financial statements (continued)

9. Insurance revenue

Table 9.1

Analysis of insurance revenue recognized	in USD millions, for the years ended December 31	
	2023	2022
Insurance revenue recognized in the period – PAA	45,950	41,343
Change in the liability for remaining coverage, consisting of:		
Amortization of CSM	1,909	1,834
Release of risk adjustment for non-financial risk	247	262
Release of expected insurance service expenses	6,698	6,386
Allocation of insurance acquisition cash flows	1,191	1,133
Premium experience adjustments	117	(164)
Other	(12)	(3)
Insurance revenue recognized in the period – BBA and VFA	10,148	9,449
Total insurance revenue	56,099	50,792

Table 9.2

Insurance revenue by transition approach measured under BBA and VFA	In USD millions for the years ended December 31		2023		2022	
		Contracts measured under BBA	Contracts measured under VFA	Contracts measured under BBA	Contracts measured under VFA	
Contracts measured under the modified retrospective approach	482	2,620	511	2,777		
Contracts measured under the fair value approach	1,406	440	1,339	161		
All other contracts	4,472	729	4,133	529		
Insurance revenue measured under BBA and VFA	6,360	3,788	5,983	3,466		

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10. Fee result

Table 10

Fee result	in USD millions, for the years ended December 31	2023	2022
Fee income			
	Farmers management fees and other related revenues ¹	4,529	4,487
	Investment contracts related fee income	648	532
	Risk engineering and other related fee income	708	727
	Total fee income	5,885	5,746
Fee business expenses			
	Fee related expenses	(3,583)	(3,757)
	Fee result	2,303	1,989

1. See table 25.2 for further details.

Consolidated financial statements (continued)

11. Expenses

Table 11 shows administrative and operating expenses (excluding impacts from financing) by functional area and by type of expense.

Table 11

Expenses	in USD millions, for the years ended December 31	2023	2022
Insurance related expenses			
Administrative and other operating expenses		3,273	3,206
Underwriting and policy acquisition costs		11,583	10,388
Claims handling expenses		3,740	2,384
Investment expenses		144	133
Reinsurance-related expenses		(526)	(258)
Investment expenses		212	186
Fee business expenses		3,583	3,757
Other expenses		2,620	2,308
Total		24,630	22,103
of which:			
Personnel and other related costs		7,417	6,742
Building, infrastructure and related costs		519	470
Brand and marketing expense		510	636
Commissions (net of IACF)		9,372	8,437
Premium taxes (net of IACF)		709	650
Asset and other non-income taxes		79	73
IT expenses		1,986	2,013
Outsourcing and professional services		2,750	1,819
Other		1,288	1,264
Total		24,630	22,103

Consolidated financial statements (continued)

12. Property and equipment

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

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

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

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

Table 12.1

Property and equipment overview

in USD millions, as of December 31

	Real Estate		Equipment		Total	
	2023	2022	2023	2022	2023	2022
Right-of-use	1,183	1,301	56	47	1,239	1,348
Owned and subject to operating lease	423	436	428	439	851	876
Total	1,606	1,737	484	486	2,091	2,223

Table 12.2a

Property and equipment – current period

in USD millions

	Real Estate			Equipment			Total		
	Owned	Right-of-use	Total	Owned	Right-of-use	Total	Owned incl. operating lease	Right-of-use	Total
Gross carrying value as of January 1, 2023 ¹	529	2,494	3,024	1,323	98	1,421	1,852	2,592	4,445
Less: accumulated depreciation/impairments	(93)	(1,193)	(1,286)	(883)	(51)	(935)	(976)	(1,244)	(2,220)
Net carrying value as of January 1, 2023	436	1,302	1,738	440	47	487	876	1,349	2,225
Additions and improvements	6	41	47	97	33	130	103	74	177
Lease modifications	–	75	75	–	(1)	(1)	–	74	74
Depreciation and impairments	(48)	(231)	(279)	(118)	(17)	(135)	(167)	(248)	(415)
Acquisitions/(divestments) and transfers	(7)	(31)	(38)	(2)	(8)	(10)	(9)	(38)	(47)
Foreign currency translation effects	36	27	63	12	2	13	48	29	77
Net carrying value as of December 31, 2023	423	1,183	1,606	428	56	484	851	1,239	2,091
Plus: accumulated depreciation/impairments	109	1,291	1,400	939	33	972	1,049	1,324	2,372
Gross carrying value as of December 31, 2023	532	2,474	3,006	1,368	89	1,456	1,900	2,563	4,463

1 January 1, 2023 balances are impacted by hyperinflation, please see note 1 for details.

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Table 12.2b

Property and equipment – prior period	in USD millions									
	Real Estate			Equipment			Total			
	Owned	Right-of-use	Total	Owned	Right-of-use	Total	Owned incl. operating lease	Right-of-use	Total	
Gross carrying value as of January 1, 2022	571	2,533	3,104	1,349	103	1,452	1,919	2,636	4,555	
Less: accumulated depreciation/impairments	(70)	(1,121)	(1,191)	(884)	(44)	(929)	(954)	(1,165)	(2,120)	
Net carrying value as of January 1, 2022	501	1,412	1,912	464	59	523	965	1,471	2,436	
Additions and improvements	22	53	75	105	14	119	126	67	193	
Lease modifications	–	42	42	–	–	–	–	42	42	
Depreciation and impairments	(11)	(175)	(187)	(107)	(19)	(126)	(118)	(194)	(312)	
Acquisitions/(divestments) and transfers	(61)	14	(47)	(8)	(5)	(13)	(69)	10	(59)	
Foreign currency translation effects	(14)	(44)	(59)	(14)	(3)	(17)	(29)	(47)	(76)	
Net carrying value as of December 31, 2022	436	1,301	1,737	439	47	486	876	1,348	2,223	
Plus: accumulated depreciation/impairments	93	1,188	1,281	881	51	931	974	1,239	2,213	
Gross carrying value as of December 31, 2022	529	2,489	3,019	1,320	97	1,417	1,849	2,587	4,436	

Table 12.3

Lessee – lease expenses and income	in USD millions, for the years ended December 31	
	2023	2022
Lease expenses¹		
Interest expense on lease liabilities ²	42	37
Short-term lease expenses	6	8
Low-value asset lease expenses	25	27
Lease income		
Income from subleasing right-of-use assets	8	9
Gains arising from sale and leaseback transactions	31	–

1 Total cash outflow for leases amounts to USD 283 million as of December 31, 2023, excluding USD 1.9 billion of future cash outflows due to extension & termination options.
2 Included within 'Interest credited to policyholders and other interest'.

Table 12.4

Lessor – finance lease and operating lease income	in USD millions, for the years ended December 31	
	2023	2022
Finance lease		
Interest income on finance lease receivables	49	64
Total	49	64
Operating lease		
Operating lease income – property and equipment	–	4
Operating lease income – investment property	643	590
Operating variable lease income – property and equipment	1	–
Total	644	595

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Table 12.5

**Maturity analysis –
finance lease
receivable**

	in USD millions, as of December 31			2023			2022		
	Carrying value	Unearned interest	Undiscounted cash flows	Carrying value	Unearned interest	Undiscounted cash flows	Carrying value	Unearned interest	Undiscounted cash flows
< 1 year	94	3	98	40	3	43			
1 to 2 years	31	2	33	103	3	105			
2 to 3 years	35	5	39	34	2	36			
3 to 4 years	26	5	31	36	7	43			
4 to 5 years	24	6	30	29	5	34			
> 5 years	263	189	452	294	259	553			
Total	473	209	682	534	280	814			

Table 12.6

**Maturity analysis –
operating lease
payments to be
received**

	in USD millions, as of December 31	
	Undiscounted cash flows	
	2023	2022
< 1 year	473	483
1 to 2 years	351	366
2 to 3 years	302	313
3 to 4 years	236	238
4 to 5 years	193	205
> 5 years	758	865
Total	2,313	2,468

Consolidated financial statements (continued)

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

Table 13.1

Intangible assets by business – current period	in USD millions, as of December 31, 2023					
	Attorney-in-fact contracts	Goodwill	Distribution agreements	Software	Other	Total
Property & Casualty	–	1,855	435	866	151	3,308
Life	–	1,412	1,384	53	160	3,009
Farmers	2,650	1,264	–	400	832	5,146
Group Functions and Operations	–	10	–	55	–	65
Net carrying value	2,650	4,541	1,820	1,374	1,143	11,529

Table 13.2

Intangible assets by business – prior period	in USD millions, as of December 31, 2022					
	Attorney-in-fact contracts	Goodwill	Distribution agreements	Software	Other	Total
Property & Casualty	–	1,760	439	827	158	3,184
Life	–	1,413	1,374	46	170	3,003
Farmers	2,650	1,237	–	469	309	4,666
Group Functions and Operations	–	10	–	43	–	53
Net carrying value	2,650	4,420	1,813	1,385	637	10,906

Table 13.3

Intangible assets – current period	in USD millions					
	Attorney-in-fact contracts	Goodwill	Distribution agreements	Software ¹	Other	Total
Gross carrying value as of January 1, 2023 ²	2,650	4,794	3,673	5,430	894	17,441
Less: accumulated amortization/impairments ²	–	(256)	(1,858)	(4,046)	(257)	(6,417)
Net carrying value as of January 1, 2023 ²	2,650	4,538	1,815	1,384	638	11,025
Additions and acquisitions ³	–	18	6	317	569	911
Divestments and transfers	–	–	–	–	(3)	(3)
Amortization ⁴	–	–	(59)	(347)	(57)	(464)
Impairments	–	–	–	(9)	(2)	(11)
Foreign currency translation effects	–	(15)	58	29	(2)	70
Net carrying value as of December 31, 2023	2,650	4,541	1,820	1,374	1,143	11,529
Plus: accumulated amortization/impairments	–	265	2,016	4,390	274	6,945
Gross carrying value as of December 31, 2023	2,650	4,807	3,836	5,764	1,417	18,474

1 For the year ended December 31, 2023 Farmers Group, Inc. has USD 1.3 billion of fully amortized software, which is still in use.

2 January 1, 2023 balances are impacted by hyperinflation, please see note 1 for details.

3 Additions of goodwill and other intangible assets include post-acquisition adjustments of the network of Financial Advisors of the Deutsche Bank Group in Italy, as follows:

USD (8) million of goodwill and USD (4) million of other intangible assets (see note 4).

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

As of December 31, 2023, intangible assets related to non-controlling interests were USD 850 million for distribution agreements, USD 30 million for software, USD 98 million for goodwill, USD 1.22 million for attorney-in-fact-contracts and USD 43 million for other intangible assets.

In 2023, as a result of the acquisition by Farmers Group, Inc. of Kraft Lake Insurance Agency Inc., Western Star Insurance Services, Inc. and Farmers General Insurance Agency, Inc., intangible assets increased by USD 586 million, of which USD 26 million is goodwill and USD 560 million is other intangible assets (please see note 4).

Consolidated financial statements (continued)

Table 13.4

**Intangible assets –
prior period**

in USD millions	Attorney- in-fact		Distribution			Total
	contracts	Goodwill	agreements	Software ¹	Other	
Gross carrying value as of January 1, 2022	2,650	4,617	3,767	5,258	761	17,053
Less: accumulated amortization/impairments	–	(274)	(1,835)	(3,871)	(222)	(6,202)
Net carrying value as of January 1, 2022	2,650	4,344	1,932	1,387	539	10,852
Additions and acquisitions	–	212	13	370	152	748
Divestments and transfers	–	(6)	(9)	(7)	–	(22)
Amortization ²	–	–	(66)	(321)	(49)	(436)
Impairments	–	–	(3)	(5)	–	(8)
Foreign currency translation effects	–	(130)	(53)	(40)	(4)	(227)
Net carrying value as of December 31, 2022	2,650	4,420	1,813	1,385	637	10,906
Plus: accumulated amortization/impairments	–	256	1,851	4,043	256	6,406
Gross carrying value as of December 31, 2022	2,650	4,677	3,664	5,427	893	17,312

1 For the year ended December 31, 2022 Farmers Group, Inc. has USD 1.3 billion of fully amortized software, which is still in use.
2 Amortization of distribution agreements is included within underwriting and policy acquisition costs.

As of December 31, 2022, intangible assets related to non-controlling interests were USD 841 million for distribution agreements, USD 31 million for software, USD 97 million for goodwill, USD 122 million for attorney-in-fact-contracts and USD 19 million for other intangible assets.

In 2022, as a result of the acquisition of the network of Financial Advisors of the Deutsche Bank Group in Italy, intangible assets increased by USD 348 million, of which USD 211 million is goodwill, USD 1 million is software and USD 136 million is other intangible assets (please see note 4).

The ZIC Group performs quantitative tests of goodwill recoverability annually during the third quarter by applying a reasonably possible change to each of the key assumptions to capture potential future variations in market conditions: a decrease in cash flows of up to 20 percent, an increase in the discount rate of 2.0 percentage points and a decrease in the perpetual growth rate of 2.0 percentage points. Under each individual scenario, reasonably possible changes in key assumptions did not impair goodwill and attorney-in-fact (AIF) contracts. As of December 31, 2023, the ZIC Group had not identified any triggers impacting the carrying value of the goodwill in these cash-generating units (CGUs).

Consolidated financial statements (continued)

14. Receivables and other assets

Table 14

Receivables and other assets	in USD millions, as of December 31	
	2023	2022
Financial assets		
Group derivative assets	947	786
Reverse repurchase agreements	1,716	649
Amounts due from investment brokers ¹	840	714
Other receivables	1,998	2,219
Accrued investment income	1,031	997
Assets for defined benefit plans ²	384	415
Other financial assets	372	197
Non-financial assets		
Current income tax receivables	1,045	1,011
Prepaid expenses	886	775
Other non-financial assets	1,167	950
Total receivables and other assets	10,385	8,713

1 Includes cash variation margin payments related to derivatives which are centrally cleared, USD 2 million and USD 0 million as of December 31, 2023 and 2022, respectively (see note 6).

2 Please see note 19.

Consolidated financial statements (continued)

15. Other liabilities

Table 15.1

Other liabilities	in USD millions, as of December 31	
	2023	2022
Other financial liabilities		
Group derivative liabilities	1,252	1,165
Amounts due to investment brokers ¹	950	882
Bank deposits ²	1,366	1,355
Collateralized bank financing for structured lease vehicles	38	44
Liabilities for defined benefit plans ³	1,499	1,203
Others liabilities for employee benefit plans	631	592
Lease liabilities	1,666	1,699
Other accrued liabilities	1,262	1,236
Other financial liabilities	5,605	5,621
Other non-financial liabilities		
Current income tax payables	1,018	718
Provisions ⁴	711	755
Other non-financial liabilities	1,097	2,800
Total other liabilities	17,096	18,070

1 Includes cash variation margin payments related to derivatives which are centrally cleared, USD 1 million and USD 48 million as of December 31, 2023 and 2022, respectively (see note 6).

2 Increased to USD 1.4 billion as a result of the acquisition of Deutsche Bank Italian Financial Advisors network (see note 4).

3 Please see note 19.

4 Include restructuring provisions, litigation and regulatory provisions and other provisions (see table 15.4 for further details).

Table 15.2 shows the maturity schedule of other financial liabilities, excluding liabilities for defined benefit plans and lease liabilities, as of December 31, 2023 and 2022. The allocation to the time bands is based on the expected maturity date for the carrying value and the earliest contractual maturity for the undiscounted cash flows.

Table 15.2

Maturity analysis – other financial liabilities	in USD millions, as of December 31		2023		2022	
	Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows		
< 1 year	10,740	10,760	10,558	10,562		
1 to 2 years	129	148	44	45		
2 to 3 years	38	38	131	162		
3 to 4 years	3	3	13	13		
4 to 5 years	4	4	5	5		
> 5 years	190	341	144	275		
Total	11,105	11,295	10,895	11,061		

Table 15.3

Maturity analysis – lease liabilities	in USD millions, as of December 31		2023		2022	
	Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows		
< 1 year	203	234	191	227		
1 to 2 years	190	223	173	205		
2 to 3 years	165	194	165	194		
3 to 4 years	143	168	144	170		
4 to 5 years	119	140	119	142		
> 5 years	846	999	907	1,114		
Total	1,666	1,958	1,699	2,052		

Consolidated financial statements (continued)

Table 15.4

Provisions

in USD millions

	Restructuring provisions		Litigation and regulatory provisions ¹		Other provisions			Total
	2023	2022	2023	2022	2023	2022	2023	2022
As of January 1	115	93	198	150	443	504	755	748
Provisions made during the period	128	67	72	100	284	273	483	440
Increase of provisions set up in prior years	96	10	3	14	19	8	118	32
Provisions used during the period	(131)	(45)	(163)	(50)	(216)	(311)	(511)	(407)
Provisions reversed during the period	(18)	(6)	(10)	(9)	(66)	(58)	(94)	(73)
Foreign currency translation effects	4	(4)	1	(4)	16	(13)	22	(21)
Net changes due to acquisitions/divestments	–	–	1	(3)	(60)	40	(59)	37
Other changes	–	–	–	–	(4)	–	(4)	(1)
As of December 31	194	115	102	198	415	443	711	755

1. Please see note 21 for further information on legal, compliance and regulatory developments.

Consolidated financial statements (continued)

16. Income taxes

Table 16.1

Income tax expense – current/deferred split	in USD millions, for the years ended December 31	
	2023	2022
Current	1,933	1,456
Deferred	(209)	(400)
Total income tax expense/(benefit)	1,725	1,056

Table 16.2

Expected and actual income tax expense	in USD millions, for the years ended December 31			
	Rate	2023	Rate	2022
Net income before income taxes		6,425		5,307
less: income tax (expense)/benefit attributable to policyholders		(172)		241
Net income before income taxes attributable to shareholders		6,253		5,549
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	20.0%	1,251	20.0%	1,110
Increase/(reduction) in taxes resulting from:				
<i>Tax rate differential in foreign jurisdictions</i>		208		191
<i>Tax exempt and lower taxed income</i>		(259)		(238)
<i>Non-recoverable withholding taxes</i>		224		105
<i>Non-deductible expenses</i>		171		138
<i>Tax losses not recognized</i>		(243)		140
<i>Prior year adjustments and other</i>		201		(148)
Actual income tax expense attributable to shareholders	24.8%	1,552	23.4%	1,297
plus: income tax expense/(benefit) attributable to policyholders		172		(241)
Actual income tax expense	26.8%	1,725	19.9%	1,056

Table 16.2 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate of 20.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

Reflecting changes in statutory tax rates, particularly in the UK, a significant favorable impact on the ZIC Group's shareholder income tax position for 2022 was included in the line 'Prior year adjustments and other'.

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

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

Consolidated financial statements (continued)

Table 16.3

Deferred tax assets/(liabilities) analysis by source	in USD millions, as of December 31		2023		2022	
			Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	Depreciable and amortizable assets		525	(1,746)	543	(1,738)
Deferred acquisition and origination costs		149	(995)	199	(926)	
Unrealized (gains)/losses on financial assets held at fair value through comprehensive income and cash flow hedges		1,566	(747)	2,367	(523)	
Insurance and reinsurance contract assets and liabilities		12,175	(11,083)	12,873	(12,563)	
of which: relating to PAA		2,723	(1,971)	2,785	(2,214)	
of which: relating to other than PAA		9,452	(9,112)	10,087	(10,349)	
Pension liabilities		1,354	(971)	944	(666)	
Tax loss carryforward		1,331	-	963	-	
Other assets and liabilities ¹		6,383	(8,114)	7,008	(8,123)	
Total deferred taxes		23,484	(23,657)	24,897	(24,538)	
Valuation allowance		(427)	-	(670)	-	
Effect of netting		(21,357)	21,357	(22,491)	22,491	
Net deferred taxes		1,700	(2,300)	1,736	(2,047)	

1. Other assets and liabilities include temporary differences related to fair value adjustments on investments recognized through P&L, leases, accruals and prepayments.

The ZIC Group's deferred tax assets and liabilities are recorded by its tax-paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate.

As of December 31, 2023 and 2022, the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, for which deferred tax liabilities have not been recognized amount to approximately USD (674) million and USD (2) billion, respectively. In the remote likelihood that these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

Table 16.4

Development of net deferred tax liabilities	in USD millions		2023	2022
	As of January 1 ¹		(432)	(994)
Net change recognized in the income statement		209	400	
Net change recognized in equity		(348)	211	
Net changes due to acquisitions/(divestments)		3	51	
Foreign currency translation effects		(32)	21	
As of December 31		(600)	(311)	
attributable to policyholders		41	141	
attributable to shareholders		(641)	(452)	

1. January 1, 2023 balances are impacted by transition adjustments due to adoption of IFRS 9, please see note 2 for details.

The net deferred tax liabilities related to non-controlling interests amounted to USD (6) million and USD (154) million as of December 31, 2023 and 2022, respectively.

Table 16.5

Development of deferred income taxes included in equity	in USD millions		2023	2022
	As of January 1 ¹		20	198
Net unrealized gains/(losses) on financial assets		1,136	(5,031)	
Cash flow hedges		(3)	8	
Equity accounted investments		(1)	-	
Revaluation reserve		24	(10)	
Net actuarial gains/(losses) on pension plans		123	(34)	
Change in discount rate for insurance/reinsurance contracts		(307)	1,723	
Change in fair value of underlying items through OCI		(335)	3,024	
Foreign currency translation effects		(91)	11	
As of December 31		566	(111)	

1. January 1, 2023 balances are impacted by transition adjustments due to adoption of IFRS 9, please see note 2 for details.

Consolidated financial statements (continued)

Table 16.6

Tax loss carryforwards and tax credits	in USD millions, as of December 31	2023	2022
	For which deferred tax assets have been recognized, expiring		
	< 5 years	116	61
	5 to 20 years	103	(102)
	> 20 years or with no time limitation	3,637	2,102
	Subtotal	3,856	2,061
	For which deferred tax assets have not been recognized, expiring		
	< 5 years	155	124
	5 to 20 years	264	525
	> 20 years or with no time limitation	1,121	1,221
	Subtotal	1,540	1,870
	Total	5,396	3,931

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 24.7 percent and 26.8 percent as of December 31, 2023 and 2022, respectively.

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

Management assesses the recoverability of the deferred tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2023 to be recoverable.

Consolidated financial statements (continued)

17. Senior and subordinated debt

Table 17.1

in USD millions, as of December 31		2023	2022
Senior and subordinated debt			
Senior debt			
Zurich Insurance Company Ltd	1.875% CHF 100 million notes, due September 2023 ¹	–	110
	1.750% EUR 500 million notes, due September 2024 ^{1,2}	555	540
	0.500% CHF 350 million notes, due December 2024 ¹	416	379
	1.500% CHF 150 million notes, due July 2026 ¹	187	173
	0.750% CHF 200 million notes, due October 2027 ¹	237	216
	1.000% CHF 200 million notes, due October 2028 ¹	238	217
	1.500% EUR 500 million notes, due December 2028 ^{1,2}	550	531
	1.125% CHF 400 million notes, due July 2029 ¹	476	433
	0.000% CHF 200 million notes, due August 2031 ¹	237	216
	0.100% CHF 250 million notes, due August 2032 ¹	297	271
	Various debt instruments payable within 1 year to related parties ⁴	12	6
Zurich Holding Comp. of America Inc	2.300% USD 400 million notes, due February 2030 ¹	400	400
Zurich Finance (Australia) Limited	3.477% AUD 350 million notes, due May 2023 ¹	–	238
	4.770% AUD 200 million loan, due July 2027	143	136
	5.324% AUD 200 million notes, due September 2029 ¹	136	136
	4.500% AUD 375 million notes, due July 2038 ¹	270	268
Zurich Finance (Ireland) DAC	2.250% USD 200 million notes, due December 2031 ^{1,2}	200	200
	1.625% EUR 500 million notes, due June 2039 ^{1,2}	551	533
	Euro Commercial Paper Notes, due in less than 12 months	297	75
Senior debt		5,202	5,077
Subordinated debt			
Zurich Insurance Company Ltd	4.250% EUR 500 million notes, due October 2043, first callable October 2023 ^{1,2}	–	534
	4.250% USD 300 million notes, due October 2045, first callable October 2025 ^{1,2}	300	300
	5.625% USD 1 billion notes, due June 2046, first callable June 2026 ^{1,2}	999	998
	3.500% EUR 750 million notes, due October 2046, first callable October 2026 ^{1,2,3}	805	770
	5.125% USD 500 million notes, due June 2048, first callable June 2028 ^{1,2}	499	499
	4.875% USD 500 million notes, due October 2048, first callable October 2028 ^{1,2}	499	499
	2.750% EUR 500 million notes, due February 2049, first callable February 2029 ^{1,2}	549	530
	1.500% CHF 300 million notes, due May 2052, first callable May 2032 ¹	355	323
Zurich Finance (Ireland) DAC	1.875% EUR 750 million notes, due September 2050, first callable June 2030 ^{1,2}	826	797
	3.000% USD 1.75 billion notes, due April 2051, first callable January 2031 ^{1,2}	1,747	1,746
	3.500% USD 500 million notes, due May 2052, first callable February 2032 ^{1,2}	499	499
	5.125% GBP 1 billion notes, due November 2052, first callable August 2032 ^{1,2}	1,261	1,192
	1.600% EUR 200 million notes, due December 2052, first callable September 2032 ^{1,2}	221	213
Subordinated debt		8,559	8,899
Total senior and subordinated debt		13,761	13,976

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

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

3 The ZIC Group has discontinued the fair value hedges previously applied to hedge the interest rate exposure.

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

None of the debt instruments listed in table 17.1 were in default as of December 31, 2023 or December 31, 2022.

Consolidated financial statements (continued)

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

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

Table 17.2

Maturity analysis of outstanding debt

in USD millions, as of December 31	2023		2022	
	Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
< 1 year	1,280	1,685	962	1,963
1 to 2 years	300	692	919	1,308
2 to 3 years	1,991	2,358	300	684
3 to 4 years	380	672	1,942	2,306
4 to 5 years	1,786	2,073	352	636
5 to 10 years	7,203	7,902	8,700	9,645
> 10 years	821	917	801	916
Total	13,761	16,299	13,976	17,459

Debt maturities reflect original contractual dates, taking early redemption options into account. For call/redemption dates, see table 17.1. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 17.2. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2023 and 2022. Floating interest rates are assumed to remain constant as of December 31, 2023 and 2022. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Table 17.3

Development of debt arising from financing activities

in USD millions	Total	
	2023	2022
As of January 1 ¹	13,985	15,109
Issuance of debt recognized in cash flows	556	2,568
Repayment of debt recognized in cash flows	(1,202)	(3,078)
Changes in fair value	–	(39)
Other changes	8	(6)
Foreign currency translation effects	415	(578)
As of December 31	13,761	13,976

1. The carrying amount of outstanding debt as of January 1, 2023, includes USD 8.5 millions of modification losses recognized at transition to IFRS 9 (see note 2).

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18. Shareholders' equity

Table 18.1

Share capital	number of shares, as of December 31	Share capital	Number	Par value
		in CHF	of shares	in CHF
	Issued shares, CHF 10 par value	82,500,000	82,500,000	0.10

a) Issued share capital

On December 31, 2022, and on December 31, 2021, respectively, the issued share capital of Zurich Insurance Company Ltd (ZIC) amounted to CHF 825,000,000, consisting of 82,500,000 fully paid registered shares with a par value of CHF 10.00 each.

b) Additional paid-in capital

On April 25, 2008, a subordinated loan agreement was entered into between ZIC and Zurich Group Holding, which was transferred to Zurich Insurance Group Ltd as a consequence of its merger with Zurich Group Holding. The remaining loan was CHF 2.1 billion (USD 2.5 billion) in each of the years ended December 31, 2022 and 2021, respectively.

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

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19. Employee benefits

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

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

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

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

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

a) Defined contribution pension plans

Certain companies of the ZIC Group sponsor defined contribution pension plans. Eligibility for participation in such plans is either immediate on commencement of employment or based on completion of a specified period of continuous service. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 13 percent of annual pensionable salary, depending on a number of factors. The ZIC Group's contributions under these plans amounted to USD 297 million and USD 301 million for the years ended December 31, 2023 and 2022, respectively.

b) Defined benefit pension plans

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

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

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

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

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

For post-employment defined benefit plans, total contributions to funded plans and benefits paid directly by the ZIC Group were USD 302 million for 2023 compared with USD 289 million for 2022. The estimated total for 2024 is USD 327 million (actual amount may differ).

Swiss pension plan

The main plan provides benefits that exceed the minimum benefit requirements under Swiss pension law. It provides a lifetime pension to members based on their accrued retirement savings in the basic and additional accounts multiplied by the applicable conversion rate at the normal retirement age of 65 (age 62 for Executive Staff). Participants can draw retirement benefits early from age 60 (age 58 for Executive Staff). Alternatively, the benefit can be taken as a lump sum payment at retirement. In addition, at retirement, the plan pays a one-off cash sum settlement equal to the accrued retirement savings in the capital account. Contributions to the plan are paid by the employees and the employer, both for retirement savings and to finance risk benefits paid out in the event of death and disability. The accumulated balance on the pension account is based on the employee and employer pension contributions and interest accrued. The interest rate credited is defined annually by the plan's Board of Trustees, which is responsible for the governance of the plan. The trustees review the Pension Plan's funding status regularly as well as the technical interest rate and the conversion rates.

Following the reduction of the technical interest rate from 1.75 percent to 1.25 percent as of December 31, 2019, the conversion rate at age 65 will be further reduced from the value of 5.00 percent as of end of 2023 in two annual steps, starting from January 1, 2025 to 4.70 percent. To partially compensate for this reduction, top-up payments from the company will be paid to the retirement accounts of members affected by the changes. In addition, from January 1, 2025, some plan design features will be changed to align the plan with market practice. The top-up payments will be made in five annual installments starting from January 1, 2025. The impact of these changes resulted in a one-off prior service credit of USD 29 million, which has been reflected as a reduction in expense in 2023, and an increase in ongoing expense through the service cost (USD 15 million in 2023).

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

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

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

Consolidated financial statements (continued)

UK pension plan

The major UK pension plan is a hybrid arrangement and defined benefits entitlements accrued to December 31, 2015 increase in line with salary increases. Normal retirement age for the plan is 60. The plan is split into distinct sections and the two defined benefit sections are closed to new entrants and, with effect from January 1, 2016, to future benefit accrual. All employees now participate in a defined contribution section within the same trust. The notes that follow consider only the defined benefit sections.

The UK Pension Trustee Board is responsible for the governance of the plan. The employer contributions are determined based on regular triennial actuarial valuations which are conducted using assumptions agreed by the Trustee Board and the sponsoring company. A local statutory valuation was carried out at an effective date of June 30, 2022 and was finalized in September 2023. This valuation disclosed a funding surplus of USD 172 million (GBP 135 million) after taking into account the value of the asset-backed funding arrangement established in 2014. The asset-backed funding arrangement does not qualify as a plan asset under IAS 19 and is therefore not included in the tables set out in the rest of this note.

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

U.S. pension plans

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

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

German pension plans

There are a number of legacy defined benefit plans in Germany, most of which were set up under works council agreements. Contributions to support the pension commitments are made to a contractual trust arrangement. A separate arrangement was also established in 2010 to provide for retirement obligations that were in payment at that time. Consideration is given from time to time based on the fiscal efficiency of adding recent retirees to this arrangement and to adding assets to the contractual trust. In 2023, the pension liabilities are funded at 80 percent; however, no additional funding was required.

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

Consolidated financial statements (continued)

Tables 19.1a and 19.1b set out the reconciliation of the defined benefit obligation and plan assets for the ZIC Group's post-employment defined benefit plans.

Table 19.1a

Movement in defined benefit obligation and fair value of assets – current period	in USD millions	Defined	Fair value of		Net defined
		benefit obligation	assets	Asset ceiling	benefit asset/ (liability)
As of January 1, 2023		(16,125)	16,578	(1,240)	(788)
Net post-employment benefit (expense)/income:					
Current service cost		(144)	–	–	(144)
Interest (expense)/income		(659)	653	–	(6)
Settlements gains/(losses)		(2)	–	–	(2)
Past service (cost)/credit		48	–	–	48
Net post-employment benefit (expense)/income		(756)	653	–	(103)
Remeasurement effects included in other comprehensive income:					
Return on plan assets excluding interest income		–	519	–	519
Experience gains/(losses)		(109)	–	–	(109)
Actuarial gains/(losses) arising from changes in demographic assumptions		(187)	–	–	(187)
Actuarial gains/(losses) arising from changes in financial assumptions		(881)	–	–	(881)
Change in asset ceiling		–	–	56	56
Remeasurement effects included in other comprehensive income		(1,177)	519	56	(602)
Employer contributions		–	265	–	265
Employer contributions paid to meet benefits directly		38	–	–	38
Plan participants' contributions		(85)	85	–	–
Payments from the plan (including settlements)		813	(813)	–	–
Acquisitions/(divestments) and transfers		–	–	–	–
Foreign currency translation effects		(937)	1,013	–	76
As of December 31, 2023		(18,229)	18,299	(1,185)	(1,115)
of which: Assets for defined pension plans ¹					384
of which: Liabilities for defined pension plans ²					(1,499)

1 Included within 'Receivables and other assets' (refer to note 14).

2 Included within 'Other liabilities' (refer to note 15).

Consolidated financial statements (continued)

Table 19.1b

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

in USD millions

	Defined benefit obligation	Fair value of assets	Asset ceiling	Net defined benefit asset/(liability)
As of January 1, 2022	(24,218)	24,005	(942)	(1,155)
Net post-employment benefit (expense)/income:				
Current service cost	(157)	–	–	(157)
Interest (expense)/income	(304)	286	–	(18)
Settlements gains/(losses)	(1)	–	–	(1)
Past service cost	(1)	–	–	(1)
Net post-employment benefit (expense)/income	(462)	286	–	(177)
Remeasurement effects included in other comprehensive income:				
Return on plan assets excluding interest income	–	(5,764)	–	(5,764)
Experience gains/(losses)	(897)	–	–	(897)
Actuarial gains/(losses) arising from changes in demographic assumptions	(31)	–	–	(31)
Actuarial gains/(losses) arising from changes in financial assumptions	7,156	–	–	7,156
Change in asset ceiling	–	–	(298)	(298)
Remeasurement effects included in other comprehensive income	6,228	(5,764)	(298)	166
Employer contributions	–	251	–	251
Employer contributions paid to meet benefits directly	38	–	–	38
Plan participants' contributions	(76)	76	–	–
Payments from the plan (including settlements)	827	(827)	–	–
Acquisitions/(divestments) and transfers ¹	(1)	–	–	(1)
Foreign currency translation effects	1,539	(1,449)	–	90
As of December 31, 2022	(16,125)	16,578	(1,240)	(788)
of which: Assets for defined pension plans ²				415
of which: Liabilities for defined pension plans ³				(1,203)

¹ Zurich Insurance Company Ltd acquired Deutsche Bank Italian Financial Advisors network (refer to note 4).

² Included within 'Receivables and other assets' (refer to note 14).

³ Included within 'Other liabilities' (refer to note 15).

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

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

Consolidated financial statements (continued)

Table 19.2 provides a breakdown of plan assets by asset class.

Table 19.2

Fair value of assets held in funded defined benefit pension plans	in USD millions, as of December 31								
	2023				2022				
	Quoted in active markets		Other	Total	% of Total	Quoted in active markets		Other	Total
Cash and cash equivalents	380	–	380	2%	426	–	426	3%	
Equity securities	3,581	319	3,900	21%	3,662	242	3,904	24%	
Debt securities	–	13,608	13,608	74%	–	11,559	11,559	70%	
Investment property	–	1,887	1,887	10%	–	1,841	1,841	11%	
Mortgage loans	–	382	382	2%	–	359	359	2%	
Other assets	–	(1,857)	(1,857)	(10%)	–	(1,511)	(1,511)	(9%)	
Total	3,960	14,339	18,299	100%	4,088	12,490	16,578	100%	

For the classification of pension assets, the ZIC Group follows the same principles as outlined in note 22. Assets meeting the criteria of Level 1 are generally considered quoted in active markets, while assets meeting the criteria of Level 2 or Level 3 are generally considered in other assets.

Tables 19.3a and 19.3b provide a breakdown of the key information included in tables 19.1a and 19.1b for the main countries for the years ended December 31, 2023 and 2022, respectively.

Table 19.3a

Key information by main country – current period	in USD millions, as of December 31, 2023					
	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(5,195)	(8,016)	(2,825)	(1,194)	(999)	(18,229)
Fair value of plan assets	6,421	7,293	2,554	1,039	992	18,299
Impact of asset ceiling	(1,109)	(76)	–	–	(0)	(1,185)
Net defined benefit asset/(liability)	116	(798)	(271)	(155)	(7)	(1,115)
of which: Assets for defined pension plans	124	–	125	36	98	384
of which: Liabilities for defined pension plans	(8)	(798)	(396)	(191)	(105)	(1,499)
Net post-employment benefit (expense)/income	(34)	(30)	1	(18)	(22)	(103)

Table 19.3b

Key information by main country – prior period	in USD millions, as of December 31, 2022					
	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(4,294)	(7,044)	(2,770)	(1,125)	(892)	(16,125)
Fair value of plan assets	5,576	6,606	2,597	947	853	16,578
Impact of asset ceiling	(1,161)	(78)	–	–	(1)	(1,240)
Net defined benefit asset/(liability)	121	(517)	(174)	(178)	(40)	(788)
of which: Assets for defined pension plans	125	–	191	24	75	415
of which: Liabilities for defined pension plans	(4)	(517)	(364)	(202)	(115)	(1,203)
Net post-employment benefit (expense)/income	(93)	(26)	(17)	(16)	(25)	(177)

Consolidated financial statements (continued)

The ZIC Group's post-employment defined benefit obligations and the ZIC Group's post-employment benefit expenses in the ZIC Group's major plans shown in table 19.4 are calculated by discounting using the full yield curve for each country. For the UK, where price inflation is required for projecting benefits in those calculations, this is done using the full break-even price inflation curve. The figures for discount rates and for UK price inflation in table 19.4 are single-equivalent rates for the defined benefit obligations (i.e., the single assumption that would produce the same defined benefit obligation as using the full curve); single-equivalent rates for other elements of the accounting results will differ slightly from the figures set out below.

Table 19.4

Key financial assumptions used for major plans	as of December 31		2023				2022	
	Switzerland	United Kingdom	United States	Germany	United Kingdom		United States	
					Switzerland	Germany	Switzerland	Germany
Discount rate	1.3%	4.5%	5.0%	3.2%	2.2%	4.8%	5.4%	3.7%
Inflation rate (CPI) ¹	1.2%	2.5%	2.4%	2.3%	1.2%	2.6%	2.5%	2.6%
Salary increase rate	1.2%	2.4%	4.9%	3.6%	1.2%	2.8%	5.0%	3.9%
Expected future pension increases	0.1%	2.6%	n/a	2.3%	0.1%	3.4%	n/a	2.6%
Interest crediting rate ²	1.3%	n/a	5.4%	n/a	2.2%	n/a	5.4%	n/a

1 In the UK, part of the liability is linked to the inflation measure of the Retail Price Index (RPI), which is assumed to be 1.0 percent higher than the Consumer Price Index (CPI) as of both December 31, 2023 and 2022. As RPI is expected to converge with CPI no earlier than in 2030, the RPI assumption for the UK was assumed to be 1.0 percent higher than CPI for durations up to and including 2029 and the same as CPI for 2030 onwards.

2 As of December 31, 2023 and 2022, the disclosed assumption for the U.S. is calculated as a weighted average of ZNA pension plans and the FGI pension plans.

Tables 19.5a and 19.5b set out the life expectancies used in the valuation of the ZIC Group's major plans. The mortality assumptions in each country have been based on mortality tables in accordance with typical practice in that country.

Table 19.5a

Mortality tables and life expectancies for major plans – current period	in years, as of December 31, 2023		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
	Country	Mortality table for major plans	aged 65	aged 45	aged 65	aged 45
Switzerland		BVG 2020 with generational projections according to CMI model adapted to Swiss mortality with a long-term trend rate of 1.25%	21.90	23.58	23.65	25.25
United Kingdom		Club Vita 2022 mortality curves with CMI_2021 projection with plan specific adjustments	22.44	22.96	24.50	26.05
United States		Pri-2012 with MP-2020 Generational projection and white collar adjustment	21.91	23.29	23.30	24.66
United States		Pri-2012 with MP-2021 Generational projection and white collar adjustment	22.03	23.41	23.46	24.82
Germany		Heubeck 2018G	20.76	23.49	24.15	26.36

Consolidated financial statements (continued)

Table 19.5b

Mortality tables and life expectancies for major plans – prior period

in years, as of December 31, 2022		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
		aged 65	aged 45	aged 65	aged 45
Country	Mortality table for major plans				
	BVG 2020 with generational projections according to CMI model adapted to Swiss mortality with a long-term trend rate of 1.25%	21.84	23.50	23.59	25.18
Switzerland					
	SAPS Series 3 with CMI_2021 projection with plan specific adjustments	22.06	23.30	24.11	25.58
United Kingdom					
	Pri-2012 with MP-2020 Generational projection and white collar adjustment	21.84	23.22	23.24	24.60
United States					
	Pri-2012 with MP-2021 Generational projection and white collar adjustment	21.97	23.35	23.39	24.75
Germany					
	Heubeck 2018G	20.62	23.36	24.04	26.26

Table 19.6 shows the expected benefits to be paid under the ZIC Group's major plans in the future. It should be noted that actual amounts may vary from expected amounts. Therefore, future benefit payments may differ from the amounts shown.

Table 19.6

Maturity analysis of future benefit payments for major plans

as of December 31	2023								2022
	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany	
Duration of the defined benefit obligation (in years)	11.5	15.4	9.8	11.4	11.8	15.2	10.5	12.0	
Maturity analysis of benefits expected to be paid (in USD millions):									
< 1 year	429	282	244	61	314	304	219	63	
1 to 5 years	1,394	1,357	854	255	1,170	1,201	850	244	
5 to 10 years	1,504	2,111	991	348	1,349	1,891	1,022	335	

Table 19.7

Sensitivity analysis of significant actuarial assumptions

in USD millions, as of December 31	Defined benefit obligation ¹	
	2023	2022
Discount rate +50 bps	1,105	978
Discount rate -50 bps	(1,240)	(1,096)
Salary increase rate +50 bps	(51)	(38)
Salary decrease rate -50 bps	49	37
Price inflation increase rate +50 bps	(705)	(651)
Price inflation decrease rate -50 bps	637	594
Cash balance interest credit rate +50 bps	(114)	(62)
Cash balance interest credit rate -50 bps	87	59
Mortality 10% increase in life expectancy	(1,355)	(1,109)
Mortality 10% decrease in life expectancy	1,202	1,140

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

Consolidated financial statements (continued)

Table 19.7 sets out the sensitivity of the defined benefit obligation to changes in key actuarial assumptions. The effect on the defined benefit obligation shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. While this table illustrates the overall impact on the defined benefit obligation of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the overall defined benefit obligation. In particular, the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for different plans. The sensitivity analysis is intended to illustrate the inherent uncertainty in the evaluation of the defined benefit obligation under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the overall defined benefit obligation. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the ZIC Group's view of expected future changes in the defined benefit obligation. Any management actions that may be taken to mitigate the inherent risks in the post-employment defined benefit plans are not reflected in this analysis.

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20. Share-based compensation and cash incentive plans

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

a) Cash incentive plans

The ZIC Group's short-term incentive plan (STIP) is utilized across the ZIC Group and in many countries covers all employees in that country who are selected to participate in a short-term incentive plan. In addition, there may be other local short-term incentive plans in place. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 719 million and USD 606 million for the years ended December 31, 2023 and 2022, respectively.

b) Share-based compensation plans for employees

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

The cost of share-based payments depends on various factors, including achievement of targets, and are subject to the discretion of the Remuneration Committee and the Board. Costs may therefore vary significantly from year to year. The net amounts of USD 337 million and USD 291 million for the years ended December 31, 2023 and 2022, respectively, reflect all aspects of share-based compensation, including adjustments made during the year.

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

Employee share plans

Share incentive plans for employees in the UK

The ZIC Group established an Inland Revenue approved Share Incentive Plan and launched the Partnership Shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Insurance Group Ltd shares at the prevailing market price from their gross earnings. This plan was terminated in 2007. There were 9 participants in the plan as of December 31, 2023 and 2022.

A revised Partnership Share Scheme was launched in March 2013. Participants benefit from purchasing shares by making deductions from gross salary up to a maximum of GBP 1,800 or 10 percent of their year-to-date earnings. There were 883 and 744 active participants in the plan as of December 31, 2023 and 2022, respectively.

The ZIC Group also operates a profit-sharing element of the Share Incentive Plan (Reward Shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on business operating profit (BOP) after tax for the year achieved by the business unit of each participating employee. Individual awards are subject to a maximum of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,600. The total number of participating employees in Reward Shares as of December 31, 2023 and 2022 was 4,056 and 4,319, respectively.

A Dividend Shares scheme was launched in 2014 which allows employees to reinvest their dividends from Partnership Shares and Reward Shares. As of December 31, 2023 and 2022, there were 696 and 569 participants in the scheme, respectively.

Share incentive plan for employees in Switzerland

Under the Employee Share Plan, eligible employees are allowed to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment at the preferential price in shares is equivalent to CHF 3,500 per employee per annum. During 2023, 4,846 employees were eligible to participate in the plan, compared with 4,515 in 2022. For the years ended December 31, 2023 and 2022, 2,560 and 2,331 employees, respectively, purchased shares under the 2023 and 2022 share plans.

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The Group Long-Term Incentive Plan (LTIP)

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

PSUs allocated in 2023 will vest after a period of three years following the year of allocation (three-year cliff vesting), with the actual level of vesting between 0 percent and 200 percent of the overall target shares (PSUs allocated and DEUs that accrued during the vesting period), depending on the achievement of pre-defined performance criteria. The performance criteria used to determine the level of vesting are the Group's business operating profit after tax return on common shareholders' equity (average BOPAT ROE), the position of its relative total shareholder return (TSR) measured against an international peer group of insurance companies, and the achievement of cash remittance targets, each with a 30 percent weight, as well as operational CO2 equivalent (CO2e) emissions with a 10 percent weight. The four pre-defined performance criteria are assessed independently over a period of three consecutive financial years starting in the year of allocation. One half of the shares that vest are sales-restricted for a further three years for members of the Executive Committee. As of December 31, 2023 and 2022 there were 1,281 and 1,305 participants in this plan, respectively.

Table 20

for the years ended December 31

**Target shares
allocated
during the period**

	Number		Fair value at the allocation date (in CHF) ¹	
	2023	2022	2023	2022
Target shares allocated during the period	424,071	408,015	443.50	451.20

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

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

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21. Commitments and contingencies, legal proceedings and regulatory investigations

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

Table 21

Quantifiable commitments and contingencies	in USD millions as of December 31	
	2023	2022
Remaining commitments under investment agreements	832	1,045
Guarantees and letters of credit ¹	864	838
Undrawn loan commitments	1	–
Other commitments and contingent liabilities ²	447	427

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

2 Includes USD 94 million and USD 11 million future cash flows in 2023 and 2022, respectively, that the ZIC Group as a lessee is potentially exposed to which are not reflected in the measurement of lease liabilities in the balance sheet.

Commitments under investment agreements

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

Guarantees and letters of credit

In 2023 and 2022, USD 605 million and USD 572 million related to guarantees in the aggregate amount of GBP 475 million which were provided to the directors of a wholly owned subsidiary in connection with the repatriation of capital. These guarantees have no expiry date.

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

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

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

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

Other contingent liabilities

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

The ZIC Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available amounts to nil as of December 31, 2023.

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

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Pledged assets

The majority of assets pledged to secure the ZIC Group's liabilities relate to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 1.8 billion and USD 2.2 billion as of December 31, 2023 and 2022, respectively.

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

Legal, compliance and regulatory developments

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

- Several of the ZIC Group's subsidiaries as well as other insurance companies are involved in litigation relating to the extent to which COVID-19 was intended to be covered under Property Damage Business Interruption policies. A limited number of class actions have also been initiated. Most of the litigation has been filed in United States courts and in addition to test cases in the UK. The final determination of outcomes may take many years as appeals are pursued by the plaintiffs and insurers, including the ZIC Group or its subsidiaries.
- In 2016, the ZIC Group, on its own initiative, undertook an internal review of the life insurance, savings and pension business sold by its non-U.S. operating companies with relevant cross-border business to customers with a nexus to the U.S. The review confirmed that the ZIC Group's cross-border business with U.S. persons was very limited and of a legacy nature, with the large majority of sales having occurred more than a decade ago. The review also confirmed that the ZIC Group's U.S. operating companies were not involved in or connected to those activities. The ZIC Group voluntarily disclosed the results of the review and the regulatory issues presented by sales to U.S. residents to the Swiss Financial Market Supervisory Authority (FINMA), the U.S. Department of Justice (DOJ) and other authorities. The ZIC Group continues to cooperate with these authorities. In April 2019, the DOJ announced that Zurich Life Insurance Company Ltd (ZLIC) and Zurich International Life Limited (ZILL) entered into a non-prosecution agreement (NPA) with the DOJ, which memorializes the DOJ's decision not to prosecute these entities for any U.S. tax-related offenses in connection with legacy cross-border sales to U.S. persons. Under the terms of the NPA, ZLIC and ZILL have agreed to comply with certain specified conditions during the four-year term of the NPA. This resolution has not had, and will not have, an adverse effect on the ZIC Group's business or consolidated financial condition.
- In April 2023, a putative nationwide class action complaint was filed in the Superior Court for the County of Los Angeles, California (the 'Superior Court'), against Farmers Group, Inc., and its subsidiaries, Fire Underwriters Association and Truck Underwriters Association (collectively, 'FGI'). The case, captioned Paul Lim, et al v. Farmers Group, Inc., et al., alleges that FGI breached its fiduciary duty by accepting excessive compensation for their services and failing to disclose certain information about their fees, calculation methods and relationship to Zurich. In May 2023, FGI removed the action to the U.S. District Court for the Central District of California under the Class Action Fairness Act, and subsequently filed a motion to dismiss. On May 26, 2023, plaintiffs filed a motion to remand the action to the California state Superior Court, which was granted on November 13, 2023. In light of the remand, the U.S. District Court did not rule on the substance of FGI's motion to dismiss. On January 2, 2024, with the Superior Court's permission, plaintiffs filed a first amended complaint. An Initial Case Management Conference is set for February 15, 2024. The case has been subject to a stay leading up to the Initial Case Management Conference. At the Initial Case Management Conference, the Superior Court will likely consider the extent to which to lift the stay to allow motion practice or discovery to proceed. FGI believes it has numerous and substantial defenses to the claims raised and will vigorously contest the action.

Consolidated financial statements (continued)

- In July and August 2023, the administrators of Greensill Bank AG (GBAG) served two Particulars of Claim on Zurich Insurance plc (ZIP) issued in the London Commercial Court, alleging non-payment of claims presented under a trade credit policy written by ZIP. Subsequently, Zurich Insurance Company Ltd (ZIC) was substituted in the actions for ZIP. ZIC's defense to both actions was filed on January 26, 2024. In the defense, ZIC also filed counterclaims against GBAG and other third parties. ZIC believes that it has meritorious defenses to the policy and the claims raised and will vigorously contest the actions.

Consolidated financial statements (continued)

22. Fair value measurement

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

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

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

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

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

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

Consolidated financial statements (continued)

Table 22.1 compares the fair value with the carrying value of financial assets and financial liabilities. Certain financial instruments are not included in this table as their carrying value is a reasonable approximation of their fair value. Such instruments include cash and cash equivalents, obligations to repurchase securities, deposits made under assumed reinsurance contracts, deposits received under reinsurance contracts held and other financial liabilities. This table excludes financial assets and financial liabilities related to unit-linked contracts.

Table 22.1

Fair value and carrying value of financial assets and financial liabilities	in USD millions, as of December 31		Total fair value		Total carrying value	
			2023	2022	2023	2022
Available-for-sale securities						
Equity securities				10,593		10,593
Debt securities				95,638		95,638
Total available-for-sale securities				106,231		106,231
Fair value through comprehensive income						
Debt securities			92,965		92,965	
Total fair value through comprehensive income			92,965		92,965	
Securities at FV through profit or loss						
Equity securities			14,452	3,540	14,452	3,540
Debt securities			8,390	6,386	8,390	6,386
Total securities at FV through profit or loss			22,842	9,926	22,842	9,926
Derivative assets			947	786	947	786
Held-to-maturity debt securities				1,727		1,716
Debt securities at amortized cost			4,252		4,568	
Mortgage loans at amortized cost			4,080	5,103	4,324	5,497
Other financial assets at amortized cost			3,392	4,783	3,682	4,801
Total financial assets			128,477	128,555	129,328	128,957
Derivative liabilities			(1,252)	(1,165)	(1,252)	(1,165)
Financial liabilities held at amortized cost						
Liabilities related to investment contracts			(463)	(539)	(463)	(518)
Senior debt			(4,775)	(4,473)	(5,202)	(5,077)
Subordinated debt			(7,859)	(7,773)	(8,559)	(8,899)
Total financial liabilities held at amortized cost			(13,096)	(12,786)	(14,224)	(14,494)
Total financial liabilities			(14,349)	(13,951)	(15,477)	(15,659)

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

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

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

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

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

Consolidated financial statements (continued)

Recurring fair value measurements of assets and liabilities

Table 22.2a

in USD millions, as of December 31, 2023		Level 1	Level 2	Level 3	Total
Fair value hierarchy – non-unit-linked – current period	Securities at fair value through comprehensive income				
	Debt securities	–	92,518	448	92,965
	Total securities at FV through comprehensive income	–	92,518	448	92,965
	Securities at FV through profit or loss				
	Equity securities	8,589	1,958	3,904	14,452
	Debt securities	–	8,163	227	8,390
	Total securities at FV through profit or loss	8,589	10,122	4,131	22,842
	Derivative assets	1	921	25	947
	Investment property	–	–	13,684	13,684
	Total assets	8,591	103,560	18,287	130,437
	Derivative liabilities	(9)	(739)	(504)	(1,252)
	Total liabilities	(9)	(739)	(504)	(1,252)

Table 22.2b

in USD millions, as of December 31, 2022		Level 1	Level 2	Level 3	Total
Fair value hierarchy – non-unit-linked – prior period	Available-for-sale securities				
	Equity securities	7,433	1,642	1,517	10,593
	Debt securities	–	90,645	4,993	95,638
	Total available-for-sale securities	7,433	92,287	6,510	106,231
	Securities at FV through profit or loss				
	Equity securities	1,046	474	2,021	3,540
	Debt securities	–	6,358	28	6,386
	Total securities at FV through profit or loss	1,046	6,832	2,049	9,926
	Derivative assets	5	759	21	786
	Investment property	–	2,896	11,902	14,798
	Total assets	8,484	102,774	20,483	131,741
	Derivative liabilities	–	(447)	(717)	(1,165)
	Total liabilities	–	(447)	(717)	(1,165)

Consolidated financial statements (continued)

Table 22.3a

in USD millions, as of December 31, 2023		Level 1	Level 2	Level 3	Total
Fair value hierarchy – unit-linked – current period	Fair value through profit or loss securities				
	Equity securities	107,079	13,127	2,235	122,442
	Debt securities	–	12,860	11	12,871
	Other loans	528	2,467	–	2,995
	Total fair value through profit or loss securities	107,607	28,454	2,246	138,307
	Derivative assets	–	26	–	26
	Investment property	–	–	2,022	2,022
	Total investments for unit-linked contracts¹	107,607	28,479	4,268	140,355
	Financial liabilities at FV through profit or loss				
	Liabilities related to unit-linked investment contracts	–	(59,807)	–	(59,807)
	Derivative liabilities	–	(1)	–	(1)
	Total	–	(59,808)	–	(59,808)

1. Excluding cash and cash equivalents.

Table 22.3b

in USD millions, as of December 31, 2022		Level 1	Level 2	Level 3	Total
Fair value hierarchy – unit-linked – prior period	Fair value through profit or loss securities				
	Equity securities	90,602	14,347	1,786	106,736
	Debt securities	–	10,146	27	10,173
	Other loans	419	1,833	–	2,251
	Total fair value through profit or loss securities	91,021	26,326	1,814	119,160
	Derivative assets	5	64	–	69
	Investment property	–	–	2,233	2,233
	Total investments for unit-linked contracts¹	91,026	26,390	4,046	121,462
	Financial liabilities at FV through profit or loss				
	Liabilities related to unit-linked investment contracts	–	(50,039)	–	(50,039)
	Derivative liabilities	(27)	(1)	–	(28)
	Total	(27)	(50,040)	–	(50,067)

1. Excluding cash and cash equivalents.

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

Within level 2, the ZIC Group has classified government and corporate bonds, thinly traded common stocks, investments in unit trusts without daily prices or with sales restrictions, agency mortgage-backed securities (MBS), 'AAA' rated non-agency MBS and other asset-backed securities (ABS), and certain private debt instruments where valuations are obtained from independent pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for similar assets, alternative pricing methods such as matrix pricing, or an income approach employing discounted cash flow models.

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

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

Within level 3, the ZIC Group has classified:

- Unlisted stocks, private equity funds and hedge funds that are not actively traded. The valuations of such instruments are obtained from quarterly net asset value information from the fund manager and annual audited financial statements provided by the issuing company. The prices are generally derived for each underlying company in line with the International Private Equity and Venture Capital Valuation (IPEV) guidelines, using discounted cash flows (income approach) or multiples methods (market approach). The ZIC Group has only limited insight into the specific inputs used by the fund managers; hence, a narrative sensitivity analysis is not applicable.

Consolidated financial statements (continued)

- Non-agency MBS, ABS and collateralized loan obligations (CLO) rated below 'AAA' and private debt holdings including certain private placements that are valued by independent pricing providers or external asset managers using primarily the discounted cash flow method with significant unobservable input parameters such as asset prepayment rates, default rates and credit spreads. A significant market yield increase of the benchmark securities in isolation could result in a decreased fair value, while a significant market yield decrease could result in an increased fair value. However, a reasonable variation in the option-adjusted spread taken from a set of benchmark securities with similar characteristics has only an immaterial impact on fair value.
- All investment properties for which there are no active and transparent real estate markets or observable data available. The valuation for the majority of these investment properties – other than certain investment properties located in Switzerland – are typically performed annually by independent qualified appraisers. The parameters used for the valuations are specific to each country or region and vary significantly across different markets. External appraisals are reviewed by internal real estate valuation specialists; however, since the unobservable inputs were not developed by the ZIC Group they are not readily available. In some cases, where external valuations are obtained at least every three years, interim valuations by internal valuation specialists are performed. For investment properties located in Switzerland, the valuation model is based on a discounted cash flow method and is applied to each individual property based on its expected cash flows. The unobservable input parameters include the future transition cost for carbon emission and capital expenditures to achieve the desired environmental footprint depending on the current condition of each individual property. These input parameters are combined into a synthetic spread applied to the otherwise observable discount rate.
- Overall, as of December 31, 2023, around 40 percent of level 3 investment properties were covered by internal valuations. Significant increases/(decreases) in synthetic spread, in isolation, would result in a lower/(higher) fair value measurement. For example, an increase in spread of 10bps, considered in isolation, would result in a decrease in fair value of 3 percent or approximately USD 140 million as of December 31, 2023.
- Options and long-dated derivative financial instruments with fair values determined using counterparty valuations or calculated using significant unobservable inputs such as historical volatilities, historical correlation, implied volatilities from the counterparty or derived using extrapolation techniques. Quantitative information on unobservable inputs is not available when counterparty pricing was used. For internally calculated fair values, significant increases/(decreases) in volatilities or correlation would result in a significantly higher/(lower) fair value measurement; however, the overall effect on the ZIC Group's financial statements would not be material.

For details on ZIC Group investments sensitivities, refer to section analysis by risk type in the 2023 Risk Review as well as select disclosures included in note 7.

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

For the year ended December 31, 2023, the ZIC Group recorded a transfer of USD 275 million of non-unit-linked mutual funds out of level 1 into level 2 due to their lower subscription and redemption volumes. For the year ended December 31, 2022, the ZIC Group recorded a transfer of USD 430 million of unit-linked fair value through profit or loss equity securities out of level 2 into level 1 for mutual funds with daily published prices.

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Table 22.4a

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

in USD millions	Fair value through profit or loss securities					
	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities	Investment property
As of January 1, 2023	575	3,590	287	46	(717)	11,900
Realized gain/(losses) recognized in income ¹	(3)	108	–	(4)	(107)	194
Unrealized gain/(losses) recognized in income ^{1,2}	(6)	53	6	(6)	233	(889)
Unrealized gain/(losses) recognized in other comprehensive income	18	–	–	3	–	–
Purchases	117	827	92	7	–	197
Settlements/sales/redemptions	(188)	(737)	(170)	(1)	107	(1,026)
Transfers into level 3	87	–	–	–	–	2,930
Transfers out of level 3	(158)	(1)	–	–	–	–
Acquisitions and divestments ³	(15)	(71)	–	(9)	–	(376)
Foreign currency translation effects	20	135	12	(12)	(19)	753
As of December 31, 2023	448	3,904	227	25	(504)	13,684

1 Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements (see note 5).

2 Unrealized gains/(losses) recognized in income for debt securities measured at fair value through comprehensive income relate to impairments.

3 Related to an agreement entered into by Inversiones Suizo-Chilena S.A. to sell the annuity book of Zurich Chile Seguros de Vida S.A. (see note 4).

For the year ended December 31, 2023, the ZIC Group transferred USD 87 million of debt securities held at fair value through comprehensive income from level 2 into level 3 corresponding to private debt instruments that exhibit higher reliance on unobservable valuation inputs, and non-agency ABS and MBS with a credit rating downgrade from AAA. The ZIC Group transferred USD 158 million of debt securities held at fair value through comprehensive income out of level 3 into level 2 attributable to private debt instruments with a higher reliance on observable valuation inputs and non-agency ABS and MBS whose credit rating has been upgraded to AAA.

For the year ended December 31, 2023, the ZIC Group transferred USD 3 billion of investment property from level 2 to level 3. During 2023, the ZIC Group reviewed the fair value hierarchy classification of investment properties primarily located in Germany. The sharp increase in interest rates, coupled with rising inflation and uncertainty around future interest rate development, resulted in significantly fewer transactions in the real estate market. Therefore, reliable market information was not available in sufficient quantity to substantiate some of the input parameters used by independent external appraisers in their valuations.

Table 22.4b

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

in USD millions	Fair value through profit or loss securities						
	Available-for-sale securities		loss securities		Derivative assets	Derivative liabilities	Investment property
	Equity securities	Debt securities	Equity securities	Debt securities			
As of January 1, 2022	1,953	6,148	2,150	40	103	(154)	10,800
Realized gain/(losses) recognized in income ¹	189	2	16	–	–	–	30
Unrealized gain/(losses) recognized in income ^{1,2}	(8)	(39)	(53)	(2)	(74)	(573)	675
Unrealized gain/(losses) recognized in other comprehensive income	(273)	(789)	–	–	–	2	–
Purchases	220	717	254	1	10	6	515
Settlements/sales/redemptions	(453)	(875)	(331)	(1)	(8)	–	(231)
Transfers into level 3	4	114	–	–	–	–	–
Transfers out of level 3	(6)	(105)	–	(7)	–	–	–
Acquisitions and divestments ³	(30)	–	–	–	(4)	–	310
Foreign currency translation effects	(80)	(179)	(15)	(3)	(7)	1	(197)
As of December 31, 2022	1,517	4,993	2,021	28	21	(717)	11,902

1 Presented as net capital gains/(losses) and impairments on Group investments in the consolidated income statements (see note 5).

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

3 The movements are related to an agreement entered into by Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft to sell its legacy traditional life insurance back book (see note 4).

Consolidated financial statements (continued)

For the year ended December 31, 2022, the ZIC Group transferred USD 114 million of available-for-sale debt securities from level 2 into level 3 corresponding to private debt instruments that exhibit higher reliance on unobservable valuation inputs, and non-agency ABS and MBS with a credit rating downgrade from AAA. This effect is approximately offset by the transfer of USD 105 million of available-for-sale debt securities out of level 3 into level 2 attributable to private debt instruments with a higher reliance on observable valuation inputs and non-agency ABS and MBS whose credit rating has been upgraded to AAA.

Table 22.5a

Development assets and liabilities classified within level 3 – unit-linked – current period	in USD millions	Fair value through profit or loss		
		securities		
		Equity securities	Debt securities	Investment property
as of January 1, 2023		1,777	27	2,233
Realised gain/(losses) recognized in income ¹		11	1	(103)
Unrealised gain/(losses) recognized in income ¹		147	1	50
Purchases		377	–	29
Sales/redemptions		(77)	(19)	(279)
Transfers into level 3		–	–	–
Transfers out of level 3		–	–	–
Acquisitions/(divestments) and transfers		–	–	–
Foreign currency translation effects		1	–	91
as of December 31, 2023		2,235	11	2,022

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

For the year ended December 31, 2023, there has been no significant movement in unit-linked fair value through profit or loss equity or debt securities or investment property.

Table 22.5b

Development assets and liabilities classified within level 3 – unit-linked – prior period	in USD millions	Fair value through profit or loss		
		securities		
		Equity securities	Debt securities	Investment property
As of January 1, 2022		1,516	30	3,167
Realized gain/(losses) recognized in income ¹		14	–	(64)
Unrealized gain/(losses) recognized in income ¹		(70)	(3)	(332)
Purchases		375	–	185
Sales/redemptions		(63)	(1)	(402)
Transfers into level 3		18	5	–
Transfers out of level 3		–	–	–
Acquisitions/(divestments) and transfers		–	–	–
Foreign currency translation effects		(3)	(3)	(322)
As of December 31, 2022		1,786	27	2,233

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

For the year ended December 31, 2022, there has been no significant movement in unit-linked fair value through profit or loss equity or debt securities or investment property.

Consolidated financial statements (continued)

23. Expected credit loss measurement

The ZIC Group recognized expected credit losses in line with the accounting policies outlined in note 3e of the audited consolidated financial statements.

ECL scenarios and key input parameters

For rated debt securities, the ZIC Group determines the forward-looking inputs by evaluating a range of possible outcomes through a scenario-based approach. The following macroeconomic and financial variables have been selected due to historical correlation with credit loss emergence and relevance to the Group investment portfolio: GDP growth, 10-year interest rates and investment credit spread in the U.S. and Eurozone. Table 23.1 shows the variables for each of the three scenarios (downside scenario/base case/upside scenario) modelled by Group Investment Management – Market Strategy and Macroeconomics, as well as the weights assigned to each scenario. For residential and small commercial mortgage loan portfolios, the forward-looking parameters are derived from the forecast of the real estate prices by property type, as well as actual affordability of the loan for a customer.

For 2024, the economic scenarios remain broadly consistent with the previous estimate and are centered around expectations for the development of the U.S. economy:

- The base case scenario has global growth remaining below trend, as the U.S. enters recession in the first half of the year while economic activity in Europe and China remains weak. The U.S. recession is expected to be relatively mild and short lived, due to a lack of significant economic and financial imbalances and falling inflation, which allows the Federal Reserve and other major central banks to begin with limited interest rate cuts. Default rates in high-yield credit are expected to continue rising for the next few quarters, where weaker speculative grade companies remain vulnerable as supply is low and lending conditions tight, while cash positions have been run down. Financial markets are expected to stay volatile, with the possibility of further drawdowns in equity prices, before a recovery gains traction in the second half of 2024. Credit spreads are then also expected to fall back quickly from recessionary levels, ending the year tighter compared to 2023.
- In the downside scenario, there is a hard landing for the U.S. economy with a deeper and more drawn-out recession and asset price decline compared to the base case. In this scenario, the Federal Reserve and other central banks maintain their hawkish stance and deliver some further rate hikes in early 2024, as services inflation remains strong and labor markets tight. Hopes of a soft landing fade and fears of a deeper and longer lasting recession set in, causing a sharp selloff in financial assets. U.S. equity markets are assumed to fall by close to 30 percent from peak to trough while, in credit markets, more companies become vulnerable to cash burn and distress and defaults pick up notably, with spreads peaking in the second half of 2024. There is only a slow recovery toward the end of the year.
- The upside scenario sees the U.S. economy maintain growth at around trend, while inflation falls markedly in early 2024 as services price pressures normalize. Economic activity remains resilient, which allows companies and households to continue to service debt despite the high interest rate environment, while sentiment picks up from a lower level. Global financial markets consequently recover and stage a strong rally in 2024 with notable gains in credit, with spreads recovering significantly, leaving room for modest gains in subsequent years. While government bond yields fall from current elevated levels in this scenario, they remain high for longer compared with the base case.

Table 23.1

Scenario weights and macroeconomic assumptions for ECL measurement of debt securities	As of	USA	Eurozone	USA	Eurozone	Assigned weights in %	
		December 31, 2023		January 1, 2023		December 31, 2023	January 1, 2023
Upside scenario							
GDP year-on-year change in %		1.8	0.8	1.4	(0.1)		
10-year interest rate in %		3.7	2.5	3.2	1.6		
Credit spread in basis points		100	90	80	75	25%	20%
Base case scenario							
GDP year-on-year change in %		0.2	0.4	0.3	(0.4)		
10-year interest rate in %		3.5	2.3	3.0	1.6		
Credit spread in basis points		125	120	125	140	50%	45%
Downside scenario							
GDP year-on-year change in %		(0.6)	(0.4)	(0.6)	(1.0)		
10-year interest rate in %		3.0	2.0	2.5	1.3		
Credit spread in basis points		250	250	175	220	25%	35%

Consolidated financial statements (continued)

The scenario weights reflect management's assessment of economic and political risks that might affect the expected credit losses from financial assets held. Table 23.2 provides a sensitivity analysis of the effect of the calibration of the macroeconomic scenario on the recognition of expected credit losses of debt securities.

Table 23.2

ECL sensitivity to future economic conditions	Scenarios as of	December 31, 2023			January 1, 2023		
		Pro forma ECL (assuming application of 100% weighting)		Actual ECL	Pro forma ECL (assuming application of 100% weighting)		Actual ECL
		in % of Base case	in % of Base case				
	Upside	(58)	65%	(109)	(63)	75%	
	Base case	(90)	100%		(85)	100%	
	Downside	(200)	222%		(112)	133%	(89)

The ZIC Group applies the low credit risk simplification for the rated debt securities and recognizes a 12-months ECL for debt securities that have an external or internal rating equivalent to 'investment grade' (i.e., AAA to BBB-). Other exposures are assessed for significant increase in credit risk. Table 23.3 below shows the carrying amount of debt securities by credit risk rating grades and the related expected credit losses recognized.

Table 23.3

Debt securities by rating of issuer- Carrying amount and ECL allowance	in USD millions, as of December 31, 2023				
	Carrying amount	% of total	12 months ECL	Lifetime ECL	
Rating:					
AAA	22,836	23	(5)	-	
AA- up to and including AA+	28,147	29	(5)	-	
A- up to and including A+	16,021	16	(7)	-	
BBB up to and including BBB+	19,387	20	(16)	-	
BBB-	5,684	6	(9)	-	
BB+ and below	5,459	6	(46)	(20)	
Total	97,534	100	(88)	(21)	

Maximum exposure to credit risk and ECL recognized

Table 23.4 provides a reconciliation for financial assets measured at fair value through OCI or at amortized cost between the gross carrying amount and the net carrying amount, including the recognition of 12-months ECL and lifetime ECL by asset type.

The gross carrying amount represents fair value for debt instruments measured at FVOCI and amortized cost (prior to recognition of any ECL) for debt instruments measured at amortized cost. The net carrying amount represents the balance sheet carrying amount (i.e., fair value for debt instruments measured at FVOCI and amortized cost less ECL allowance for debt instruments measured at amortized cost).

Table 23.4

Maximum exposure to credit risk and ECL by type of financial asset – current period	In USD millions, as of December 31, 2023			
	Gross carrying amount	12 months ECL	Lifetime ECL	Net carrying amount
Debt securities:				
of which Governments and supra-national bonds	49,839	(28)	(3)	49,808
of which Corporate securities	37,641	(58)	(18)	37,566
of which Mortgages and asset-backed securities	10,057	(1)	-	10,056
Total debt securities	97,537	(88)	(21)	97,429
Mortgage loans at amortized cost	4,325	-	(1)	4,324
Other financial assets at amortized cost	3,694	(5)	(6)	3,682
Receivables and other financial assets	10,403	-	(18)	10,385
Total	115,959	(94)	(46)	115,820

Consolidated financial statements (continued)

The carrying amount includes USD 42 million of debt securities subject to individual impairment with carrying amount reduced by cumulative impairment losses of USD (22) million as of December 31, 2023. Furthermore, the carrying amount includes USD 47 million of debt securities that were purchased or originated credit-impaired financial assets (POCI). There was no undiscounted lifetime expected credit losses associated with POCI financial assets initially recognized during 2023. There were no credit-impaired mortgage loans at amortized cost or other financial assets at amortized cost as of December 31, 2023.

Development of ECL allowances

Table 23.5 shows how the allowances for expected credit losses from financial assets in table 23.4 developed during the period ended December 31, 2023.

Table 23.5

Development of ECL allowance by type of financial asset – current period

in USD millions

	Debt Securities ¹		Mortgage loans at amortized cost		Other financial assets at amortized cost	
	12-months	Lifetime	12-months	Lifetime	12-months	Lifetime
	ECL	ECL	ECL	ECL	ECL	ECL
As of January 1, 2023	(68)	(21)	–	(2)	(5)	(2)
Transfer to lifetime expected credit losses	3	(3)	–	–	–	–
Transfer to 12-months expected credit losses	(1)	1	–	–	–	–
Debt securities that have been derecognized during the period	37	7	–	–	1	5
Additions	(37)	(1)	–	–	(1)	–
Write-offs	1	4	–	–	–	–
Other changes ²	(17)	(6)	–	1	(1)	(9)
Foreign currency translation effects	(5)	(2)	–	–	–	–
As of December 31, 2023	(88)	(21)	–	(1)	(5)	(6)

1. Presented as loss allowance on FVOCI debt securities through comprehensive income within shareholders' equity.

2. Remeasurement without stage transfer/change in methodology.

In addition to the above, impairment gains/(losses) of USD (29) million were recognized in profit or loss for individually impaired debt securities measured at FVOCI and amortized cost in 2023. There were impairment gains/(losses) of USD 2 million recognized for POCI debt securities. Impairment losses for credit-impaired mortgage loans and other financial assets at amortized cost were not material in 2023.

For transition disclosures related to IFRS 9, please refer to note 2. For comparative disclosures regarding the valuation of impairments and losses on financial assets as measured in 2022 under IAS 39, please refer to note 24 in the 2022 Annual Report.

Consolidated financial statements (continued)

24. Related-party transactions

In the normal course of business, the ZIC Group enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions, or one other party controls both. Related parties of the ZIC Group include, among others, subsidiaries, associates, joint ventures, key management personnel, and the post-employment benefit plans (please see note 19). Transactions between the ZIC Group and its subsidiaries are eliminated on consolidation, and they are not disclosed in the consolidated financial statements. A list of the ZIC Group's significant subsidiaries is shown in note 27. The transactions of the Group concluded with its associates and with its joint ventures are not considered material to the Group, either individually or in aggregate.

Table 24 summarizes related-party transactions with key management personnel reflected in the consolidated financial statements. Key management personnel includes members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd and members of the Executive Committee.

Table 24

Related party transactions – key personnel	in USD millions, for the years ended December 31	
	2023	2022
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	43	39
Post-employment benefits	–	–
Share-based compensation	46	43
Other remuneration	3	5
Total remuneration of key personnel	92	87

As of December 31, 2023, and 2022, there were no loans, advances or credits outstanding from members of the Executive Committee. Outstanding loans and guarantees granted to members of the Board of Directors amounted to nil for the years ended December 31, 2023 and 2022. The terms 'members of the Board of Directors' and 'members of the Executive Committee' in this context include the individual as well as members of their respective households. The figures in table 24 include the fees paid to members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd, which were USD 7 million and USD 6 million for the years ended December 31, 2023 and 2022, respectively.

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

Consolidated financial statements (continued)

25. Relationship with the Farmers Exchanges

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

a) Quota share reinsurance treaties with the Farmers Exchanges

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

The All Lines agreement provides for an assumption of a quota share of the all lines insurance results of the Farmers Exchanges.

Table 25.1

in USD millions, for the years ended December 31

Quota share reinsurance treaties

	All Lines agreement	
	2023 ¹	2022 ²
Insurance revenue	1,536	316
Insurance service expense ³	(1,461)	(298)
Insurance service result	75	19

1 Subject to regulatory approval, effective December 31, 2023, Farmers Re Co assumed a 10.00 percent quota share of which 8.25 percent was retroceded to Zurich Global, Ltd. Another 23.00 percent was assumed by other third parties.

2 Effective December 31, 2022, Farmers Re Co assumed an 8.50 percent quota share of which 6.75 percent was retroceded to Zurich Global, Ltd. Another 22.50 percent was assumed by other third parties.

3 Under the All Lines agreement, Farmers Re Co catastrophe losses are subject to a maximum amount each year. At December 31, 2023, catastrophe losses were limited to USD 174 million. At December 31, 2022, catastrophe losses were limited to USD 34 million.

Consolidated financial statements (continued)

b) Farmers management fees and other related revenues

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

FGI has historically charged a lower management fee than the amount allowed by policyholders. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 26.7 billion and USD 25.8 billion for the years ended December 31, 2023, and 2022, respectively.

Table 25.2

in USD millions, for the years ended December 31		2023	2022	Change
Farmers Management Services	Fee income	4,529	4,487	1%
	Management fees	3,577	3,425	4%
	Revenues for ancillary services	865	968	(11%)
	Membership fees	51	55	(9%)
	Other revenues	37	39	(5%)
	Fee business expenses	(2,587)	(2,714)	5%
	Expenses for ancillary services	(865)	(968)	11%
	Management and other expenses	(1,722)	(1,746)	1%
	Fee result	1,942	1,773	10%
	Other management related income/expenses	(67)	(59)	(14%)
	Gross management result¹	1,875	1,713	9%
	Managed gross earned premium margin	7.0%	6.6%	0.4 pts

1. Includes the impact of amortization/impairment of intangible assets acquired as part of a business combination.

Consolidated financial statements (continued)

26. Segment information

The ZIC Group pursues a customer-centric strategy, where the Property & Casualty (P&C) and Life businesses are managed on a regional basis. The ZIC Group's reportable segments have been identified on the basis of the businesses operated by the ZIC Group and how these are strategically managed to offer different products and services to specific customer groups. The ZIC Group has identified 13 reportable segments in accordance with IFRS 8 and segment information is presented accordingly as follows:

- P&C regions
- Life regions
- Farmers
- Group Functions and Operations
- Non-Core Businesses

The ZIC Group's reportable segments comprise the following:

P&C and Life regions

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

P&C regions provide a variety of motor, home and commercial products and services for individuals, as well as small and large businesses on both a local and global basis. Products are sold through multiple distribution channels including agents, brokers and bank distribution.

Life regions provide a comprehensive range of life and health insurance products on both an individual and a group basis, including annuities, endowment and term insurance, unit-linked and investment-oriented products, as well as full private health, supplemental health and long-term care insurance. In addition to the agent distribution channel, certain of these products are offered via bank distribution channels.

Farmers, through Farmers Group, Inc. and its subsidiaries (FGI), provides certain non-claims administrative and management services to the Farmers Exchanges, which are owned by their policyholders. This segment also includes all reinsurance assumed from the Farmers Exchanges by the ZIC Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S. In addition, this segment includes the activities of Farmers Life, a writer of individual life insurance business in the U.S.

Group Functions and Operations comprise the ZIC Group's Holding and Financing and Headquarters activities, including central initiatives in Zurich Global Ventures. Certain alternative investment positions not allocated to business operating segments are included within Holding and Financing. In addition, this segment includes operational technical governance activities relating to technology, underwriting, claims, actuarial and pricing.

Non-Core Businesses include insurance and reinsurance businesses that the ZIC Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. Non-core businesses are mainly situated in the U.S., Bermuda and in Europe.

Consolidated financial statements (continued)

Aggregations and additional information

Regional P&C and Life results are further aggregated to show a total P&C and total Life business view.

- P&C – Total
- Life – Total

For additional informational purposes, the ZIC Group also discloses income statement information for P&C Commercial Insurance and P&C Retail and Other Insurance results. Other Insurance include SME, direct market and other program business.

- P&C Commercial Insurance
- P&C Retail and Other Insurance

Business operating profit

The segment information includes business operating profit, which is the ZIC Group's key performance measure. Business operating profit (BOP) indicates the underlying performance of the ZIC Group's businesses, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operating variables. This measure is the basis on which the ZIC Group manages its business units. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and expected credit losses on investments (except investments in hedge funds as at fair value through profit or loss and certain securities held for specific economic hedging purposes) after considering the effect of changes in fair value of underlying items held for direct participating contracts and effects of hyperinflation. Significant items arising from special circumstances, including restructuring charges, legal matters outside the ordinary course of business, amortization of intangible assets acquired as part of a business combination, gains and losses on divestment of businesses and impairments of goodwill are also excluded from BOP.

Consolidated financial statements (continued)

Table 26.1

**Property & Casualty –
Overview by segment**

in USD millions, for the year ended December 31

	Europe, Middle East & Africa		North America	
	2023	2022	2023	2022
Insurance revenue ¹	17,170	15,622	20,607	19,360
Insurance service expense	(15,558)	(13,330)	(16,716)	(16,197)
Net expenses from reinsurance contracts held ¹	(852)	(1,209)	(1,962)	(1,650)
Insurance service result	760	1,083	1,929	1,514
Net investment income on Group investments	736	533	1,094	929
Net capital gains/(losses) and impairments on Group investments	18	29	185	(48)
Net investment result on Group investments	755	563	1,278	881
Re-/Insurance finance income/(expenses)	(222)	(24)	(534)	(320)
Net investment result	533	538	744	561
Fee income	213	388	210	191
Fee business expenses	(162)	(361)	(131)	(124)
Fee result	51	26	79	67
Other revenues	143	231	130	72
Interest expense on debt	(52)	(20)	(14)	(4)
Other expenses	(687)	(595)	(417)	(282)
Restructuring costs and other items not included in BOP	90	55	196	103
Other result	(506)	(329)	(105)	(111)
Income tax (expense)/benefit attributable to policyholders (BOP relevant)	–	–	–	–
Business operating profit before non-controlling interests	839	1,319	2,647	2,030
Non-controlling interests	23	19	–	–
Business operating profit	816	1,300	2,647	2,030

1. Includes add-back and IPZ business.

Consolidated financial statements (continued)

	Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	3,434	3,201	2,812	2,642	781	645	(2,511)	(2,307)	42,293	39,164
	(2,723)	(2,428)	(2,400)	(2,112)	(431)	(371)	1,373	1,130	(36,454)	(33,306)
	(393)	(403)	(194)	(331)	(391)	(512)	1,138	1,177	(2,653)	(2,929)
	319	371	218	199	(42)	(238)	-	-	3,186	2,928
	134	102	224	254	2	17	-	-	2,191	1,836
	(3)	-	17	8	8	(10)	-	-	225	(21)
	131	102	242	262	10	7	-	-	2,416	1,815
	(52)	(26)	(59)	(72)	(20)	2	-	-	(887)	(439)
	80	76	183	190	(11)	10	-	-	1,529	1,376
	53	85	-	-	-	-	-	-	476	664
	(65)	(88)	-	-	-	-	(4)	(1)	(361)	(575)
	(12)	(3)	-	-	-	-	(4)	(1)	115	89
	27	17	19	31	65	30	(11)	(3)	373	378
	(2)	(1)	(4)	(1)	(10)	(10)	11	3	(71)	(33)
	(122)	(136)	(174)	(122)	(45)	(39)	4	1	(1,442)	(1,173)
	6	13	41	16	-	4	-	-	334	190
	(92)	(108)	(118)	(75)	10	(15)	4	1	(807)	(637)
	(2)	-	-	-	-	-	-	-	(2)	-
	293	336	284	313	(42)	(243)	-	-	4,020	3,756
	2	5	102	98	-	-	-	-	127	122
	290	331	181	215	(42)	(243)	-	-	3,893	3,634

Consolidated financial statements (continued)

Table 26.2

**Life – Overview
by segment**

in USD millions, for the years ended December 31

	Europe, Middle East & Africa		North America	
	2023	2022	2023	2022
Insurance revenue	5,912	5,088	194	278
Insurance service expense	(4,410)	(4,230)	(83)	(310)
Net expenses from reinsurance contracts held	(169)	(141)	(25)	(15)
Insurance service result	1,333	717	86	(47)
Net investment income on Group investments	2,164	2,087	59	32
Net capital gains/(losses) and impairments on Group investments	(234)	(4)	26	(30)
Net investment result on Group investments	1,930	2,083	85	2
Net investment income on unit-linked investments	1,090	1,098	–	–
Change in liabilities for investment contracts and other funds	(700)	(676)	–	–
Re-/Insurance finance income/(expenses)	(2,017)	(2,162)	(90)	9
Net investment result	304	342	(5)	11
Fee income	802	572	–	–
Fee business expenses	(594)	(442)	–	–
Fee result	208	130	–	–
Other revenues	115	52	24	8
Interest expense on debt	(16)	(3)	–	–
Other expenses	(402)	(363)	3	(7)
Restructuring costs and other items not included in BOP	10	36	–	5
Other result	(292)	(279)	27	6
Income tax (expense)/benefit attributable to policyholders (BOP relevant)	(137)	207	–	–
Business operating profit before non-controlling interests	1,416	1,118	108	(30)
Non-controlling interests	148	124	–	–
Business operating profit	1,268	994	108	(30)

Consolidated financial statements (continued)

	Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	2,258	2,248	2,637	2,427	30	27	(35)	(26)	10,996	10,042
	(1,919)	(2,052)	(2,047)	(1,973)	(10)	(10)	11	10	(8,458)	(8,566)
	(46)	(65)	(34)	(18)	(7)	(8)	24	16	(256)	(231)
	293	131	557	435	13	9	-	-	2,281	1,245
	224	201	478	662	-	-	(1)	(1)	2,924	2,980
	-	36	63	66	(12)	-	-	-	(156)	68
	224	237	542	728	(12)	-	(1)	(1)	2,768	3,048
	54	83	16	33	-	-	-	-	1,160	1,214
	(33)	(107)	-	-	-	-	-	-	(733)	(782)
	(156)	(131)	(340)	(501)	(1)	-	-	-	(2,603)	(2,785)
	89	83	218	260	(13)	-	(1)	(1)	592	695
	60	3	18	20	-	-	-	-	880	595
	(17)	(5)	(13)	(13)	-	-	-	-	(624)	(461)
	43	(3)	5	6	-	-	-	-	256	134
	15	123	20	11	5	-	-	-	180	194
	(18)	(7)	(3)	(2)	-	-	1	1	(36)	(11)
	(141)	(164)	(149)	(122)	-	(5)	-	-	(689)	(660)
	23	(51)	42	42	-	-	-	-	75	31
	(120)	(99)	(90)	(71)	5	(5)	1	1	(469)	(445)
	(31)	33	(2)	(12)	-	-	-	-	(170)	228
	274	145	687	618	5	4	-	-	2,490	1,856
	(1)	(1)	283	245	-	-	-	-	430	369
	275	146	404	373	5	4	-	-	2,060	1,487

Consolidated financial statements (continued)

Table 26.3

in USD millions, for the years ended December 31

Business operating profit by business

	Property & Casualty		Life	
	2023	2022	2023	2022
Insurance revenue	42,293	39,164	10,996	10,042
Insurance service expense	(36,454)	(33,306)	(8,458)	(8,566)
Net expenses from reinsurance contracts held	(2,653)	(2,929)	(256)	(231)
Insurance service result	3,186	2,928	2,281	1,245
Net investment income on Group investments	2,191	1,836	2,924	2,980
Net capital gains/(losses) and impairments on Group investments	225	(21)	(156)	68
Net investment result on Group investments	2,416	1,815	2,768	3,048
Net investment income on unit-linked investments	-	-	1,160	1,214
Change in liabilities for investment contracts and other funds	-	-	(733)	(782)
Re-/Insurance finance income/(expenses)	(887)	(439)	(2,603)	(2,785)
Net investment result	1,529	1,376	592	695
Fee income	476	664	880	595
Fee business expenses	(361)	(575)	(624)	(461)
Fee result	115	89	256	134
Other revenues	373	378	180	194
Interest expense on debt	(71)	(33)	(36)	(11)
Other expenses	(1,442)	(1,173)	(689)	(660)
Restructuring costs and other items not included in BOP	334	190	75	31
Other result	(807)	(637)	(469)	(445)
Income tax (expense)/benefit attributable to policyholders (BOP relevant)	(2)	-	(170)	228
Business operating profit before non-controlling interests	4,020	3,756	2,490	1,856
Non-controlling interests	127	122	430	369
Business operating profit	3,893	3,634	2,060	1,487

Consolidated financial statements (continued)

	Farmers		Group Functions and Operations		Non-Core Businesses		Eliminations		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	2,553	1,278	293	340	98	112	(135)	(144)	56,099	50,792
	(2,190)	(1,096)	(296)	(320)	(131)	(260)	107	102	(47,422)	(43,446)
	(131)	18	-	(43)	32	24	28	43	(2,981)	(3,119)
	233	201	(2)	(23)	(1)	(124)	-	-	5,696	4,227
	146	160	142	127	145	108	(161)	(81)	5,387	5,129
	7	(8)	142	33	16	(459)	-	-	234	(387)
	153	152	284	159	161	(351)	(161)	(81)	5,622	4,742
	47	124	-	-	-	-	-	-	1,207	1,338
	(1)	(1)	-	-	(8)	(9)	-	-	(742)	(793)
	(16)	(143)	(2)	-	(122)	232	-	-	(3,631)	(3,135)
	182	132	281	159	31	(127)	(161)	(82)	2,456	2,152
	4,529	4,487	-	-	-	-	-	-	5,885	5,746
	(2,586)	(2,714)	(1)	(1)	-	-	(9)	(6)	(3,583)	(3,757)
	1,942	1,773	(1)	(1)	-	-	(9)	(5)	2,303	1,989
	33	(22)	227	153	21	14	(613)	(368)	221	350
	(2)	(4)	(737)	(560)	(58)	(19)	431	182	(473)	(445)
	(242)	(129)	(636)	(641)	(31)	(32)	352	273	(2,688)	(2,361)
	150	135	42	96	-	-	-	-	601	453
	(61)	(19)	(1,103)	(952)	(68)	(37)	170	87	(2,339)	(2,003)
	-	-	-	-	-	-	-	-	(172)	228
	2,296	2,086	(826)	(817)	(37)	(288)	-	-	7,944	6,593
	101	96	-	(1)	-	-	-	-	658	586
	2,195	1,991	(825)	(816)	(37)	(288)	-	-	7,286	6,007

Consolidated financial statements (continued)

Table 26.4

in USD millions, for the years ended December 31

Reconciliation of BOP to net income after income taxes

	Property & Casualty		Life	
	2023	2022	2023	2022
Business operating profit net	3,893	3,634	2,060	1,487
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) and impairments on Group investments	(130)	(87)	(201)	(1,288)
Net capital gains/(losses) on unit-linked investments	–	–	12,426	(12,621)
Change in liabilities for investment contracts and other funds	–	–	(5,637)	6,611
Re-/insurance finance income/(expenses)	–	–	(6,769)	6,972
Net gains/(losses) on divestment of businesses ¹	–	(17)	(116)	(144)
Restructuring costs	(211)	(61)	(34)	(32)
Other adjustments ²	(123)	(129)	(42)	1
Add back:				
Business operating profit attributable to non-controlling interests	127	122	430	369
Net income before shareholders' taxes	3,557	3,462	2,119	1,355
Income tax expense/(benefit) attributable to policyholders (BOP relevant)	2	–	170	(228)
Net income before income taxes	3,559	3,462	2,289	1,127
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

1 In 2023, Life included losses of USD 15 million as Zurich Investments Life S.p.A. agreed to sell part of its life and pension back book, losses of USD 2 million as Inversiones Suizo-Chilena S.A. agreed to sell the annuity book of Zurich Chile Seguros de Vida S.A. and losses of USD 99 million as Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft agreed to sell its legacy traditional life insurance back book (see note 4). In 2022, Property & Casualty included losses of USD 30 million related to the sale of the Joint Stock Company Insurance Company (Zurich Russia) (see note 4) offset by gains of USD 13 million related to a regional divestment. In 2022, Life included losses of USD 121 million as Zurich Investments Life S.p.A. sold part of its life and pension back book and transaction costs of USD 34 million as Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft agreed to sell its legacy traditional life insurance back book (see note 4).

2 Other adjustments in 2023 include charges related to the implementation of IFRS 17, business combination integration costs, charitable contributions and litigation costs. Other adjustments in 2022 include charges related to the implementation of IFRS 17 and business combination integration costs.

Consolidated financial statements (continued)

	Farmers		Group Functions and Operations		Non-Core Businesses		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	2,195	1,991	(825)	(816)	(37)	(288)	7,286	6,007
	(479)	1	(199)	(123)	8	(8)	(1,001)	(1,505)
	182	(376)	-	-	377	(661)	12,984	(13,658)
	-	-	-	-	-	-	(5,637)	6,611
	(180)	368	-	-	(383)	765	(7,332)	8,106
	-	-	12	1	-	-	(104)	(159)
	(75)	(7)	(7)	(9)	-	-	(327)	(109)
	(75)	(128)	(35)	(87)	-	-	(275)	(343)
	101	96	-	(1)	-	-	658	586
	1,669	1,944	(1,055)	(1,034)	(36)	(192)	6,253	5,535
	-	-	-	-	-	-	172	(228)
	1,669	1,944	(1,055)	(1,034)	(36)	(192)	6,425	5,307
							(1,725)	(1,056)
							(172)	241
							(1,552)	(1,297)
							4,700	4,252
							430	403
							4,270	3,849

Consolidated financial statements (continued)

Table 26.5

in USD millions, as of December 31

Assets and liabilities by business

	Property & Casualty		Life	
	2023	2022	2023	2022
Assets				
Cash and cash equivalents	7,175	7,343	4,866	4,163
Total Group investments	68,102	64,463	67,891	65,973
Equity securities	8,445	7,722	4,674	4,391
Debt securities	49,527	45,944	47,399	44,996
Investment property	5,047	5,275	8,454	9,257
Mortgage loans at amortized cost	964	886	3,360	4,093
Other assets at amortized cost	4,116	4,631	3,979	3,214
Investments in associates and joint ventures	3	5	26	21
Investments for unit-linked contracts	–	–	137,249	119,003
Total investments	68,102	64,463	205,140	184,976
Insurance contract assets	357	380	223	296
Reinsurance contract assets	13,569	12,632	3,197	3,224
Goodwill	1,855	1,760	1,412	1,413
Other intangible assets	1,453	1,424	1,597	1,590
Other assets ¹	7,207	6,983	27,843	25,377
Total assets (after cons. of investments in subsidiaries)	99,718	94,984	244,277	221,040
Liabilities				
Liabilities for investment contracts	–	–	60,115	50,391
Insurance contract liabilities	63,252	59,397	140,897	131,568
Reinsurance contract liabilities	19	26	347	340
Other liabilities ²	11,848	10,993	30,729	27,632
Senior debt	1,163	954	402	434
Subordinated debt	917	868	611	578
Total liabilities	77,199	72,238	233,102	210,944
Equity				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	312	336	58	450

1. As of December 31, 2023, the ZIC Group had USD 23.8 billion of assets held for sale based on agreements signed to sell portfolios of Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft, Zurich Chile Seguros de Vida S.A., Zurich Insurance plc (Spain Medical Malpractice) and Zurich Insurance Company Ltd, UK Branch (see note 4). In addition, assets held for sale include land and buildings formerly classified as investment property and held for own use amounted to USD 2 million. In 2022, the ZIC Group had USD 21.1 billion of assets held for sale portfolios of Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft, Zurich Insurance plc and Zurich Insurance plc (Spain Medical Malpractice) (see note 4). In addition, assets held for sale include land and buildings formerly classified as investment property and held for own use amounting to USD 39 million.

2. As of December 31, 2023, the ZIC Group had USD 23.9 billion of liabilities held for sale based on agreements signed to sell portfolios of Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft, Zurich Chile Seguros de Vida S.A., Zurich Insurance plc and Zurich Insurance Company Ltd (UK Branch) (see note 4). In 2022, the ZIC Group had USD 20.6 billion of liabilities held for sale based on agreements signed to sell portfolios of Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft and Zurich Insurance plc (Spain Medical Malpractice and UK Employers' Liability portfolios) (see note 4).

Consolidated financial statements (continued)

	Farmers		Group Functions and Operations		Non-Core Businesses		Eliminations		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	2,633	939	3,137	2,924	390	368	(10,927)	(8,190)	7,273	7,547
	1,172	4,670	9,425	11,856	4,162	4,348	(8,552)	(8,250)	142,200	143,061
	29	348	1,242	1,600	61	72	-	-	14,452	14,133
	1,023	3,624	4,149	5,266	3,826	3,911	-	-	105,924	103,740
	113	174	-	-	70	92	-	-	13,684	14,798
	-	518	-	-	-	-	-	-	4,324	5,497
	7	7	3,987	4,980	145	219	(8,552)	(8,250)	3,682	4,801
	-	-	46	11	60	55	-	-	135	92
	1,245	1,035	-	-	2,650	2,423	-	-	141,144	122,461
	2,417	5,706	9,425	11,856	6,812	6,772	(8,552)	(8,250)	283,344	265,522
	-	-	-	-	-	-	-	-	580	676
	3,094	1,609	-	134	2,115	2,229	(33)	51	21,942	19,878
	1,264	1,237	10	10	-	-	-	-	4,541	4,420
	1,232	778	55	43	-	-	-	-	4,337	3,835
	3,591	3,298	2,921	1,982	2,226	2,064	(3,205)	(3,239)	40,584	36,465
	14,231	13,567	15,549	16,950	11,543	11,433	(22,716)	(19,628)	362,601	338,345
	42	43	-	-	113	123	-	-	60,270	50,557
	5,355	5,254	3	45	7,488	7,517	(33)	56	216,962	203,837
	138	-	-	-	-	-	-	-	504	367
	1,433	1,865	11,188	9,857	3,100	2,951	(14,247)	(11,543)	44,052	41,755
	-	-	8,504	9,201	292	281	(5,159)	(5,793)	5,202	5,077
	760	-	9,548	9,800	-	-	(3,277)	(2,346)	8,559	8,899
	7,728	7,162	29,243	28,902	10,993	10,872	(22,716)	(19,626)	335,549	310,491
									25,329	26,304
									1,724	1,549
									27,052	27,853
									362,601	338,345
	664	122	79	35	-	-	(61)	(1)	1,051	941

Consolidated financial statements (continued)

Table 26.6

Property & Casualty – Commercial and Retail Insurance overview ¹	in USD millions, for the years ended December 31			
	Commercial Insurance		Retail and Other Insurance	
	2023	2022	2023	2022
Insurance revenue	29,475	27,612	14,550	13,211
Insurance service expense	(23,664)	(22,038)	(13,716)	(12,009)
Net expenses from reinsurance contracts held	(3,087)	(3,275)	(330)	(335)
Insurance service result	2,724	2,299	503	867
Net investment income on Group investments	1,501	1,267	690	552
Net capital gains/(losses) and impairments on Group investments	258	(12)	(41)	–
Net investment result on Group investments	1,759	1,256	649	552
Re-/insurance finance income/(expenses)	(718)	(408)	(149)	(34)
Net investment result	1,041	848	500	518
Fee result	94	64	22	17
Other result	(286)	(149)	(534)	(465)
Income tax (expense)/benefit attributable to policyholders (BOP relevant)	–	–	(2)	–
Business operating profit before non-controlling interests	3,574	3,062	489	937
Non-controlling interests	–	–	127	122
Business operating profit	3,573	3,062	362	815

1. Commercial and Retail Insurance overview exclude Group Reinsurance and Eliminations.

Consolidated financial statements (continued)

Table 26.7

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

in USD millions

	Total		of which		of which		Property, equipment and	
	for the years ended		Commercial Insurance		Retail and Other		intangible assets	
	December 31		for the years ended		for the years ended		as of December 31	
	2023	2022	2023	2022	2023	2022	2023	2022
Europe								
Austria	643	611					116	100
France	402	364					13	14
Germany	2,943	2,627					570	585
Italy	1,671	1,528					15	23
Ireland	655	600					62	68
Portugal	385	354					16	14
Spain	1,563	1,397					268	263
Switzerland	2,645	2,570					762	763
United Kingdom	4,012	3,561					119	99
Rest of Europe	994	835					166	43
Middle East & Africa								
Middle East	150	139					1	–
Europe, Middle East & Africa	16,064	14,585	5,752	5,277	10,313	9,308	2,107	1,973
North America								
Canada	1,022	1,075					36	25
United States	19,065	17,784					1,065	1,098
North America	20,088	18,859	20,088	18,859	–	–	1,101	1,123
Asia-Pacific								
Australia	1,192	1,056					741	760
Hong Kong	363	324					45	29
Japan	807	843					10	14
Malaysia	410	375					49	53
Rest of Asia-Pacific	574	506					251	244
Asia-Pacific	3,346	3,104	965	954	2,381	2,150	1,096	1,101
Latin America								
Argentina	326	513					163	253
Brazil	1,062	940					110	102
Chile	424	351					14	15
Mexico	767	632					148	138
Rest of Latin America	232	210					51	44
Latin America	2,812	2,646	948	886	1,864	1,760	487	551
Group Reinsurance	8	7	–	–	8	7	1	1
Total	42,318	39,201	27,752	25,975	14,567	13,226	4,793	4,749

Consolidated financial statements (continued)

Table 26.8

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

in USD millions

	Insurance Revenue from external customer		Property/equipment and intangible assets	
	for the years ended December 31		as of December 31	
	2023	2022	2023	2022
Europe, Middle East & Africa				
Austria	47	46	6	6
Germany	1,107	1,088	7	–
Italy	273	326	366	380
Ireland ¹	347	346	85	88
Spain	610	497	953	923
Switzerland	1,320	1,269	3	3
United Kingdom	1,460	999	94	90
Zurich International Life ²	627	470	28	26
Rest of Europe, Middle East & Africa	117	41	3	1
Europe, Middle East & Africa	5,907	5,083	1,545	1,516
North America				
United States	192	278	–	–
North America	192	278	–	–
Asia Pacific				
Australia	1,719	1,716	1,144	1,142
Hong Kong	54	57	2	–
Indonesia	27	26	1	1
Japan	264	253	7	9
Malaysia	195	199	33	36
Asia Pacific	2,259	2,251	1,186	1,189
Latin America				
Argentina	102	155	27	43
Brazil	1,411	1,347	198	198
Chile	502	417	218	238
Mexico	520	428	91	85
Uruguay	65	53	3	3
Colombia	37	28	–	–
Latin America	2,637	2,427	537	567
Total	10,996	10,039	3,268	3,272

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

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

Consolidated financial statements (continued)

27. Interest in subsidiaries

Significant subsidiaries are defined as those subsidiaries which either individually or in aggregate, contribute significantly to insurance revenue, shareholders' equity, total assets or net income attributable to shareholders.

Table 27.1

as of December 31, 2023

Significant subsidiaries – non-listed	Registered office	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
Australia					
Cover-More Group Limited	Sydney	100	100	AUD	1,014.17
Zurich Australia Limited	Sydney	100	100	AUD	543.52
Zurich Australian Insurance Limited	Sydney	100	100	AUD	6.62
Zurich Financial Services Australia Limited	Sydney	100	100	AUD	2,983.02
Austria					
Zürich Versicherungs-Aktiengesellschaft	Vienna	99.98	99.98	EUR	9.75
Brazil					
Zurich Santander Brasil Seguros e Previdência S.A. ¹	Sao Paulo	51	51	BRL	2,509.18
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	100	100	BRL	2,316.01
Zurich Resseguradora Brasil S.A.	Sao Paulo	100	100	BRL	124.00
Zurich Santander Brasil Seguros S.A.	Sao Paulo	100	100	BRL	138.96
Chile					
Chilena Consolidada Seguros de Vida S.A.	Santiago	99.23	99.23	CLP	256,260.35
Zurich Santander Seguros de Vida Chile S.A. ¹	Santiago	51	51	CLP	21,707.53
Germany					
Deutscher Herold Aktiengesellschaft	Köln	100	100	EUR	18.43
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt	100	100	EUR	152.88
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Köln	100	100	EUR	48.00
Zurich Immobilien (Deutschland) AG & Co. KG	Köln	100	100	EUR	0.001
Zurich Life Legacy Versicherung AG (Deutschland)	Köln	100	100	EUR	54.00
Indonesia					
PT Zurich Asuransi Indonesia Tbk	Jakarta Selatan	80	80	IDR	3,101,846.0
Ireland					
Zurich Life Assurance plc	Dublin	100	100	EUR	17.53
Zurich Holding Ireland Limited	Dublin	100	100	EUR	0.10
Zurich Insurance plc	Dublin	100	100	EUR	8.16
Italy					
Zurich Investments Life S.p.A.	Milan	100	100	EUR	207.93
Zurich Italy Bank S.p.A.	Milan	100	100	EUR	49.00
Japan					
Zurich Life Insurance Japan Company Ltd	Nakano-ku	100	100	JPN	7,316.31
Luxembourg					
REX-ZDHL S.C.S. SICAV-SIF	Leudelange	100	100	EUR	2,229.78
Malaysia					
Zurich Life Insurance Malaysia Berhad	Kuala Lumpur	100	100	MYR	579.00
Zurich Holdings Malaysia Berhad	Kuala Lumpur	100	100	MYR	768.44
Mexico					
Zurich Santander Seguros México, S.A. ¹	Mexico City	51	51	MXN	383.02

Consolidated financial statements (continued)

Table 27.1

as of December 31, 2023

Significant subsidiaries – non-listed (continued)	Registered office	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
				EUR	CHF
Spain					
Bansabadell Pensiones, E.G.F.P, S.A.	Madrid	50	50	EUR	7.81
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Madrid	50	50	EUR	10.00
Bansabadell Vida S.A. de Seguros y Reaseguros	Madrid	50	50	EUR	43.86
Zurich Latin America Holding S.L. – Sociedad Unipersonal	Barcelona	100	100	EUR	43.00
Zurich Santander Holding (Spain), S.L. ¹	Boadilla del Monte	51	51	EUR	942.77
Zurich Santander Holding Dos (Spain), S.L. ¹	Boadilla del Monte	51	51	EUR	94.28
Zurich Santander Insurance America, S.L.	Boadilla del Monte	51	51	EUR	40.00
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	100	100	EUR	56.45
Switzerland					
Zurich Finance Company Ltd	Zurich	100	100	CHF	0.20
Zurich Life Insurance Company Ltd	Zurich	100	100	CHF	60.00
Zurich Reinsurance Company Ltd	Zurich	100	100	CHF	11.68
United Kingdom					
Allied Zurich Holdings Limited	St. Hélier, Jersey	100	100	GBP	597.69
Zurich Assurance Ltd	Swindon, England	100	100	GBP	356.24
Zurich Employment Services Limited	Swindon, England	100	100	GBP	378.91
Zurich Financial Services (UKISA) Limited	Swindon, England	100	100	GBP	1,460.94
Zurich Holdings (UK) Limited	Fareham, England	100	100	GBP	318.30
Zurich International Life Limited	Douglas, Isle of Man	100	100	GBP	123.40
Zurich UK General Services Limited	Fareham, England	100	100	GBP	470.88
United States of America					
Farmers Group, Inc. ²	Carson City, NV	87.90	95.38	USD	0.001
Farmers Reinsurance Company ²	Woodland Hills, CA	87.90	95.38	USD	5.00
Farmers New World Life Insurance Company ²	Bellevue, WA	87.90	95.38	USD	–
Zurich American Insurance Company	New York, NY	100	100	USD	5.00
Zurich American Life Insurance Company	Schaumburg, IL	100	100	USD	2.50
Zurich Holding Company of America, Inc. ³	Wilmington, DE	100	100	USD	–
Centre Group Holdings (U.S.) Limited	Wilmington, DE	100	100	USD	0.000001
ZCM (U.S.) Limited	Wilmington, DE	100	100	USD	0.000001
Zurich Structured Finance, Inc.	Wilmington, DE	100	100	USD	0.012000

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

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

³ Shares have no nominal value in accordance with the company's articles of incorporation and local legislation.

Consolidated financial statements (continued)

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

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

For details on the Group's capital restrictions, see the capital management section in the 2023 Risk Review, which forms an integral part of the consolidated financial statements.

Table 27.2 shows the summarized financial information for each subsidiary that has non-controlling interests that are material to the ZIC Group. Farmers Group, Inc and its subsidiaries are owned 95.38 percent by Zurich Insurance Company Ltd and in total 100 percent by the Group. Therefore, they are not separately disclosed.

Table 27.2

Non-controlling interests

in USD millions, as of December 31

	Zurich Santander Insurance America, S.L. and its subsidiaries		Bansabadell insurance entities	
	2023	2022	2023	2022
Non-controlling interests percentage	49%	49%	50%	50%
Total Investments	20,680	16,105	9,881	8,508
Other assets	1,325	1,158	1,733	1,587
Insurance and investment contract liabilities	20,048	15,540	9,431	8,330
Other liabilities	780	643	701	551
Net assets	1,177	1,080	1,481	1,214
Non-controlling interests in net assets	577	529	741	607
Insurance revenue	2,465	2,275	620	503
Net income after taxes	483	424	255	247
Other comprehensive income	86	47	25	(278)
Total comprehensive income	569	471	280	(31)
Non-controlling interests in total comprehensive income	279	231	140	(16)
Dividends paid to non-controlling interests	224	171	12	73

Consolidated financial statements (continued)

28. Events after the balance sheet date

In January 2024, the ZIC Group was informed that Viridium Group will not complete the purchase of Zurich Life Legacy Versicherung AG (Deutschland) in Germany as planned. Zurich is committed to finding a solution for this portfolio and will explore options in due course and as such does not see any change to the current classification of the assets and liabilities related to the portfolio as held for sale for 2023. Any potential subsequent discontinuation of held-for-sale treatment is not expected to have a material effect on ZIC Group's financial position or performance.

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Report of the statutory auditor



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To the General Meeting of
Zurich Insurance Company Ltd, Zurich

Zurich, March 13, 2024

Report of the statutory auditor

Report on the audit of the consolidated financial statements



Opinion

We have audited the consolidated financial statements of Zurich Insurance Company Ltd and its subsidiaries (the ZIC Group), which comprise the consolidated balance sheet as of December 31, 2023, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and Notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements (pages 33 to 170) and the audited sections of the risk review (pages 3 to 23) give a true and fair view of the consolidated financial position of the ZIC Group as of December 31, 2023, as well as of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards and comply with Swiss law.



Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISA) and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

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

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



Key audit matters

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

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

Report of the statutory auditor (continued)



2

Initial application of IFRS 17 relating to the building block and variable fee measurement approaches (altogether Initial Application)

Area of focus

On January 1, 2023, the ZIC Group adopted IFRS 17 “Insurance Contracts”, which replaced IFRS 4 “Insurance Contracts”. As described in the Notes to the consolidated financial statements, the ZIC Group applied IFRS 17 to insurance contracts issued and reinsurance contracts held retrospectively from January 1, 2022, in accordance with the accounting policies outlined in Note 3. The 2022 comparative figures as presented in these consolidated financial statements have been restated for the adoption of IFRS 17.

On transition to the new standard, shareholders equity as of January 1, 2022, decreased by USD 8.8 billion, resulting from a decrease of USD 14.4 billion relating to the recognition of the Contractual Service Margin (CSM) as part of the insurance contract assets and liabilities and an increase of USD 5.6 billion relating to a combination of the derecognition of intangibles, other valuation differences and deferred tax.

Auditing the ZIC Group’s Initial Application was complex, as it related to the measurement of the ZIC Group’s insurance contract liabilities, including the transition CSM. This required the application of significant auditor judgment due to the complexity of the models, accounting interpretations made and the development of fair value assumptions used in the determination of the transition CSM. The audit effort involved professionals with specialized skills and knowledge to assist in evaluating the audit evidence obtained.

Accordingly, we have identified the Initial Application as a key audit matter.

The critical accounting judgments and the impact related to the Initial Application are disclosed in Notes 2 and 7 to the consolidated financial statements.

Report of the statutory auditor (continued)



3

Our audit response

We obtained an understanding, evaluated the design and tested the operating effectiveness of selected key controls over the Initial Application. The controls we tested included controls related to management's selection of accounting policies and the related determination of the transition approach, as well as controls related to the development of fair value and actuarial models, the integrity of data used and the implementation of new systems and models.

To test the Initial Application, our audit procedures were executed with the assistance of our actuarial specialists and included, amongst others:

- Evaluating the ZIC Group's accounting policies and actuarial methodology to assess compliance with IFRS 17.
- Assessing the analyses of contracts prepared by the ZIC Group for the purpose of the classification according to the different measurement approaches (either the building block approach (BBA), variable fee approach (VFA) or premium allocation approach (PAA)) and tested such analyses for compliance with IFRS 17 and to the underlying contracts on a sample basis.
- In respect of the transition approaches (Fully retrospective, Modified retrospective or Fair Value approach) applied in the calculation of the CSM, evaluating the ZIC Group's assessment on the availability of reasonable and supportable historic information required by the full retrospective approach, and the appropriateness of simplifications, under the modified retrospective approach, or fair value approach applied.
- Testing of the completeness and accuracy of data used in the calculation of the transition balances to underlying source systems on a sample basis.
- Assessing the appropriateness and consistency of key assumptions used in the calculation of the transition balances with those used in IFRS 4 for the corresponding period, publicly available market data, our knowledge of the products and the requirements of IFRS 17.
- Testing the methodology and calculation of the IFRS 17 insurance contract liabilities and transition CSM, either through review of the calculation logic within the newly implemented models, or through calculating an independent estimate of the insurance contract liability for a sample of insurance contracts and comparing the results to the ZIC Group's results.

Finally, we assessed the adequacy of the disclosures in the Notes to the consolidated financial statements.

Report of the statutory auditor (continued)



4

Estimation of the expected future cash outflows relating to loss and loss adjustment expense incurred but not reported (IBNR) measured under the Premium Allocation Approach (PAA)

Area of focus

As described in the Notes to the consolidated financial statements, the liability for incurred claims (LIC) reflects a current, explicit, unbiased and probability-weighted estimate of the present value of the expected future cash outflows (best estimate), and an explicit risk adjustment for non-financial risk.

The estimation of the IBNR is a complex process, applying actuarial and statistical methods over historical data and patterns requiring the use of estimates and judgments. It requires the use of complex formulas and computational tools that may be incorrectly configured, and for which inaccurate or incomplete input data may be used.

This is specifically the case for lines of business that are considered longer-tail, such as worker's compensation, general and professional liability, and other specialty lines where certain longer-term assumptions are required as part of the projection techniques. These projection techniques also consider emerging risks, which can have a significant impact on the determination of the ultimate settlement costs, but where available experience is limited, including uncertainty around claims litigation, timeliness of claims reporting, and inflation.

Additionally, the expected future cash outflows relating to the IBNR for catastrophes which are usually of less frequency but higher severity, are more difficult to estimate and their calculation require the use of expert judgment, especially for events taking place close to period end.

Accordingly, we have identified the IBNR as a key audit matter.

The accounting policies and critical accounting judgments and estimates regarding the IBNR are described in Note 3, with additional information presented in Note 7 to the consolidated financial statements.

Report of the statutory auditor (continued)



5

Our audit response

We obtained an understanding, evaluated the design, and tested the operating effectiveness of a sample of controls over methods selection, completeness and accuracy of the underlying data, relevant information technology and assumption setting used by management related to the estimation of the IBNR.

To test the IBNR, our audit procedures were executed with the assistance of our actuarial specialists and included, for certain lines of business selected based on risk:

- Testing the completeness and accuracy of data utilized by the ZIC Group in estimating the IBNR by reconciling such amounts to the underlying accounting records and performing data-enabled audit procedures and claims data plausibility checks on selected samples.
- Evaluating the actuarial methods and assessing key assumptions used within projection techniques by the ZIC Group via quantitative and qualitative analysis.
- Comparing the IBNR to our independently developed range of IBNR.
- Evaluating the appropriateness of any significant adjustments made by management relating to the valuation of the IBNR.

Finally, we assessed the adequacy of the disclosures in the Notes to the consolidated financial statements.

Report of the statutory auditor (continued)



6

Estimation of the present value of future cash flows (PVFCF) measured under the Building Block Approach (BBA) and Variable Fee Approach (VFA)

Area of focus

At initial recognition, the ZIC Group measures a group of insurance contracts under BBA and VFA as the total of:

- Fulfilment cash flows, which comprise of:
 - o (i) estimates of future cash flows, adjusted to reflect the time value of money and financial risks.
 - o (ii) risk adjustment for non-financial risk.
- Contractual service margin (CSM), which represents the unearned profit the ZIC Group will recognize as it provides service under the related insurance contracts.

PVFCF are associated with significant uncertainties requiring the use of expert judgment within complex actuarial models relying on subjective assumptions in relation to future events. Key assumptions include mortality, lapse and expense assumptions as well as modelled future decisions of management and of policyholders. Moreover, because of the long duration of many life insurance products, relatively small changes in key assumptions may have a significant impact on PVFCF.

The determination of PVFCF requires the use of complex formulas as well as the construction of models and other computational tools that may be incorrectly designed or configured, and for which inadequate assumptions and/or incomplete or inaccurate input data may be used.

Accordingly, we have identified PVFCF within the recorded liability for remaining coverage as a key audit matter.

The accounting policies and critical accounting judgments and estimates regarding PVFCF are described in Notes 3, with additional information presented in Note 7 to the consolidated financial statements.

Report of the statutory auditor (continued)



7

Our audit response

We obtained an understanding, evaluated the design, and tested the operating effectiveness of a sample of controls over methods selection, completeness and accuracy of the underlying data, relevant information technology, assumption setting, and the models used by management related to the estimation of PVFCF.

To test PVFCF, our audit procedures were executed with the assistance of our actuarial specialists and included, for certain lines of business selected based on risk:

- Testing of the completeness and accuracy of data, including in-force policyholder data as utilized by the ZIC Group to value estimated future cash flows by reconciling such amounts to the underlying accounting records.
- Assessing key best estimate assumptions used in selected actuarial models via quantitative and qualitative analysis, including considerations of their reasonableness based on experience studies, our knowledge of the ZIC Group and local markets, products offered, publicly available market and macroeconomic data.
- Reviewing a sample of experience studies supporting specific assumptions.
- Challenging the nature, timing and completeness of changes in key assumptions, models and methods and assessing whether individual changes were errors or refinements of estimates.
- Testing the models used through review of the calculation logic on a sample basis as well as through performing independent calculations of PVFCF and comparing the results to those of the ZIC Group.
- Performing analytical review procedures, including period-to-period analysis of changes in PVFCF and assessing whether such changes appropriately reflect current period facts and circumstances.

Finally, we assessed the adequacy of the disclosures in the Notes to the consolidated financial statements.

Report of the statutory auditor (continued)



8

Recoverability of goodwill and attorney-in-fact contracts (AIF)

Area of focus

Management tests goodwill and AIF for impairment annually, or more frequently if there are indications that the amount of goodwill and AIF is not recoverable.

Estimation of the recoverable amount requires management to use complex models, expert judgment, and is based on subjective assumptions, particularly in respect of projections of future income based on prospective business plans, perpetual growth rates, and discount rates.

Accordingly, we deem the measurement of the recoverable amount of goodwill and the AIF contract intangibles to be a key audit matter.

The accounting policies and critical accounting judgments and estimates related to goodwill and AIF are disclosed in Note 3, with additional information presented in Note 13 to the consolidated financial statements.

Our audit response

We obtained an understanding and evaluated the design of controls over the model used and centrally provided key assumptions.

To test the recoverability of goodwill and AIF, our audit procedures included:

- Assessing, with assistance of our valuation specialists, the valuation methods used and the reasonableness of the key assumptions within these models, i.e., discount rates, perpetual growth rates and tax rate.
- Evaluating whether the goodwill and AIF allocation to CGUs as identified by management is supportable.
- Performing risk-based substantive procedures for selected CGUs regarding key assumptions, including evaluating the:
 - o consistency of projected future cash flows with management's most recent estimates, including those used in the ZIC Group's planning process;
 - o assumptions made with respect to projected future cash flows and whether they are reasonable in terms of the applicable CGU's economic and financial outlook, including the impacts of the current macro-economic environment;
 - o comparison of actual results versus historical projected financial information;
 - o completeness and accuracy of data used by management to project future cash flows; and
 - o sensitivity analysis performed by management.
- Analyzing the recoverable amounts against market capitalization to corroborate fair value estimates.

Finally, we assessed the adequacy of the disclosures in the Notes to the consolidated financial statements.

Report of the statutory auditor (continued)



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Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Board of Directors' responsibilities for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements, which give a true and fair view in accordance with IFRS Accounting Standards and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the ZIC Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the ZIC Group or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISA and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on EXPERTsuisse's website at: <https://www.expertsuisse.ch/en/audit-report>. This description forms an integral part of our report.

Report of the statutory auditor (continued)



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Report on other legal and regulatory requirements



In accordance with Art. 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of the consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Isabelle Santenac
Licensed audit expert
(Auditor in charge)

Thomas Fiepke
Certified Public Accountant (U.S.)

Financial statements – statutory accounts

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Financial statements – statutory accounts (continued)

Board of Directors and auditors, as of December 31, 2023

Board of Directors and auditors	Residence	Expiration of current term of office
Board of Directors		
Michel M. Liès, Chairman	Zollikon, Switzerland	2024
Christoph Franz, Vice Chairman	Zug, Switzerland	2024
Joan Amble	Darien, CT, USA	2024
Catherine Bessant	Charlotte, NC, USA	2024
Dame Alison Carnwath	Devon, United Kingdom	2024
Michael Halbherr	Andermatt, Switzerland	2024
Sabine Keller-Busse	Zumikon, Switzerland	2024
Monica Mächler	Pfäffikon SZ, Switzerland	2024
Kishore Mahbubani	Singapore, Singapore	2024
Peter Maurer	Bern, Switzerland	2024
Jasmin Staiblin	Pfäffikon SZ, Switzerland	2024
Barry Stowe	Nashville, TN, USA	2024
Kathrin Hoppe, Company Secretary		
Auditors		
Ernst & Young Ltd		

Financial statements – statutory accounts (continued)

Management report

Zurich Insurance Company Ltd (ZIC or the Company) is a corporation domiciled in Zurich, Switzerland, and was incorporated on November 1, 1872. The Company is the principal operating insurance company of the Zurich Insurance Group (the Group). Besides as being an insurance company, it also acts as the holding company of all subsidiaries and other affiliates of the Group except for the Group's property loans and banking activities.

The results of ZIC include the direct Property and Casualty (P&C) insurance business in Switzerland with its largest branches located in the United Kingdom, Canada, Japan and Hong Kong as well as assumed reinsurance business from its subsidiaries and the Farmers Exchanges.¹

On January 1, 2023, the UK business of the Company's subsidiary in Ireland, Zurich Insurance plc UK branch (ZIP UK), has been transferred to ZIC. This ZIC UK branch includes direct as well as assumed business with third parties and had a material impact on the Company's result in 2023. Further, the Whole Account Quota Share (WAQS) reinsurance treaty for the accident year 2023 with Zurich American Insurance Company (ZAIC) was novated to ZIC, which had a material impact on the Company's result in 2023 too. This portfolio was earlier ceded to the Group's Bermuda based entity Zurich Global, Ltd.

ZIC reported a net income after taxes (NIAT) of CHF 2.1 billion in 2023, a 13 percent decrease compared to 2022. Main reason for this decrease was the negative impact of the novation of the new WAQS reinsurance treaty with ZAIC as well as of the inclusion of the new UK branch. The overall NIAT decrease of CHF 301 million was mainly driven by higher net insurance benefits and losses of CHF 2,704 million, partially offset by higher net earned premiums and policy fees of CHF 1,809 million.

Total gross written premiums and policy fees increased by CHF 5.6 billion or 33 percent to CHF 22.5 billion for the year ended December 31, 2023. Direct gross written premiums and policy fees increased by CHF 3.8 billion to CHF 9.3 billion mainly due to the transfer of the ZIP UK business and to the ongoing growth in Switzerland. Assumed gross written premiums and policy fees increased by CHF 1.8 billion to CHF 13.2 billion mainly due to the new additional WAQS treaty with ZAIC and an ongoing increase in the Group internal reinsurance volume in 2023.

Net insurance reserves increased by CHF 4,002 million compared with the year ended December 31, 2022, mainly due to the transfer of the ZIP UK business and the increase in the Group internal reinsurance business in 2023. This increase was partially offset by the release of insurance reserves reflecting the termination of the WAQS reinsurance treaty for the accident years prior to 2018 with ZAIC (decrease of CHF 701 million) which is in run-off since 2018 as well as by the recapture of the life reinsurance business with Farmers New World Life Insurance Company on August 1, 2023, with a decrease of net insurance reserves of CHF 851 million.

Net investment result increased by CHF 503 million to CHF 3.3 billion, mainly due to higher net investment gains following the overall improvement in the financial markets during 2023, partially offset by the decrease in the value of the single investor funds mainly due to the negative impact of the foreign currency translation on debt securities.

Shareholder's equity decreased by CHF 3.1 billion to CHF 21.3 billion for the year ended December 31, 2023, from CHF 24.4 billion for the year ended December 31, 2022. This decrease reflects the dividend payment to Zurich Insurance Group Ltd of CHF 5.2 billion in 2023, which was approved at the Annual General Meeting on April 6, 2023. The dividend outflow was offset by the net income after taxes of CHF 2.1 billion.

On January 1, 2024, the revised Insurance Supervision Act (ISA) and the revised Insurance Supervision Ordinance (ISO) have entered into force. Following this revision, the requirements resulting from the delegation provisions will now be implemented at Financial Market Supervisory Authority FINMA (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 any development of regulatory and legal requirements.

ZIC is fully integrated into the Group-wide risk assessment process of the Group. This risk process also addresses the nature and scope of business activities and the specific risks of ZIC. For more information, see the Risk review on [pages 3 to 23](#) of this Annual Report.

¹ The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Zurich Insurance Group, provides certain non-claims services and ancillary services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

Financial statements – statutory accounts (continued)

On November 2, 2023, the Company entered into a strategic alliance with Kotak Mahindra Bank Limited, through the proposed acquisition of a 51 percent stake in Kotak Mahindra General Insurance Company Limited for USD 488 million, through a combination of fresh growth capital and share purchase. Furthermore, the Company will acquire an additional stake of up to 19 percent over time. The transaction is subject to regulatory approvals and is expected to complete in the first half of 2024.

Several of the Company's subsidiaries as well as other insurance companies are involved in litigation relating to the extent to which COVID-19 was intended to be covered under Property Damage Business Interruption policies. A limited number of class actions have also been initiated. Most of the litigation has been filed in United States courts and in addition to test cases in the UK. The final determination of outcomes may take many years as appeals are pursued by the plaintiffs and insurers, including the Company or its subsidiaries.

In July and August 2023, the administrators of Greensill Bank AG (GBAG) served two Particulars of Claim on Zurich Insurance plc (ZIP) issued in the London Commercial Court, alleging non-payment of claims presented under a trade credit policy written by ZIP. Subsequently, the Company was substituted in the actions for ZIP. The Company's defense to both actions was filed on January 26, 2024. In the defense, the Company also filed counterclaims against GBAG and other third parties. The Company believes that it has meritorious defenses to the policy and the claims raised and will vigorously contest the actions.

The Company 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, the Company's exposure to Russia and Ukraine is also immaterial.

Financial statements – statutory accounts (continued)

Income statements

Income statements	in CHF millions, for the years ended December 31	Notes	2023	2022
	Gross written premiums and policy fees		22,464	16,847
	Premiums ceded to reinsurers		(7,550)	(4,136)
	Net written premiums and policy fees		14,914	12,711
	Change in reserves for unearned premiums, gross		(1,982)	(525)
	Change in reserves for unearned premiums, ceded		1,196	133
	Net earned premiums and policy fees		14,128	12,319
	Other income		1,247	1,127
	Total technical income		15,375	13,446
	Claims paid, annuities and loss adjustment expenses, gross		(4,291)	(9,925)
	Claims paid, annuities and loss adjustment expenses, ceded		(667)	2,046
	Change in insurance reserves, gross	14	(10,118)	770
	Change in insurance reserves, ceded	14	4,735	(528)
	Insurance benefits and losses, net of reinsurance		(10,341)	(7,637)
	Underwriting & policy acquisition costs, gross		(4,785)	(3,576)
	Underwriting & policy acquisition costs, ceded		1,396	611
	Underwriting & policy acquisition costs, net of reinsurance		(3,390)	(2,965)
	Administrative and other expense	4	(2,024)	(2,068)
	Total technical expense		(15,755)	(12,670)
	Investment income	5	4,478	4,174
	Investment expenses	6	(1,165)	(1,364)
	Net investment result		3,314	2,810
	Other financial income		417	808
	Other financial expense		(196)	(1,352)
	Operating result		3,155	3,042
	Interest expense on debt and other interest expense		(888)	(584)
	Net income before taxes		2,267	2,457
	Direct tax expenses		(215)	(105)
	Net income after taxes		2,052	2,353

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

Financial statements – statutory accounts (continued)

Balance sheets

Assets	in CHF millions, as of December 31	Notes	2023	2022
Investments				
Real estate			1,110	1,054
Investments in subsidiaries and associates		7	36,543	36,247
Debt securities			21,601	20,401
Other loans			4,404	7,510
Mortgage loans			755	755
Equity securities			3,878	3,842
Mixed investments funds			74	73
Other investments		8	4,069	5,056
Total investments			72,433	74,938
Other assets				
Derivative assets			280	187
Deposits made under assumed reinsurance contracts			2,331	2,209
Cash and cash equivalents			2,086	2,101
Insurance reserves, ceded		13	11,786	6,543
Fixed assets		9	74	82
Deferred acquisition costs, net of reinsurance		10	1,996	2,144
Intangible assets		11	98	99
Receivables from insurance and reinsurance business		12	3,459	1,924
Other receivables			2,594	1,681
Other assets			14	17
Accrued assets			1,091	1,017
Total other assets			25,809	18,005
Total assets			98,241	92,943

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

Financial statements – statutory accounts (continued)

Liabilities and shareholder's equity	in CHF millions, as of December 31	Notes	2023	2022
Liabilities				
Insurance reserves, gross		13	45,562	36,316
Provisions		16	1,399	1,267
Senior and other debt		17	10,943	11,492
Derivative liabilities			629	389
Deposits received under ceded reinsurance contracts			296	267
Liabilities from insurance and reinsurance business		18	1,979	1,469
Other liabilities			4,656	4,923
Accrued liabilities			2,077	1,964
Subordinated debt		17	9,385	10,422
Total liabilities			76,925	68,509
Shareholder's equity (before appropriation of available earnings)				
Share capital		19	825	825
Capital contribution reserve			5,570	5,570
Legal reserve			485	485
General free reserve			4,272	4,272
Retained earnings:				
<i>Beginning of year</i>			13,283	14,130
<i>Dividend paid</i>			(5,170)	(3,200)
<i>Net income after taxes</i>			2,052	2,353
Retained earnings, end of year			10,165	13,283
Total shareholder's equity (before appropriation of available earnings)			21,317	24,435
Total liabilities and shareholder's equity			98,241	92,943

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

Financial statements – statutory accounts (continued)

Notes to the financial statements

1. Basis of presentation

The Company's financial statements are presented in accordance with the Swiss Code of Obligations and relevant insurance supervisory law, including the ISO-FINMA of December 15, 2015.

All amounts in the financial statements, unless otherwise stated, are shown in CHF, rounded to the nearest million with the consequence that the rounded amounts may not add up to the total in all cases. All variances are calculated using the actual figures rather than the rounded amounts.

2. Summary of significant accounting policies

Investments

Real estate held for investment and for own use held in Switzerland is carried at the acquisition cost less required or permissible impairment, and is valued on a single valuation basis. Real estate held by branches located outside Switzerland is carried at the local statutory value valid in the country where the real estate is located, valued on a single valuation basis.

Investments in subsidiaries and associates are held at acquisition cost less necessary impairments. The method to determine the necessary impairments is considering the similarity of the underlying investments in subsidiaries and associates such as the fungibility of capital or the pooling of reinsurance as well as the potential dependency with other investments in subsidiaries and associates. Investments in subsidiaries and associates in both "Property and Casualty (P&C)" and "Life" are assessed on a regional basis (Europe, Middle East & Africa, North America, Asia Pacific, Latin America and Group Reinsurance), further "Farmers", "Group Functions and Operations" and "Non-Core Businesses" are considered as similar assets. For these sub-groups, the book value of the sub-group is compared to its IFRS Net Assets Value/Value-in-use. If needed, the carrying value of the investments in subsidiaries and associates is impaired accordingly.

Debt securities are carried at amortized cost using the effective interest rate method. The valuation of debt securities held in the single investor funds in Switzerland is the same as for directly held securities.

Mortgage and other loans are valued at their nominal value less any necessary impairments.

Equity securities which are quoted on a stock exchange are carried at the stock exchange price as of December 31. Unquoted equity securities are carried at the acquisition cost with a deduction for necessary impairments. The valuation of equity securities held in single investor funds in Switzerland is the same as for directly held securities.

Mixed investments funds invests into different asset types. Mixed investment funds are carried at market price as of December 31.

Other investments consists of asset-backed and mortgage-backed securities as well as collateralized debt/loan obligations, which are carried at amortized cost using the effective interest rate method.

Other assets

Derivative financial instruments

Derivative financial instruments held for purposes of economic hedging are carried at fair value.

Deposits made under assumed reinsurance contracts

Reinsurance deposits consist of funds deposited with ceding insurers to guarantee contractual liabilities for assumed reinsurance.

Deferred acquisition costs, net of reinsurance

Acquisition costs related to reinsurance business are deferred. For P&C business, the deferred costs are subsequently amortized over the period in which the related assumed premiums are earned. For life business, the deferred costs are amortized over the life of the contract based on expected premiums or the estimated gross margin expected to be realized over the life of the contract, depending on the type of underlying contracts.

Financial statements – statutory accounts (continued)

Accrued assets

This amount relates primarily to interest income accruals, other prepaid expenses and other accrued income. Accrued investment income within the single investor funds in Switzerland is recorded as a write-up on investments.

Insurance reserves

Reserves for unearned premiums represent the portion of the premiums written relating to the unexpired term of insurance coverage as of the balance sheet date. In many insurance contracts, the insurance period for which the insurance company assumes a risk against a premium paid does not correspond to the Company's financial year. Thus, an amount equivalent to the unearned portion of the premium is set up as a reserve at the end of the financial year.

Reserves for losses and loss adjustment expenses represent reserves for reported claims and estimates for losses incurred but not yet reported (IBNR). The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. In addition, equalization reserves are included where these are accepted or required by the regulator in the country where such reserves are held. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates are reflected in the income statements in the period in which estimates are changed.

Future life policyholders' benefits represent the best estimated liability (BEL) for life insurance policies, including the value of accumulated declared bonuses or dividends that have vested to policyholders. BEL are measured using current non-financial assumptions such as mortality, morbidity, persistency and expenses. In addition, prudence is included to meet the regulatory requirements in the country where such reserves are held. This prudence is determined using current financial and non-financial assumptions.

Other income and administrative and other expense

Other income includes interest income on deposits received under ceded reinsurance contracts as well as other technical and other non-technical income. Administrative and other expense represent primarily technical expense in connection with the operation of the insurance business.

Investment income and expense

Realized capital gains/losses on investments occur when the sales price or redemption value is higher or lower than the carrying value at the time of sale. The gain/loss is the difference between carrying value and the sales price or redemption value.

Write-downs and write-ups on investments include losses arising from a decrease in the fair value below cost or the carrying value at the previous year end on equity securities and necessary impairments of debt securities and investments in subsidiaries and associates. Write-ups of quoted equity securities are gains resulting from the difference between the lower carrying value at the beginning of the year or at the later purchase date and the higher carrying value as of the end of December. Write-ups also include gains as a result of the reversal of impairments on unquoted equity securities up to the acquisition cost value. Write-downs and write-ups further include the change in valuation of the single investor funds, which also include the investment income of the investments within these funds.

Other financial income and expense

Other financial income includes interest income on cash and cash equivalents as well as gains on derivatives. Other financial expenses includes mainly losses on derivatives.

Direct tax expenses

Direct tax expenses include both Swiss and foreign income tax expense and capital tax expense in Switzerland as well as foreign withholding tax expense on investment income.

Financial statements – statutory accounts (continued)

3. Exchange rates

The presentation currency for ZIC and its branches is Swiss franc. Several ZIC branches operate outside Switzerland with different functional currencies. A functional currency is the currency of the primary economic environment in which the branch operates. Assets and liabilities of those branches with functional currencies other than Swiss franc are translated into the presentation currency at end-of-period exchange rates, except for investments in subsidiaries and associates where historical exchange rates are used. Revenues and expenses are translated using the average exchange rate of the year. The resulting exchange differences are recorded in the income statements.

The table below summarizes the principal exchange rates that have been used for translation purposes.

Principal exchange rates	CHF per foreign currency unit	Balance sheets		Income statements	
		12/31/2023	12/31/2022	2023	2022
		Canadian dollar	0.6377	0.6833	0.6657
Euro	0.9308	0.9880	0.9714	1.0053	
British pound	1.0726	1.1143	1.1170	1.1803	
Japanese yen	0.0060	0.0070	0.0064	0.0073	
U.S. dollar	0.8422	0.9248	0.8983	0.9540	

4. Administrative and other expense

Administrative and other expense	in CHF millions, for the years ended December 31	2023	2022
		Administration and other general expenses	(1,234)
Personnel expenses		(1,194)	(1,128)
Amortization and impairments of software and equipment		(52)	(48)
Foreign currency transaction gains and losses		849	682
Gains and losses on foreign currency derivatives		(393)	(466)
Total administrative and other expense		(2,024)	(2,068)

Administrative and other expense decreased by CHF 44 million to CHF 2,024 million in 2023. The change is due to additional administration and other general expenses in the new UK branch, offset by the positive impact of foreign currency transactions and derivatives in 2023 compared to 2022. In 2022, a payment of USD 330 million (CHF 315 million) for the unwinding of a Group internal investment vehicle was included in the administration and other general expenses.

Financial statements – statutory accounts (continued)

5. Investment income

Investment income	in CHF millions, for the years ended December 31							
	Current income		Write-ups		Realized capital gains		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Real estate	80	63	–	–	176	107	256	170
Investments in subsidiaries and associates	2,778	2,820	–	–	–	–	2,778	2,820
Debt securities	486	290	17	3	20	55	523	349
Other loans	153	122	–	–	–	92	153	214
Mortgage loans	10	10	–	–	–	–	10	10
Equity securities	59	78	237	116	235	197	531	392
Mixed investments funds	6	4	1	–	–	–	6	4
Other investments	178	154	–	–	43	62	220	216
Total investment income	3,751	3,541	255	120	473	514	4,478	4,174

Total investment income increased by CHF 304 million or 7 percent to CHF 4,478 million in 2023. The income on debt securities increased by CHF 174 million mainly due to the new UK branch as well as on equity securities by CHF 139 million, mainly due to the improved market conditions in 2023 compared to 2022. Dividend income from subsidiaries and associates decreased by CHF 42 million to CHF 2,778 million in 2023, mainly due to lower dividend income from Zurich Holding Ireland Limited and from Zurich Life Insurance Company Ltd, partially offset by higher dividend income from Farmers Group, Inc., and Zurich Insurance plc.

6. Investment expenses

Investment expenses	in CHF millions, for the years ended December 31							
	Write-downs		Realized capital losses		Total			
	2023	2022	2023	2022	2023	2022	2023	2022
Real estate	(11)	(90)	(5)	–	(17)	–	(90)	(90)
Investments in subsidiaries and associates	(71)	(127)	–	(16)	(71)	(16)	(143)	(143)
Debt securities	(217)	(146)	(326)	(151)	(543)	(151)	(298)	(298)
Other loans	–	(1)	(85)	(13)	(85)	(13)	(14)	(14)
Mortgage loans	–	–	–	–	–	–	–	–
Equity securities	(60)	(426)	(125)	(191)	(185)	(191)	(617)	(617)
Mixed investments funds	–	(7)	–	–	–	–	(7)	(7)
Other investments	–	–	(173)	(119)	(173)	(119)	(119)	(119)
Sub-total investment expenses	(360)	(798)	(715)	(491)	(1,074)	(491)	(1,288)	(1,288)
Investment general expenses	n.a.	n.a.	n.a.	n.a.	(90)	n.a.	(90)	(76)
Total investment expenses					(1,165)		(1,364)	

Total investment expenses decreased by CHF 199 million to CHF 1,165 million in 2023, mainly due to lower investment expenses on equity securities by CHF 432 million due to the improved market conditions in 2023, partially offset by higher investment expenses on debt securities by CHF 245 million mainly driven by the decrease in the value of the single investor funds due to the negative impact of the foreign currency translation.

Further, investment expenses on investments in subsidiaries and associates decreased by CHF 72 million in 2023, mainly due to lower write-downs on investments in subsidiaries and associates of CHF 71 million in 2023 compared to CHF 127 million in 2022. The impairments in 2023 mainly relate to subsidiaries in the segment "Group Functions and Operations".

Financial statements – statutory accounts (continued)

7. Investments in subsidiaries and associates

The table below shows the significant subsidiaries of ZIC with a carrying value of at least CHF 500 million and/or net income exceeding CHF 100 million. The carrying value of the listed subsidiaries and associates represents 87 percent of the total investments in subsidiaries and associates of CHF 36.5 billion.

Significant subsidiaries

as of December 31, 2023

	Registered office	Voting rights %	Ownership interest %		Nominal value of common stock (in local currency millions)
Australia					
Zurich Financial Services Australia Limited ¹	Sydney	100.0	100.0	AUD	2,983.0
Brazil					
Zurich Minas Brasil Seguros S.A. ¹	Belo Horizonte	100.0	100.0	BRL	2,316.0
Germany					
Zürich Beteiligungs-Aktiengesellschaft (Deutschland) ¹	Frankfurt	100.0	100.0	EUR	152.9
Ireland					
Zurich Holding Ireland Limited	Dublin	100.0	100.0	EUR	0.1
Zurich Insurance plc ^{1,2}	Dublin	29.6	29.6	EUR	8.2
Italy					
Zurich Investments Life S.p.A. ¹	Milan	100.0	100.0	EUR	207.9
Spain					
Zurich Latin America Holding S.L. – Sociedad Unipersonal	Barcelona	100.0	100.0	EUR	43.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal ¹	Madrid	100.0	100.0	EUR	56.4
Switzerland					
Zurich Life Insurance Company Ltd ¹	Zurich	100.0	100.0	CHF	60.0
Zurich Reinsurance Company Ltd ¹	Zurich	100.0	100.0	CHF	11.7
United Kingdom					
Allied Zurich Holdings Limited	St. Hélier, Jersey	100.0	100.0	GBP	597.7
Zurich Holdings (UK) Limited	Fareham, England	100.0	100.0	GBP	318.3
Zurich International Life Limited ¹	Douglas, Isle of Man	100.0	100.0	GBP	123.4
United States of America					
Farmers Group, Inc. ^{1,3,4}	Carson City, NV	87.9	95.4	USD	0.0
Zurich Holding Company of America, Inc. ⁵	Wilmington, DE	100.0	100.0	USD	–

1 Regulated companies.

2 The indirectly held voting rights percentage and ownership interest percentage are 100 percent for Zurich Insurance plc.

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

4 The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of the Zurich Insurance Group, provides certain non-claims services and ancillary services to the Farmers Exchanges as attorney-in-fact and receives fees for its services.

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

Financial statements – statutory accounts (continued)

The table below shows the most significant indirectly held subsidiaries of ZIC with a Net Asset Value exceeding USD 1.0 billion (based on IFRS values) and ownership interest of more than 10 percent.

Significant indirect subsidiaries	as of December 31, 2023			Voting rights % ²	Ownership interest % ²
		Registered office	Parent company		
<u>Australia</u>					
Zurich Australia Limited	Sydney	Zurich Financial Services Australia Limited ¹	100.0	100.0	
<u>Bermuda</u>					
Zurich Global, Ltd.	Pembroke, Bermuda	Zurich Holding Company of America, Inc. ¹	100.0	100.0	
<u>Germany</u>					
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Köln	Zürich Beteiligungs-Aktiengesellschaft (Deutschland) ¹	32.5	32.5	
		Deutscher Herold Aktiengesellschaft	67.5	67.5	
Zurich Immobilien (Deutschland) AG & Co. KG	Köln	Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	100.0	100.0	
<u>Luxembourg</u>					
REX-ZDHL S.C.S SICAV-SIF	Leudelange	Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	100.0	100.0	
<u>Spain</u>					
Zurich Santander Holding (Spain), S.L.	Boadilla del Monte	Zurich Santander Insurance America, S.L.	51.0	51.0	
Bansabadell Vida S.A. de Seguros y Reaseguros ³	Madrid	Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal ¹	50.0	50.0	
<u>United Kingdom</u>					
Zurich Assurance Ltd	Swindon, England	Eagle Star Holdings Limited	100.0	100.0	
Zurich Financial Services (UKISA) Limited	Swindon, England	Allied Zurich Holdings Limited ¹	100.0	100.0	
<u>United States of America</u>					
Zurich American Insurance Company	New York, NY	Zurich Holding Company of America, Inc. ¹	100.0	100.0	

1 Direct subsidiary of the Company.

2 The voting and ownership percentage are disclosed based on a Zurich Insurance Company Group view.

3 Bansabadell Vida S.A. de Seguros y Reaseguros has been added to the list of significant indirect subsidiaries.

Financial statements – statutory accounts (continued)

8. Other investments

Other investments	in CHF millions, as of December 31	2023	2022
	Asset-backed securities	904	653
	Mortgage-backed securities	2,567	3,733
	Collateralized debt/loan obligations	597	670
	Total other investments	4,069	5,056

The decrease in other investments is mainly driven by the net sales due to higher liquidity requirements.

9. Fixed assets

Fixed assets	in CHF millions, as of December 31	2023	2022
	Furniture and equipment	386	361
	Accumulated amortization	(312)	(279)
	Total fixed assets	74	82

10. Deferred acquisition costs

Deferred acquisition costs, net of reinsurance	in CHF millions, as of December 31	2023	2022
	Deferred acquisition costs, assumed reinsurance	2,085	2,217
	Deferred acquisition costs, retroceded reinsurance	(90)	(74)
	Total deferred acquisition costs, net of reinsurance	1,996	2,144

11. Intangible assets

Intangible assets consists of self-developed and acquired software in the amount of CHF 98 million and CHF 99 million as of December 31, 2023 and 2022, respectively.

12. Receivables from insurance and reinsurance business

Receivables from insurance and reinsurance business	in CHF millions, as of December 31	2023	2022
	Receivables from policyholders	367	164
	Receivables from agents and intermediaries	757	321
	Receivables from insurance and reinsurance companies	2,335	1,439
	Total receivables from insurance and reinsurance business	3,459	1,924

Receivables from insurance and reinsurance business increased by CHF 1,535 million mainly due to the new UK business.

Financial statements – statutory accounts (continued)

13. Insurance reserves, net

Insurance reserves, net	in CHF millions, as of December 31	2023	2022
	Gross		
	Reserves for unearned premiums	6,771	5,030
	Reserves for losses and loss adjustment expenses	33,086	24,807
	Other technical reserves	846	1,087
	Future life policyholders' benefits	4,848	5,387
	Reserves for policyholders' dividends	11	5
	Total insurance reserves, gross	45,562	36,316
	Ceded		
	Reserves for unearned premiums	(2,488)	(1,392)
	Reserves for losses and loss adjustment expenses	(9,260)	(4,974)
	Other technical reserves	–	–
	Future life policyholders' benefits	(39)	(177)
	Reserves for policyholders' dividends	–	–
	Total insurance reserves, ceded	(11,786)	(6,543)
	Net		
	Reserves for unearned premiums	4,283	3,638
	Reserves for losses and loss adjustment expenses	23,826	19,834
	Other technical reserves	846	1,087
	Future life policyholders' benefits	4,810	5,210
	Reserves for policyholders' dividends	11	5
	Total insurance reserves, net of reinsurance	33,775	29,773

Total net insurance reserves increased by CHF 4,002 million or 13 percent to CHF 33,775 million. In local currency, the net insurance reserves increased by CHF 5,409 million. Main driver for the increase was the additional insurance reserves for the new UK business (gross: CHF 8,135 million; net: CHF 2,979 million as of December 31, 2023). Further, the net insurance reserves increased due to the ongoing growth in the Group internal reinsurance business.

On the other hand, gross insurance reserves decreased by CHF 854 million due to the recapture of the Group internal life reinsurance business with Farmers New World Life Insurance Company as of August 1, 2023, as well as by CHF 701 million due to the impact of the WAQS reinsurance treaty with ZAIC which is in run-off since 2018.

Financial statements – statutory accounts (continued)

14. Change in insurance reserves (excluding change in reserves for unearned premiums), net

Change in insurance reserves (excluding change in reserves for unearned premiums), net	in CHF millions, for the years ended December 31	
	2023	2022
Gross		
Change in reserves for losses and loss adjustment expenses	(9,633)	532
Change in other technical reserves	(59)	6
Change in reserves for future life policyholders' benefits	(409)	239
Change in reserves for policyholders' dividends	(17)	(7)
Total change in insurance reserves, gross	(10,118)	770
Ceded		
Change in reserves for losses and loss adjustment expenses	4,740	(492)
Change in other technical reserves	–	(1)
Change in reserves for future life policyholders' benefits	(6)	(35)
Change in reserves for policyholders' dividends	–	–
Total change in insurance reserves, ceded	4,735	(528)
Net		
Change in reserves for losses and loss adjustment expenses	(4,893)	40
Change in other technical reserves	(59)	5
Change in reserves for future life policyholders' benefits	(415)	204
Change in reserves for policyholders' dividends	(16)	(7)
Total change in insurance reserves, net of reinsurance	(5,383)	242

The negative impact in the income statement due to the change in net insurance reserves in 2023 was on the one hand driven by the new UK business with a net change in insurance reserves of CHF 2,417 million (gross: CHF 6,733 million) in 2023 and the new Group internal reinsurance treaty with ZAIC with a gross and net change in insurance reserves of CHF 2,008 million in 2023. On the other hand, the continuing growth in the direct business in Switzerland and in the assumed business, mainly Group internal business, had contributed to the negative impact. This is partially offset by the reserve release of the WAQS reinsurance treaty with ZAIC which is in run-off and by the recapture of the life reinsurance business with Farmers New World Life Insurance Company in 2023.

In 2022, the positive impact in the income statement due to the change in net insurance reserves was mainly driven by the reserve release due to the termination of the WAQS reinsurance treaty with ZAIC, which is in run-off since 2018, as well as a decrease in reserves for losses and loss adjustment expenses for the COVID-19 claims. Further, the decrease in reserves was driven by the release of reserves for future life policyholders' benefits for Group internally assumed life reinsurance business, in particular for individual disability.

Financial statements – statutory accounts (continued)

15. Direct and assumed business

Direct and assumed business	in CHF millions, for the years ended December 31	2023	2022
	Gross written premiums and policy fees, direct business	9,291	5,494
	Gross written premiums and policy fees, assumed business	13,173	11,353
	Premiums ceded to reinsurers	(7,550)	(4,136)
	Net written premiums and policy fees	14,914	12,711
	Change in reserves for unearned premiums, direct business	(1,419)	(85)
	Change in reserves for unearned premiums, assumed business	(563)	(440)
	Change in reserves for unearned premiums, ceded	1,196	133
	Change in reserves for unearned premiums, net of reinsurance	(786)	(392)
	Claims paid, annuities and loss adjustment expenses, direct business	645	(3,053)
	Claims paid, annuities and loss adjustment expenses, assumed business	(4,937)	(6,873)
	Claims paid, annuities and loss adjustment expenses, ceded	(667)	2,046
	Claims paid, annuities and loss adjustment expenses, net of reinsurance	(4,958)	(7,879)
	Change in insurance reserves, direct business	(6,624)	(119)
	Change in insurance reserves, assumed business	(3,494)	889
	Change in insurance reserves, ceded	4,735	(528)
	Change in insurance reserves, net of reinsurance	(5,383)	242
	Underwriting & policy acquisition costs, direct business	(1,836)	(1,084)
	Underwriting & policy acquisition costs, assumed business	(2,950)	(2,493)
	Underwriting & policy acquisition costs, ceded	1,396	611
	Underwriting & policy acquisition costs, net of reinsurance	(3,390)	(2,965)

The increase in the direct business is mainly driven by the new UK business.

16. Provisions

The provisions were established in anticipation of expected, estimated or perceived expenditures or exposures and increased by CHF 133 million in 2023, mainly due to an increase in the provision for unrealized foreign currency gains by CHF 110 million that were not included in the Company's income statement.

Financial statements – statutory accounts (continued)

17. Debt

a) Senior and other debt

Senior and other debt		2023	2022
in CHF millions, as of December 31			
Issuances to capital markets under Euro Medium Term Note Programme			
1.875% CHF 100 million, due September 2023		–	100
1.750% EUR 500 million, due September 2024		465	494
0.500% CHF 350 million, due December 2024		350	350
1.500% CHF 150 million, due July 2026		150	150
0.750% CHF 200 million, due October 2027		200	200
1.000% CHF 200 million, due October 2028		200	200
1.500% EUR 500 million, due December 2028		465	494
1.125% CHF 400 million, due July 2029		400	400
0.000% CHF 200 million, due August 2031		200	200
0.100% CHF 250 million, due August 2032		250	250
Zurich Insurance Group companies	various	8,243	8,652
Other debt	various	19	1
Total senior and other debt		10,943	11,492
	<i>thereof due in one to five years</i>	<i>1,015</i>	<i>1,194</i>
	<i>thereof due in more than five years</i>	<i>850</i>	<i>1,544</i>

b) Subordinated debt

Subordinated debt		2023	2022
in CHF millions, as of December 31			
Zurich Insurance Group Ltd	6.300% CHF 2.1 billion perpetual loan	2,132	2,132
Zurich Finance (Ireland) DAC	1.875% EUR 750 million, first callable on June 17, 2030, due September 2050	698	741
Zurich Finance (Ireland) DAC	3.000% USD 1,750 million, first callable on January 19, 2031, due April 2051	1,474	1,618
Zurich Finance (Ireland) DAC	3.500% USD 500 million, first callable on January 2031, due May 2052	421	462
Zurich Finance (Ireland) DAC	5.125% GBP 1 billion, first callable on November 2032, due November 2052	1,073	1,114
Zurich Finance (Ireland) DAC	1.600% EUR 200 million, first callable on September 17, 2032, due December 2052	186	198
Issuances to capital markets under Euro Medium Term Note Programme	4.250% EUR 1 billion notes, first callable on October 2, 2023, due October 2043 ¹	–	494
	4.250% USD 300 million subordinated notes, first callable on October 1, 2025, due October 2045	253	277
	5.625% USD 1 billion subordinated notes, first callable on June 24, 2026, due June 2046	842	925
	3.500% EUR 750 million subordinated notes, first callable on October 1, 2026, due October 2046	698	741
	5.125% USD 500 million subordinated notes, first callable on June 1, 2028, due June 2048	421	462
	4.875% USD 500 million subordinated notes, first callable on October 2, 2028, due October 2048	421	462
	2.750% EUR 500 million subordinated notes, first callable on February 19, 2029, due February 2049	465	494
	1.5000% CHF 300 million subordinated notes, first callable on February 2032, due May 2052	300	300
Total subordinated debt		9,385	10,422
	<i>thereof due in one to five years</i>	<i>2,635</i>	<i>1,943</i>
	<i>thereof due in more than five years</i>	<i>6,749</i>	<i>7,985</i>

1 On October 14, 2022, EUR 500 million of these notes have been repurchased. Upon cancellation, a notional amount of EUR 500 million remained outstanding.

Financial statements – statutory accounts (continued)

18. Liabilities from insurance and reinsurance business

Liabilities from insurance and reinsurance business	in CHF millions, as of December 31		
		2023	2022
Amounts due to policyholders		75	63
Amounts due to agents and intermediaries		28	23
Amounts due to insurance and reinsurance companies		1,877	1,383
Total liabilities from insurance and reinsurance business		1,979	1,469

Liabilities from insurance and reinsurance business increased by CHF 510 million mainly due to the new UK business.

19. Share capital

Share capital	number of shares, as of December 31		
		2023	2022
Issued shares, CHF 10.00 par value		82,500,000	82,500,000

a) Issued share capital

On December 31, 2023, and on December 31, 2022, respectively, the issued share capital of ZIC amounted to CHF 825,000,000, consisting of 82,500,000 fully paid registered shares with a par value of CHF 10.00 each.

b) Shareholder

As of December 31, 2023 and 2022, 100 percent of the registered shares of the Company were owned by Zurich Insurance Group Ltd.

Shareholder's equity	in CHF millions, as of December 31			
		2023	2022	Change
Shareholder's equity				
Share capital		825	825	–
Capital contribution reserve		5,570	5,570	–
Legal reserve		485	485	–
General free reserve		4,272	4,272	–
Retained earnings:				
<i>Beginning of year</i>		13,283	14,130	(847)
<i>Dividend paid</i>		(5,170)	(3,200)	(1,970)
<i>Net income after taxes</i>		2,052	2,353	(301)
Retained earnings, end of year		10,165	13,283	(3,118)
Total shareholder's equity		21,317	24,435	(3,118)

Financial statements – statutory accounts (continued)

20. Assets and liabilities relating to companies within the Zurich Insurance Group

	in CHF millions, as of December 31	2023	2022
Assets and liabilities relating to direct and indirect subsidiaries	Assets		
	Investments in subsidiaries and associates	36,543	36,247
	Other loans	4,303	5,695
	Derivative assets	64	52
	Deposits made under assumed reinsurance contracts	2,109	1,974
	Insurance reserves, ceded	5,385	1,645
	Deferred acquisition costs, net of reinsurance	2,007	2,155
	Receivables from insurance and reinsurance business	1,437	843
	Other receivables	545	506
	Accrued assets	159	411
	Total assets	52,553	49,529
	Liabilities		
	Insurance reserves, gross	26,005	25,107
	Provisions	7	7
	Senior and other debt	8,243	8,652
	Derivative liabilities	46	61
	Deposits received under ceded reinsurance contracts	160	177
	Liabilities from insurance and reinsurance business	1,381	1,083
	Other liabilities	3,638	2,479
	Accrued liabilities	411	377
Subordinated debt	3,852	4,134	
Total liabilities	43,743	42,078	

	in CHF millions, as of December 31	2023	2022
Assets and liabilities relating to Zurich Insurance Group Ltd	Assets		
	Other loans	–	1,800
	Equity securities	1,029	917
	Other receivables	–	–
	Accrued assets	–	2
	Total assets	1,029	2,719
	Liabilities		
	Other liabilities	8	1,652
	Accrued liabilities	91	92
	Subordinated debt	2,132	2,132
Total liabilities	2,232	3,876	

The senior loan of CHF 1,800 million to Zurich Insurance Group Ltd which was launched in 2022 to fund the public share buyback program, has been repaid in April 2023.

Financial statements – statutory accounts (continued)

21. Supplementary information

Supplementary
information

in CHF millions, as of December 31	2023	2022
Limited guarantees, indemnity liabilities and pledges in favor of third parties	14,166	17,010
Leasing obligations not recorded on the balance sheet	267	228
Security deposits	6,222	7,286
Audit fees	(9)	(22)
Other service fees	(1)	(1)
Number of employees – Average full time equivalents ¹	6,783	6,086

1. In 2022, 481 full time employees were not included in this position, but were required to be included.

In 2023, a guarantee of USD 3.0 billion (CHF 2.8 billion as of December 31, 2022) in favor of subsidiaries to provide funds under certain circumstances has expired. The total maximum exposure under this guarantee amounted to USD 200 million (CHF 185 million) as of December 31, 2022.

In addition to the guarantees listed above, the Company has provided unlimited guarantees in support of various subsidiaries belonging to the Zurich Insurance Group.

According to regulatory requirements, CHF 12.3 billion and CHF 12.6 billion (eligible value) were attributed to tied assets, as of December 31, 2023 and 2022, respectively.

To secure the insurance reserves of the assumed reinsurance business, investments with a value of CHF 6.2 billion and CHF 7.3 billion as of December 31, 2023 and 2022, respectively, were deposited in favor of ceding companies.

In July and August 2023, the administrators of Greensill Bank AG (GBAG) served two Particulars of Claim on ZIP issued in the London Commercial Court, alleging non-payment of claims presented under a trade credit policy written by ZIP. Subsequently, the Company was substituted in the actions for ZIP. The Company's defense to both actions was filed on January 26, 2024. In the defense, the Company also filed counterclaims against GBAG and other third parties. The Company believes that it has meritorious defenses to the policy and the claims raised and will vigorously contest the actions.

22. Net release of hidden reserves

In 2023 and in 2022, there was no material release of hidden reserves to be reported according to Swiss Code of Obligations.

Financial statements – statutory accounts (continued)

Proposed appropriation of available earnings

The available earnings for 2023 originate as follows:

in CHF	Available earnings
Available earnings	
As of January 1, 2023	13,282,622,542
Dividend paid	(5,170,000,000)
Net income after taxes	2,051,982,286
Available earnings, as of December 31, 2023	10,164,604,828

The Board of Directors proposes to the Annual General Meeting to be held on April 10, 2024, to appropriate the available earnings as follows:

in CHF	Available earnings
Appropriation of available earnings	
As of January 1, 2024	10,164,604,828
Dividend of CHF 4,800,000,000 ¹	(4,800,000,000)
Balance carried forward¹	5,364,604,828

1. These figures are based on the share capital issued on December 31, 2023, of CHF 825,000,000 divided into 82,500,000 registered shares with a nominal value of CHF 10 each.

Zurich, March 13, 2024

On behalf of the Board of Directors of Zurich Insurance Company Ltd

Michel M. Liès

Report of the statutory auditor



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To the General Meeting of
Zurich Insurance Company Ltd, Zurich

Zurich, March 13, 2024

Report of the statutory auditor

Report on the audit of the financial statements



Opinion

We have audited the financial statements of Zurich Insurance Company Ltd (hereinafter referred to as “the Company”), which comprise the balance sheet as of December 31, 2023, the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 186 to 202) comply with Swiss law and the Company’s articles of association.



Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report. We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Key audit matters

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

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

Report of the statutory auditor (continued)



2

Valuation of certain Property & Casualty insurance reserves

Area of focus

The Company underwrites Property & Casualty business and acts as a reinsurance company, mainly for affiliated companies. Reserves for losses and loss adjustment expenses is a material item within total liabilities and gross insurance reserves financial statement line item.

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

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

This is specifically the case for Property & Casualty lines of business that are considered longer-tail where certain longer-term assumptions are required as part of the projection techniques. These actuarial projections also consider uncertainty around claims litigation, timeliness of claims reporting and resultant impact of challenges with supply chains and inflation.

Additionally, reserves for catastrophe events which are usually of less frequency but higher severity, are more difficult to estimate and include expert judgments, specifically for events taking place close to period end.

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

The accounting policies and critical accounting judgments and estimates of the Company about the valuation of the loss and loss adjustment expense reserves are described in Note 2 ("Summary of significant accounting policies") and additional information regarding these insurance reserves is presented in Note 13 ("Insurance reserves, net") to the statutory financial statements.

Report of the statutory auditor (continued)



3

Our audit response

We assessed and tested the design effectiveness of selected key controls within the actuarial reserve valuation process. These included controls over methods selection, completeness and accuracy of the underlying data, assumption setting and the governance process used by management.

We executed our substantive procedures in relation to these insurance reserves and related changes as included in the income statement using the work of our actuarial specialists.

Our procedures included:

- Performance of a country-based risk tiering assessment on all lines of business based on multiple criteria including materiality, tail length and prior year developments.
- Analytical reviews considering separately current accident year loss ratio from prior years developments by significant lines of business.
- Evaluation of the appropriateness of the loss reserve levels for significant catastrophe events.

For selected lines of business, our procedures further included:

- On a sample basis, testing the completeness and accuracy of data utilized by management in estimating the loss reserves by reconciling such amounts and related output to the underlying accounting records and the financial statements as appropriate.
- Performing data-enabled audit procedures and claims data plausibility checks on selected samples to support completeness and accuracy of claims triangles.
- Independent projections of ultimate losses and calculation of a reasonable range for required loss reserves for selected lines of business. We also assessed managements' recorded loss reserves as compared to our independently developed loss reserve range.
- Analysis of actuarial methods and assessment of the reasonableness of the quantitative and qualitative assumptions used within projection techniques by the Company's actuaries for the valuation of loss reserves on selected lines of business.
- Assessment of current year inflation impacts on reserves and our independent projections.
- Evaluation of the appropriateness of any significant adjustments made by management relating to the actuarial reserves estimate.

Finally, we assessed the appropriateness of accounting policies used and adequacy of the disclosures in the financial statements.

Report of the statutory auditor (continued)



4

Valuation of certain actuarially determined life insurance reserves

Area of focus

The Company acts as a reinsurance company, mainly for life business written by affiliated companies. Future life policyholders' benefit reserves is a material item within total liabilities and gross insurance reserves financial statement line item.

The valuation of the above mentioned actuarially determined life insurance reserves is associated with significant uncertainties requiring the use of expert judgement within complex actuarial models relying on complex and subjective assumptions in relation to future events.

The assumptions and data used for calculations of these balances require both economic and non-economic assumptions, including interest rates, investment returns, mortality, morbidity, longevity, persistency, expenses and the modelled future decisions of the policyholders.

Moreover, because of the long duration of many life insurance products, relatively small changes in key assumption may have a significant impact on the valuation of the actuarially determined life insurance reserves. Specifically, the significant increase in interest rates around the globe, and the related impact to policyholder behaviour, creates specific risks for insurers to consider.

The valuation of these life insurance reserves requires the use of complex formulas and the constructions of models and other computational tools that may be incorrectly designed or configured, and for which inadequate assumptions and incomplete or inaccurate input data may be used.

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

The accounting policies and critical accounting judgements and estimates of the Company about the valuation of the actuarially determined life insurance reserves are described in Note 2 ("Summary of significant accounting policies") and additional information regarding these insurance reserves is presented in Note 13 ("Insurance reserves, net") to the statutory financial statements.

Report of the statutory auditor (continued)



5

Our audit response

We assessed and tested the design effectiveness of selected key controls within the life insurance reserves actuarial valuation process. These included controls over methods selection, completeness and accuracy of the underlying data, assumption setting and the governance process used by management.

We executed our substantive procedures in relation to these balances and related changes as included in the income statements using the work of our actuarial specialists.

Our procedures included:

- Performance of a country-based risk tiering assessment for selected product based on multiple criteria including materiality, complexity and specific product features.
- Assessing the consistency of the life actuarial methods and best estimate assumptions used across the Company's significant business units.
- Assessing the level of prudence considered in the future life policyholder benefit reserves.

For selected products, our procedures further included:

- On a sample basis, testing of the completeness and accuracy of data, including in-force policyholder data and experience studies, as utilized by management to value insurance reserves by reconciling such amounts and related output to the underlying accounting records and the financial statements as appropriate.
- On a sample basis, reviewing actuarial models used in the determination of these life insurance reserves and their compliance with products specificities and related guarantees.
- Assessing the quantitative and qualitative key best estimate assumptions used in selected actuarial models, including considerations of their reasonableness based on experience studies, our knowledge of the Company and local markets, products offered, publicly available market and macroeconomic data.
- On a sample basis, independent calculation of future life policyholder benefit reserves balances.

Finally, we assessed the appropriateness of accounting policies used and adequacy of the disclosures in the financial statements.

Report of the statutory auditor (continued)



6

Recoverability of investments in subsidiaries

Area of focus

We consider the investments in subsidiaries to be a key audit matter not only due to the judgment involved but also based on the magnitude of the balance, which makes up a significant part of the Company's total assets.

Investments in subsidiaries are carried at cost less necessary impairments. The need for impairment is assessed by grouping the subsidiaries into segments and into regional sub-groups (Life and Property & Casualty). The groups correspond to the published IFRS segments of the Company.

The Company compares the carrying value of a group to its IFRS Net Asset Value as of December 31, 2023 to identify any impairment triggers. In the case of an impairment trigger, further qualitative and quantitative assessments are performed by the Company based on the IFRS recoverable amount of the group or specific DCF analysis.

Estimation of the recoverable amount requires management to use complex models, expert judgment and is based on several complex and subjective assumptions, particularly in respect of projections of future income based on prospective business plans, perpetual growth rates, and discount rates.

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

Refer to Note 2 ("Summary of significant accounting policies") and Note 7 ("Investments in subsidiaries and associates") to the statutory financial statements.

Report of the statutory auditor (continued)



7

Our audit response

We assessed and tested the design effectiveness of selected key controls over the recoverability of the carrying value of investments in subsidiaries.

With the assistance of our valuation specialists where appropriate, our procedures included:

- Assessment of the valuation methodology and models used by management for impairment testing.
- Assessment of key assumptions provided at the Group level, i.e. discount rates, perpetual growth rates, including consistency of key assumptions with market and industry specific reference values, and tax rate.
- Performance of risk based substantive procedures for selected segments regarding key assumptions (e.g. consistency of projected future cash flows with management's most recent estimates including those used in the Group's planning process, the comparison of actual results versus historical projected financial information etc.).
- Re-performing management's impairment test on the carrying value of investments in subsidiaries and challenging the impairment decisions taken.

Finally, we assessed the appropriateness of the accounting policies used and adequacy of the disclosures in the statutory financial statements.

Report of the statutory auditor (continued)



8



Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of Zurich Insurance Company Ltd, the audited sections of the risk review and our auditor's reports thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Board of Directors' responsibilities for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the Company's articles of association, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Report of the statutory auditor (continued)



9



Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on EXPERTsuisse's website at: <https://www.expertsuisse.ch/en/audit-report>. This description forms an integral part of our report.

Report on other legal and regulatory requirements



In accordance with Art. 728a para. 1 item 3 CO and SA-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of the financial statements according to the instructions of the Board of Directors.

Furthermore, we confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of association. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Isabelle Santenac
Licensed audit expert
(Auditor in charge)

Thomas Fiepke
Certified Public Accountant (U.S)

Disclaimer and cautionary statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives of Zurich Insurance Group Ltd or the Zurich Insurance Group (the Group). Forward-looking statements include statements regarding the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding the Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Insurance Group Ltd or the Group to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of a global economic downturn, in the financial services industries in particular; (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; (viii) increased litigation activity and regulatory actions; and (ix) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of Zurich Insurance Group Ltd and its Group and on whether the targets will be achieved. Specifically in relation with the COVID-19 related statements, such statements were made on the basis of circumstances prevailing at a certain time and on the basis of specific terms and conditions (in particular applicable exclusions) of insurance policies as written and interpreted by the Group and may be subject to regulatory, legislative, governmental and litigation-related developments affecting the extent of potential losses covered by a member of the Group or potentially exposing the Group to additional losses if terms or conditions are retroactively amended by way of legislative or regulatory action. Zurich Insurance Group Ltd undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

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It should be noted that past performance is not a guide to future performance. Please also note that interim results are not necessarily indicative of full year results.

Persons requiring advice should consult an independent adviser.

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