Zurich Insurance Group
Annual Report 2019

ZURICH®

Innovation with you in mind

Contents

Our cover: We aim to meet growing demand from customers for ways to encourage health and 'wellness.' That includes an app we have introduced in Australia, LiveWell, that is motivating life customers to adopt healthier lifestyles.

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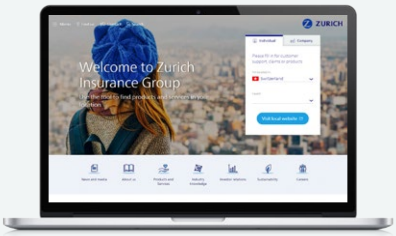
Further information

For more information about Zurich Insurance Group, visit us online at:

www.zurich.com



About us

Zurich Insurance Group (Zurich) is a leading multi-line insurer that serves its customers in global and local markets. With about 55,000 employees, it provides a wide range of property and casualty, and life insurance products and services in more than 215 countries and territories.

Zurich's customers include individuals, small businesses, and mid-sized and large companies, as well as multinational corporations. The Group is headquartered in Zurich, Switzerland, where it was founded in 1872.

A guide to using this report

This interactive PDF is designed to help you easily navigate the report and find the information you are looking for.

It is compatible with both desktop computers and tablet or mobile devices. This report is optimized for viewing with the free software Adobe Acrobat Reader or Apple Books. Interactive functionality may not work when viewed in a web browser or other PDF readers.

Use the tabs and buttons at the top of the page to navigate between sections and around the document:

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Our renewed focus and commitment to sustainability

Throughout this year's report, we have used this icon to highlight our sustainability-centric approach in action.

Welcome

"For nearly 150 years, we have been ahead of our time, embracing innovation while finding new ways to serve and protect those who rely on us. We are proud of all that we have achieved. Our experience and ability to adapt to a changing business environment allow us to look to the future with confidence."

Mario Greco
Group Chief Executive Officer

Highlights

USD 5.3 bn
Business operating profit[1]

USD 4.1 bn
Net income attributable to shareholders (NIAS)

14.2%
Business operating profit after tax return on equity[2]

USD 3.4 bn
Cash remittances[3]

USD 52.3 bn
Total revenues[4]

USD 205 bn
Investment portfolio[5]

CHF 59.4 bn
Market valuation as of December 31, 2019

Z-ECM 129%
Zurich Economic Capital Model (Z-ECM) ratio estimated as of December 31, 2019[6]

AA-/positive
Standard & Poor's financial strength rating of Zurich Insurance Company Ltd as of December 31, 2019

USD 4.6 bn
Total amount of impact investments[7]

22.6%
Female participation in Leadership Team

1.9 tons
CO2e emissions per employee (tons per FTE)[8]

Over 1 million
Number of customers interviewed through Zurich's NPS program[9]

[1] Business operating profit (BOP) indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables.
[2] Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains or losses on available-for-sale investments and cash flow hedges.
[3] Cash remittances for full year 2019.
[4] Total revenues excluding net investment result on unit-linked investments.
[5] Market value of the investment portfolio (economic view). See page 176 for more information.
[6] The Z-ECM is an internal measure of capital adequacy and reflects midpoint estimates with an error margin of +/–5 pts.
[7] Impact investments in 2019 consisted of: green bonds (USD 3.1 billion), social and sustainability bonds (USD 539 million), and investments committed to private equity funds (USD 163 million, thereof 36 percent drawn down) and impact infrastructure private debt (USD 747 million).
[8] Number shown as of 2018; 2019 data will be available in Q2 2020.
[9] In 2019, Zurich interviewed over 1 million customers (including Zurich Santander) in 25 countries through its NPS (Net Promoter System) program.

Message from our Chairman

Delivering long term value
for all our stakeholders

"Strong progress is being made on our strategy. And innovative ideas and insights are being produced that allow us to benefit all stakeholders."

Michel M. Liès
Chairman of the Board of Directors

Message from our Chairman

As Zurich's three-year strategic cycle concludes, we can look back on 2019 as a year of achievement and validation. It has not always been easy, but our ambitious financial targets for 2017–2019 have all been exceeded, a dividend of CHF 20 per share has been proposed to shareholders, and trust and confidence has returned to the business.

More than this, I am very pleased with the energy that is being devoted to Zurich's long-term success. Strong progress is being made on our strategy. Zurich is focusing on customers and simplifying its business. And innovative ideas and insights are being produced that allow us to benefit all stakeholders – including customers, employees, shareholders and communities – both now and in the future.

Creating value for all stakeholders

Zurich has a long history of going above and beyond for the people who put their trust in us. It has been the foundation of our success over the past 150 years.

Today many people – particularly the younger generations – are facing an uncertain future. As an insurance company whose core business is protection, we have a special responsibility in creating an environment where all can prosper.

We take this responsibility seriously and are living up to it, because nearly everyone we come in contact with is touched by the dramatic changes taking place in society. In 2019, we made clear commitments to drive solutions on climate change, help individuals and businesses adapt to the changing world of work, and build trust in our digital future. In 2020, those commitments will be followed by concrete actions.

Decade of delivery

The last decade ended with proof that Zurich's initial efforts to become simpler and more innovative are working. And there is so much more to come.

2020 marks the beginning of a new three-year strategic cycle for Zurich. During this time, we will focus even more on innovating to meet customer needs. Technology is raising the expectations customers have of insurers. But it also creates untold opportunities to delight them with new approaches to preventing as well as covering risk.

With the pace of change in the industry accelerating, our success in the last three years gives us confidence of thriving in this fast-moving environment. We have therefore set ambitious new financial targets for 2020–2022, and the Board is working closely with management to turn firm commitments into tangible impact.

Together, and with our people, we can make the 2020s a standout chapter in Zurich's proud history. Thank you for your continuing support in this journey.

M. M. Liès

Michel M. Liès
Chairman of the Board of Directors

For our Chairman's message on governance, please see **page 38**

Our business segment performance

Property & Casualty
Property and casualty insurance and services, risk insights.

USD 2.9bn
Business operating profit

USD 34.2bn
Gross written premiums and policy fees

More on **page 168**

Life
Protection, savings and investment solutions.

USD 1.5bn
Business operating profit

USD 33.5bn
Gross written premiums, policy fees and insurance deposits

More on **page 170**

Farmers
Management services related to property and casualty insurance.

USD 1.7bn
Business operating profit

USD 3.8bn
Management fees and other related revenues

More on **page 172**

Message from our Group CEO

After achieving much, our journey continues

"Our performance over the past few years puts us in an excellent position to pursue our customer-focused strategy with energy and deliver on our ambitious new targets for the next three years."

Mario Greco
Group Chief Executive Officer

Message from our Group CEO

Our goal as an insurer is to protect people. Traditionally, this has meant paying claims promptly. Now, technology is creating the possibility to protect you before an incident occurs: warning you, for example, when a storm is heading your way or a weakness appears in your supply chain.

That's a complete transformation of the way insurance works and has worked for the last several centuries. It's not a transformation that can happen overnight or even in the space of a few years. It's a journey that is reshaping our entire industry.

We began this journey at Zurich in 2016 with a set of very ambitious financial targets that few believed we could achieve, and have made tremendous progress already.

The talent, resourcefulness and passion of our 55,000 employees have led us to exceed all of our targets. We delivered above-industry returns to our shareholders while simplifying our business, our products and our services. Customer satisfaction has risen steadily in many markets. We are proud of these achievements.

Surpassing customer expectations

At its core, the journey of transformation that we are on is about putting customers at the heart of everything we do. It is about listening to people's needs. We conduct regular surveys of customer satisfaction and in 2019 received over one million responses from customers. In 2019, we also set up a Customer Office to further improve our customers' experience.

Over the next three years, we plan to accelerate these efforts and surpass expectations of what insurance can be. Customers increasingly live within connected ecosystems, and we aim to grow our presence in these environments by providing more smart services for travelers, business and home-protection, and health and well-being programs.

Responding to a changing business environment

Addressing a generational shift

We are introducing solutions for millennials and others seeking individual, flexible cover. And we are working with startups and others to get fresh insights. We are also attracting the next generation of employees through a variety of means, including our award-winning apprentice program.

Getting and retaining the best people

To provide the best service and solutions for customers, we need to have the best talent. We also introduced an innovative training program for leaders and have won awards for diversity. We are proud that we have increased our measure of employee loyalty, and promote a culture based on merit.

Preparing for new financial reporting rules

Insurers including Zurich are preparing to adopt IFRS 17, one of the most significant changes to global financial reporting standards in recent history. Zurich is finalizing the implementation of IFRS 17 and began testing in anticipation of implementation in 2022.

More on **page 192–193**

Tackling risks in a connected world

We closely work with customers to identify risks tied to interconnectivity and cyber, and in 2019 introduced industry-specific coverage for cyber exposures. We also work to instill confidence in a digital society, for example, through our industry-leading data commitment introduced in 2019.

Being a more sustainable business

We are a leader in sustainability and implemented measures to be a more sustainable business, recognized through our ranking in the top percentile of industry peers in the Dow Jones Sustainability Index. Our focus includes climate change, which affects all of us, including our customers and the communities in which we live and work.

More online:
www.zurich.com/sustainability

Keeping abreast of financial market developments

As a long-term investor, our mission is to achieve superior risk-adjusted returns relative to our liabilities. With elevated volatility and interest rates close to historic lows, we have delivered strong investment returns to our policyholders and shareholders. We remain disciplined in managing our well diversified and high quality investment portfolio.

Message from our Group CEO

Growing in retail

In retail, we will focus on enriching our offering with innovative and more flexible products and services, such as our recently launched Zurich klinc on-demand gadget insurance in Spain, and Toggle[SM], a customizable insurance with innovative services for renters, introduced by Farmers in the U.S. We aim to deepen our relationship with existing customers and build out new customer segments, from the millennial and Gen-Z age groups to small- and medium-sized enterprises. Using the insights gained by listening to our customers, we aim to become their preferred insurance provider.

Reinforcing leadership in Commercial Insurance

In commercial, we will build on our position as the world's third-largest insurer to corporate customers. We insure over 400 of the Global Fortune 500 companies, as well as numerous small and mid-sized enterprises. To provide the best service to all our business customers, we have simplified and invested into building a stronger underwriting culture and given our underwriters better tools and insights to more effectively manage our customers' exposures, while further optimizing our portfolio.

Customers have become more sophisticated – they are looking for solutions to manage and prevent risks, as well as transfer them to their insurer. Our unmatched experience and data on risk, losses and loss prevention position us well. We're scaling up and refreshing select products, and expanding product and service offerings that answer changing customer needs. As global warming changes weather patterns, for example, we plan to launch a new Climate Risk Advisory Service to help customers understand the risks they face.

Attracting diverse talent

Our future depends on having the right and best talent. We have received worldwide recognition for our efforts to be a diverse employer, including in our recent commitment to grant equal access to paid maternity and paternity leave globally. We also aim to be a fair employer to all our employees to ensure each of them receives opportunities to develop skills and expertise.

Many of the employee initiatives we have launched since 2016 originated from our employees, testimony to our changing culture.

"Our employees have encouraged us to become a simpler, more sustainable business."

To learn more about how our employees are making a difference at Zurich, see **page 17**

How we delivered on our 2017–2019 targets

	2017–2019 targets	Achieved
BOPAT ROE[1]	>12% and increasing	☑ 14.2%
Z-ECM	100%–120%	☑ 129%[2]
Net cash remittances	>USD 9.5 bn (cumulative)	☑ USD 10.9 bn
Net savings	USD 1.5 bn by 2019 compared with 2015 baseline	☑ USD 1.6 bn

[1] Business operating profit after tax return on equity, excluding unrealized gains and losses.
[2] Full year 2019 Z-ECM reflects midpoint estimate with an error margin of +/–5 percentage points.

We improved our business mix, reduced volatility and improved profitability of our Property & Casualty portfolios while further growing our Life franchise through targeted acquisitions. We entered new and innovative markets and succeeded in reducing expenses. Our management structure has been strengthened and reinforced. And customer and employee satisfaction has improved. Farmers Exchanges has transformed its agents force and expanded its solutions for millennials.

Message from our Group CEO

We listen to our employees because the best way to deliver memorable customer service is to ensure that employees are happy. Thanks to their efforts, we have, for example, vastly reduced the number of meetings and significantly shortened the time needed to respond to commercial customers' queries. Employees have also encouraged us to become a more sustainable business while encouraging entrepreneurs with a social purpose to work with Zurich.

Our role in the world

The more we listen to people's needs, the better our understanding of the role we must play. One theme to emerge is the need to protect the next generation and to create a better future for them to live in.

That is why in 2019 we made three public commitments that will shape our impact for generations to come. First, we believe that global efforts to tackle climate change are moving too slowly and therefore signed the UN Business Ambition for 1.5˚C Pledge. This commits us to develop science-based targets across everything we do and to help customers reduce their dependency on fossil fuels.

Second, we understand that the workplace is changing. From digitalization to intelligent automation, our employees are having to adapt to fresh challenges, new ways of working and a new set of tools. In response, we set out our Work Sustainability principles to help our employees adapt to these changes by developing the skills they need to build a path for their future.

And third, we recognize that trust is at the core of our business. Our customers trust us to protect them and settle their claims fairly and quickly. That trust also extends to how we manage their personal data. That is why we issued a data commitment, which goes beyond legal requirements, and promises to keep our customers' personal data secure and only use it in an ethical and transparent manner.

Responsible and impactful

Our performance over the past few years puts us in an excellent position to pursue our customer-focused strategy with energy and deliver on our ambitious new targets for the next three years. At same time, we know that the changes in insurance and the needs of future generations mean that our journey is a long-term one.

Our solid financial position, the loyalty of our customers and the ingenuity of our employees give us great confidence as we embark on the next phase of this journey to become one of the world's most responsible and impactful companies.

Mario Greco

Mario Greco
Group Chief Executive Officer

Our targets for 2020–2022

	2020–2022 targets
BOPAT ROE[1]	>14% and increasing
Z-ECM	100%–120%
Net cash remittances	>USD 11.5bn (cumulative)
Compound organic earnings per share growth[2]	at least 5% per annum

Customer KPIs
Net new retail customers
Retail brand consideration

We see opportunities to grow the business. We know which type of growth we want to achieve. We will remain cost-driven and continue to simplify the organization. We aim to improve portfolio quality and make better use of capital. To sharpen our focus on customers, we are also adding two new KPIs.

[1] Business operating profit after tax return on equity, excluding unrealized gains and losses.
[2] Before capital deployment.

Our strategy is successful

We continue to focus on customers, while simplifying our business and driving innovation.

Our strategy

Focus on customers

Our transformation to become a truly customer-led company is well underway and we have established a platform from which to evolve and grow.

- In 2019, to improve customer satisfaction and to drive profitable growth, we established a Customer Office.
- We expanded our net promoter score (NPS) program to more countries and customer responses increased to about one million.
- Besides growing organically and through targeted acquisitions, we have signed new distribution agreements giving access to over 80 million potential new distribution customers from 2016 through 2019.
- To ensure an increased focus on customers across the organization we announced two customer key performance indicators (KPIs) to complement our financial targets.
- We continue to deepen our relationship with existing customers and intensify innovation efforts to attract younger customer segments: including millennials and Generation Z.

Simplify

We have successfully simplified our business and operations, to make better use of our resources.

- We delayered our organization, reduced corporate center expenses, and reduced the number of steering committees by one third.
- We cut the number of data centers from over 70 to 13 and the number of network providers from over 140 to one; and we reduced the number of IT applications by about 20 percent.
- We simplified our products and services, which included significantly reducing the number of products in some markets. After focusing on infrastructure and applications we are shifting our focus to simplifying products and processes directly related to customers.

Innovate

We are adapting to make sure we continue to meet and exceed customers' expectations and needs.

- We launched several new solutions for retail customers. And in the U.S., Farmers launched an innovative renters' insurance, Toggle[SM].
- We have tested and launched many propositions to offer customers holistic solutions around mobility, wellcare, property, and travel, and introduced products and services to support these.
- We further developed Zurich Customer Active Management, a unit which allows us to better understand customer needs, giving us insights into what customers really need and want.
- Cover-More, our travel assistance provider, is introducing a mobile platform for customers providing simple, personalized access to our global team of experts, providers and personalized travel offers.

Our strengths provide a good basis for our success.

A solid financial position

We are rated AA–/positive by Standard & Poor's. Our solid financial position can reassure our customers that we will be there when they need us to handle their claims and our shareholders that we are financially stable. It also gives us a well-earned positive reputation as a business and employer, and positions us to invest in future growth.

A balanced business

Our business is balanced geographically, and by products and customer segments. Our strong retail and commercial franchise and flexible operating model position us well to weather economic and market volatility, and to take advantage of industry change.

A trusted brand, talented people

Our understanding of the risks our customers face and ability to structure offerings that meet their needs reinforce our global brand, one of the most valuable in the insurance industry. Our strong reputation allows us to attract the best talent worldwide.

We implement our strategy by remaining true to our purpose and values.

Our strategy (continued)

If you are a UK cyclist planning a trip with your favorite set of wheels, see the story about Laka on **page 11**

We have many stories to tell about our business. Each of these reflect how we are bringing our strategy to life in different ways for the benefit of our customers.

Discover more over the following pages…

To learn more about how Zurich's travel assistance provider, Cover-More, can also help to make traveling a little safer, see **page 15**

To learn more about how all Zurich's risk experts are helping our business customers, see **page 12**

To learn how younger employees are already making a difference across our business, see the future success story on **page 16**

We take many routes to find innovative solutions

We work with startups specialized in digital technology, and we sometimes make strategic acquisitions to gain expertise, seize business opportunities, increase our scale and expand in attractive markets. We also develop solutions in-house, based on our experience and insights. At Zurich, all new ideas must pass one test: They must ultimately benefit our customers. Here are just a few of the many innovative solutions we've introduced to make customers' lives better.

It's a big world. To see it in the best way,
make sure you travel with adequate protection.

Delivering on our strategy (continued)

Zurich klinc/Zurich Now

Sharing new ideas across markets

What do you get when you develop a good idea in one market, and transfer it to a second one? Two good solutions. That's what Zurich did with Zurich klinc, a product we developed and introduced in Spain targeting younger customers who want insurance they can turn on and off to cover items like mobile devices and headphones, computers, cameras, e-bikes, smart watches and scooters. Launched in Spain in 2018, klinc sold over 10,000 policies in that market, mostly to new customers. And, in 2019 Zurich's business in Argentina introduced a product based on klinc called Zurich Now covering smart phones, tablets and notebooks. Since launch in April 2019 in Argentina, Zurich Now has achieved strong sales with over two-thirds of customers aged 25 to 45. And received more than 20,000 inquiries online from potential customers in the first months after introduction, helping us to promote our brand more widely in Argentina.

LiveWell

Rewarding healthy lifestyles

What if you could get encouragement for doing what's good for you? Zurich introduced such an approach in Australia in 2019. Zurich LiveWell is a health and wellness online platform that rewards customers who choose a healthy lifestyle. Besides offering articles, recipes, medical dictionaries and other features, it allows customers to upload information from a wearable fitness device that tracks steps and physical activity. Customers who use it can get a discount on the cost of their life insurance and receive offers from selected third-party providers. Since launch in May 2019, some 30 percent of new life customers in Australia have opted for the Zurich LiveWell program.

Laka

Working with a startup on innovative cycle insurance

Zurich works with London-based start-up Laka, a broker which offers a unique approach to insurance. Laka provides cover for higher-value bikes in the UK with a digital insurance model allowing customers to pay a variable monthly premium based on their share of the overall cost of claims. As passionate experts in cycling, it aims to offer competitive and transparent pricing and since launching in 2018, has written over 3,000 policies. Its offerings include cover for bicycles while traveling and for amateur racing. Laka continues to grow, has received excellent customer feedback and won a UK industry start-up award in 2019.

Delivering on our strategy (continued)

In the business of protecting against risk

Our customers include over 400 of the Global Fortune 500 companies. Our 1,250 risk engineers and risk specialists located in 40 countries are deployed where needed to help customers identify and mitigate risks.

Risk Engineering

Spotting risks where others might not see them

Zurich's customers include large global corporations that work together with our Risk Engineering team to promote understanding of photovoltaic systems. Such research takes into account extensive risk analysis, customer insights and real experience at facilities around the world. Solar energy is an attractive, sustainable technology. But without guidelines, installing such systems on rooftops, for example, may put these beyond the reach of automatic fire detection and protection systems. We are glad to refine and share our insights and make them available, including to all our customers and brokers. Working closely with customers, Zurich published a white paper on this evolving technology. We also collaborate with customers through the global NFPA Fire Protection Research Foundation. White papers, working through the NFPA, and on-site work are just some examples of how we share our insights. Below, Marc Leblanc, Global Account Risk Engineer, assessing solar panels at a commercial site.

Zurich risk engineer Marc Leblanc is known to colleagues and customers for being meticulous.

Delivering on our strategy (continued)

Corporate Life & Pensions

Giving Germans more choices to save for retirement

An occupational pension reform introduced in Germany in 2018 has opened the door to new approaches to pension savings in that country. For Zurich, the changes in the law led it to agree to a new joint initiative with German insurer Talanx. The new collaboration, called 'Die Deutsche Betriebsrente,' or 'The German Occupational Pension,' aims to provide supplementary pensions to groups of employees who are members of trade unions or similar associations. In 2019, 'Die Deutsche Betriebsrente' reached a milestone agreement with the German union, Verdi, which has about two million members, to provide a second-pillar pension plan for Talanx's own 12,000 employees. A first but very important step for 'Die Deutsche Betriebsrente,' which could be a blueprint for similar success stories in the future.

To learn more about ways businesses can manage the impacts of climate risk, see our Zurich Climate Change Whitepaper:
www.zurich.com/en/knowledge/topics/global-risks/managing-impacts-climate-change-risk-management-responses-second-edition

Property & Casualty

Protecting employees

Zurich is the fourth-largest worker's compensation insurance provider in the U.S. Through our innovative predictive model, Vital Signs, we can help reduce the risk that employees may get addicted to opioid painkillers. Beyond potentially saving lives and contributing to people's well-being, the program has enabled employers to lower costs associated with prescription drugs. After Zurich North America introduced its Opioid Case Management program for companies in 2011, its data analytics team helped to develop the Vital Signs model, making it easier to spot potentially at-risk employees. Since its introduction, Zurich's opioid program has delivered an average reduction of opioid utilization by 50 percent. The program also helped Zurich to win the Managed Care Provider Team of the Year award at the 2019 Business Insurance U.S. Insurance Awards.

www.zurichna.com/about/awards-and-recognitions

Farmers

Farmers[1] Insurance® continues to grow innovative offerings

The Farmers Insurance usage-based automobile insurance offering, which aims to be more closely aligned with actual driving behaviors, is now available in 34 states and recently surpassed one billion miles of driver data, while Toggle℠, its next-generation customer digital renters insurance offering, has generated more than 20,000 sales across 23 states. In late fourth quarter 2019, Farmers also began preparations to add to its successful eastern U.S. expansion efforts with a new automobile insurance offering in South Carolina.

[1] Zurich Insurance Group has no ownership interest in the Farmers Exchanges. 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.

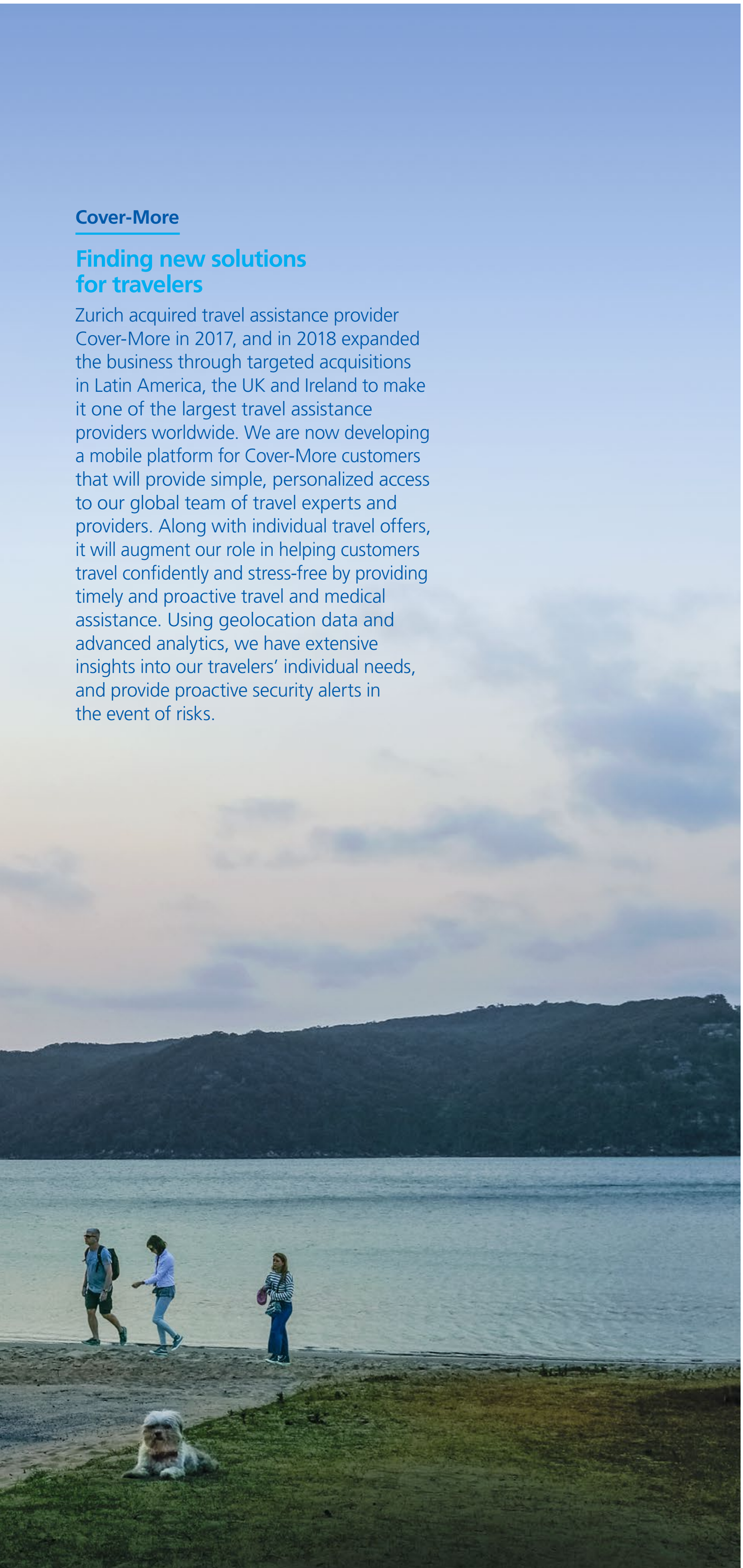
Delivering on our strategy (continued)

Growing in attractive markets

We seek to grow organically and through select, targeted acquisitions where we see potential. And we expand our reach through agreements with other companies, including banks and retail providers, giving us access to millions of potential customers.

It could be any beach, anywhere.
Your experiences will make it special.

Delivering on our strategy (continued)



Cover-More

Finding new solutions for travelers

Zurich acquired travel assistance provider Cover-More in 2017, and in 2018 expanded the business through targeted acquisitions in Latin America, the UK and Ireland to make it one of the largest travel assistance providers worldwide. We are now developing a mobile platform for Cover-More customers that will provide simple, personalized access to our global team of travel experts and providers. Along with individual travel offers, it will augment our role in helping customers travel confidently and stress-free by providing timely and proactive travel and medical assistance. Using geolocation data and advanced analytics, we have extensive insights into our travelers' individual needs, and provide proactive security alerts in the event of risks.

Australia, Latin America, Indonesia

Growing through targeted acquisitions

In Australia, in 2019 Zurich completed the acquisition of OnePath Life in Australia from ANZ to become one of the leading life insurers for retail customers in that country. We also enhanced our access through an agreement with ANZ to allow Zurich to distribute life insurance products through bank channels, giving Zurich potential to attract six million new customers in Australia.

In 2018, we acquired the operations of Australian insurer QBE in Latin America, positioning Zurich as the leading insurer in Argentina and increasing its business in Brazil, Colombia, Mexico and Ecuador. We also acquired the individual and group life businesses and long-term savings operations of EuroAmerica in Chile. All businesses are expected to contribute new customers to support our organic growth in Latin America.

In 2019 we completed acquisition of a majority of Adira Insurance, a leading insurer in Indonesia, to make Zurich the largest foreign property and casualty insurer in a key market in Asia Pacific. The agreement includes long-term cooperation agreements with PT Bank Danamon Indonesia, and Adira Finance, one of Indonesia's largest providers of motorcycle and auto financing.

For more information on acquisitions see **page 205**

Distribution agreements

Gaining access to millions of potential new customers

In 2019 alone, we gained access to over 40 million potential customers through new distribution agreements (and have gained access to over 80 million since 2016). These agreements include, besides those mentioned above, distribution agreements with Brazilian retailer Havan and Tokyo Gas in Japan, as well as an exclusive agreement with Eni gas e luce to make it easier for its customers in Italy to get insurance. We also agreed with MediaMarkt Saturn to make purchase protection available to its customers in Germany. And we entered an agreement to provide insurance and takaful products through Alliance Bank in Malaysia.

Building a business for the future

To succeed requires looking to the future. We are proud that the next generation of employees is already making their voices heard, including those who will occupy our historic, newly renovated Mythenquai headquarters in Zurich. When finished, the building will contribute to our efforts worldwide to promote resource-efficient and innovative workplaces.

Future success

Introducing the NEXT generation at Zurich

At Zurich over 40 percent of our employees were born after 1981. Growing up in an age of increasing digitalization and concerns about climate change has shaped these employees' beliefs, needs and expectations. In 2019, a group of 12 Zurich employees representing our four regions and a variety of businesses founded NEXT, giving them a unified voice, and allowing them to actively address pressing issues society is facing. NEXT has already taken an active part in shaping the future. For example, its members attended the One Young World summit in London in 2019 along with 12 young entrepreneurs whose attendance the Z Zurich Foundation sponsored. These entrepreneurs included Damola Morenikeji, Chief Operating Officer at Joy, Inc., which runs walk-in centers in Nigeria for young people dealing with depression and anxiety.

Delivering on our strategy (continued)

Cultural transition

Employees 'Make the Difference'

In 2018 Zurich launched 'Make the Difference,' which actively seeks to engage employees in promoting a more entrepreneurial culture. So far over 1,250 employees from 28 countries have participated in this in-house program, initiating 60 of the over 700 ideas for improvement submitted by our employees thus far. Thanks to their efforts, we have, for example, vastly reduced the number of meetings, launched the Zurich Innovation Championship, and significantly shortened the time needed to respond to commercial customers' queries. Make the Difference also encouraged us all to become a more sustainable business, introducing paperless meetings and equipping agents with tablets, while encouraging entrepreneurs with a social purpose to work with Zurich.

Zurich Innovation Championship

Actively seeking startups with a business mindset

Through a global contest, the Zurich Innovation Championship, we invite startups to compete for a chance to develop with us the best commercially viable ideas. Launched in 2018, the first Championship produced four winners, including gold winner Chisel AI, whose artificial intelligence product can read commercial insurance documents 400 times faster than a human – and with greater accuracy. The second Championship launched in 2019 will conclude in 2020.

Hackathons

Bright solutions for tomorrow

'Hackathons' bring together programmers, software developers and others to work intensely on tight deadlines, often over a single weekend, to compete in solving specific problems. One such event is HackZurich, among Europe's largest hackathons. In September 2019, 589 contestants with an average age of 24.7 years gathered in the city of Zurich to compete by finding innovative technology solutions in just 40 hours. Zurich, together with Zurich city, sponsored a challenge to find solutions to enable climate-neutral mobility. These events give us an opportunity to support innovation and entrepreneurship. Another such event took place in Chile, where Chilena Consolidada – Zurich Chile sponsored the NASA International Space Apps Challenge 2019 in that country.

After extensive renovation our historic Zurich headquarters will soon be ready to provide a perfect place to develop new ideas. A few younger employees, shown, held a first brainstorming session while touring the building's auditorium.

You can learn more about our new headquarters here:
www.zurich.com/en/about-us/offices

Our business model

Creating sustainable value

The resources we use:

Financial
Our investors provide the financial capital that sustains our business.

Intellectual
Our expertise, including in risk management and investment, contributes to our success.

Human
Our approximately 55,000 employees include some of the most talented people in the insurance industry.

Social and relationship
We maintain strong social ties and relationships with customers, intermediaries, regulators, policymakers and others.

Natural
In our daily business we use natural resources as part of doing business. We conserve them and use them wisely.

What we do:

Life
Protection, savings and investments

Property & Casualty
Insurance, services and risk insights

How our stakeholders benefit:

We create value for our customers
by helping them understand and protect themselves from risk.

More on page 20

We create value for our employees
by aiming to give each the opportunity to work to their full potential.

More on page 22

We create value for our investors
by paying an attractive and sustainable dividend and maintaining a strong balance sheet.

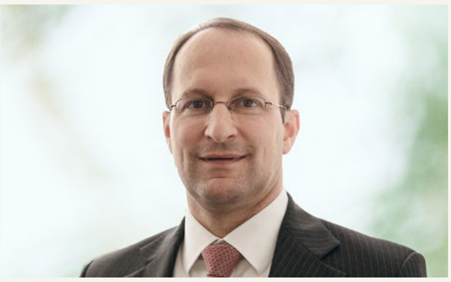
More on page 24

We create value for communities and society
including by mitigating risk and sharing knowledge and expertise.

More on page 26

Our business model (continued)

As an insurer we realize we have responsibilities to customers, society and others who rely on us. As part of that, in 2019, Zurich and the Smith School at the University of Oxford surveyed 18,000 working-aged individuals in 16 countries around the world as part of a project to help governments, insurers and employers empower lifelong, tailored solutions to better protect individuals and address various transition points in their working lives.



"We are keenly aware of the impact that the changing nature of work has on people's financial security. Our studies on this topic, which we call 'agile workforce protection,' help us, as well as employers, governments and individuals, to find flexible and innovative ways to keep insurance relevant as new ways of working evolve alongside traditional job models."

Stefan F. Kroepfl
Global Head of Life Business Analysis
Life Technical Functions

Serve customers and distribute through multiple channels

Our products and solutions are available to customers with a focus on great customer service, through many channels: directly, or indirectly via brokers, through employee benefits consultants, and in cooperation with third parties including banks, travel providers, retailers, rental agreements and car dealerships.

Underwrite and manage risk

Insuring and managing risk is central to what we do. Understanding, measuring and modeling risks helps us to price risk fairly and offer competitive premiums to customers, who also look to us to provide expertise aimed at mitigating risks.

Manage reserves

Our Group-wide policy, the 'Zurich Way of Reserving,' with well-defined and prudent standards, is the basis for how we calculate insurance liabilities. Our reserving process is supported by strong governance, including extensive internal and external reviews.

Invest and deliver returns

Our income includes returns from invested premiums, policy fees and deposits. Our success as a business is important to those who depend on us to reliably pay claims, as well as investors who look to us to deliver savings returns and operate our business responsibly.

Manage claims

In 2019, we paid out more than USD 24 billion in claims. To ensure that we provide a positive experience to customers who do business with us, we are systematically listening to customers through our Net Promoter System (NPS), not only as part of our claims process but throughout all customer touchpoints.

Read Zurich and Oxford's studies on workforce protection here: www.zurich.com/agileprotection
#WorkforceProtection

Stakeholder report 2019 – Customers

Innovation that puts customers first

Our customers are the heart of our business. They are the focus of our strategy. In 2019 we further enhanced the way we serve and engage millions of customers.

Key achievements

- We hired a Chief Customer Officer and defined a new strategy to drive Zurich's 'customer transformation.'
- We continued to listen to our customers through the Net Promoter System (NPS), extending the program to new markets while preparing to step up our efforts to ensure we remain relevant to all customers, including younger ones.
- To measure progress, we are introducing two new customer metrics.
- We gained expertise by collaborating with insurtech start-ups, developed innovative solutions in-house, and gained wider access to customers through new distribution agreements.
- We developed and implemented a commitment to protect customers' data.
- Our Commercial Insurance business is continually looking for new ways to use technology to support our customers with innovative solutions that go well beyond traditional insurance coverage.

New Customer Office

To support the next phase of our customer-led approach, in 2019 we created a Customer Office, and appointed Conny Kalcher to the position of Chief Customer Officer. Her broad experience in customer-led transformation is focused on ensuring an excellent 'customer experience.' Using customer insights and data analytics, we can also ensure that our operating model actively supports our ambitions.

Exceeding customers' expectations

We are making further progress on our global approach to collect and use the information and feedback customers provide to enhance their experience with us. This Group-wide approach has already resulted in an aggregate 10-point improvement of the NPS score from 2018. More importantly the program is helping us understand what really drives customer satisfaction, allowing us to make meaningful improvements across the company. For example, in Spain we introduced a modular motor product to address customer needs for flexible coverage and increased NPS by 11 points; in Italy we digitalized our motor claims offering and increased NPS by 8 points; in Japan we conducted intense training in our claims call center and improved NPS by 6 points.

We are also, together with customers, developing a new 'customer value proposition' in our main markets to remain relevant to existing customers and to build our customer base among younger ones, especially millennials and 'Gen Z'. To measure our progress, we are introducing two new customer metrics: 'brand consideration' and 'net new customers,' covering both customer retention and acquisitions.

"Customers are recognizing our efforts to be more responsive and take their needs into account, as reflected in the NPS score improvement. We have a solid, global customer feedback platform in place and an established process to improve how customers experience us. We are now planning to step up our efforts, so as to play a broader role in customers' lives and truly innovate our service and product experiences."

Conny Kalcher
Chief Customer Officer

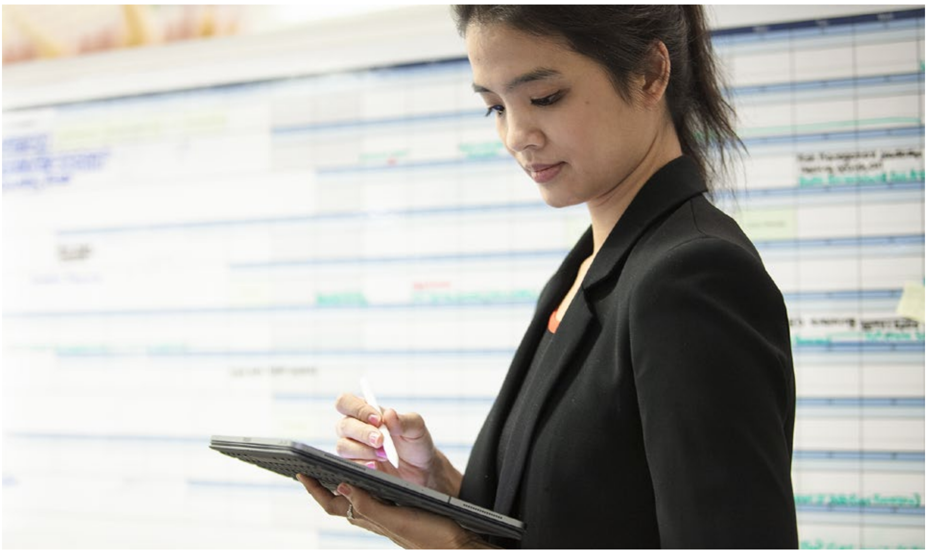
9.9m

In 2019, our Property & Casualty and Life businesses handled 9.9 million claims on behalf of our customers.

>USD 24bn

In 2019, our Property & Casualty and Life businesses paid out more than USD 24 billion to our customers or on their behalf.

Stakeholder report 2019 – Customers (continued)



Putting a risk advisor at your fingertips

Alongside our traditional insurance propositions for businesses we provide solutions to help commercial customers identify and mitigate risks. One such solution is our award-winning Zurich Risk Advisor, a digital platform that helps our customers to better understand and manage their risks. The tool guides our customers through simple questions to help them to generate risk improvement ideas, do a risk self-assessment, and collaborate with our risk engineers anywhere in the world via video chats.

Gaining expertise, growing our business in attractive markets

We aim to be the world's first truly customer-led insurer. We are excited to see how our industry is changing. A lot of this is driven by technology, which offers new opportunities and is transforming how customers live and work, and the services and experiences they expect. We are enthusiastically meeting these challenges, including by working with young and established companies specializing in areas ranging from artificial intelligence to wellness apps, to provide new and personalized solutions.

We are also growing our business in attractive markets through targeted acquisitions and distribution agreements. In 2019 alone we signed cooperation agreements with both start-ups and established companies to gain access to over 40 million potential new customers, which are in addition to the more than 70 agreements we have in place worldwide.

We also launched a new digital platform for agents and brokers to provide them with analytics and data insights, enabling them to personalize advice and customer offerings.

Committing to a responsible approach to customer data

Zurich wants to be a responsible business that makes a positive impact, both on our customers' lives and on society. To do this, in September 2019 we published our global data commitment, in which we pledge to protect customers' personal data. We will not sell it, nor share it, without being fully transparent. We will also put customers' data to work to better protect them.

Measuring our progress

Our customers – operational KPIs

Through the customer insights we get using the net promoter system (NPS) and follow-up calls with customers, we can increase customer loyalty and attract new customers.

More on **page 30**

Customers interviewed through NPS

(Number of customers)

37%

Increase in customer interviews

Stakeholder report 2019 – Employees

Developing talent for tomorrow

As a leading global employer, Zurich is an attractive place to work. We demonstrate our care for employees through our long-term vision and strong sense of purpose. We are making work sustainability our top priority by empowering our people to become fit for the future and take ownership of a life-long approach to learning.

Key achievements

- New initiatives are helping us to make sure our leaders and employees have the right skills for the future.
- We remain proud of our innovative work-based learning to prepare young people across our business for a career in insurance.
- In 2019, our measure of employee loyalty, the employee net promoter score (ENPS) rose, indicating higher levels of employee satisfaction.
- We aim to make sure that our employees' contributions are recognized and rewarded equitably, while making good progress in promoting a truly diverse and inclusive work environment.

Preparing for the future

Zurich wants to invest in and equip employees across all generations, while being ready to meet the needs of future generations. Our purpose is to protect employees, to inspire confidence, and to help them reach their full potential. We want to put in place shared commitments that lead to a sense of security and trust in the workplace as we continue to grow.

Creating a catalyst for our leaders

Zurich wants to do even more to retain and develop talented people. To achieve this, we are delivering a series of programs that will strengthen the capability of our management and leadership. These include innovative initiatives like the 'Catalyst' program designed to foster outstanding leadership skills.

Zurich launched 'Catalyst' in 2019. An immersive 12-month executive development program, in its first year it brought together 26 participants to gain exposure to best practices while developing new capabilities. Besides working with IMD, one of the world's top business schools, participants visit companies considered industry leaders in areas we aspire to excel at within Zurich.

Bringing learning to life through apprenticeship programs

We are expanding apprenticeships and opportunities for work-based learning across our business. For example, in 2016 we introduced an apprenticeship program in the U.S. allowing participants to attend college courses while getting on-the-job work experience. Run in conjunction with Harper College near our North America headquarters in Schaumburg, Illinois, in 2018 the program won an innovation award.

Listening and acting on suggestions through ENPS

We want Zurich to be a great place to work and we recognize the value of feedback and ideas from our employees. We actively listen to employees to measure engagement and loyalty through both the Employee Net Promoter Score (ENPS) and Organizational Health Index (OHI), which tell us what matters most to our people give us ideas of where we need to take action. Our leaders are accountable for creating the right environment so employees can get involved to make Zurich a great place to work. Since April 2017 our ENPS score has increased across the Group from –23 to +30 in October 2019.

"Catalyst is one of the most innovative and far-reaching executive development programs that Zurich has pioneered."

Arnold Dhanesar
Chief Talent Officer at Zurich talks about his role and what Zurich wants to achieve with its programs like Catalyst.

7.2%
Group voluntary turnover

10 years
Average employee tenure

More on **page 30**

Stakeholder report 2019 – Employees (continued)

Participation in these surveys is high with 75 percent of employees taking the ENPS survey in April 2019, and 77 percent in October 2019. Examples of changes we have made based on employee feedback include putting more focus on individual development, getting consistent feedback, supporting employee wellbeing and making sure we measure performance in a fair, objective and transparent way.

Promoting a culture based on merit

A diverse culture drives innovation, motivates people, attracts talent, and is key to our success as a company. We need to give everyone an equal chance to perform at their best, be recognized for their contributions, and have opportunities to grow. To underscore our commitment, in 2019 Group CEO Mario Greco signed the UN Women's Empowerment Principles, which include establishing high-level corporate leadership for gender equality, measuring it, and reporting on progress. And through our equal pay regression analysis, using statistical analysis we can track whether men and women are paid 'equitably' for the same or similar roles and if gender could be a factor affecting pay.

To learn more about other ways Zurich is encouraging younger employees to take an active role see **page 17**

Measuring our progress

Our employees – operational KPIs

To be successful, Zurich needs to attract, select, develop and retain talented and diverse people. Our employees are one of our greatest strengths – they make our goals a reality.

Total number of employees
Headcount

2019	55,369
2018	53,535

Total number of employees
Full-time equivalents (FTE)

2019	54,030
2018	52,267

Talent retention
Employee turnover rate[1]

2019	13.6%
2018	14.1%

Talent retention
Technical functions voluntary turnover[1,2]

2019	6.5%
2018	7.0%

Organizational health and diversity
Females in Leadership Team

2019	22.6%
2018	22.3%

Organizational health and diversity[3]
Employee participation in Group-wide feedback channels

2019	76%
2018	70%

More on **page 30**

1 Turnover figures only consider regular and inpatriate employees.
2 Technical functions include claims, underwriting and risk engineering.
3 Group-wide feedback channels include organization health surveys, employee net promoter scores (ENPS) and any other Group-wide feedback channels. This KPI refers to the average participation rate in the two occurrences of the employee net promoter score survey.

A new way of working and learning in the U.S.

In 2016, Zurich introduced its apprentice program in the U.S. That same year Noelia Salgado began the program. It allowed her to finish her education while working. She completed the program in November 2017 and today works for Zurich as an underwriting support specialist. As she says, "I don't know of any other place where you can learn so much, meet so many different people and work in so many different departments."

Stakeholder report 2019 – Investors

Creating sustainable value for shareholders

Zurich has a highly cash-generative business model supporting an attractive and growing dividend.

Our proposition to investors

- A balanced and diverse global business
- Industry-leading capital levels
- Stable, consistent and conservatively managed balance sheet
- Consistent growth with scope to enhance returns through capital re-deployment

Zurich is a leading global insurer, serving individuals, small businesses, and mid-sized and large companies, as well as multinational corporations. Zurich has significant market share in North America and Europe, a leading position in Latin America and a growing presence in Asia Pacific. With about 55,000 employees, it provides a wide range of property and casualty, and life insurance products and services in more than 215 countries and territories. It also provides certain non-claims and ancillary services to the Farmers Exchanges,[1] a leading personal lines insurer in the U.S.

Zurich is rated in the 'AA' range by three internationally recognized rating agencies. The estimated Zurich Economic Capital Model (Z-ECM) ratio stands at a very strong 129 percent[2] (calibrated to AA). Zurich's financial flexibility is strong, with a conservative 'Aa'-level leverage as defined by Moody's.

The Group's consistent and conservatively managed balance sheet is based on disciplined risk management and producing stable cash flows. A key element of the capital management strategy is to maximize capital fungibility by pooling risk, capital and liquidity centrally as much as possible. Zurich's investment portfolio is generally conservative with an asset allocation comprising mainly publicly traded fixed income securities, with moderate investments in other asset classes.

The Group is committed to a dividend payout of around 75 percent of net earnings, subject to a floor of the prior year dividend level, with dividend increases subject to sustainable earnings growth.

Corporate governance and sustainability

The balanced business profile of Zurich is also supported by best practice corporate governance. Its Board is independent and remarkably diverse in terms of gender and skills. Its remuneration principles align pay to performance and are an important element of the Group's risk management framework.

The Group's ambition is to be one of the most responsible and impactful businesses in the world. Zurich is the first insurance company having committed to setting targets in the framework of the UN Global Compact Business Ambition Pledge that aims at limiting global temperature rise to 1.5°C above pre-industrial levels.

As part of its pledge, it has updated its position on some of the most carbon-intense fossil fuels. In line with Zurich's prior thermal coal policy, Zurich has engaged with both clients and investee companies with more than 30 percent exposure to thermal coal, oil sands and oil shales in a dialogue over a two-year period with the aim to drive a deeper conversation regarding their credible mid to long-term transition plans. Further, Zurich will use only renewable energy as power by 2022, and as such has formally joined the RE100, a global leadership initiative bringing together influential businesses committed to 100 percent renewable electricity. Zurich's sustainable track record is demonstrated by its 'AA' rating from MSCI and by its outperformance to 99 percent of other companies in the insurance industry group of the Dow Jones Sustainability Indices in 2019.

Investor Day 2019

Zurich has announced a range of ambitious targets for the 2020–2022 period, which were presented to investors at an Investor Day in November together with an update on our strategic objectives. The new financial targets will continue to support Zurich's attractive dividend policy, which is unchanged.

For more details please refer to:
www.zurich.com/investor-relations

Investor relations team

Our investor relations team comprises nine individuals, who are responsible for communicating with investors.

For more information, visit: www.zurich.com/en/investor-relations/investor-relations-contact

[1] Zurich Insurance Group has no ownership interest in the Farmers Exchanges. 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.
[2] Reflects midpoint estimates as of December 31, 2019 with an error margin of +/–5 pts.

Stakeholder report 2019 – Investors (continued)

Financial calendar

Annual General Meeting
April 1, 2020

Ex-dividend date
April 3, 2020

Dividend payable from
April 7, 2020

Update for the first three months
May 14, 2020

Zurich Insights – Investor Event
May 19, 2020

Half year results 2020
August 13, 2020

Update for the first nine months
November 12, 2020

Further details are available online:
www.zurich.com/en/investor-relations/calendar

Provision of financial information

Zurich's annual financial results are published in electronic form on Zurich's website. Detailed information for the Group and the key segments are published for the half and full year. Information on the Group's updates for the first three months and first nine months includes highlights for the quarter and qualitative comments on trading and market trends. Zurich's management hosts an investors' and analysts' call each quarter.

Monitoring and measuring our performance

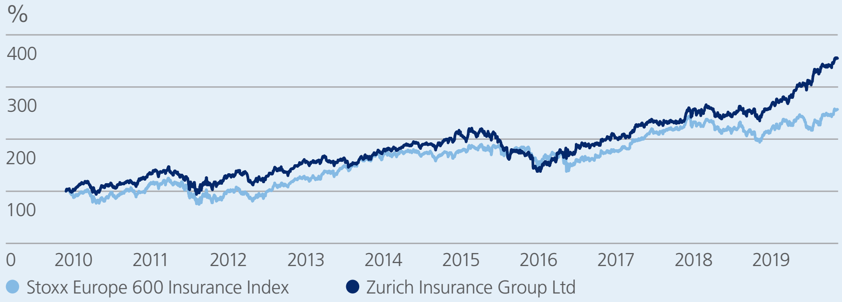
Proposed gross dividend per share for 2019

CHF 20.00[1] per share

(CHF 19.00 in 2018)

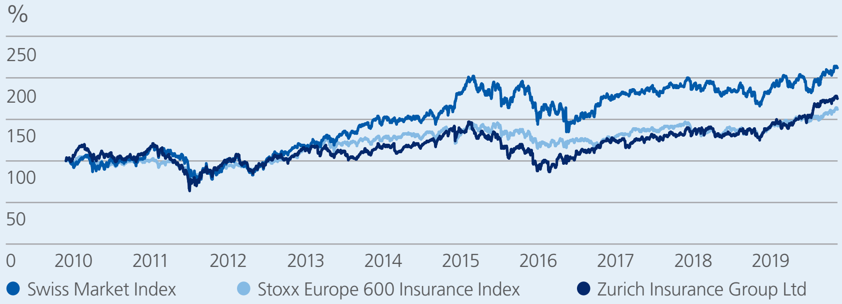
Dividend a key part of total shareholder return (TSR)

Total shareholder return in U.S. dollars



Source: Thomson Reuters Datastream

Zurich share performance (indexed) over the last 10 years



Source: Thomson Reuters Datastream

Share data (CHF)

As of December 31

	2019	2018
Dividend per share	**20.00[1]**	19.00
Share price at end of period	**397.10**	293.10
Price period high	**403.30**	320.00
Price period low	**293.00**	284.10
Market capitalization (CHF millions)	**59,409**	44,360

[1] Proposed dividend, subject to approval by shareholders at the Annual General Meeting, expected payment date as from April 7, 2020. Gross dividend, subject to 35 percent Swiss withholding tax.

For more details on dividends see:
www.zurich.com/en/investor-relations/our-shares/dividends

Stakeholder report 2019 – Communities and society

Taking a long-term view by acting now

Zurich is proud to make a difference in the lives and futures of our customers, employees, investors, communities and society at large. In 2019 we made some significant commitments to align our business to a low-carbon future by addressing climate risk.

Key achievements

- We want to do all we can to reduce climate risk, including by becoming the first insurer to sign a global pledge to help reduce global warming.
- Our impact investments in 2019 rose to USD 4.6 billion, and demonstrating our commitment to addressing climate risk, we improved our Carbon Disclosure Project (CDP) score.
- We continued to disengage and divest our exposure to harmful fossil fuels including thermal coal.
- We increased our commitment to help society understand and protect against climate risks, including through our Flood Resilience Alliance.

2019 marked an evolution in our approach to be a leader in sustainability. Through our actions, together with the Z Zurich Foundation, we are working to address the risks that will affect all of us in the future – unless we act today.

Providing leadership on global warming

In 2019 we signed up as the first insurer to the 'Business Ambition for 1.5°C Pledge,' which requires companies to set science-based targets aligned with limiting global temperature rise to 1.5 degrees Celsius (2.7 degrees Fahrenheit) above pre-industrial levels. We also have joined the UN's Net-Zero Asset Owner Alliance as a founding member, committing to a zero-emissions portfolio of investments by 2050.

According to the latest data available, in 2018[1] we achieved a 20 percent reduction in CO2-equivalent emissions per employee compared with the 2015 baseline.[1] This success is attributed to our continued focus on high quality, environmentally efficient workplaces, and maintaining our focus on responsible business travel. In 2019, Zurich joined the RE100 leadership initiative, committing to source 100 percent of electricity from renewable sources by end-2022. We have also been working diligently to eliminate single-use plastics from our operations and reduce internal paper usage by 80 percent. New emissions reductions targets will be set for our operations in 2020, in line with our 1.5°C Pledge.

Flood Resilience Alliance

Increasing resilience to floods

We established our Zurich Flood Resilience Alliance with funding from the Z Zurich Foundation in 2013. Its disaster risk reduction activities have so far directly benefited 225,000 people across 13 programs in nine countries, helping them to survive and even thrive despite risk of repeated flooding. The Alliance members are committed to advocating for increased investment into building resilience before a flood strikes, seeking to generate an additional USD 1 billion from public and private sources for 'pre-event' mitigation and helping make two million people worldwide more flood resilient. Its Post Event Review Capability (PERC) methodology won an outstanding achievement award from the U.S. National Hurricane Conference in 2019, recognizing our approach to evaluating how natural hazard events turn into community disasters.

To read about our award from the U.S. National Hurricane Conference see: www.zurichna.com/about/awards-and-recognitions

Our flood resilience alliance has directly benefited

225,000

people

[1] Environmental performance results for 2019 will be available after this Report is published.

Stakeholder report 2019 – Communities and society (continued)

Disengaging and divesting from thermal coal, oil sands and oil shale

Fossil fuels emit carbon dioxide (CO2) when burned and extracting them can harm the environment. We are working with customers and companies in which we invest that have more than 30 percent exposure to thermal coal, oil sands and oil shales to help them to reduce their use and exposure to these fuels. Zurich will also generally no longer underwrite or invest in companies generating more than 30 percent of their revenue from mining or more than 30 percent of their electricity from thermal coal.

Investing for the future

Our impact investment portfolio grew from USD 3.8 billion in 2018 to USD 4.6 billion in 2019, helping to avoid 2.8 million tons of CO2-equivalent emissions, and improve the lives of 4.2 million people annually. Green bonds in the impact portfolio, the largest single category, exceed USD 3 billion. Other asset classes are social and sustainability bonds. We have also invested in seven private equity funds active in areas like financial inclusion to give as many people as possible access to financial products and services, and clean technology. We are also financing impact infrastructure via our private debt portfolio, such as wind and solar farms.

Planting a forest, one policy at a time

In the UK, for every life or travel insurance policy bought online, we've pledged to plant one tree to help reduce carbon emissions. We planted almost 50,000 trees by the end of 2019.

To learn more see:
https://tree-nation.com/profile/zurich

Practical benefits of impact investing

In 2019, Zurich introduced an innovative framework for measuring the impact of social and environmental investments. Zurich believes the approach is the first of its kind to measure CO2-equivalent emissions avoided and the number of people who benefited from its investments, across asset classes and investment instruments.

See our sustainability highlights for more information about how we support communities:
www.zurich.com/sustainability

To learn more about our responsible investment approach:
www.zurich.com/en/sustainability/responsible-investment

Marking our progress

Impact investments can help promote sustainable growth and support communities while offering a financial return in line with risks. Zurich is committed to investing up to USD 5 billion in impact investments, thus aiming to improve the lives and livelihoods of five million people.

For all sustainability metrics, see **pages 29–35**

Zurich's total impact investments[1]
(USD billions)

Goal: USD 5bn impact investments

People benefiting from our impact investments[2]

4.2m in 2019
(2018: 2.4m)
Goal: 5m people

[1] Impact investments in 2019 consisted of: green bonds (USD 3.1 billion), social and sustainability bonds (USD 539 million), and investments committed to private equity funds (USD 163 million, thereof 36 percent drawn down) and impact infrastructure private debt (USD 747 million).
[2] Number of people who have benefited from services in education, health, housing or financial inclusion and other measures aimed at improving lives, improvements that are directly related to Zurich's investments.

Z Zurich Foundation

The Z Zurich Foundation: separate paths, one goal

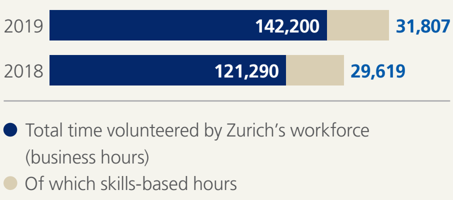
Using Zurich's skills and expertise, the Z Zurich Foundation (the Foundation), a private foundation funded by Zurich,[1] has made a tangible difference to the lives of people in thousands of communities over nearly 50 years and is continuing to develop new ways to make a difference to people in many parts of the world. It aims to improve the lives of more than 1 million vulnerable people and have a wider positive impact on 10 million other people by 2024.

Besides the Zurich-led award-winning global Flood Resilience Alliance, which the Foundation funds, it supports a variety of local projects around the world, for example, helping an organization train teachers in Turkey to run schools, to supporting 'Beyond Empathy' in Australia by participating in a film to bring the stories of young indigenous people to the attention of a wider audience.

The Foundation's success rests on the commitment of Zurich's employees who give their time, money and skills, including through organizations that work with Zurich. Part of our efforts include helping vulnerable people often overlooked by traditional insurance.

"The Foundation and Zurich help communities to build resilience, either directly or through charities we work with," says Gary Shaughnessy, Chair of the Board of Trustees of the Zurich Foundation.

Zurich employees contributing time and skills to improve lives and support those in need
Hours



A few of the many ways that the Z Zurich Foundation is making a difference:

Helping communities affected by Australia's wildfires

The Foundation is providing support to people affected by Australian bushfires that devastated parts of the continent in 2019 and 2020. In addition to the initial donation of AUD 100,000 split between the Australian Red Cross and the Rural Fire Service, the Foundation will contribute a further 50 percent on top of the first AUD 1 million donated to the Red Cross on a dedicated donation site. The funding will be used to provide immediate relief and to help communities in Australia to become more disaster-resilient, as well as to provide training, equipment and support for volunteers.

Fighting homelessness in Canada

In Canada, the Z Zurich Foundation worked with a group of charities that formed the RESOLVE Campaign to raise money to provide affordable housing for the homeless in Calgary. The Z Zurich Foundation committed CAD 1 million to one of the charities involved in the program to help pay off the mortgages on nearly 300 new, purpose-built housing units, while Zurich Canada employees volunteered to help individuals to develop life and job skills.

Volunteering in Latin America

The Foundation provided funding to help renovate a school in Colombia. In 2019, led by Zurich's CEO Latin America Claudia Dill, over 150 top Zurich executives from countries in the region joined local tradespeople to renovate the local school in Cartagena, Colombia. During the time they spent at the school, they could do a thorough job of repairing, painting, installing new plumbing, planting gardens and providing a library.

[1] Z Zurich Foundation is a charitable foundation established by Zurich Insurance Company Ltd and Zurich Life Insurance Company Ltd, in accordance with Swiss law, with registered office in Zurich. Z Zurich Foundation also collaborates with other local community investment programs; in the UK together with the Zurich Community Trust and in Germany with the Zurich Kinder- und Jugendstiftung.

Consolidated non-financial statements

Contents

We are including in our Annual Report information on a comprehensive set of 'non-financial' measures that we use to monitor and report information related to our four key stakeholder groups. The information is based on the requirements some of our subsidiaries and branches are required to follow since 2017, as stipulated by the Directive on the disclosure of non-financial and diversity information by certain large undertakings and groups (Directive 2014/95/EU). We believe that providing these metrics gives a more complete overview of our business, and shows how we monitor our effectiveness in these areas pertaining to social information and employees, customers, responsible investment, the environment, and our tax contributions. We have also used references to the Global Reporting Initiative (GRI) as an index to help our stakeholders find the information relevant to them throughout the Annual Report and on our Group website without adhering to the standards listed in the index in its entirety.

PricewaterhouseCoopers AG performed limited assurance procedures on the indicators for social and environmental matters as well as those related to responsible investment as outlined in their independent assurance report at the end of this section.

Introduction

Zurich sees innovation and sustainability as key to our approach. We need both, working together to achieve our goals for all stakeholders: customers, employees, investors and communities.

"The next generation is looking to the future with uncertainty. The world has become less predictable. By being an innovative company, we want to give people faith in a more sustainable future."

Giovanni Giuliani
Group Head of Strategy, Innovation and Business Development

"We care about society and we need to find new ways to manage the global risks that we're facing. That requires innovative thinking that goes beyond simply looking for short-term solutions."

Linda Freiner
Group Head of Sustainability

The information contained within the consolidated non-financial statements is based on the consolidated results of the Group for the years ended December 31, 2019 and 2018. Amounts are 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 stakeholders reports from the Group overview section of this Annual Report, and with the Sustainability Highlights 2019 report of the Group which is available on www.zurich.com.

Consolidated non-financial statements (continued)

Voice of the customer

	2019	2018	Change
Number of customers interviewed through Zurich's NPS program[1]	**1,047,000**	763,000	37%
Number of close the loop feedback calls	**72,000**	52,000	38%

[1] In 2019, Zurich interviewed over one million customers (including Zurich Santander) in 25 countries through its NPS (Net Promoter System) program.

Our global net promoter system (NPS) program provides us with insights on how to grow and retain existing as well as attract new customers by creating excellent customer experiences. Ultimately the aim is to increase the share of promoters we have among our customers. We measure NPS by sending surveys to our customers across 25 countries and are now covering 90 percent of our business (in revenue terms). We always close the loop with our detractors, a process in which all of our executives are also involved.

People indicators

	2019	2018	Change
Total number of employees – headcount	**55,369**	53,535	3%
Total number of employees – FTE (full time equivalents)	**54,030**	52,267	3%
Employee turnover rate[1]	**13.6%**	14.1%	(0.5 pts)
Average tenure (years)	**10**	10	n.m.
Group voluntary turnover[1]	**7.2%**	7.5%	(0.3 pts)
Technical functions voluntary turnover[1,2]	**6.5%**	7.0%	(0.5 pts)
Female workforce participation	**51.1%**	50.7%	0.4 pts
Female participation in Leadership Team	**22.6%**	22.3%	0.3 pts
Employee participation in Group-wide feedback channels[3]	**76.0%**	70.0%	6.0 pts
Employee net promoter score (ENPS)[4]	**+26**	+7	19.0 pts

Notes: For 2019, the heading of this section was changed to 'people indicators' to better reflect the content. The 'active learners' key performance indicator is not reported for 2019 due to a change in reporting systems. Bolivia and the Farmers Exchanges are not in scope of any above key performance indicators (KPIs). 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.
[1] Turnover figures only consider regular and inpatriate employees.
[2] Technical functions include Claims, Underwriting and Risk Engineering.
[3] Group-wide feedback channels include organization health surveys, employee net promoter scores (ENPS) and any other Group-wide feedback channels. This KPI refers to the average participation rate in the two occurrences of the employee net promoter score survey.
[4] ENPS is calculated as the average of the two surveys carried out during the year, measuring employee loyalty through the likelihood to recommend the company as a place to work. ENPS is based on the methodology of measuring and improving customer satisfaction and loyalty (transaction NPS and relationship NPS) which Zurich uses as a successful method to retain customers.

Community investment

	2019	2018	Change
Fundraising and donations (USD millions)	**2**	2	n.m.
of which from Zurich employees (USD millions)	**1**	1	n.m.
of which matching by Zurich business units (USD millions)[1]	**1**	1	n.m.
Total time volunteered by workforce (business hours)	**142,200**	121,290	17%
of which skills-based hours	**31,807**	29,619	7%
Workforce actively volunteering (% of total headcount)[2]	**20.3%**	n/a	n/a
Total full year charitable cash contributions by Zurich business units (USD millions)[1,3]	**12**	10	18%
Total full year charitable cash contributions by Zurich to Z Zurich Foundation (USD millions)[4]	**40**	–	n/a

Notes: Zurich Insurance Group and its employees are contributing through fundraising, volunteering and cash contributions apart from the community investment activities carried out by the Z Zurich Foundation.
[1] Excluded are corporate donations made by the Farmers Exchanges. Zurich Insurance Group has no ownership interest in the Farmers Exchanges. 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.
[2] In 2019, we reinstated our KPI for measuring the number of unique Zurich employees who participated in one or more volunteering events throughout the year.
[3] This includes the matching by Zurich business units amount in the fundraising and donations.
[4] Previously, charitable contributions of the Z Zurich Foundation were valued on a cash-out basis for the purposes of the key performance indicators. Starting from 2019, contributions cover the total charitable donations made by various legal entities of the Zurich Insurance Group to the Z Zurich Foundation on a cash-out basis. The previously reported 2018 figures have been restated based on that new approach.

Consolidated non-financial statements (continued)

Responsible investment

	2019	2018	Change
External asset managers who are signatories to PRI (%)[1]	**81.3%**	74.2%	7.1 pts
Group assets managed by PRI signatories (%)[2]	**97.5%**	97.2%	0.3 pts
Total amount of impact investments (USD millions)[3]	**4,555**	3,790	20%
Investment portfolio (USD millions)[4]	**204,803**	195,472	5%

1 The United-Nations supported Principles for Responsible Investment (PRI).
2 Including assets managed by Zurich.
3 Impact investments in 2019 consisted of: green bonds (USD 3.1 billion), social and sustainability bonds (USD 539 million), investments committed to private equity funds (USD 163 million, thereof 36 percent drawn down) and impact infrastructure private debt (USD 747 million).
4 The investment portfolio is calculated on a market basis, and is different from the total Group investments reported in the consolidated financial statements, which is calculated on an accounting basis and doesn't include cash and cash equivalents.

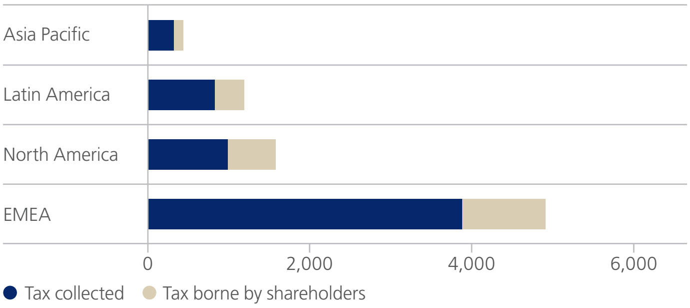
Environmental performance

	2018	2017	Change
Impact of real estate investment: Energy consumption (kWh per sqm)[1, 2]	**113**	114	(1%)
Impact of real estate investment: CO2e emissions (kg per sqm)[1, 2]	**27**	28	(4%)
Own operations: CO2e emissions per employee (metric tons per FTE)[2, 3]	**1.9**	2.1	(6%)

1 Scope includes real estate investments in Switzerland (40 percent of global direct real estate investment value). Buildings in the real estate investment portfolio are largely not used by Zurich. The data are based on meter readings and energy supplier information and are heating degree adjusted.
2 CO2e emissions per employee data 2019 will be available in Q2 2020, and Impact of real estate investment data 2019 will be available in Q1 2021.
3 Includes emissions from own-use real estate (electricity and heat), from air travel, rail and cars (rental cars and car fleet).

Total tax contributions[1] 2018[2]

2018 total tax contributions by region
in USD millions



1 Numbers based on IFRS excluding deferred income tax.
2 Tax contributions for 2019 will be available in Q2 2020.

Top 10 countries with the highest total tax contribution in 2018

Country (in USD millions)	Total tax contribution	Tax collected	Tax borne by shareholders
U.S.	1,546	954	592
Switzerland	1,372	1,076	295
Germany	1,086	855	231
UK	848	693	155
Brazil	513	330	183
Italy	452	379	73
Spain	382	234	148
Austria	315	290	25
Argentina	305	223	82
Australia	294	242	52

The balance between 'total tax collected' and 'tax borne by shareholders' varies between regions and countries due to Zurich's local footprint but also due to different characteristics of the various tax jurisdictions where Zurich operates.

GRI index

GRI is an international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others. We have used references to the Global Reporting Initiative (GRI) as an index below to help our stakeholders find the information relevant to them throughout the Annual Report and on our Group website without adhering to the standards listed in the index in its entirety. This index lists the organization's reports and web pages and their reference to the following GRI Standards.

General Disclosures

Number	Disclosure name	Reference and page number
102-1	Name of the organization	**AR inside front cover (ifc)**
102-2	Activities, brands, products, and services	**AR ifc, 11 to 15 and 18 to 21; SR 12 to 15**
102-3	Location of headquarters	**AR ifc**
102-4	Location of operations	**AR 10 to 15, 270 and 283 to 287**
102-5	Ownership and legal form	**AR 188 and 299**
102-6	Markets served	
102-7	Scale of the organization	**AR ifc**
102-8	Information on employees and other workers	**AR 16 to 17, 22 to 23 and 30**
102-9	Supply chain	**SR 37; CDP**
102-10	Significant changes to the organization and its supply chain	**AR 5 to 7, 10 to 17, 175 and 205 to 207**
102-11	Precautionary principle or approach	**AR inside back cover**
102-12	External initiatives	**AR 20 to 28; SR 11 and 38 to 39**
102-13	Membership of associations	**CDP**
102-14	Statement from senior decision-maker	**AR 2 to 7, 38 to 39, 90 to 91, 126 to 127, 164 to 165 and 176 to 177; SR 5**
102-15	Key impacts, risks, and opportunities	**AR 10 to 17 and 126 to 127; CDP; SR 7 to 9 and 14 to 15**
102-16	Values, principles, standards, and norms of behavior	**AR 4 to 8; SR 10**
102-17	Mechanisms for advice and concerns about ethics	**AR 78**
102-18	Governance structure	**AR 41 to 43; SR 10; CDP**
102-19	Delegating authority	**SR 10; CDP**
102-20	Executive-level responsibility for economic, environmental, and social topics	**AR 58; SR 10**
102-21	Consulting stakeholders on economic, environmental, and social topics	**SR 7 to 8**
102-22	Composition of the highest governance body and its committees	**AR 46 to 63**
102-23	Chair of the highest governance body	**AR 2 to 3, 38 to 39 and 48; SR 10**
102-24	Nominating and selecting the highest governance body	**AR 48**
102-25	Conflicts of interest	**AR 54 and 74 to 78**
102-26	Role of highest governance body in setting purpose, values, and strategy	**AR 62**
102-27	Collective knowledge of highest governance body	**AR 62**
102-28	Evaluating the highest governance body's performance	**AR 56 to 58**
102-29	Identifying and managing economic, environmental, and social impacts	**AR 57 to 58**
102-30	Effectiveness of risk management processes	**AR 155**
102-31	Review of economic, environmental, and social topics	**AR 38 to 39**
102-32	Highest governance body's role in sustainability reporting	**AR 57; CDP**
102-33	Communicating critical concerns	**AR 69; CDP**
102-35	Remuneration policies	**AR 97 to 100**
102-36	Process for determining remuneration	**AR 100 to 106**
102-37	Stakeholders' involvement in remuneration	**AR 104 and 106**
102-40	List of stakeholder groups	**AR 18; SR 7; CDP**
102-41	Collective bargaining agreements	
102-42	Identifying and selecting stakeholders	**SR 7**
102-43	Approach to stakeholder engagement	**AR 18 to 19; SR 7**
102-44	Key topics and concerns raised	**SR 7 to 8**
102-45	Entities included in the consolidated financial statements	**AR 283 to 287**
102-46	Defining report content and topic boundaries	**AR 188 to 193 and 299**
102-47	List of material topics	**SR 7 to 8**
102-49	Changes in reporting	**AR 190 to 193**
102-50	Reporting period	**AR 188 to 189 and 299**
102-51	Date of most recent report	**SR 1; CDP**
102-52	Reporting cycle	**AR 179; SR 4; CDP**
102-53	Contact point for questions regarding the report	**AR 313**
102-55	GRI content index	**AR 32 to 33; SR 42 to 43**
102-56	External assurance	**AR 34 to 35, 75 to 76, 122, 290 to 295 and 306 to 309; SR 40 to 41**

Key:

AR Annual Report 2019 **SR** Sustainability highlights 2019*
CDP CDP submission 2019 Link to Zurich Insurance Group website

* The Sustainability Highlights 2019 report includes the United Nations Global Compact communication on progress and our progress in implementing the UN Environment Programme Finance Initiative Principles for Sustainable Insurance. For more information see www.zurich.com/en/sustainability

GRI index (continued)

	Number	Disclosure name	Reference and page number
Management Approach	103-1	Explanation of the material topic and its boundary	**SR 7 to 9**
	103-3	Evaluation of the management approach	**AR 62 to 63; SR 7 to 9**
Economic Performance	201-1	Direct economic value generated and distributed	**AR 179 to 187**
	201-2	Financial implications and other risks and opportunities due to climate change	**AR 157 to 160; CDP**
	201-3	Defined benefit plan obligations and other retirement plans	**AR 242 to 249**
	201-4	Financial assistance received from government	**AR 234**
Indirect Economic Impacts	203-1	Infrastructure investments and services supported	**SR 17 to 18 and 27 to 30; CDP**
	203-2	Significant indirect economic impacts	**SR 14, 28 to 30 and 32 to 34; CDP**
Materials	301-2	Recycled input materials used	
Energy	302-1	Energy consumption within the organization	**CDP**
	302-3	Energy intensity	**CDP**
	302-4	Reduction of energy consumption	**SR 35 to 37; CDP**
Emissions	305-1	Direct (Scope 1) GHG emissions	**AR 1 and 31; SR 37; CDP**
	305-2	Energy indirect (Scope 2) GHG emissions	**CDP**
	305-3	Other indirect (Scope 3) GHG emissions	**CDP**
	305-4	GHG emissions intensity	**CDP**
	305-5	Reduction of GHG emissions	**SR 35; CDP**
Supplier Environmental Assessment	308-1	New suppliers that were screened using environmental criteria	**CDP**
Employment	401-1	New employee hires and employee turnover	**AR 30; SR 26**
Occupational Health and Safety	403-1	Occupational health and safety management system	**SR 24**
	403-6	Promotion of worker health	**SR 24 to 25**
Training and Education	404-1	Average hours of training per year per employee	
Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	**AR 30 and 49**
Public Policy	415-1	Political contributions	

Key:

AR Annual Report 2019
SR Sustainability highlights 2019*
CDP CDP submission 2019
Link to Zurich Insurance Group website

* The Sustainability Highlights 2019 report includes the United Nations Global Compact communication on progress and our progress in implementing the UN Environment Programme Finance Initiative Principles for Sustainable Insurance. For more information see www.zurich.com/en/sustainability

Independent assurance report

To the Executive Committee of Zurich Insurance Group AG, Zurich

We have been engaged to perform assurance procedures to provide limited assurance on the non-financial reporting of Zurich Insurance Group AG and its consolidated subsidiaries ('ZIG') for the year ended December 31, 2019.

Scope and Subject matter

Our limited assurance engagement focused on selected non-financial indicators published in the Annual Report 2019 of ZIG:

a) The 2019 "People indicators" on page 30, the 2019 "Community investment" indicators on page 30, the 2019 "Responsible investment" indicators on page 31 and the 2018 "Environmental performance" indicators on page 31 ("the non-financial indicators"); and

b) The management and reporting processes with respect to the selected non-financial indicators as well as the control environment in relation to the aggregation of these non-financial indicators.

Criteria

The reporting criteria used by ZIG are described in the internal reporting guidelines and define those procedures, by which the non-financial indicators are internally gathered, collated and aggregated.

Inherent limitations

The accuracy and completeness of non-financial indicators are subject to inherent limitations given their nature and methods for determining, calculating and estimating such data. Our assurance report should therefore be read in connection with ZIG's internal guidelines, definitions and procedures on non-financial reporting. Further, the greenhouse gas quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

ZIG Responsibilities

The Executive Committee of ZIG is responsible for both the subject matter and the criteria as well as for selection, preparation and presentation of the information in accordance with the criteria. This responsibility includes the design, implementation and maintenance of related internal control relevant to this reporting process that is free from material misstatement, whether due to fraud or error.

Our Responsibilities

Our responsibility is to form an independent conclusion based on our limited assurance procedures on whether anything has come to our attention to indicate that the non-financial indicators are not stated, in all material respects, in accordance with the reporting criteria.

We planned and performed our procedures in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (revised) 'Assurance engagements other than audits or reviews of historical financial information' and with ISAE 3410 'Assurance Engagements on Greenhouse Gas Statements'. These standards require that we plan and perform the assurance engagement to obtain limited assurance on the identified non-financial indicators.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement and therefore less assurance is obtained with a limited assurance engagement than for a reasonable assurance engagement.

Independent assurance report (continued)

Our Independence and Quality Control
We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of work performed
Our limited assurance procedures included, but were not limited to the following work:

- Reviewing the application of ZIG's internal guidelines using a sample of affiliates in Switzerland, UK, USA, Germany, Spain, Ireland, Isle of Man and Hong Kong
- Interviewing ZIG representatives at Group level responsible for the data collection and reporting
- Performing tests on a sample basis of evidence supporting the non-financial indicators as outlined in the scope and subject matter section concerning completeness, accuracy, adequacy and consistency
- Inspecting the relevant documentation on a sample basis
- Reviewing and assessing the management reporting processes for non-financial reporting and consolidation and their related controls

We have not carried out any work on data other than outlined in the scope and subject matter section as defined above. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our assurance conclusions.

Limited assurance conclusion
Based on the procedures we performed, nothing has come to our attention that causes us to believe that

a) The non-financial indicators as described in the scope and subject matter section are not prepared and disclosed in all material respects in accordance with ZIG's internal reporting guidelines; and

b) The management and reporting processes to collect and aggregate the non-financial indicators as well as the control environment in relation to the data aggregation are not functioning as designed.

PricewaterhouseCoopers AG

Peter Eberli Raphael Rutishauser

Zurich, February 20, 2020

Governance

Message from our Chairman on corporate governance

Insurance is perfectly placed to support society on environmental, social and governance (ESG) challenges, and Zurich has accelerated its contribution in the area of investments and insurance products and offerings. Furthermore, we are committed to work sustainability through our aims to build employability – making sure we provide our employees and others in the community with skills needed to keep pace with change – while playing our part in creating a sustainable future for all our stakeholders.

Creating sustainable value
for all our stakeholders

"With a clear strategy and a strong commitment to sustainability, we embed ESG issues across our business."

Michel M. Liès
Chairman of the Board of Directors

Message from our Chairman on corporate governance

Dear Shareholder

Good corporate decision-making is key to our organization. We continued to strengthen our governance structure in 2019.

Sustainability is becoming increasingly important

Over the past twelve months, creating sustainable value for all stakeholders on environmental, social and governance (ESG) issues has become an even greater imperative for businesses. For example, the effects of climate change are increasingly becoming felt in the here and now, while young people are making their voices heard like never before.

Insurance is perfectly placed to support society on ESG challenges, and Zurich has accelerated its contribution. Key moments in 2019 included becoming the first insurer to sign up to the UN's Business Ambition for 1.5°C Pledge and joining the UN-convened Asset Owner Initiative for Net Zero Portfolios'. These commit us to tackling climate change and facilitating transition to a low carbon environment through our operations, our relationships with customers and in the way we invest our assets.

On social issues, we are helping workers protect incomes and fund longer retirements, as well as building employability and digital skills among our employees and communities. We are committed to Work Sustainability and promote a work culture in which everyone – employer and employee, each playing their part – can pursue their ambitions, with the aim to that we are all better prepared for the future, together. And with regard to our third pillar of our sustainability strategy, building trust in a digital era, we recently released our global Data Commitment – a binding pledge to use our customers' data responsibly and securely.

And, in a fast-changing world marked by challenges such as climate change, cyber risks and new skillsets, sustainability is more than an objective. It is a principle that underpins everything we do so that future generations can thrive.

Good governance supports our sustainable business

To add sustainable value, a business must also sustain itself. The Board's traditional governance and oversight functions are therefore crucial, with frameworks regularly reviewed to ensure robustness. As management continues to pursue transformation of the business, the Board is focusing on the long term perspective and planning. And, as we move into a new strategic cycle in 2020, the Board will encourage a learning culture within the business and further tangible impacts from our sustainability strategy.

Changes to our Board and Executive Committee

At the Annual General Meeting (AGM) on April 3, 2019, Michael Halbherr, Jasmin Staiblin and Barry Stowe were elected to join the Board of Directors as new members. David Nish did not stand for re-election. The Board proposes to shareholders that they re-elect all current members of the Board at the AGM on April 1, 2020.

Amanda Blanc, former CEO EMEA and Bank Distribution, decided to step down from her role as of July 2, 2019, and Alison Martin took over the role as CEO EMEA and Bank Distribution effective July 9, 2019, while continuing as Group Chief Risk Officer (Group CRO) until September 30, 2019. On October 1, 2019, Peter Giger took up the role of Group CRO and became a member of the Executive Committee (ExCo).

These appointments continue to enhance diverse thinking within our Board and Executive team, as a result of different tenures, a more balanced gender mix, different professional backgrounds, geographic origins or other factors. Such diversity represents the global nature of our business and our customer and employee base. It enables us to see the full picture, promotes innovation, boosts productivity and ultimately delivers better results.

Zurich stakeholders

Acting sustainably matters to all our stakeholders, and Zurich's strategy will enable us to deliver a positive impact for all of them. Thank you for your continued trust, support and engagement.

Michel M. Liès
Chairman of the Board of Directors

We have progressed in line with our evolving sustainability philosophy

2010 Zurich drops out of the DJSI

2011 Zurich re-enters the DJSI

2014 Bronze class in DJSI

2015 #2 in DJSI Silver class

2016 #3 in DJSI Silver class

2017 #3 in DJSI Silver class

2018 #5 in DJSI Bronze class

2019 #2 in DJSI Bronze class

Corporate philanthropy → **ESG risk management** → **Sustainable value creation**

2008/9
- Longer term commitment to the Z Zurich Foundation

2011
- Approval of Zurich's 1st Corporate Responsibility strategy

2012
- Goals and plans for seven focus areas developed and agreed
- Signatory of the PRI

2014/15
Proof-point examples:
- USD 2bn green bond commitment
- 10% PE impact investing allocation
- Flood resilience measurement framework developed & tested
- Carbon neutrality
- Group-wide Health & Safety standards
- Diversity & Inclusion incorporated into our People Strategy
- Sustainability risk framework in underwriting

2017
- Approval of a new sustainability ambition for Zurich
- Signatory of the UN Principles for Sustainable Insurance

2019
- ExCo & Board alignment for 2019–2020 priorities
- New policy on thermal coal, oil sands & oil shales
- Signed the Business Ambition for 1.5°C pledge

Corporate governance report

Contents

Corporate governance report (continued)

Introduction

The Zurich Insurance Group, consisting of Zurich Insurance Group Ltd and its subsidiaries (the Group or Zurich), is committed to effective corporate governance for the benefit of its shareholders, customers, employees and other stakeholders based on the principles of fairness, transparency and accountability. Structures, rules and processes are designed to enable proper conduct of business by defining the powers and responsibilities of its corporate bodies and employees.

This report describes the Group's approach to the key elements of corporate governance within the Group. It includes the information required under the following rules, with which Zurich complies:

- Directive on Information Relating to Corporate Governance of the SIX Exchange Regulation (as of March 20, 2018).
- Swiss Code of Best Practice for Corporate Governance (Swiss Code of Best Practice), issued in 2002 by economiesuisse, as amended in October 2007 and in August 2014.

The shares of Zurich Insurance Group Ltd are listed on the SIX Swiss Exchange. Certain Group companies have listed debt issued under its Euro Medium Term Note Programme and other financial instruments.

Zurich is subject to insurance group supervision by the Swiss Financial Market Supervisory Authority FINMA (FINMA). The Joint Committee of the European Supervisory Authorities has also designated the Group as an insurance group and not as an insurance conglomerate because of the small size of its non-insurance activities. The Swiss Insurance Supervision Act (ISA) requires Swiss insurance companies and groups to establish and maintain strong governance and risk management systems as well as effective internal control systems that are appropriate to their business activities. It prescribes the calculation of a risk-based solvency margin on a Group-wide basis and at legal entity level pursuant to the Swiss Solvency Test (SST). All material intra-group transactions must be reported to FINMA. In addition to the group supervision exercised by FINMA and its insurance supervision of the legal entities Zurich Insurance Company Ltd, Zurich Life Insurance Company Ltd, Zurich Reinsurance Company Ltd and Orion Legal Expenses Insurance Ltd., the insurance subsidiaries and remaining financial services entities of the Group are supervised by the respective local supervisory authorities.

The principles of corporate governance and the standards described above are incorporated and reflected in a number of corporate documents, in particular the Articles of Association, the Organizational Rules and the Charter of the Committees of the Board of Directors of Zurich Insurance Group Ltd (www.zurich.com/en/about-us/corporate-governance/corporate-documents). The Governance, Nominations and Sustainability Committee of the Board of Directors of Zurich Insurance Group Ltd regularly reviews the Group's corporate governance against best practice standards and ensures compliance with corporate governance requirements.

Key governance developments in 2019 – at a glance

as of December 31, 2019

Board of Directors

Election

- Michael Halbherr, elected as member of the Board (as of April 3, 2019)
- Jasmin Staiblin, elected as member of the Board (as of April 3, 2019)
- Barry Stowe, elected as member of the Board (as of April 3, 2019)

Retirements

- David Nish, retired from the Board (as of April 3, 2019)

Executive Committee

New appointments

- Peter Giger, Group Chief Risk Officer (Group CRO) (as of October 1, 2019)

Change of role

- Alison Martin, CEO EMEA (Europe, Middle East & Africa) and Bank Distribution (as of July 9, 2019), former Group CRO

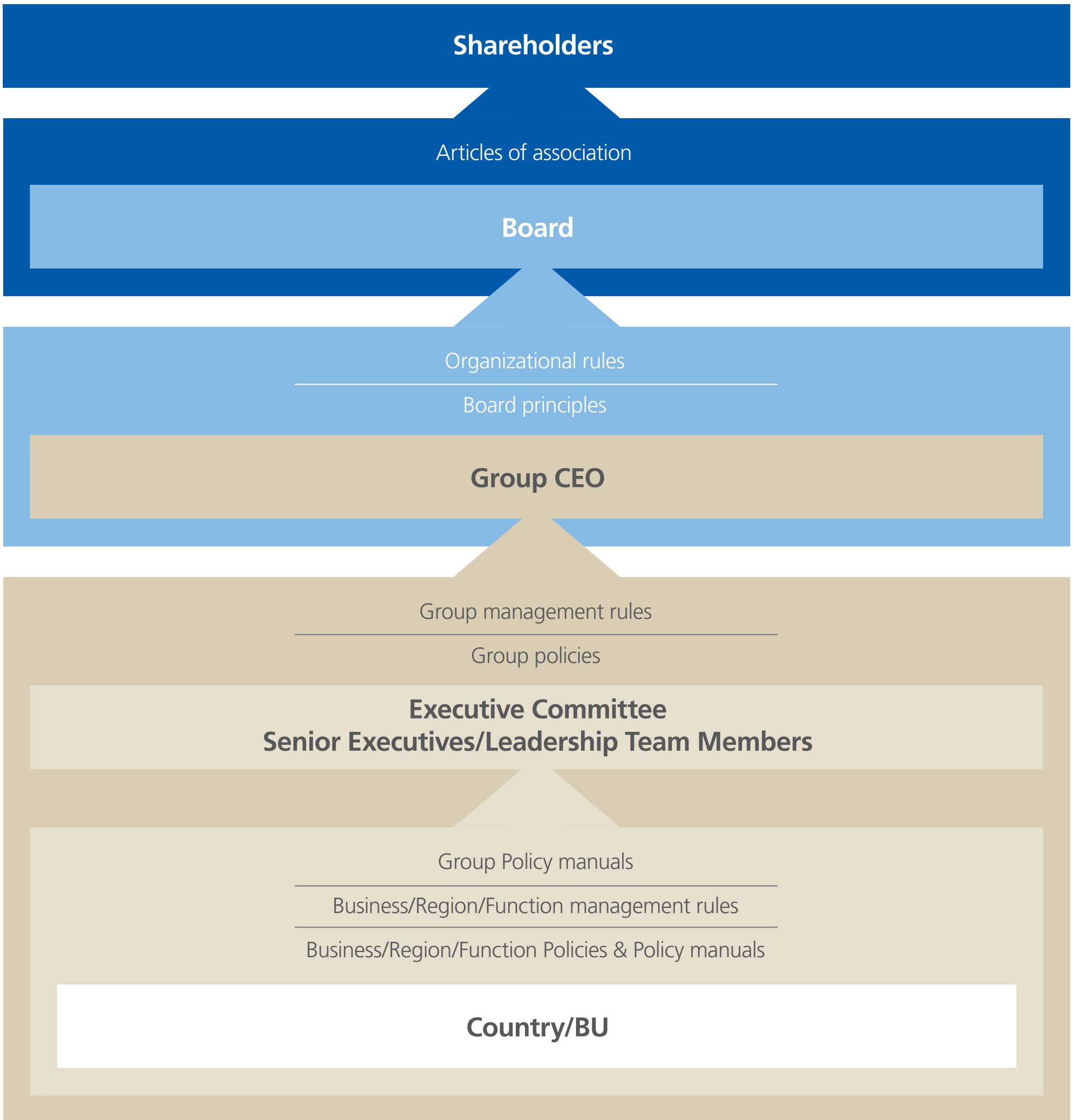
Resignations

- Amanda Blanc, CEO EMEA and Bank Distribution (as of July 2, 2019)

Corporate governance report (continued)

Overview on Group governance

Governance document structure



An effective structure is in place providing for cooperation between the Board of Directors of Zurich Insurance Group Ltd, management and internal control functions. This structure establishes checks and balances and is designed to provide for institutional independence of the Board from the Group Chief Executive Officer (Group CEO) and the Executive Committee (ExCo) which together are responsible for managing the Group on a day-to-day basis. The Board is composed entirely of non-executive members, independent from the management.

This report essentially follows the recommended structure outlined in the Directive on Information Relating to Corporate Governance of the SIX Exchange Regulation. The information on compensation, shareholdings and loans to Board members and members of the ExCo is contained in a separate report, the remuneration report (see pages 90 to 121), which supplements this corporate governance report and also includes the information as required by the Circular 2010/1 on remuneration schemes (minimum standards for remuneration schemes of financial institutions) issued by FINMA on October 21, 2009 as amended on June 1, 2012, December 3, 2015 and September 22, 2016, as well as the Ordinance Against Excessive Compensation (Ordinance AEC) of November 20, 2013.

Corporate governance report (continued)

Remuneration Governance

The Board is responsible for the design and implementation of Zurich's Remuneration Rules[1], which include the overall remuneration philosophy, principles, system and practices. To support the Board in performing these duties, the Board has established a Remuneration Committee. Under the Ordinance AEC and as reflected in the Articles of Association, the members of the Remuneration Committee are elected individually at the AGM. Their term of office ends with the conclusion of the next AGM with re-election being possible. The Remuneration Committee consists of at least three members of the Board, all of whom are experienced in the area of remuneration. As of the AGM in 2019, there are five members in the Committee.

On an annual basis, the Remuneration Committee evaluates Zurich's Remuneration Rules and the remuneration architecture, including the incentive plans which are discretionary and can be terminated, modified, changed or revised at any time. The Remuneration Committee proposes any amendments to the Board as required.

While reviewing the remuneration structures and practices on a regular basis, the Remuneration Committee and the Board receive independent advice from the executive compensation practices at Meridian Compensation Partners LLC (Meridian) and New Bridge Street, part of Aon Corporation (Aon Hewitt). The Remuneration Committee reviews their mandates and fees, and evaluates ongoing performance. Both Meridian and New Bridge Street provide advice to the Board, with the lead consultant employed by Meridian. Meridian does not provide any other services to the Group. Although certain practice areas within Aon Hewitt – a large, international brokerage and human resources firm – undertake work for the Group from time to time, the Remuneration Committee does not consider that the independence and integrity of the advice it receives from New Bridge Street is compromised by these separate assignments.

At Remuneration Committee and Board meetings where decisions are made on the individual remuneration of either the Chairman, the Group CEO or other members of the ExCo, those individuals are not present. See page 59 for further details on the Remuneration Committee's responsibilities.

The remuneration approval framework is set out as follows:

A strong governance framework ensuring alignment of interest with Shareholders

Remuneration governance

Topic	Recommended by	Board approval	Shareholders' approval
Remuneration architecture	Board Remuneration Committee Board Risk & Investment Committee[2]		
Relevant chapters within the Organizational Rules	Board Remuneration Committee		
Zurich Remuneration Rules	Board Remuneration Committee		
Remuneration Report[3]	Board Remuneration Committee		Consultative Vote
Board of Directors remuneration	Board Remuneration Committee		Binding vote
Group CEO remuneration	Board Remuneration Committee		Binding vote[4]
ExCo remuneration	Group CEO		Binding vote
Total variable remuneration pool	Board Remuneration Committee		
STIP pool funding	Board Remuneration Committee[5]		
LTIP vesting level	Board Remuneration Committee[5]		

[1] The remuneration policy of the Company which serves as a framework for the governance, design, implementation and monitoring of the Group's remuneration architecture; is designed to support the Group's business strategy, risk management framework and operational and financial plans, and takes into account legal and regulatory requirements.
[2] On recommendation of Group CEO.
[3] Remuneration report addresses remuneration architecture, rules and disclosures.
[4] The Group CEO remuneration is approved in aggregate with the ExCo remuneration.
[5] Based on proposals by the Group CEO taking into account a risk assessment by Group Risk Management.

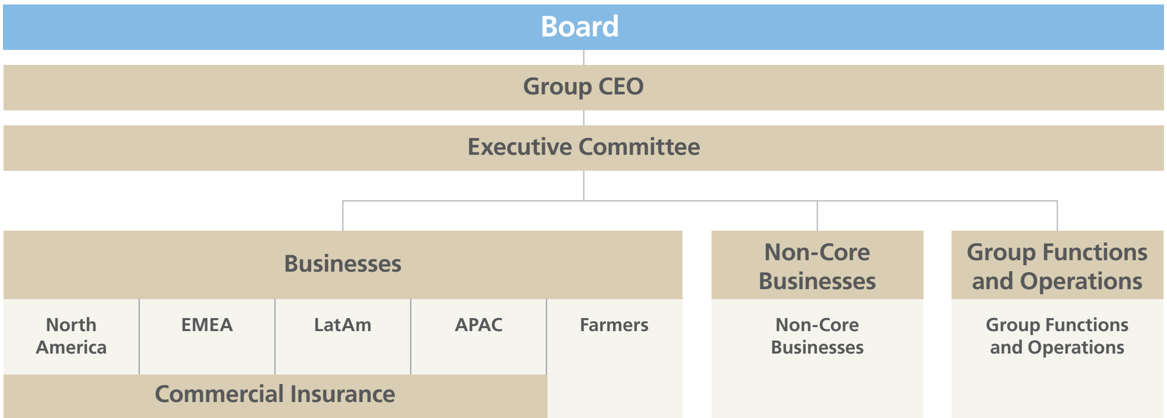
Group structure

Operational Group structure

Zurich Insurance Group Ltd, the Group's holding company, is a Swiss corporation organized in accordance with the laws of Switzerland. Zurich's business is focused on providing best-in-class property and casualty, and life insurance products and services to individuals, small businesses, mid-sized and large companies.

The following chart shows the operational Group structure on December 31, 2019.

Operational Group structure
as of December 31, 2019



The Group pursues a customer-centric strategy and is managed by regions, and in addition, Farmers in the U.S. and Commercial Insurance globally. The ExCo is headed by the Group CEO. Six members of the ExCo represent the Group's businesses: the CEOs of the regions (CEO North America, CEO Europe, Middle East & Africa (EMEA) and Bank Distribution, CEO Latin America, CEO Asia Pacific), the CEO of Farmers and the CEO of Commercial Insurance. Four members of the ExCo represent Group functions: the Group Chief Financial Officer (Group CFO), the Group Chief Investment Officer (Group CIO), the Group Chief Risk Officer (Group CRO) and the Group Chief Operating Officer (Group COO). The Group COO has responsibility for operations and technology as well as underwriting, claims, and pricing, creating a unified sense of purpose and responsibility for technical excellence, efficiency and business transformation across all parts of the business. The Group CFO is also responsible for Group Reinsurance. For further information on the ExCo see pages 64 to 74.

Corporate governance report (continued)

The Group's operating structure reflects the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. The Group's reportable segments for 2019 comprised:

- **Regions (EMEA, North America, LatAm and APAC):** segments through which the Group provides a variety of property and casualty and life products to retail and commercial customers as well as reinsurance propositions. Commercial Insurance brings together corporate and commercial insurance expertise worldwide under a single umbrella.
  - **Property & Casualty** is the business through which the Group provides a variety of motor, home and commercial products and services for individuals, as well as small, mid-sized and large businesses.
  - The **Life business** pursues a strategy with market-leading propositions in unit-linked and protection products as well as fee-based solutions managed through three global pillars (Bank Distribution, Corporate Life & Pensions and Other Retail) to develop leading positions in its target markets.
- **Farmers** provides, through Farmers Group, Inc. (FGI) and its subsidiaries, certain non-claims services and ancillary services to the Farmers Exchanges as attorney-in-fact. FGI receives fee income for providing services to the Farmers Exchanges, which are owned by their policyholders and managed by Farmers Group, Inc. a wholly owned subsidiary of the Group. Farmers also includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S.
- **Group Functions and Operations** comprise the Group's Holding and financing and headquarters activities. Certain alternative investment positions not allocated to business operating segments are included within Holding and Financing. In addition, Group Functions and Operations includes operational technical governance activities relating to technology, underwriting, claims, actuarial and pricing.
- **Non-Core Businesses** include insurance and reinsurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. Non-Core Businesses are mainly situated in the U.S., Bermuda and the UK.

A detailed review of the results of the businesses as reported for 2019 can be found in the financial review starting on page 164. An overview of the Group's business activities is also available within the Group overview section of this Report. Additionally, we will provide information about our business throughout the year on our Group website, including on the 'about us' pages (www.zurich.com/en/about-us).

A list of the Group's significant subsidiaries can be found on pages 285 to 287. For further information on the share listing of Zurich Insurance Group Ltd, see the investor section on pages 24 to 25 and under the following link: https://www.zurich.com/investor-relations/our-shares/registered-share-data.

Board of Directors

A highly diverse Board combined with strong governance

Our governance structure and independent and diverse Board composition ensure effective corporate governance and strategic oversight, and foster ESG integration in the business, enabling Zurich to create sustainable value for our shareholders, customers, employees and other stakeholders.

Michel M. Liès
Chairman

Nationality: Luxembourg
Born: 1954

page 50

Committee membership:
Governance, Nominations and Sustainability Committee (Chairman), Remuneration Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Christoph Franz
Vice-Chairman

Nationality: Swiss and German
Born: 1960

page 50

Committee membership:
Remuneration Committee (Chairman), Governance, Nominations and Sustainability Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Joan Amble
Member of the Board of Directors

Nationality: U.S.
Born: 1953

page 50

Committee membership:
Risk and Investment Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Catherine Bessant
Member of the Board of Directors

Nationality: U.S.
Born: 1960

page 51

Committee membership:
Remuneration Committee, Audit Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Board of Directors (continued)

Dame Alison Carnwath
Member of the Board of Directors

Nationality: British
Born: 1953

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Committee membership:
Audit Committee (Chairman), Governance, Nominations and Sustainability Committee, Risk and Investment Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Kishore Mahbubani
Member of the Board of Directors

Nationality: Singapore
Born: 1948

page 52

Committee membership:
Remuneration Committee, Risk and Investment Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Michael Halbherr
Member of the Board of Directors

Nationality: Swiss
Born: 1964

page 51

Committee membership:
Risk and Investment Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Jasmin Staiblin
Member of the Board of Directors

Nationality: German
Born: 1970

page 53

Committee membership:
Remuneration Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Jeffrey Hayman
Member of the Board of Directors

Nationality: U.S.
Born: 1960

page 52

Committee membership:
Risk and Investment Committee (Chairman), Governance, Nominations and Sustainability Committee, Audit Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Barry Stowe
Member of the Board of Directors

Nationality: U.S.
Born: 1957

page 53

Committee membership:
Audit Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Monica Mächler
Member of the Board of Directors

Nationality: Swiss
Born: 1956

page 52

Committee membership:
Governance, Nominations and Sustainability Committee, Audit Committee

Other directorships within the Group:
Zurich Insurance Company Ltd

Corporate governance report (continued)

Board of Directors

The Board, under the leadership of the Chairman, is responsible for determining the overall strategy of the Group, including a strong commitment to sustainability. It holds the ultimate decision-making authority for Zurich Insurance Group Ltd, except for decisions on matters reserved for the shareholders.

Board of Directors and its Committees

as of December 31, 2019

Board of Directors

Michel Liès*
Christoph Franz
Joan Amble
Catherine Bessant
Dame Alison Carnwath
Michael Halbherr
Jeffrey Hayman
Monica Mächler
Kishore Mahbubani
Jasmin Staiblin
Barry Stowe

Governance, Nominations & Sustainability Committee	Remuneration Committee	Audit Committee	Risk and Investment Committee
Michel Liès*	Christoph Franz*	Dame Alison Carnwath*	Jeffrey Hayman*
Dame Alison Carnwath	Catherine Bessant	Catherine Bessant	Joan Amble
Christoph Franz	Michel Liès	Jeffrey Hayman	Dame Alison Carnwath
Jeffrey Hayman	Kishore Mahbubani	Monica Mächler	Michael Halbherr
Monica Mächler	Jasmin Staiblin	Barry Stowe	Kishore Mahbubani

* Chairman of Board or Board Committee, respectively.

The members of the Board are elected by the shareholders at the AGM. The Board constitutes itself in its first meeting after the AGM, except for the Chairman and the members of the Remuneration Committee who, as required by the Ordinance AEC, in force since January 1, 2014, are elected by the shareholders.

The term of office of a Board member ends after completion of the next AGM. As a consequence, each member of the Board must be re-elected at the AGM each year.

All Directors of Zurich Insurance Group Ltd are also members of the Board of Directors of Zurich Insurance Company Ltd. Mr. Liès also serves as Chairman of that board. None of the Directors have further board memberships within the Group.

Fritz Gerber is the Honorary Chairman of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd. He was Chairman of Zurich Insurance Company Ltd from 1977 to 1995 and its Chief Executive Officer from 1977 to 1991. In recognition of his leadership and services to these companies, he was appointed Honorary Chairman. Such designation does not confer Board membership or any Director's duties or rights, nor does it entitle him to any Directors' fees.

Board Composition

Diversity is a key factor for success in today's fast-changing global environment. Zurich's Board consists of individuals with different geographic and cultural backgrounds and experience, which mirror our international footprint, bringing local cultural perspective as well as regional networks, and a diverse set of knowledge and skills that we have broadened through the election of three new Board members at the AGM this year. Zurich's Board is one of the most gender diverse in Switzerland with 45% women. The Board can draw on this diverse group of individuals to carry out its responsibilities and tasks, while taking into account a full range of current business needs.

As of December 31, 2019, the Board included members of six different nationalities. Board members' business experience covers a broad range of industries and jurisdictions, giving the Board profound collective knowledge of international business practices. The Board also benefits from the broad cultural, educational and professional backgrounds of its members, which include financial services, manufacturing, engineering, technology and legal and regulatory experience.

The composition as of December 31, 2019 in terms of length of tenure, gender, background, experience, knowledge and skills, as well as nationality, was as follows and average length of tenure was 3.5 years:

Board by length of tenure

%, as of December 31, 2019

Less than 5 years	73
Between 5 and 10 years	27

Board by gender

%, as of December 31, 2019

Male	55
Female	45

Board by background, experience, skills and knowledge

%, as of December 31, 2019

Insurance	36
Banking	18
Non-financials	36
IT and technology	18
Macro-economics	9
Legal, regulatory and governance	9
Audit and accounting	18

● Sector ● Specialization

Board by nationality

%, as of December 31, 2019

Switzerland	25
Luxembourg	8
U.S.	33
UK	8
Germany	17
Singapore	8

Diversity of the Board as focus for the future

Optimal Board composition is, in Zurich's view, the key success factor for the performance of the board. A strong board succession pipeline is at the heart of the Chairman's ongoing duties. His focus lies on achieving the best possible diversity in terms of thinking among Board members. Optimal future Board composition shall be achieved by maintaining a well-balanced profile portfolio, also considering non-technical skills, matching the group's strategy and possible challenges ahead. They may arise in areas such as rapidly changing customer behavior, technology, macroeconomics, the legal and regulatory environment, etc.

Corporate governance report (continued)

Biographies

Michel M. Liès
Chairman

Skills and experience
Michel Liès has 40 years' experience in global insurance and reinsurance, life insurance, and property and casualty insurance. He has held a number of positions in the industry, including Group CEO of Swiss Re. He began his career at the reinsurer in 1978, working first in the life market in Latin America before moving to Europe in 1983, where he held a number of senior positions within Swiss Re's life businesses. In 1994 he moved into Swiss Re's non-life sector, with responsibility for southern Europe and Latin America. From 1998 he served as Swiss Re's Head of Latin America Division until 2000, when he was appointed Head of the Europe Division of its Property & Casualty Business Group. In 2005 he became Swiss Re's Head Client Markets with responsibility for client relationships worldwide, and was also appointed as a member of the reinsurer's Group Executive Committee. From 2011 to 2012 Mr. Liès served as Swiss Re's Chairman of Global Partnerships, which works with governments, international development bodies and non-governmental organizations (NGOs) to mitigate and address global risks and increase resilience. He was appointed Swiss Re's Group CEO in February 2012 and served in that role until his retirement from Swiss Re in 2016.
He became Chairman of the Board of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd in April 2018.

Committee membership
Governance, Nominations and Sustainability Committee (Chairman),
Remuneration Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. Liès is a member of the board of the Institute of International Finance (IIF), advisory board member of the Beirat Zukunft Finanzplatz, trustees board member of Avenir Suisse and of The Swiss Institute of International Studies. He is also a member of the European Financial Services Round Table and a member of the board of trustees of the Lucerne Festival and a member of the steering committee of the Insurance Development Forum.

Educational background
Mr. Liès holds a master's degree in mathematics from the Swiss Federal Institute of Technology in Zurich (ETH).

Christoph Franz
Vice-Chairman

Skills and experience
Christoph Franz started his professional career in 1990 at Deutsche Lufthansa AG. From 1994 until 2003 he held different executive functions at Deutsche Bahn AG, including as member of the executive board and CEO of the passenger transport division. In 2004 he became CEO of Swiss International Air Lines Ltd, and in 2009 he was promoted to the role of deputy chairman of the executive board of Deutsche Lufthansa AG and CEO Passenger Airlines. From 2011 to 2014, Mr. Franz was chairman of the executive board and CEO of Deutsche Lufthansa AG.
He became a member of the boards of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd in April 2014. He was elected Vice-Chairman in April 2018.

Committee membership
Remuneration Committee (Chairman),
Governance, Nominations and Sustainability Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. Franz was elected chairman of the board of Roche Holding Ltd in March 2014. He is also a member of the board of directors of Chugai Pharmaceuticals Ltd. (controlled by Roche Holding Ltd), and of Stadler Rail Ltd. Mr. Franz serves as a member of the board of trustees of Ernst-Goehner-Foundation, of Avenir Suisse, of the Swiss Study Foundation and of the Lucerne Festival and is a member of the advisory board of the University of St. Gallen (HSG). He was named as an honorary professor of business administration at the University of St. Gallen in May 2017.
In September 2017, the International Committee of the Red Cross (ICRC) appointed Mr. Franz as a member of its Assembly, the organization's top governing body, and in May 2018 he was elected to the Assembly Council.

Educational background
Mr. Franz studied industrial engineering at the Technical University Darmstadt (Germany) and completed his studies with a Ph.D. in economic sciences (Dr. rer. pol.) at the same university.
He also studied at the Ecole Centrale de Lyon (France) and conducted post-doctorate research at the University of California, Berkeley.

Joan Amble
Member of the Board of Directors

Skills and experience
Joan Amble has substantial financial industry experience. She started her professional career as an accountant with Ernst & Ernst (currently Ernst & Young) in 1977. From 1984 to 1989 she served at the Financial Accounting Standards Board (FASB), specializing in pensions, derivatives and other financial instruments. She then spent 14 years with the General Electric Company (GE) in various leadership roles, including CFO GE Real Estate, COO and CFO GE Capital Markets, and as vice president and chief accounting officer GE Financial Services. From 2004 to May 2011, Ms. Amble served as executive vice president and principle accounting officer, and until the end of 2011 as executive vice president, Finance, of the American Express Company. In December 2011, Ms. Amble completed a four-year term as a member of the Financial Accounting Standards Advisory Council (FASAC). She has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2015.

Committee membership
Risk and Investment Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Ms. Amble is a member of the board of Sirius XM Satellite Radio, where she chairs the audit committee. In addition, she is a member of the board and the audit committee at Booz Allen Hamilton. In January 2015, Ms. Amble was appointed to the Public Company Accounting Oversight Board's Standing Advisory Group, which advises on the development of auditing and professional practice standards.
Since October 2016, Ms. Amble has been an independent adviser to the Control and Risk Committee of the Executive Committee of the U.S. affiliate of Société Générale S.A., a French multinational banking and financial services company. She is also involved in developing women in business, including as chair emeritus and co-founder of W.O.M.E.N in America, LLC and through her various speaking engagements. Ms. Amble also participates in director and other forums and speaks on corporate governance and corporate culture.

Educational background
Ms. Amble received a Bachelor of Science in accounting from The Pennsylvania State University, and later became a certified public accountant (currently inactive).

Corporate governance report (continued)

Biographies (continued)

Catherine Bessant
Member of the Board of Directors

Skills and experience
Catherine Bessant is chief operations and technology officer at Bank of America and a member of the Bank of America's executive management team. Since joining Bank of America in 1982 as a corporate banker, she has held numerous senior leadership positions within that company: president of Global Product Solutions and Global Treasury Services; chief marketing officer; president of Consumer Real Estate and Community Development Banking; national Small Business Segment executive; and market president of Bank of America, Florida. Prior to being appointed to her current position, Ms. Bessant served as president of Global Corporate Banking. Ms. Bessant has led Bank of America's Global Technology and Operations since 2010. In that role she is responsible for end-to-end technology and operating services across the company, overseeing nearly 95,000 employees and contractors in more than 35 countries. She became a member of the Board of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd in March 2017.

Committee membership
Remuneration Committee, Audit Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Ms. Bessant is on the advisory board of the Ross School of Business at the University of Michigan and a member of the President's Council of Advisors on Science and Technology in the U.S. She previously served 16 years on the board of directors of Florida Blue, formerly Blue Cross Blue Shield of Florida, including serving as lead independent director.

Educational background
Ms. Bessant holds a Bachelor of Business Administration from the University of Michigan Ross School of Business.

Dame Alison Carnwath
Member of the Board of Directors

Skills and experience
Dame Alison Carnwath has substantial financial industry experience. She began her career with Peat Marwick Mitchell, now KPMG, where she practiced as a chartered accountant from 1975 to 1980. From 1980 to 1982, she worked as a corporate financier for Lloyds Bank International. From 1982 to 1993, she was assistant director, then director, at J. Henry Schroder Wagg & Co in London and New York. From 1993 to 1997, Dame Alison was a senior partner at the financial advisory firm Phoenix Partnership. The firm was taken over by Donaldson, Lufkin & Jenrette (DLJ) in late 1997; she continued working for DLJ until 2000. Dame Alison has held several board offices. From 2000 to 2005, she was the chairman of the board of Vitec Group plc, from 2001 to 2006 a director of Welsh Water, from 2004 to 2007 of Friends Provident plc, from 2004 to 2007 of Gallaher Group and from 2007 to 2010, she was the independent chairman of MF Global Inc. She also served on the boards of directors of Barclays from 2010 to 2012, and of Man Group plc from 2001 to 2013. From 2008 to July 2018 she was chairman of the board of Land Securities Group plc. She has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since March 2012.

Committee membership
Audit Committee (Chairman), Governance, Nominations and Sustainability Committee, Risk and Investment Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Dame Alison has been a senior advisor of Evercore Partners since 2011. She has been a member of the board of PACCAR Inc. since 2005 and since September 2013 a member of the advisory council of the St. George's Society of New York. Since May 2014 she has been a member of the supervisory board of BASF SE and Chairman of the Audit Committee of BASF SE. In May 2018 she was appointed as independent non-executive director and member of the Audit Committee of BP plc.

Educational background
Dame Alison graduated in economics and German from the University of Reading. She was awarded honorary doctorates (LLB) from the University of Reading and the University of Exeter.

Michael Halbherr
Member of the Board of Directors

Skills and experience
Michael Halbherr has extensive experience in the technology industry, serving as an investor, active board member and advisor for young, aspiring companies in many different areas including digital mapping, mobility technology, mobile operating systems, and industrial applications. He held leadership roles in Nokia Corporation from 2006 to 2014, including serving from 2011 to 2014 as member of Nokia's leadership team and later as CEO of HERE BV, a fully owned Nokia company and a leading company in automotive location technologies. From 2001 to 2006 he served as CEO of gate5, a Berlin-based mobile phone software startup, which Nokia acquired in 2006. From 2000 to 2001 he was a managing director at Europeatweb, an investor into gate5 and venture arm of Groupe Arnault. Prior to that he was a manager at the Boston Consulting Group (BCG) from 1994 to 2000, in the company's Zurich and Boston offices, where he was an active member of BCG's technology practice. He began his career at the Laboratory for Computer Science at Massachusetts Institute of Technology (MIT), where he worked as a visiting scientist and post-doctoral researcher from 1992 to 1994 with a focus on programming paradigms for massively parallel computers. He joined the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd in April 2019.

Committee membership
Risk and Investment Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. Halbherr is a non-executive director and chairman of German Bionic Systems GmbH in Augsburg, Trafi Ltd. in Vilnius, FATMAP Ltd. in Berlin, and a strategic advisor of Zeotap GmbH. He is chairman of the board of trustees of the Institute for Mobility Research (ifmo), a research facility of the BMW Group.

Educational background
Mr. Halbherr holds a Ph.D. in electrical engineering from the Swiss Federal Institute of Technology (ETH) in Zurich.

Corporate governance report (continued)

Biographies (continued)

Jeffrey Hayman
Member of the Board of Directors

Skills and experience
Mr. Hayman began his career as a claims representative in the property and casualty department of Travelers Companies in the U.S. in 1983, where he later held several positions. In 1998 he joined AIG as regional vice president, personal lines at AIU Far East in Japan. Beginning in 2003, he held various leadership positions within AIG, including as chairman of AIU Insurance Company in Japan and president and CEO of AIU Far East Holdings, Japan and Korea. From 2009 to 2011, Mr. Hayman served as senior vice president and chief administrative officer, and from 2011 to 2013 as executive vice president and CEO, Global Consumer Insurance, at AIG. In 2013 he served as president of international insurance operations at Starr Companies. He then became an independent consultant and advisor. He has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since March 2016.

Committee membership
Risk and Investment Committee (Chairman), Governance, Nominations and Sustainability Committee, Audit Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
None

Educational background
Mr. Hayman holds an MBA in finance from the University of Hartford, Barney School of Business and Public Administration, West Hartford, and a bachelor's degree in arts, economics and political science from Saint Olaf College, Northfield. He is a chartered life underwriter and a chartered financial consultant.

Monica Mächler
Member of the Board of Directors

Skills and experience
Monica Mächler has substantial legal, regulatory and governance expertise in a national and international context. She served as vice-chair of the board of directors of the integrated Swiss Financial Market Supervisory Authority (FINMA) from 2009 to 2012, after having been the director of the Swiss Federal Office of Private Insurance from 2007 to 2008. From 2010 to 2012, Ms. Mächler chaired the Technical Committee of the International Association of Insurance Supervisors (IAIS). She assumed the roles of Group General Counsel and Head of the Board Secretariat of Zurich Insurance Group from 1999 to 2006 and was appointed a member of the Group Management Board in 2001 after joining in 1990. During the years 1985 to 1990 she was in private practice specializing in banking and business law. Ms. Mächler has been a member of several Swiss federal expert commissions on regulatory projects and regularly speaks, lectures and publishes on matters related to international business law and regulation, and their impact. From May 2012 until May 2018 she was a member of the supervisory board of directors of Deutsche Börse AG. She has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2013.

Committee membership
Governance, Nominations and Sustainability Committee, Audit Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Ms. Mächler has been a member of the board of directors of Cembra Money Bank AG since April 2015. She also chairs the advisory board of the International Center for Insurance Regulation at the Goethe University Frankfurt am Main and serves on the boards of the Stiftung für schweizerische Rechtspflege and of the Europa Institut at the University of Zurich.

Educational background
Ms. Mächler earned her J.D. at the University of Zurich's Law School and complemented her studies by attending programs on UK, U.S. and private international law. She is admitted to the bar of the Canton of Zurich.

Kishore Mahbubani
Member of the Board of Directors

Skills and experience
Kishore Mahbubani began his career in 1971 as a diplomat with the Singapore Foreign Service, in which he served until 2004, with postings in Cambodia, Malaysia, Washington D.C. and New York. He served two postings as Singapore's ambassador to the UN and as President of the UN Security Council in January 2001 and May 2002. Mr. Mahbubani was permanent secretary of the Singapore Foreign Ministry from 1993 to 1998. He served as Founding Dean at the Lee Kuan Yew School of Public Policy of the National University of Singapore (NUS) from 2004 until the end of 2017. In July 2019 he became a Distinguished Fellow at the Asia Research Institute (ARI) of NUS. He has spoken and published extensively on geopolitical and economic issues. In 2013 the Financial Times chose one of his books, 'The Great Convergence: Asia, the West and the Logic of One World,' as one of the best books about economics in that year. His latest book, 'Has the West Lost It?,' published in London in April 2018, was described by Martin Wolf as "a compelling warning." He has been a member of the Boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2015.

Committee membership
Remuneration Committee, Risk and Investment Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
In September 2017 he was appointed non-executive chairman of the board of Aggregate Asset Management. Since January 2016 he has also been an independent director of the board of Wilmar International Limited, Singapore. In addition, he has served on boards and councils of several institutions in Singapore, Europe and North America, and is currently a member of Yale's President's Council on International Activities (PCIA), the World Economic Forum's Global Agenda Council on China and the Singapore Social Science Research Council.

Educational background
Mr. Mahbubani graduated with a first-class honors degree in philosophy from the University of Singapore and an M.A. in philosophy from Dalhousie University, Canada, where he was also awarded an honorary doctorate.

Corporate governance report (continued)

Biographies (continued)

Jasmin Staiblin
Member of the Board of Directors

Skills and experience
Jasmin Staiblin brings to her role extensive knowledge of how business sectors transform and the growing importance of digitalization and sustainability as a competitive differentiator. She is recognized as one of Europe's top experts in the field of energy and served as CEO of Alpiq, a leading Swiss energy services provider and electricity producer in Europe, until December 31, 2018. She began her career in 1997 at the ABB Group, the Swedish-Swiss global technology company. She served in various global functions as a member of the management team for ABB's power technologies division. She held the position of CEO of ABB Switzerland from 2006 to 2012. In 2013 she became CEO of Alpiq Holding Ltd. She joined the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd in April 2019.

Committee membership
Remuneration Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Ms. Staiblin is a board member of Rolls-Royce plc, London; NXP Semiconductors N.V., the Netherlands; Georg Fischer Ltd., Schaffhausen; and Seves Group S.à.r.l., Luxembourg.

Educational background
Ms. Staiblin studied physics and electrical engineering at the Karlsruhe Institute of Technology, Germany and the Royal Institute of Technology in Stockholm, Sweden.
She completed her studies with a degree in physics and has a Master of Science in electrical engineering.

Barry Stowe
Member of the Board of Directors

Skills and experience
Barry Stowe has extensive business experience and knowledge gained through executive roles in the insurance industry in North America and Asia. Between 2006 and 2018 he was a member of the board of directors and the group executive committee of Prudential plc. From 2015 to 2018 he served as chairman and CEO of Jackson Holdings Ltd, a subsidiary of Prudential plc, and from 2006 to 2015, as CEO of Prudential Corporation Asia. From 1995 to 2006 he held senior executive positions at American International Group (AIG), including serving as president of AIG Life Companies Accident & Health Worldwide based in Hong-Kong from 2001 to 2006. From 1992 to 1995 he served as president of NISUS, a subsidiary of Pan-American Life Insurance Group. From 1980 to 1992 he held several positions at Willis Corroon Group plc in the U.S., an insurance and reinsurance brokerage services company. He joined the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd in April 2019.

Committee membership
Audit Committee

Other directorships within the Group
Zurich Insurance Company Ltd

External appointments
Mr. Stowe acts as senior advisor to Prudential plc. He is co-chair of the Retirement Income Institute in Washington, D.C., vice chair of Cheekwood Estate & Gardens in Nashville, Tennessee, and a member of the Tennessee Business Leadership Council.

Educational background
Mr. Stowe has a Bachelor of Arts in politics and classical studies from Lipscomb University in Nashville, Tennessee.

The business address for each Board member is Mythenquai 2, 8002 Zurich, Switzerland.

Independence of the members of the Board of Directors

Zurich considers the independence of its Board members an essential feature of good corporate governance. Zurich's independence criteria comply with applicable laws and reflect best-practice standards such as the SIX Exchange Regulation Directive on Information relating to Corporate Governance and the Swiss Code of Best Practice.

The Governance, Nominations and Sustainability Committee reviews Board members' independence status annually and reports its findings to the Board for final determination. In particular, the Governance, Nominations and Sustainability Committee checks the following independence criteria before recommending a new Board member for election and, thereafter, for re-election on an annual basis. It confirms that:

- No Board member, member of their immediate family, or any other related party, received – either directly or indirectly – any consulting or advisory fee or other compensation and/or material benefits from a member of the Zurich Insurance Group other than in their capacity as Board or Committee member in 2019 or the past three years;
- No Board members or any member of their immediate family, is or was employed by a member of Zurich Insurance Group in 2019 or the past three years.

Based on the recommendation of the Governance, Nominations and Sustainability Committee the Board determined that, as of February 12, 2020, the Board consisted entirely of Directors who were non-executive, independent from the management and who – except for Ms. Mächler – had never held an executive position in the Group. Ms. Mächler held an executive position until 2006 and was elected in 2013 as a non-executive Board member. According to the guidelines of the Swiss Code of Best Practice, she is considered independent. For further information on the Group's independence policy, please see art. 16.6 of the Annex to the Organizational Rules (www.zurich.com/en/about-us/corporate-governance/corporate-documents).

Board members are also subject to rules and regulations to avoid conflicts of interest and prevent any misuse of insider information.

External mandates

In line with the Ordinance AEC, art. 33 of Zurich's Articles of Association (www.zurich.com/en/about-us/corporate-governance/corporate-documents), has rules on the number of mandates members of the Board and of the ExCo are permitted to hold, as shown in the table below.

Art. 33, para. 1, of the Articles of Association sets forth the following, generally applicable, maximum limits:

	Board of Directors	Executive Committee
Additional mandates for listed companies	3 maximum	1 maximum
Mandates for non-listed companies	5 maximum	3 maximum

Exempted from this general limit are the following categories of mandates (art. 33, para. 2, of the Articles of Association):

	Board of Directors	Executive Committee
Mandates for Group subsidiaries	No limit	
Mandates on behalf of the Group	5 maximum	5 maximum
Mandates for associations, charitable organizations, foundations or pension funds	5 maximum	5 maximum

Multiple mandates for different companies under unified control are counted as a single mandate. The maximum limits set forth in the Articles of Association do not discharge the members of the Board or ExCo from their duties to act with due care and protect Group interests. As in the past, additional mandates may be assumed only where, upon assuming such mandates, time and resources remain available to perform the office held in the Group.

Size of Board and tenure

The Articles of Association require in art. 21 that the Board shall consist of not less than seven and not more than thirteen members. According to the Group's Organizational Rules (art. 4.4), in general, the maximum tenure of Board members may not exceed 12 years, although exceptions may be made under special circumstances (https://www.zurich.com/en/about-us/corporate-governance/corporate-documents).

Elections

As required by Swiss law, directors and the members of the Remuneration Committee are elected annually. Directors are elected by an absolute majority of the votes represented (art. 17 and 21 of the Articles of Association).

David Nish did not stand for re-election at the AGM on April 3, 2019 (please see his biography in the Annual Report 2018, page 48 under the following link: https://www.zurich.com/investor-relations/results-and-reports). All other Board members were re-elected for another one-year term. Michael Halbherr, Jasmin Staiblin and Barry Stowe were newly elected as members of the Board. As members of the Remuneration Committee, the AGM elected Catherine Bessant, Christoph Franz, Michel M. Liès, Kishore Mahbubani and Jasmin Staiblin. As independent voting rights representative, the shareholders elected Mr. lic. iur. Andreas G. Keller, attorney at law.

The Board proposes to shareholders that they re-elect all current members of the Board at the AGM on April 1, 2020.

The Board proposes to shareholders that they re-elect as follows:

- as members: Michel M. Liès, Joan Amble, Catherine Bessant, Dame Alison Carnwath, Christoph Franz, Michael Halbherr, Jeffrey Hayman, Monica Mächler, Kishore Mahbubani, Jasmin Staiblin, and Barry Stowe
- as Chairman: Michel M. Liès
- as members of the Remuneration Committee: Catherine Bessant, Christoph Franz, Michel M. Liès, Kishore Mahbubani and Jasmin Staiblin
- as independent voting rights representative: Mr. lic. iur. Andreas G. Keller, attorney at law

Internal organizational structure

The Board is chaired by the Chairman, or in his absence, by the Vice-Chairman. The Vice-Chairman is appointed by the Board. The Board also appoints its secretary. The Board has a standard set of topics that is presented at its meetings throughout the year. It is regularly informed of developments relevant to the Group and is provided with timely information in a form and of a quality appropriate to the discharge of its duties in accordance with the standards of care set out in Article 717 of the Swiss Code of Obligations.

The Group CEO attends Board meetings ex officio. Members of the ExCo are regularly invited by the Board to attend meetings. Other executives also attend meetings from time to time at the invitation of the Board. Most Board meetings include private sessions of the Board without the participation of management members.

The Board is required to meet at least six times each year. During 2019 it held 11 meetings (of which six were partly attended by tele-/videoconference and four were held over two days). One meeting was fully dedicated to the discussion of strategy. Four meetings lasted four or more hours during the course of a day and five meetings lasted less than three hours on average. In addition, the Board approved three circular resolutions.

In 2019, average attendance at Board meetings was 94.21 percent. In fulfillment of their duties, the members of the Board spent additional time participating in Board committee meetings and preparing for meetings.

Overview of meeting attendance

as of December 31, 2019	Board of Directors	Governance, Nominations and Sustainability Committee	Remuneration Committee	Risk and Investment Committee	Audit Committee
No. of meetings held	11	7	7	8	8
No. of members[1]	11	5	5	5	5
Meeting attendance, in %	94.21	97.14	100	92.5	95

Meeting attendance individualized

Joan Amble	11/11	–	–	8/8	–
Catherine Bessant	11/11	–	7/7[4]	–	8/8
Dame Alison Carnwath	10/11	7/7	–	8/8	8/8
Christoph Franz	10/11	7/7	7/7	–	–
Michael Halbherr[3]	9/10	–	–	6/7[4]	–
Jeffrey Hayman	11/11	7/7	–	8/8	7/7
Michel M. Liès	11/11	7/7	7/7	–	–
Monica Mächler	10/11	6/7	–	–	6/8
Kishore Mahbubani	10/11	–	7/7	6/8	–
David Nish[2]	2/2	–	–	1/1[5]	1/1[5]
Jasmin Staiblin[3]	9/10	–	6/6[4]	–	–
Barry Stowe[3]	9/10	–	–	–	7/7[4]

[1] Until April 3, 2019, the Board had 9, the Governance, Nominations & Sustainability Committee 5, the Audit Committee 4, the Remuneration Committee 4 and the Risk & Investment Committee 5 members.
[2] Retired at AGM April 3, 2019.
[3] Elected at AGM April 3, 2019.
[4] Joined Committee on April 3, 2019.
[5] Left Committee as of April 3, 2019.

Corporate governance report (continued)

Board

The Board is responsible for the ultimate management of Zurich Insurance Group Ltd and of the Group as a whole, as well as for the supervision of management. In particular, it is responsible for taking actions in the following areas:

- **Group strategy:** The Board approves the Group strategic plan and the overall Group targets upon the recommendation of the Group CEO and receives reports by the Group CEO on the implementation of and progress towards the Group Strategy.
- **Finance:** The Board approves the financial and operating plan annually, establishes guidelines for capital allocation and financial planning. Further, the Board reviews and approves the Annual Report and the half year financial reporting of the Group, as well as the Group's updates for the first three months and first nine months of the year. Above certain thresholds, the Board approves major lending and borrowing transactions.
- **Structure and organization of the Group:** The Board determines and regularly reviews the basic principles of the Group's structure and major changes in the Group's management organization, including major changes to Group functions. In this respect, the Board discusses the Group's corporate governance framework and its remuneration system. The Board also adopts and regularly reviews the Group's basic principles of conduct, compliance and risk management. Further, as part of its duty to convene the shareholders' meeting and submit proposals to the shareholders' meeting, it discusses the dividend policy and the Board's proposal for dividend. Within its authority the Board also makes resolutions on capital increases and the certification of capital increases and respective amendments to the Articles of Association.
- **Business Development:** Above certain thresholds, the Board regularly discusses and approves acquisitions and disposals of businesses and assets, investments, new businesses, mergers, joint ventures, co-operations and restructuring of business units or books of businesses.
- **Sustainability:** The Board approves targets on ESG matters upon the recommendation of the Group CEO which have a material impact on business strategy, underwriting or business performance. The Board also sets the Group's values and standards to ensure that the expectations of Shareholders and other Stakeholders are met.
- **Risk management:** The Board approves the Group's key risk management principles and procedures including, in particular, the Group's risk appetite and risk tolerance.

Additional information on the Board's responsibilities can be found in the articles 5.3 and 5.4 of the Organizational Rules of Zurich Insurance Group Ltd (https://www.zurich.com/about-us/corporate-governance/corporate-documents).

Activities 2019: In 2019, the Board specifically focused on the following:

- succession of Board members and onboarding of new members
- ExCo succession
- strategy implementation and preparation of new strategic cycle and Group targets, including building sustainable and customer-centric business model
- risk management and internal control framework, enabling integrated view of risks and assurance customer trends, structural industry changes and new technologies
- merger and acquisition transactions
- Board external assessment and resulting recommendations.

The Board may establish committees for specific topics, terms of reference and rules with respect to delegated tasks, responsibilities and reporting to the Board. Except for the Remuneration Committee, the Board constitutes such committees from among its members at its own discretion. The members of the Remuneration Committee are elected at the shareholders' meeting. The committees assist the Board in performing its duties. They discuss and propose matters to the Board in order that it may take appropriate actions and pass resolutions unless they are authorized to take resolutions in specific areas on their own. In 2019, committee meetings lasted over an hour and a half on average.

External assessment

At least annually, the Board reviews, on the basis of an assessment conducted by the Governance, Nominations and Sustainability Committee of the Board (which includes an appraisal by an external expert at least every three years), its own performance, as well as the performance of each of the Committees. Such a re-view seeks to determine whether the Board and the Committees function effectively and efficiently and whether any changes should be made to the membership of the Board and the Committees. The annual board-self assessment includes, in particular, the review of the profile of the Board members and the assessment of their availability to devote time to their mandate with the Board and its Committees (also with a view to the type and number of mandates carried out with other companies) (see Nomination Principles in article 15 ff. of the Annex to the Organizational Rules under https://www.zurich.com/about-us/corporate-governance/corporate-documents).

An external assessment of the full Board and its committees was carried out in 2019. It considered key aspects of the effectiveness of the Board and its committees, such as its size, culture, composition, available skill sets and qualifications, dynamics within the board and with management, the work of the Board and its committees on strategy, governance, competition and peer comparison and performance management, the use of time and process (planning quality and allocation) etc. The Board considered a report identifying key strengths and challenges produced for it. The Board is taking steps to put findings of its assessment into practice.

Committees of the Board of Directors

The Board has the following standing committees, which regularly report to the Board and submit proposals for resolution by the Board:

Governance, Nominations & Sustainability Committee

Composition and membership: The Governance, Nominations & Sustainability Committee consists of at least four Board members. Currently, the committee comprises Michel M. Liès (Chairman), Dame Alison Carnwath, Christoph Franz, Jeffrey Hayman and Monica Mächler.

Key tasks and responsibilities: In general, the Governance, Nominations & Sustainability Committee:

- supports the Board, in line with the Group's commitment to good corporate governance, sustainable business conduct and value creation, by establishing best practices in corporate governance across the Group with a view to ensuring that the shareholders' and other important stakeholders' rights are fully protected
- assists the Board in setting an appropriate tone at the top to promote key values and behaviors, and to ensure a sound and open culture throughout the organization
- develops and proposes guidelines to the Board for corporate governance and reviews them
- ensures compliance with corporate governance disclosure requirements and legal and regulatory requirements
- is entrusted with succession planning for the Board, the Group CEO and members of the ExCo. It proposes the principles for the nomination and ongoing qualification of members of the Board and makes proposals to the Board on the composition of the Board, the appointment of the Chairman, the Vice-Chairman, the Group CEO and members of the ExCo. Final decisions for nominations and appointments are made by the Board, subject to shareholder approval, where required. When identifying and proposing candidates as new Board members, preserving and increasing of the Board's diversity is a key consideration. This includes diversity in many respects, and goes beyond gender, to include culture, technical and interpersonal skills, education and viewpoints, experience, nationality and a variety of backgrounds, which should enable the Board to meet the Group's current and future challenges. Apart from specific qualifications, every candidate should possess integrity, be of good standing, and be capable and available to fulfill his or her duty of care by serving, in close collaboration with the other Board members, the best interests of the Group's stakeholders (see Nomination Principles in article 15 ff. of the Annex to the Organizational Rules under https://www.zurich.com/about-us/corporate-governance/corporate-documents)
- reviews the system for management development and supervises progress made in succession planning
- reviews and approves the Group's sustainability strategy and objectives
- reviews and proposes to the Board for approval targets on matters related to environmental, social and governance (ESG) that have a material impact on business strategy, underwriting or business performance.

Activities 2019: During 2019, the following topics were in particular focus in the Committee's discussions:

- succession of Board members
- Board committee composition and succession
- ExCo succession
- review of corporate governance documents and recommendation of changes to the Board implementation of sustainability goals and initiatives, such as work sustainability, climate change and confidence in a digital society, with regular updates
- developments affecting corporate governance, including changes to Swiss and international laws and regulations.

The Governance, Nominations & Sustainability Committee meets at least twice per year. In 2019 it met seven times.

Remuneration Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Remuneration Committee to consist of at least three independent non-executive Board members. Currently, the committee comprises Christoph Franz (Chairman), Catherine Bessant, Michel M. Liès, Kishore Mahbubani and Jasmin Staiblin.

Key tasks and responsibilities: In general, the Remuneration Committee:

- regularly evaluates the Group's remuneration architecture and system, as well as Zurich's remuneration rules, and proposes amendments to the Board, which is responsible for the design, implementation and monitoring of the Group's remuneration framework (further details of the Group's remuneration framework, including the remuneration philosophy are set out in the remuneration report on pages 90 to 121)
- reviews and proposes to the Board annually the terms of remuneration of the members of the Board
- based on Zurich's remuneration rules, reviews and proposes to the Board the terms and conditions of employment of the Group CEO and reviews those of other members of the ExCo, as proposed by the Group CEO, including the annual review of performance objectives and performance against these objectives, proposing respective amendments to the Board, as appropriate, for approval
- liaises with the Group CEO on other important matters related to employment, salary and benefits
- reviews the performance achievements of the predefined performance metrics related to short-term and long-term incentive plans (STIP and LTIP), as well as conducting a qualitative assessment of the performance, before reviewing and proposing to the Board the amount of the total variable remuneration pool
- reviews and makes proposals to the Board on the amounts of Board and ExCo remuneration to be submitted for approval at the AGM
- discusses the regulatory environment and risk management aspects regarding remuneration, and prepares the remuneration report annually in accordance with applicable laws and regulations.

Activities 2019: During 2019, the following topics were in particular focus in the Committee's discussions:

- performance of the Group, the countries and the ExCo, as well as the approval of the STIP award level and the LTIP vesting level for the period ending December 31, 2018
- approval of the total variable remuneration pool for 2018
- the regulatory environment regarding remuneration, as well as external developments and the implications for Zurich
- the Ordinance AEC, including the proposed maximum amounts of total remuneration for the Board and the ExCo for the shareholder votes at the AGM on April 3, 2019, and subsequently the results of the votes
- together with the Risk and Investment Committee, risk management aspects of the Group's remuneration architecture, as well as key activities with respect to identified key risk taker (KRT) positions, for example the risk-based assessment of KRTs
- the remuneration report and the Board of Directors report on the approval of the remuneration for the Board of Directors and the ExCo
- Zurich's remuneration rules, which were approved by the Board of Directors
- the annual Corporate Governance Roadshow
- compensation and remuneration structures of the Board and the ExCo, including share ownership in line with guidelines
- activities of the Group Pensions Committee
- the performance and incentive architecture for 2019 and looking ahead into 2020, including the metrics of the long-term incentive plan and how these will support he next strategic cycle.

The Remuneration Committee has retained its own independent advisors, Meridian Compensation Partners, LLC and New Bridge Street, to assist in its review of the remuneration structures and practices.

The Remuneration Committee meets at least twice per year. In 2019 it met seven times.

Audit Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Audit Committee to consist of at least four non-executive Board members, independent from management. Currently, the committee comprises Dame Alison Carnwath (Chairman), Catherine Bessant, Jeffrey Hayman, Monica Mächler and Barry Stowe, all of whom meet the relevant requirements for independence and qualification.

The Charter for the Committees of the Board of Directors of Zurich Insurance Group Ltd (Committees Charter) requires that the Audit Committee, as a whole, should have (i) an understanding of IFRS and financial statements, (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience in preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those of Zurich Insurance Group Ltd and the Group, or experience in actively supervising one or more persons engaged in these activities, (iv) an understanding of internal controls and procedures for financial reporting, and (v) an understanding of audit committee functions.

To facilitate an ongoing exchange of information between the Risk and Investment Committee and the Audit Committee, the Chairman of the Audit Committee is a member of the Risk and Investment Committee and at least one member of the Risk and Investment Committee is a member of the Audit Committee. The Chairman of the Board regularly participates in both the Audit and Risk and Investment Committee meetings as a guest.

The external auditors, the internal auditors, members of the ExCo and other executives attend Audit Committee meetings to, among other things, discuss auditors' reports, review and assess the auditing concept and the examination process and to assess the activities of both external and internal auditors. Private sessions with external and internal auditors are scheduled at the majority of Audit Committee meetings, to enable discussion without Management members being present. For more information on the supervision and control of the external audit process, see page 76.

Key tasks and responsibilities: In general, the Audit Committee:

- serves as a focal point for communication and oversight regarding financial accounting and reporting, internal control, actuarial practice, and financial and regulatory compliance
- reviews the Group's auditing process (including establishing the basic principles relating to and making proposals for the audit of Zurich Insurance Group Ltd and the Group)
- at least annually, reviews the standards of internal control, including activities, plans, organization and quality of Group Audit and Group Compliance
- reviews annual and half year consolidated financial statements of the Group, the Group's updates for the first three months and first nine months of the year and the Financial Condition Report of the Group.

Activities 2019: During 2019, the following topics were in particular focus in the Committee's discussions:

- annual and half year reporting with a strong focus on accounting and reserving matters as well as the Group's updates for the first three months and first nine months of the year
- the effectiveness of the internal control framework, including internal controls over financial reporting (ICFR)
- Group Audit work plans, Group Audit findings and management implementation of remedial actions
- the work of the external auditors, the terms of their engagement and the external auditor's findings on key judgments and estimates in financial statements
- the annual Group Compliance Plan, activities to support management managing compliance risks, compliance policy updates and enhancements, compliance findings, the result of the annual Code of Conduct training as well as the evolving regulatory expectations.

The Audit Committee meets at least four times per year. In 2019 it met eight times.

Risk and Investment Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Risk and Investment Committee to consist of at least four non-executive Board members independent from management. Currently, the committee comprises Jeffrey Hayman (Chairman), Joan Amble, Dame Alison Carnwath, Michael Halbherr and Kishore Mahbubani.

To facilitate an ongoing exchange of information between the Risk and Investment Committee and the Audit Committee, the Chairman of the Audit Committee is a member of the Risk and Investment Committee and a member of the Risk and Investment Committee is a member of the Audit Committee.

Key tasks and responsibilities: In general, the Risk and Investment Committee:

- supports the Board to ensure sound risk and investment management for the Group
- assists the Board to fulfill its duty to
  - oversee the Group's risk portfolio, and the Group's enterprise-wide risk governance framework
  - set an appropriate risk management and control framework
  - oversee the Group's investment process
- In particular, the responsibilities of Risk and Investment Committee include:
  - Risk tolerance and risk governance framework:
    - overseeing the Group's risk tolerance, including agreed limits that the Board regards as acceptable for Zurich, the aggregation of agreed limits across the Group, the measurement of adherence to agreed risk limits and the Group's risk tolerance in relation to anticipated capital levels
    - overseeing the Group's enterprise-wide risk governance framework (embracing policies, models, methodologies, reporting, systems, processes and people)
    - overseeing the impact of risk on economic and regulatory capital requirements
- Risk management and controls:
  - reviewing the Company's and the Group's general policies and procedures, and satisfy itself that effective systems of risk management are established and maintained
  - receiving periodic reports from the risk management function and assess whether all "significant" risk matters (as defined in the Zurich Risk Policy) are being appropriately addressed by ExCo members in a timely manner
  - reviewing and proposing to the Board for approval the Group ORSA report as well as the Group Recovery Plan
- Investments:
  - overseeing the investment process
  - reviewing and recommending for approval to the Board investments above pre-defined threshold
  - monitoring developments in the macroeconomic environment
  - receiving updates on the Group's annual strategic asset allocation, the market risk consumption relative to allocated market risk capital and limit and major market risk drivers, the accounting investment result, the economic investment return relative to liabilities, and the performance of asset managers
- Risk management and investment management functions:
  - assessing the independence and objectivity of the risk management function
  - approving the terms of reference for the risk management function;
  - reviewing the key risk management principles and procedures
  - reviewing the activities, plans, organization and the quality of the risk management and investment management functions
- General
  - reviewing regulatory framework reforms affecting areas within the scope of the RIC's mandate and recommend any required changes to the Board;
  - appraising the Board of significant developments in the course of performing the above duties.

Activities 2019: From an enterprise risk management perspective, during 2019 the Risk and Investment Committee in particular discussed the following topics:

- Enterprise Risk Management update, including Quarterly Risk Reports, strategic risk assessment (Group TRP), and scenario analysis results
- Key Risk Management Principles and Procedures
- Group Risk Appetite and Tolerance Statement 2020
- The Group's Own Risk and Solvency Assessment (ORSA), including self-assessment of the effectiveness of the risk management system
- Group Recovery Plan 2020
- Scope of Internal Control Framework and Management Report on Internal Controls
- Approval of ZRP Level II Limits
- Group Reinsurance Update
- Approach to managing accumulation risk, including Nat Cat and Cyber/Casualty Cat update and exposure limit monitoring (P&C)
- Two sessions on Cyber and Information security
- Exposure to long-tail Life risk, e.g. morbidity risk and longevity risk
- Risk Management Regulatory Update
- Updates from economic and regulatory capital perspectives
- Model validation results 2018 and the plan for 2019
- Credit & country risk update and semi-annual derivative report
- Update on business resilience
- GRM strategy implementation update.

For further information on risk governance, see the risk review on pages 126 to 161. The Risk and Investment Committee meets at least four times per year. In 2019 it met eight times.

Areas of responsibility of the Board and management

The Board decides on the strategy of the Group, supervises senior management and addresses key matters in the area of strategy, finance, and organization. In particular, the Board approves the Group's strategic plan and the annual financial plans developed by management. It reviews and approves the Annual Report and the half-year financial reporting of the Group, as well as the Group's updates for the first three months and first nine months of the year, and the annual financial statements of Zurich Insurance Group Ltd. For more details with regard to the responsibilities of the Board see page 57.

Subject to the powers reserved for the Board, the Board has delegated management of the Group to the Group CEO and, under the Group CEO's supervision, to the ExCo and its members. The Group CEO is the most senior executive officer in the Group and has responsibility and accountability for the Group's management and performance. The Group CEO represents the overall interests of the Group toward third parties to the extent such interests are not represented by the Board. The Group CEO is responsible for developing and implementing the strategic and financial plans approved by the Board. The Group CEO has specific powers and duties pertaining to strategic, financial and organizational matters and manages, supervises and coordinates the activities of the members of the ExCo and of his other direct reports.

Information and control instruments vis-à-vis the ExCo

The Board supervises management and monitors its performance through reporting and controlling processes. The Group CEO and other executives provide information and updates through regular reports to the Board. These include reports on key performance indicators and other Group-relevant financial data, existing and emerging risks, and updates on developments in important markets and on industry peers and other significant events. During 2019, the Chairman of the Board regularly met with the Group CEO. The Chairman meets from time to time with other ExCo members and management outside regular Board meetings. The other members of the Board do so as well, meeting with the Group CFO and the Group CRO in particular.

The Group has an information and financial reporting system. The annual plan for the Group, which includes a summary of financial and operational metrics, is reviewed by the ExCo in detail and approved by the Board. Full-year forecasts are revised if necessary to reflect changes in sensitivities and risks that may affect the results of the Group. Action is taken, where appropriate, when variances arise. This information is reviewed regularly by the ExCo and the Board.

The Group has adopted and implemented a coordinated, formal and consistent approach to risk management and control. Information concerning the Group's risk management and internal control processes is included in the risk review starting on page 126. The internal audit function, the external auditors and the compliance function also assist the Board in exercising its controlling and supervisory duties. Information on these functions' major areas of activity is set out on pages 75 to 78.

Executive Committee

Executive Committee focused on new strategic cycle and sustainable business development

Our Executive Committee in its experienced and diverse composition is well prepared for the new strategic cycle, our journey to transforming the industry and creating a new customer experience, and for becoming one of the most socially and environmentally responsible businesses worldwide.

Mario Greco
Group Chief Executive Officer

Nationality: Italian
Born: 1959
page 70

Urban Angehrn
Group Chief Investment Officer

Nationality: Swiss
Born: 1965
page 70

Jeff Dailey
CEO of Farmers Group, Inc.

Nationality: U.S.
Born: 1957
page 70

Claudia Dill
CEO Latin America

Nationality: Swiss
Born: 1966
page 71

Executive Committee (continued)

Peter Giger
Group Chief Risk Officer

Nationality: Swiss
Born: 1964

page 71

Kathleen Savio
CEO North America

Nationality: U.S.
Born: 1965

page 72

Jack Howell
CEO Asia Pacific

Nationality: U.S.
Born: 1970

page 71

James Shea
CEO Commercial Insurance

Nationality: Canadian
Born: 1965

page 73

Alison Martin
CEO EMEA (Europe, Middle East & Africa) and Bank distribution

Nationality: British
Born: 1974

page 72

Kristof Terryn
Group Chief Operating Officer

Nationality: Belgian
Born: 1967

page 73

George Quinn
Group Chief Financial Officer

Nationality: British
Born: 1966

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Group Management

Executive Committee

Group Management
as of December 31, 2019

Board of Zurich Insurance Group Ltd

Group CEO

Executive Committee

Management Committees

Group Balance Sheet Committee (GBSC)	Group Risk Committee (GRC)
Chair: Group Chief Financial Officer	Chair: Group Chief Risk Officer

Technical Committees

Asset/Liability Management Investment Committee	Group Pensions Committee	Disclosure Committee
Chair: Group Chief Investment Officer	Chair: Gary Shaughnessy	Chair: Head of Group FAR

To the extent not reserved to the Board, management is delegated to the Group CEO. The Group CEO has overall responsibility and accountability for the Group's management and the performance. The ExCo serves the Group CEO as the core management team in matters of Group-wide strategic, financial and business-policy relevance, including consolidated performance, capital allocation and mergers and acquisitions.

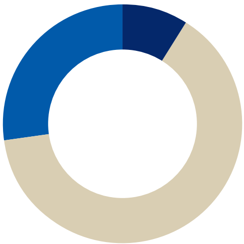
The ExCo is chaired by the Group CEO. As of December 31, 2019, to reflect both lines of business and geography, members of the ExCo included the CEO EMEA (Europe, Middle East & Africa) and Bank Distribution, the CEO North America, the CEO Latin America, the CEO Asia Pacific, the CEO of Farmers Group, Inc. and the CEO Commercial Insurance. The Group CFO, the Group CIO, the Group COO and the Group CRO were also members of the ExCo as of December 31, 2019.

ExCo Composition
As of December 31, 2019, the Exco included members of six nationalities. ExCo members' business experience covers a broad range of jurisdictions, giving the ExCo profound collective knowledge of international business practices.

The composition as of December 31, 2019 in terms of length of tenure, gender, as well as nationality was as follows and the average length of tenure was 4 years:

Corporate governance report (continued)

Executive Committee by length of tenure
%, as of December 31, 2019



Less than 1 years	9
Between 1 and 5 years	64
More than 5 years	27

Executive Committee by gender
%, as of December 31, 2019

Male	73
Female	27

Executive Committee by nationality
%, as of December 31, 2019

Switzerland	27
Italy	9
U.S.	27
UK	18
Canada	9
Belgium	9

Changes to the ExCo

Amanda Blanc, former CEO EMEA and Bank Distribution, decided to step down from her role as of July 2, 2019 (please see her biography in the Annual Report 2018, page 66 under the following link: https://www.zurich.com/investor-relations/results-and-reports), and Alison Martin took over the role as CEO EMEA and Bank Distribution as of July 9, 2019, while continuing as Group Chief Risk Officer (Group CRO) until September 30, 2019. On October 1, 2019, Peter Giger took up the role of Group CRO and became a member of the ExCo.

The following cross-functional committees have been established for key areas to facilitate the coordination and alignment of recommendations to the Group CEO for approval on specific subjects.

Management committees

Group Balance Sheet Committee (GBSC)

Members: Group CFO (Chairperson), Group CEO, Group CRO, Group CIO. The Group General Counsel attends the meetings ex officio but is not a voting member.

Key tasks and responsibilities: The GBSC acts as a cross-functional advisory body for matters that could materially affect the financial position of the Group as a whole. The committee issues recommendations to the Group CEO.

The Committee has oversight of all of the main levers of the balance sheet, including but not limited to transactions, capital management, reinsurance, asset and liability management, dividend and share buyback programs, liquidity, leverage, rating agencies and other balance sheet related matters and topics as measured among other by the Internal Economic Capital Model, including Z-ECM, RBC and related models, such as SST and Solvency II.

Oversight is exercised through regular review of plans, policies and specific transactions related to these areas and recommending appropriate actions the Group CEO and, where appropriate, to the relevant decision-making bodies and management committees of the Group.

Core topics are:

- capital management on capital allocations and lending and borrowing decisions
- rating management strategy and target ratings management
- balance sheet planning on liquidity, solvency, investment and asset/liability management strategies and associated capital allocation, including changes to investment strategy
- business development matters on corporate transactions with third parties, internal restructuring, investments, including real estate, and entry into new types of business and markets
- material Group reinsurance strategy and reinsurance programs
- other topics and matters that may have a material impact on the balance sheet of the Group as determined by the chairperson

The Group Risk Committee (GRC)

Members: Group CRO (Chairman), Group CFO, Group CIO, Group COO, Group General Counsel. The Head of Group Audit and the Group Chief Compliance Officer are invited ex officio to attend the meetings, but are not voting members.

Key tasks and responsibilities: The GRC's main function is to review and provide recommendations to the Group CEO on activities related to the Group's overall risk profile, including insurance, financial markets, credit, operational and strategic risks.

The GRC reviews and recommends on topics such as:

- the overall Group risk appetite, risk tolerance and risk limits, including exceptions to limits over specified thresholds
- requests to enter new lines of insurance business or types of insurance coverage that would have a significant impact on the risk profile of the Group
- requests for exemptions from the Zurich Risk Policy (ZRP) for a particular transaction or product in case of a ratings or credit trigger
- the Group's TRP assessment and related actions
- changes to the Group Policy Framework and the ZRP
- regulatory developments affecting the Group's risk management and the Group's regulatory reporting
- prospective changes to capital models and methodologies that have a significant impact on economic solvency ratios
- the Group's model validation policy, and validation findings related to capital models and significant valuation models, including remedial actions
- market and credit risk internal model consumption relative to the Group's capital allocation, including remedial actions
- any significant deviations from established target solvency levels by subsidiaries, including remedial actions if needed

Technical committees

In addition to management committees, the Group's governance structure provides for committees of a more technical nature to support further aspects of Zurich's business activities; these include:

The Asset/Liability Management Investment Committee, chaired by the Group CIO, acts as a cross-divisional body and has primary responsibility for monitoring and reviewing the Group's asset/liability management and the strategic asset allocation of Zurich's invested assets.

The Group Pensions Committee, chaired by Gary Shaughnessy, is responsible for developing, reviewing and advising on the Group governance framework in matters related to retirement benefit arrangements and post-employment benefits, including the relevant policies and processes. It provides oversight and guidance on the Group's retirement benefit arrangements and post-retirement benefits in matters of benefit design, funding, investment and accounting and provides recommendations to the GBSC on material pension-related matters.

The Disclosure Committee, chaired by the Head of Group Financial Accounting and Reporting (FAR), is responsible for reviewing all external communications and disclosures that contain information material to the financial position and/or performance of the Group. In particular, it reviews half-year and year-end IFRS financial results as well as the updates for the first three and nine months of the Group and related documents, e.g., related news releases and analysts' information. It reviews other external communications that contain material information as to the financial position and performance of the Group, proposals from Group Compliance regarding projects that have an impact on the Group and respective dealing restrictions as well as controls and procedures regarding the effectiveness of the Group's internal controls over financial reporting. It makes recommendations to the Group CFO.

Panels

To enhance its understanding and assessment of the challenges and risks Zurich may face, the Group seeks external expertise and perspectives. As of December 31, 2019, the Group had access to one panel of leading academics and experts from business and industry which provides feedback and insights. Panels are not corporate bodies of the Group and have no decision-making powers. They provide expertise and advice to senior management or certain functions of the Group. The Advisory Council for Catastrophes (formerly Natural Catastrophe Advisory Council) provides insights into the patterns of occurrence, predictability and destructiveness of catastrophes and gives feedback about Zurich's approach to such catastrophes to help improve the effectiveness of its underwriting and reinsurance purchasing.

Corporate governance report (continued)

Biographies

Mario Greco
Group Chief Executive Officer

Skills and experience
Mario Greco joined Zurich in March 2016 as Group Chief Executive Officer and member of the Executive Committee. Mr. Greco started his professional career in management consulting, working in McKinsey & Company's Milan office from 1986 until 1994, where he became a partner in 1992 and subsequently a partner leader in the insurance segment. In 1995, he joined RAS (Allianz Group) in Milan as head of the claims division. He became general manager in charge of the insurance business the following year. In 1998, he was appointed managing director and in 2000, he became the company's CEO. At the end of 2004, Mr. Greco joined Allianz AG's executive board, with responsibility for France, Italy, Spain, Portugal, Greece and Turkey. In April 2005, he joined the Sanpaolo IMI Group in Milan as CEO of EurizonVita and in October 2005, he was appointed CEO of Eurizon Financial Group. From 2007 to 2012, he served at Zurich, first as CEO Global Life and from 2010, as CEO General Insurance. In 2012 he was appointed CEO of Generali.

External appointments
Mr. Greco is a member of the board of directors of the Swiss-American Chamber of Commerce. He is also a member of the International Advisory Council of Bocconi University, a member of the advisory board of the Department of Economics at the University of Zurich and a member of the EMBA X advisory board at the University of St. Gallen.

Educational background
Mr. Greco holds a bachelor's degree in economics from the University of Rome and a master's degree in international economics and monetary theory from Rochester University.

Urban Angehrn
Group Chief Investment Officer

Skills and experience
Urban Angehrn joined the Executive Committee as Group Chief Investment Officer in July 2015. Before taking his current position, he served as Head of Alternative Investments and prior to that, from 2010 to 2012, as Head of Strategy Implementation in Investment Management. He joined Zurich in 2007 as Regional Investment Manager for Europe. Before joining Zurich, he held various positions in capital markets-related roles in the insurance and investment banking industries, including as Head of Allocation & Strategy in asset management at the Winterthur Group. He also served as an adviser to Swiss institutional clients in the use of derivatives, and held positions in derivatives marketing and fixed income sales at Credit Suisse and J.P. Morgan.

External appointments
Mr. Angehrn is the Chairman of the Board of Trustees of the Zurich Insurance Group Swiss Pension Plan. He is also a member of the advisory board of the Department of Banking and Finance at the University of Zurich.

Educational background
Mr. Angehrn holds a Ph.D. in mathematics from Harvard University and a Master of Science in theoretical physics from the Swiss Federal Institute of Technology in Zurich (ETH).

Jeff Dailey
CEO of Farmers Group, Inc.

Skills and experience
Jeff Dailey began his career in 1980 with Mutual Service Insurance Company. He also worked for Progressive Insurance Company. He went on to form Reliant Insurance Company, an auto insurance start-up owned by Reliance Group Holdings, which was sold to Bristol West Holdings, Inc. in 2001. From 2001 until 2003 Mr. Dailey was Chief Operating Officer (COO) of Bristol West Holdings, Inc. and, in 2003 he was named President and COO of Bristol West Holdings, Inc., in conjunction with the firm's initial public offering (IPO) on the New York Stock Exchange. In 2006, he became CEO of Bristol West Holdings, Inc. Mr. Dailey joined Farmers Group, Inc. in 2007 as Vice President when Farmers acquired Bristol West Holdings, Inc., and he was promoted in 2008 to Executive Vice President of Personal Lines. In January 2011, he was promoted to the position of President and COO of Farmers Group, Inc. He became a member of the Board of Farmers Group, Inc. in February 2011 and has been its Chairman since October 2015. Mr. Dailey was appointed to his current role of CEO of Farmers Group, Inc. and became a member of the Executive Committee in January 2012.

External appointments
Mr. Dailey is a member of The Institutes Board of Trustees and serves on the advisory board of Team Rubicon, a disaster relief organization that brings together military veterans, first responders, medical professionals and technology experts.

Educational background
Mr. Dailey graduated from the University of Wisconsin-Madison with a bachelor's degree in economics and has an MBA from the University of Wisconsin-Milwaukee.

Corporate governance report (continued)

Biographies (continued)

Claudia Dill
CEO Latin America

Skills and experience
Claudia Dill has more than 25 years of experience in the banking and insurance sectors and has held a range of senior international positions. Ms. Dill joined Credit Suisse as an internal auditor in 1990. She moved to Japan in 1992, where she worked as an auditor for Deutsche Bank and Commerzbank. Ms. Dill spent most of 1994 working as an external auditor for Coopers & Lybrand in Moscow, before returning to Switzerland. She resumed working for Credit Suisse from the end of 1994 until 1999 in various roles in the credit risk management department. Ms. Dill joined Zurich in 1999 as Financial Controller of Group Reinsurance and in 2001 was promoted to Chief Financial Officer (CFO) for Group Reinsurance. In 2003, she was appointed CFO for the business division Continental Europe and was promoted in 2004 to CFO of the European Region and European General Insurance business division. In 2007 she was appointed Chief Operating Officer (COO) for the same business area. In 2009, Ms. Dill took on the role of CEO and President for the North America Shared Services Platform (ZFUS) and was promoted in 2010 to Head of Global Business Services, both roles based in the U.S. From 2012 until 2015, Ms. Dill served as COO for the General Insurance business, based in Switzerland. In 2015 she was named CEO General Insurance Latin America, based in Brazil, and was appointed CEO Latin America in 2016. She became a member of the Executive Committee in October 2016.

External appointments
None.

Educational background
Ms. Dill holds an MBA from the Universities of Rochester in the U.S. and Bern, Switzerland, and a master's degree in economics from the University of St. Gallen, Switzerland.

Peter Giger
Group Chief Risk Officer

Skills and experience
Peter Giger has extensive experience in insurance and reinsurance, including in areas of finance, risk, strategy, underwriting and regulatory management. Prior to being appointed as Zurich's Group Chief Risk Officer and member of the Executive Committee, effective October 1, 2019, he served for four years from 2014 to 2018 as the head of the Swiss Financial Market Supervisory Authority FINMA's insurance division. During that time he also served as FINMA's deputy CEO and a member of its executive team. While at FINMA he represented Switzerland in international organizations, instituted standard operating procedures and guidelines, and was instrumental in consolidating Swiss Solvency Test modeling. From 2002 to 2014 he held executive leadership roles at Zurich, including CFO General Insurance from 2010 to 2014. Prior to that he headed Structured Finance at Swiss Re from 1999 to 2002. Mr. Giger began his career at Zurich, holding a series of management positions between 1992 and 1999.

External appointments
None.

Educational background
Mr. Giger has a doctorate in business administration from the University of Zurich, and a master's degree in business administration, specializing in IT, from the University of St. Gallen.

Jack Howell
CEO Asia Pacific

Skills and experience
Jack Howell has more than 20 years' experience in the financial services sector, of which more than 10 have been in various senior leadership positions for insurance companies in Asia. Prior to his appointment at Zurich, Mr. Howell was the regional officer for Asia for Assicurazioni Generali based in Hong Kong. He joined Generali from Prudential plc Group, where he briefly served as CEO and President Director for PT Prudential Life Assurance, Indonesia, and for almost six years as CEO of Prudential Vietnam Assurance. Before Prudential, he held various positions in AIG in the Philippines, Hong Kong and New York, co-founded a boutique investment bank called TwentyTen, and spent several years as a consultant, including in The Boston Consulting Group. Mr. Howell joined Zurich in September 2016 as CEO for Asia Pacific and became a member of the Executive Committee in October 2016.

External appointments
None.

Educational background
Mr. Howell holds an MBA from the University of Chicago and a Bachelor of Science in quantitative economics from Tufts University in Massachusetts.

Corporate governance report (continued)

Biographies (continued)

Alison Martin
CEO EMEA (Europe, Middle East & Africa) and Bank Distribution

Skills and experience
Alison Martin has extensive management, financial and commercial experience within the insurance sector. She was appointed Chief Executive Officer Europe, Middle East & Africa (EMEA) and Bank Distribution in July 2019. Prior to that, she served as Group Chief Risk Officer from January 2018 to September 2019. A qualified accountant, Ms. Martin began her career at PwC, where from 1995 to 2003 she worked with insurance clients in audit and advisory roles. She then served in leading executive positions at Swiss Re, starting in 2003 as Finance Director, Life & Health. Starting in January 2011 she served as Group Managing Director of Swiss Re's Life & Health Products Division. She was appointed Swiss Re's Head of Life & Health Business Management in 2013, a position she held until joining Zurich as Group Chief Risk Officer-designate and a member of the Executive Committee in October 2017.

External appointments
Alison Martin became a member of the Swiss Federal Institute of Technology (ETH) Risk Center's advisory board in September 2018. In June 2019 she also became a Councillor of the British-Swiss Chamber of Commerce.

Educational background
Ms. Martin earned a bachelor's degree in law, with honors, from the University of Birmingham in 1995. In 1998 she qualified with the Institute of Chartered Accountants in England and Wales as an associate member, and in 2010 she completed the Chartered Financial Analyst investment management certificate.

George Quinn
Group Chief Financial Officer

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

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

Educational background
Mr. Quinn holds a degree in engineering from the University of Strathclyde. He is also a member of the Institute of Chartered Accountants in England and Wales.

Kathleen Savio
CEO North America

Skills and experience
Kathleen Savio is Chief Executive Officer for Zurich North America, a position she has held since January 2018. She became a member of the Executive Committee in October 2017. She has more than 25 years of experience working across several disciplines at Zurich. From 2012 through 2017, she served as Zurich North America's Head of Alternative Markets, which delivers products and services to customers through multiple distribution channels, including direct, program administrators, crop agents, captive consultants and brokers. Prior to that appointment, Ms. Savio held the position of Chief Administrative Officer for North America Commercial. Before assuming that role, she led Corporate Marketing and Communications for North America Commercial, as well as Strategic Initiatives for Marketing and Distribution. She also has held roles in product underwriting and corporate marketing and within key business units. She joined Zurich in 1991.

External appointments
Ms. Savio is a board member and serves on the Executive Committee of the American Property Casualty Insurance Association (APCIA). She is also a board member for The Institutes and sits on the NYU Stern Center for Sustainable Business Advisory Board. She is a member of The Chicago Network, an organization of Chicago's leading professional women.

Educational background
Ms. Savio earned a master's degree in communication and a bachelor's degree in speech communication from Illinois State University. She is also a graduate of the Harvard Business School Advanced Management Program and has participated in executive management programs at Northwestern University's Kellogg School of Management.

Corporate governance report (continued)

Biographies (continued)

James Shea
CEO Commercial Insurance

Skills and experience
James Shea began his insurance career at AIG in 1994 as a financial lines underwriter in New York. He joined the American International Underwriters (AIU) division in 1996, where he held several senior underwriting and general management positions. These included senior vice president of International Financial Lines, regional president for Central Europe and the Commonwealth of Independent States and managing director of AIG UK. In 2011 he was appointed president of Global Specialty Lines and in 2012 his role was expanded to CEO of Commercial Insurance for AIG in Asia Pacific. Most recently he was President of Global Financial Lines based in New York. During his career, he has worked in Canada, the U.S., UK, France, Japan and Singapore. Mr. Shea joined Zurich in September 2016 as CEO Commercial Insurance and as a member of the Executive Committee effective October 2016.

External appointments
None.

Educational background
Mr. Shea holds a bachelor's degree in political science from McGill University, Canada.

Kristof Terryn
Group Chief Operating Officer

Skills and experience
Kristof Terryn began his career in 1993 in the banking industry, where he worked in capital markets. In 1997, he joined McKinsey & Company where he held various positions within the financial services practice in Brussels and Chicago. He joined Zurich in 2004 in the Finance department. In 2007 he became Chief Operating Officer (COO) for the Global Corporate business division and in January 2009 was named COO for General Insurance. Mr. Terryn became a member of the Executive Committee in 2010 upon his appointment as Group Head Operations. In September 2013 he was appointed CEO Global Life, and after becoming CEO General Insurance in October 2015, continued to serve as CEO Global Life on an ad interim basis until the end of December 2015. He was appointed Group Chief Operating Officer effective July 2016.

External appointments
None.

Educational background
Mr. Terryn holds a law degree and a degree in economics from the University of Leuven, Belgium, as well as an MBA from the University of Michigan.

Changes to the ExCo since January 1, 2020

There were no changes to the ExCo since January 1, 2020.

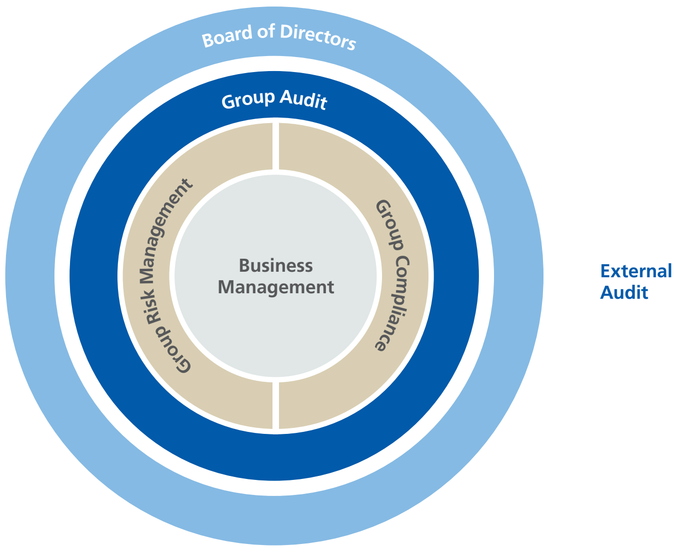
Management contracts

Zurich Insurance Group Ltd has not transferred key parts of management by contract to other companies (or individuals) not belonging to (or employed by) the Group.

Governance, controls and assurance at Zurich Insurance Group

At Zurich, various governance and control functions help to ensure that risks are identified and appropriately managed and internal controls are in place and operating effectively. The Board is ultimately responsible for the supervision of these activities. Although each governance and control function maintains its distinct mandate and responsibilities, the functions are closely aligned and co-operate with each other through a regular exchange of information, planning and other activities. This approach supports management in its responsibilities and provides confidence that risks are appropriately addressed and that adequate mitigation actions are implemented.

Three lines of defense at Zurich Insurance Group
as of December 31, 2019



Zurich uses the three- lines-of-defense model in its approach to governance and enterprise risk management. Zurich's three-lines-of-defense approach runs through Zurich's governance structure, so that risks are clearly identified, assessed, owned, managed and monitored.

- **1st line: Business Management**
  The first line of defense consists of business management and all functions except Group Risk Management, Group Compliance and Group Audit. The first line takes risks and is responsible for day-to-day risk management (i.e. risks are identified and monitored, mitigation actions are implemented and internal controls are in place and operating effectively).
- **2nd line: Group Risk Management and Group Compliance**
  The second line of defense consists of the two control functions, Group Risk Management and Group Compliance.
  Group Risk Management is responsible for Zurich's enterprise risk management framework. The Group CRO regularly reports risk matters to the Group CEO, senior management committees and the Risk and Investment Committee of the Board.
  Group Compliance is responsible for providing assurance to management that compliance risks within its mandate are appropriately identified and managed. The Group Chief Compliance Officer regularly provides reports to the Audit Committee and has an additional reporting line to the Chairman of the Audit Committee and appropriate access to the Chairman of the Board.
- **3rd line: Group Audit**
  The third line of defense consists of the assurance function Group Audit.
  Group Audit is responsible for auditing risk management, control and governance processes. The Head of Group Audit reports functionally to the Chairman of the Audit Committee and administratively to the Group CEO, and meets regularly with the Chairman of the Board and the Chairman of the Audit Committee and attends each meeting of the Audit Committee.
- **Board**
  The Board is ultimately responsible for the supervision of the control and assurance activities.

  External Audit
  External audit is responsible for auditing the Group's financial statements and for auditing Zurich's compliance with specific regulatory requirements. The Audit Committee regularly meets with the external auditors.

External auditors

Duration of the mandate and term of office of the auditor-in-charge

PricewaterhouseCoopers AG (PwC), Birchstrasse 160, in 8050 Zurich, is Zurich Insurance Group Ltd's external auditor.

PwC assumes all auditing functions which are required by law and by the Articles of Association of Zurich Insurance Group Ltd. The external auditors are appointed by the shareholders of Zurich Insurance Group Ltd annually. At the Annual General Meeting on April 3, 2019, PwC was re-elected by the shareholders of Zurich Insurance Group Ltd. The Board proposes that PwC be re-elected at the Annual General Meeting on April 1, 2020 as external auditors for the financial year 2020. PwC fulfills all necessary requirements under the Swiss Federal Act on the Admission and Oversight of Auditors and has been admitted as a registered auditing company by the Federal Audit Oversight Authority.

PwC and its predecessor organizations, Coopers & Lybrand and Schweizerische Treuhandgesellschaft AG, have served as external auditors of Zurich Insurance Group Ltd and its predecessor organizations since May 11, 1983. In 2000 and 2007, the Group conducted tender processes, inviting all major auditing firms to submit their work program and tender offers. After a thorough review, on both occasions the Board came to the conclusion that PwC's work program and offer prevailed and therefore proposed PwC for re-election.

Alex Finn of PwC is the Global Relationship Partner and lead auditor since the business year 2018. Mark Humphreys, audit engagement partner, co-signs the auditors' report for 2019 and is the auditor in charge for the statutory audit work since 2018. Ray Kunz is the auditor in charge for the regulatory audit work since 2017.

The Group has updated its policy on the rotation of the external audit mandate to adopt best practices adopted by the European Union and as a result will rotate its external auditor in 2021. The Group will thereafter tender its external audit mandate every ten years.

In 2018, in accordance with the new policy and in order to allow the greatest amount of flexibility and time for a smooth transition to the selected audit firm, the Group ran a competitive, transparent and fair tender process to select the firm to replace PwC. The Audit Committee was actively engaged throughout. At the AGM in 2021 Ernst & Young Ltd will be proposed as external auditor for financial year 2021.

Audit fees

Total audit fees (including expenses and value added taxes) charged by PwC in the year 2019 amounted to USD 43.8 million (USD 45.3 million in 2018).

External audit fees are reviewed annually by the Group's Audit Committee. Once the fees are agreed, they are further allocated to the countries and reporting units via a global allocation process with the allocations communicated to local CFOs and FAR Controllers. As the year comes to a close, actual fees charged are reviewed and agreed with the local CFOs. At all levels – Group and local – there is a clear understanding of the basis for the current year fee including the impacts of changes in scope or other factors. Unplanned overruns are reviewed and agreed with the business (responsible CFO or audit contact).

Non-audit fees

Total fees (including expenses and value added taxes) in the year 2019 for additional services, such as tax advice, audit-related services (primarily for the MCEV review, non audit assurance engagements and actuarial regulatory reviews) and other services (primarily IFRS 17 projects, strategy and forensic services) were USD 19.4 million (USD 16.2 million in 2018).

The Group has a comprehensive policy covering non-audit services. The Group's policy specifies definitions of allowable and non-allowable non-audit services as well as approval limits for non-audit service mandates at the local and Group level. The Group's external auditor tracks non-audit services and reports semi-annually to the Head of Group FAR and the Audit Committee the extent of non-audit services provided world-wide.

Corporate governance report (continued)

Non-audit fees were as follows:

Audit and non-audit fee amounts

in USD millions, as of December 31	2019	2018
Total audit fees	**43.8**	**45.3**
Total non-audit fees	**19.4**	**16.2**
– Tax advice	1.6	0.9
– Audit-related, including MCEV	4.7	5.0
– Other, primarily related to the IFRS 17/9 projects	13.1	10.3

Supervision and control over the external audit process

The Audit Committee regularly meets with the external auditors. During 2019, the Audit Committee met with the external auditors nine times. The external auditors regularly have private sessions with the Audit Committee without management present. Based on written reports, the Audit Committee and the external auditors discuss the quality of the Group's financial and accounting function and any recommendations that the external auditors may have. Topics considered during such discussions include strengthening of internal financial controls, applicable accounting principles and management reporting systems. In connection with the audit, the Audit Committee obtains from the external auditors a timely report relating to the audited financial statements of Zurich Insurance Group Ltd and the Group.

The Audit Committee oversees the work of the external auditors. It reviews, at least annually, the qualification, performance and independence of the external auditors and reviews any matters that may impair their objectivity and independence. The review is based on a written report by the external auditors describing the firm's internal quality control procedures, any material issues raised and all relationships between the external auditors and the Group and/or its employees that could be considered to bear on the external auditors' independence. The Audit Committee evaluates the performance of the external auditors during their audit examination. It elicits the comments of management regarding the auditors' performance (based on criteria such as their understanding of Zurich's business, technical knowledge and expertise, etc.) and the quality of the working relationship (responsiveness of the external auditors to the needs of Zurich Insurance Group Ltd and the Group and the clarity of communication). The Audit Committee reviews, prior to the commencement of the annual audit, the scope and general extent of the external audit and suggests areas requiring special emphasis.

The Audit Committee proposes the external auditors to the Board for appointment by the shareholders and is responsible for approving the audit fees. A proposal for fees for audit services is submitted to management by the external auditors and validated, before it is submitted to the Audit Committee for approval. The proposal is mainly based on an analysis of existing reporting units and expected changes to the legal and operational structure during the year.

The Audit Committee has approved a written policy on the use of external auditors for non-audit services, which sets out the rules for providing such services and related matters (including a list of prohibited services). Allowable non-audit services may include tax advice, comfort and consent letters, certifications and attestations, and due diligence and audit support in proposed transactions, to the extent that such work complies with applicable legal and regulatory requirements and does not compromise the independence or objectivity of the external auditors. To avoid conflicts of interest, all allowable non-audit services need pre-approval from the Audit Committee (Chairman), the Group CFO or the local CFO, depending on the level of the expected fee. This policy further requires, among other things, an engagement letter specifying the services to be provided.

Group Audit

The Group's internal audit function (Group Audit) is tasked with providing independent and objective assurance to the Board, the Audit Committee, the Group CEO and management and to the boards and audit committees of subsidiary companies. This is accomplished by developing a risk-based plan, which is updated continuously as the risks faced by the business change. The plan is based on the full spectrum of business risks including concerns and issues raised by the Audit Committee, management and other stakeholders. Group Audit executes the plan in accordance with defined operating standards, which incorporate and comply with the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA). Key issues raised by Group Audit are communicated to the responsible management function, the Group CEO and the Audit Committee using a suite of reporting tools.

The Audit Committee, boards and audit committees of subsidiary companies and Group CEO are regularly informed of important audit findings, including adverse opinions, mitigation actions and attention provided by management. Group Audit is responsible for ensuring that issues identified by Group Audit, that could have an impact on the Group's operations are brought to the attention of the Audit Committee and appropriate levels of management and that timely follow-up action occurs. This is supported by the attendance of the Head of Group Audit at each meeting of the Audit Committee. In addition, the Head of Group Audit meets with the Chairman of the Audit Committee each month.

Group Audit is authorized to review all areas of the Group and has unrestricted access to all Group activities, accounts, records, property and personnel necessary to fulfill its duties. In the course of its work, Group Audit takes into consideration the work of other assurance functions. In particular, Group Audit co-ordinates its activities with the external auditors, sharing risk assessments, work plans, audit reports and updates on audit actions. Group Audit and the external auditors meet regularly at all levels of the organization to optimize assurance provision and efficiency.

The Audit Committee assesses the independence of Group Audit and reviews its activities, plans and organization, the quality of its work and its cooperation with the external auditors. As required by the Institute of Internal Auditors' (IIA) International Standards, the Internal Audit function is quality-reviewed at least every five years by an independent qualified assessor. This review was conducted most recently in 2016 and 2017, and reported to the Audit Committee in February 2017. The results confirmed that Group Audit's practices conform to all IIA Standards.

The Audit Committee approves the Group Audit Plan annually, and reviews reports from the function on its activities and significant risk, control and governance issues, at least three times per year. The Head of Group Audit reports functionally to the Chairman of the Audit Committee and administratively to the Group CEO, and meets regularly with the Chairman of the Board and the Chairman of the Audit Committee. Group Audit has no operational responsibilities for the areas it reviews and, to ensure independence, all Group Audit staff report (via audit managers) to the Head of Group Audit. In some instances, country audit managers also have a reporting line to the local CEO to comply with regulatory requirements.

Group Compliance

The Group is committed to comply with all applicable laws, regulations and internal requirements, professional and industry standards and its stated corporate values.

Group Compliance is a control function responsible for:

- enabling the business to manage its compliance risks
- being a trusted advisor
- providing independent challenge, monitoring and assurance
- assisting management to promote compliance culture and ethics.

Group Compliance is vertically integrated to support a global framework and it is led by the Group Chief Compliance Officer.

Group Compliance performs its activities according to the Global Annual Compliance Plan and reports on progress against plan, outcomes and insights to management, the Audit Committee of the Board or to the regional and local equivalent body.

Each Annual Compliance Plan (global, regional, local) is a risk-based plan and must be prepared on the basis of an independent forward-looking compliance risk assessment, taking into account both internal and external key risk drivers.

Group Compliance provides an independent compliance view on the key compliance risks to the business and performs independent risk-based monitoring and assurance activities, challenging the business. In addition, it provides compliance risk insight through relevant and targeted reporting.

The Group Chief Compliance Officer defines and issues compliance policies relevant to the Group and establishes appropriate processes and guidance.

Group Compliance supports the embedment of a strong compliance culture across the Group in a changing regulatory environment via training and awareness initiatives.

The Group Chief Compliance Officer has direct access to the Group CEO and the Chairman of the Board's Audit Committee and appropriate access to the Chairman of the Board. The Group Chief Compliance Officer has an additional reporting line to the Chairman of the Audit Committee, while maintaining functional independence as a second line of defense function.

As part of Zurich's commitment to promoting a culture of compliance, Group Compliance establishes and maintains the global reporting mechanism for reporting of concerns. Zurich encourages its employees to speak up and report improper conduct that they believe is illegal, unethical, or violates Zurich's Code of Conduct or our Group's policies. Employees are free to report their concerns to management, Human Resources, the Group's Legal department, its Compliance function, or through the Zurich Ethics Line (or similar service provided locally), a phone and web-based service run by an independent external provider. Zurich does not tolerate retaliation against any employee who reports concerns in good faith.

Stakeholders

Shareholders

Significant shareholders

According to the rules regarding the disclosure of significant shareholdings of Swiss companies listed in Switzerland, it has to be disclosed if certain thresholds starting at 3 percent are reached or if the shareholding subsequently falls below those thresholds. Disclosure must be made separately for purchase positions (including shares, long call options and short put options) and sale positions (including long put options and short call options). The percentage thresholds are calculated on the basis of the total amount of voting rights according to the number of shares issued as disclosed in the commercial register.

Zurich Insurance Group Ltd is obliged to announce shareholdings by third parties in its shares upon receipt of a third-party notification that a threshold has been reached. During 2019, the Group received one such notification that a relevant threshold had been exceeded.

As of December 31, 2019, Zurich Insurance Group Ltd was not aware of any person or institution, other than BlackRock, Inc., New York (> 5 percent) and The Capital Group Companies, Inc., Los Angeles (> 5 percent), which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd exceeding the relevant thresholds prescribed by law.

The announcements related to these notifications can be found via the search facility on the SIX Disclosure Office's platform: www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html.

Zurich Insurance Group Ltd is not aware of any person or institution which, as of December 31, 2019, directly or indirectly, alone or with others, exercised or was a party to any arrangements to exercise control over Zurich Insurance Group Ltd.

Overview on shareholder structure

Number of shares held

as of December 31, 2019	Number of registered shareholders	% of registered share capital
1–500	115,416	13.1
501–1,000	5,101	4.0
1,001–10,000	3,991	10.6
10,001–100,000	395	12.1
100,001+	66	60.1
Total registered shares[1]	**124,969**	**100.0**

[1] of registered shareholders.

Registered shareholders by type

as of December 31, 2019	Registered shareholders in %	Registered shares in %[1]
Individual shareholders	96.0	25.7
Legal entities	3.9	28.3
Nominees, fiduciaries	0.1	46.0
Total	**100.0**	**100.0**

[1] of registered shareholders.

Corporate governance report (continued)

Registered shareholders by geography

as of December 31, 2019	Registered shareholders in %	Registered shares in %[1]
Switzerland	48.4	93.5
UK	32.6	0.5
North America	10.9	0.7
Asia	0.9	0.2
Latin America	0.0	0.1
Rest of the world	7.2	5.0

[1] of registered shareholders.

Cross-shareholdings

Zurich Insurance Group Ltd has no interest in any other company exceeding 5 percent of the voting rights of that other company, where such other company has an interest in Zurich Insurance Group Ltd exceeding 5 percent of the voting rights in Zurich Insurance Group Ltd.

Shareholders' participation rights

Voting rights restrictions and representation

Each share entered into the share register entitles the holder to one vote. There are no voting rights restrictions (other than set out under "Limitations on transferability and nominee registrations", see page 87.

A shareholder with voting rights can attend shareholders' meetings of Zurich Insurance Group Ltd in person. He or she may also authorize, in writing, another shareholder with voting rights or any person permitted under the Articles of Association and a more detailed directive of the Board to represent him or her at the shareholders' meeting. Based on the Articles of Association, minors or wards may be represented by their legal representatives, married persons by their spouses and a legal entity may be represented by authorized signatories or other authorized representatives, even if such persons are not shareholders.

In accordance with the Ordinance AEC and reflected in article 13 of our Articles of Association, authority of representation may also be given to the independent voting rights representative. The AGM elects the independent voting rights representative. The term of office ends with the conclusion of the next AGM. The independent voting rights representative may be re-elected. The shareholders may give voting instructions to the independent voting rights representative either in writing or via the online platform of Computershare Switzerland Ltd.

Zurich Insurance Group Ltd may under certain circumstances authorize the beneficial owners of shares that are legally held by professional persons as nominees (such as a trust company, bank, professional asset manager, clearing organization, investment fund or another entity recognized by Zurich Insurance Group Ltd) to attend shareholders' meetings and exercise votes as proxy of the relevant nominee. For further details, see page 87 of this report.

In accordance with Swiss law and practice, Zurich Insurance Group Ltd informs all shareholders at the beginning of the shareholders' meeting of the aggregate number of shares represented by shareholders and the number of shares represented by the independent voting rights representative. Zurich Insurance Group Ltd provided electronic voting devices to its shareholders for all the resolutions taken at the AGM on April 3, 2019.

Statutory quora

Pursuant to the Articles of Association (www.zurich.com/en/about-us/corporate-governance/corporate-documents), the AGM constitutes a quorum irrespective of the number of shareholders present and shares represented. Resolutions and elections generally require the approval of an absolute majority of the votes represented, unless respective provisions in the Articles of Association (of which there are currently none) or mandatory legal provisions stipulate otherwise. Article 704 of the Swiss Code of Obligations provides for a two-thirds majority of votes represented and an absolute majority of the nominal value of shares represented for certain important matters, such as a change of the company's purpose or domicile, a dissolution of the company and certain matters relating to capital increases.

Corporate governance report (continued)

Convening of shareholders' meetings

Shareholders' meetings are convened by the Board or, if necessary, by the auditors and other bodies in accordance with the provisions set out in articles 699 and 700 of the Swiss Code of Obligations. Shareholders with voting rights representing at least 10 percent of the share capital may call a shareholders' meeting, indicating the matters to be discussed and the corresponding proposals. The invitation to shareholders is mailed at least 20 calendar days before the meeting is held and, in addition, is published in the Swiss Official Gazette of Commerce.

Agenda

The Board is responsible for setting the agenda and sending it to shareholders. Shareholders with voting rights who together represent shares with a nominal value of at least CHF 10,000 may request in writing, no later than 45 days before the day of the meeting, that specific items be included in the agenda.

Registrations in the share register

With a view to ensuring an orderly process, the Board determines the date on which a shareholder needs to be registered in the share register in order to exercise their participation rights by attending the shareholders' meeting. That date is published, together with the invitation to the shareholders' meeting, in the Swiss Official Gazette of Commerce.

Information Policy

As of December 31, 2019, Zurich Insurance Group Ltd had 124,969 shareholders registered in its share register, ranging from private individuals to large institutional investors. Each registered shareholder receives an invitation to a shareholders' meeting. A Letter to Shareholders provides an overview of the Group's activities as the year progresses and outlines its financial performance. A more comprehensive Annual Report and half-year reports are available on Zurich's website. Information on the Group's updates for the first three months and first nine months of the year is also available on Zurich's website (www.zurich.com/en/investor-relations/results-and-reports). News Releases are distributed in accordance with the Directive on Ad hoc Publicity and available on Zurich's website www.zurich.com (www.zurich.com/en/media).

Zurich Insurance Group Ltd will hold its Annual General Meeting on April 1, 2020. The meeting will be held at the Hallenstadion in Zurich-Oerlikon. An invitation setting out the agenda for this meeting and an explanation of the proposed resolutions is issued to shareholders at least 20 days before the meeting.

For addresses see information on page 313 and further upcoming important dates, see investor section starting on page 24 (financial calendar on page 25).

Corporate governance report (continued)

Employees

Work sustainability is of high concern in today's world, especially in these times of great change and transformation and we are making it our top priority. The Group, with a long-term vision and a strong sense of purpose, supports and encourages each one of our employees to progress in their careers and build a path for their future.

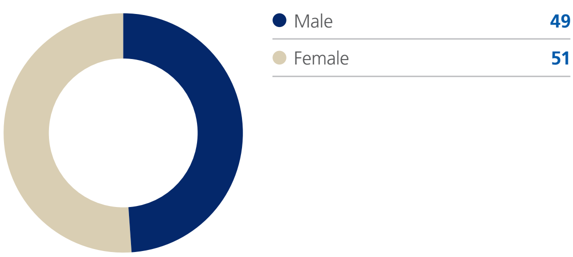
Therefore, we put in place shared commitments that lead to a sense of security and trust in the workplace, as we continue to grow: developing our employees for new job opportunities rather than hiring externally, prioritizing our in-house local skills over outsourcing solutions and offering career choices that match the employees' talents and ambitions and meet the market needs of today and tomorrow.

We are now actively moving to bring forward a range of solutions designed to promote a culture of continuous learning within Zurich, reskilling and upskilling our employees to ensure they are fit for the future needs of our business.

The Group has already made good progress in promoting a truly diverse and inclusive work environment, and we have received worldwide recognition for this; our recent commitment to granting equal access to paid maternity/paternity leave globally, is unprecedented in our industry. The Group is committed to providing equal opportunities when recruiting and promoting people, whereby ability, experience, skills, knowledge, integrity and diversity are guiding principles.

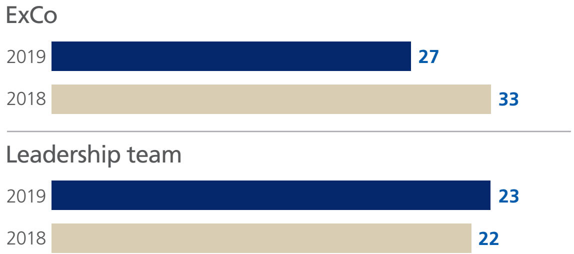
Employees by gender

% 2019



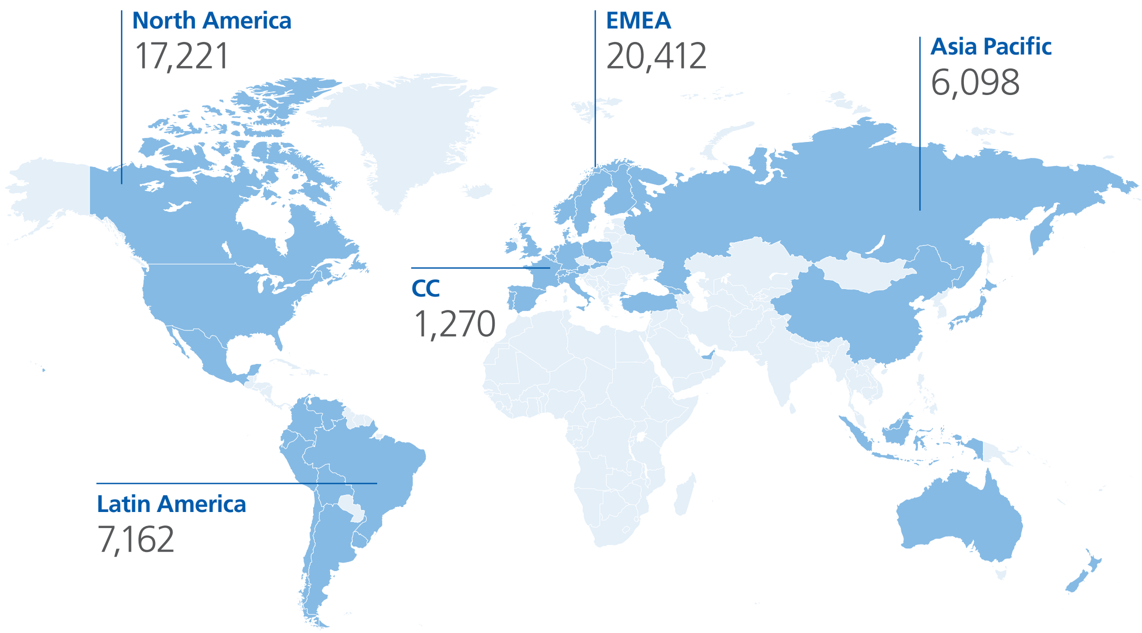
Female representation

%



Corporate governance report (continued)

Our organizational footprint[1]
Number of people



Nationalities	Average Tenure[2]	Average Turnover[3]	Boomer[4]	Gen X[4]	Gen Y[4]
112	10	13.6%	17%	43%	38%

[1] Excluding Cover-More and parts of Germany.
[2] Average tenure as per 31.12.2019.
[3] Annualized turnover in 2019.
[4] Boomer, <1964; Gen X, 1965–1979; Gen Y, 1980–1994.

Our commitment to a positive employee value proposition has been greatly assisted by the deployment of a number of 'listen and act' initiatives such as organizational health and employee net promoter score (ENPS) to deliver the improvements our employees want to see.

As an employer we see diversity and inclusion as being of primary importance, and recent efforts to improve employee engagement have resulted in a strong improvement in ENPS.

The Group actively encourages employee involvement in its activities through publications, team briefings and regular meetings with employees' representatives. The Group is also part of an agreement with employee representatives of the Group's companies in Europe. For further information on the Group's people management activities, see pages 22 and 23 of the Annual Report. In some countries, the Group has established broad-based employee share compensation and incentive plans to encourage employees to become shareholders of the Group.

Corporate governance report (continued)

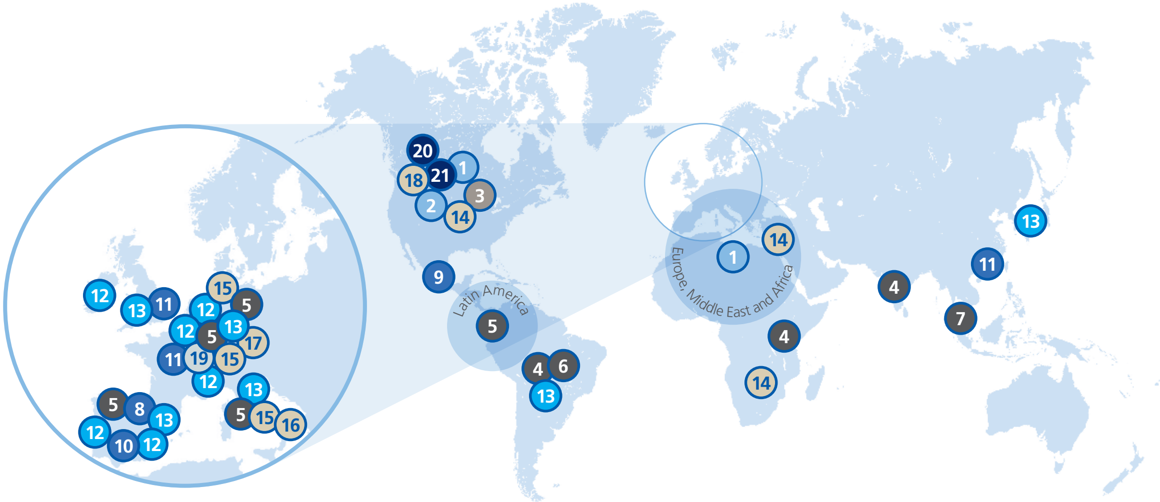
Customers

Our customers are at the center of all our activities and thinking. Society is facing increasingly interconnected and complex environmental, social and governance challenges. The insurance industry cannot be a bystander and where appropriate, it must play its role in addressing these challenges as a manager of risk. Failing to do so, can have a damaging impact on society, stakeholder trust and the reputation of the insurance industry and its customers. That is why we work with our corporate customers and brokers to better manage sustainability risks and strive to promote international best practice standards that help ensure that potentially adverse social, environmental and economic impacts are adequately managed.

As an insurer, we systematically identify sustainability risks and deliver solutions that can enhance the social and environmental impact of our customer. We proactively engage with customers to support their transition to a low carbon economy. We work continuously to develop relevant products and solutions for customers that have a positive social and environmental impact, and support well-being, enhance resilience and facilitate the transition to a low-carbon economy. Some of the ways we have achieved this recently include:

ESG in insurance – specific solutions with sustainable impact

Examples of Zurich's environmental, social and governance (ESG) products around the world



Resource efficiency		
1	Better Green construction insurance	USA/EMEA
2	Homeowners Eco-Rebuild	Farmers[1] USA
Severe weather		
3	Flood pre-loss incentives	USA
Financial inclusion		
4	Insurance protection: Blue Marble Microinsurance[2]	Latin America/ East Africa/India
5	Basic Ability: Income protection	Germany/Austria/Spain/ Italy/Latin America
6	Savings product	Brazil
7	TrueLady	Malaysia
Supporting communities		
8	Savings product[5]	Spain[3]
9	Medical expenses[5]	Mexico[4]
10	Pension fund[5]	Spain[3]
11	One Tree for One Policy	UK/Hong Kong/Switzerland

Mobility		
12	Electric car insurance	Ireland/Switzerland/Germany/ Spain/Austria/Portugal
13	Telematics	Italy/UK/Japan/Spain/ Germany/Brazil
Renewable energy		
14	Construction insurance	US/South Africa/Israel
15	Construction insurance	Italy/Germany/Switzerland
16	Zurich4Power	Italy
17	Zurich SOLARplus	Germany
18	Renewable Energy Generating Equipment Insurance	USA
Risk tool		
19	Natural Hazards Radar	Switzerland
Environmental impact		
20	Carbon Capture and Sequestratian Liability Insurance	USA
21	Z Choice Pollution liability insurance	USA

[1] The Farmers Exchanges are owned by their policyholders. Farmers Group, Inc., a wholly owned subsidiary of 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.
[2] Zurich Insurance Group is one of the founding members of Blue Marble Microinsurance, a consortium of eight companies collaborating to innovate solutions that protect the underserved.
[3] Zurich's joint venture with Banco Sabadell.
[4] Zurich Santander.
[5] Supporting various projects around the world.

We integrate our commitment to sustainability and the UN Global Compact into our underwriting and business decisions. We believe in the value of engaging with customers to understand their business and operations, and working together with them to ensure they have responsible and sustainable business practices in place. This enables us to make better-informed decisions on how we can support customers in developing best practice in areas of ESG (https://www.zurich.com/sustainability/working-with-customers/esg-integration-in-insurance). For further information see pages 20 and 21.

Communities – our role in society

We are investing in our communities to create social impact, enhance resilience and provide engagement opportunities for our employees outside of their daily jobs.

There is a growing gap between natural hazards protection of the total economic losses and the portion of those losses that is insured. This needs to be tackled both by traditional risk transfer mechanisms such as insurance, and by leveraging the insurance industry's knowledge on risk management and risk reduction. By using Zurich's risk expertise as a global insurer, we can help customers and communities reduce the devastating impacts of floods – even before a flood hits – and build community flood resilience in a more integrated way.

We help communities dealing with floods through the Flood Resilience Alliance which is a program designed together with other members to lessen the prevalence of floods and allow communities to recover quickly. The Group provides the following contributions to the Alliance:

- secondment projects of Zurich employees with the relevant skills and expertise (flood/hydrological expertise and risk engineering expertise skills)
- ambitious impact targets through which we aim to help make 2 million people more resilient to flooding and to support generation of USD 1 billion in additional funding to flood resilience by 2023
- the award-winning post-event review capability (PERC) – comprising research and independent reviews of large flood events to identify best practices and opportunities based on understanding how a hazard event becomes a disaster and how resilience might be achieved.

Together with members of the Zurich Flood Resilience Alliance, we continued to help communities reduce flood risk directly benefiting 225,000 people across 13 programs in nine countries. We continued our charitable investment in community programs and many business hours were volunteered by our employees. The Z Zurich Foundation supports flood resilience efforts through donations. For further information see pages 26 and 27.

Corporate governance report (continued)

Capital structure

Share capital

As of December 31, 2019, the ordinary share capital of Zurich Insurance Group Ltd amounted to CHF 14,960,802.70 divided into 149,608,027 fully paid registered shares with a nominal value of CHF 0.10 each. The Board will propose to the shareholders at the Annual General Meeting on April 1, 2020 a dividend of CHF 20 per share. It is planned that the dividend will be paid out of the available earnings with a deduction of 35 percent Swiss withholding tax.

Authorized and contingent share capital as of December 31, 2019

Up to and including April 4, 2020, the Board of Zurich Insurance Group Ltd is authorized to increase the share capital by an amount not exceeding CHF 4,500,000 by issuing up to 45,000,000 fully paid registered shares with a nominal value of CHF 0.10 each (Art. 5^{bis}). This authorized share capital corresponds to about 30 percent of the total registered shares issued as of December 31, 2019. Share issuances from authorized share capital where the shareholders' subscription rights are restricted or excluded are limited to 15,000,000 shares (i.e., about 10 percent of the total registered shares issued as of December 31, 2019).

The share capital of Zurich Insurance Group Ltd may be increased by an amount not exceeding CHF 3,000,000 by issuing of up to 30,000,000 fully paid registered shares with a nominal value of CHF 0.10 each by the voluntary or mandatory exercise of conversion and/or option rights, which are granted in connection with the issuance of loans, bonds, similar debt instruments, equity-linked instruments or other financial market instruments (collectively, the 'financial instruments') by Zurich Insurance Group Ltd or one of its Group companies, or by mandatory conversion of financial instruments issued by Zurich Insurance Group Ltd or one of its Group companies, that allow for contingent mandatory conversion into shares of Zurich Insurance Group Ltd, or by exercising option rights which are granted to the shareholders (Art. 5^{ter} 1a). This contingent share capital corresponds to about 20 percent of the total registered shares issued as of December 31, 2019.

Up to and including April 4, 2020, the total number of new shares which could be issued from (i) authorized share capital under Art. 5^{bis} where the subscription rights are restricted or excluded and (ii) contingent share capital in connection with financial instruments under Art. 5^{ter} 1a where the advance subscription rights are restricted or excluded is limited to 30,000,000 shares (i.e., about 20 percent of the total registered shares issued as of December 31, 2019).

Moreover, there is an additional contingent share capital (Art. 5^{ter} 2a) of CHF 494,723.20, representing 4,947,232 fully paid registered shares with a nominal value of CHF 0.10 each, which may be issued to employees of Zurich Insurance Group Ltd or one of its Group companies. For further information on the capital structure and the authorized and contingent share capital, see the audited consolidated financial statements, note 19 on pages 239 to 241. This contingent share capital compares to about 3.3 percent of the current total registered shares issued as of December 31, 2019.

For further information please see Article 5^{bis} and 5^{ter} of the Articles of Association, as published under the following link: www.zurich.com/IR-articles-of-association.

Changes to share capital during 2019

During 2019, no shares were issued from authorized or contingent share capital. As a result, on December 31, 2019, the share capital amounted to CHF 14,960,802.70 (149,608,027 shares). The authorized share capital (Art. 5^{bis} 1) amounted to CHF 4,500,000 (45,000,000 shares). The contingent share capital for financial instruments (Art. 5^{ter} 1a) amounted to CHF 3,000,000 (30,000,000 shares) and the contingent share capital for employees (Art. 5^{ter} 2a) amounted to CHF 494,723.20 (4,947,232 shares).

On April 3, 2019, the Annual General Meeting approved the reduction of the ordinary share capital of the Company by CHF 174,000 (1,740,000 shares) from CHF 15,134,802.70 (151,348,027) to CHF 14,960,802.70 (149,608,027 shares) in conclusion of the public share buy-back program for 1,740,000 of Zurich Insurance Group Ltd's own shares launched in 2018. The capital reduction was executed by the Board of Directors and filed with the Commercial Register of the Canton of Zurich subsequent to the required publications of the notice to creditors. The capital reduction was reduced in the share register effective as of June 21, 2019.

Corporate governance report (continued)

Changes to share capital during 2018

During 2018, a total of 8,176 shares were issued to employees from contingent share capital. As a result, on December 31, 2018, the share capital amounted to CHF 15,134,802.70 (151,348,027 shares) and the authorized share capital (Art. 5^{bis} 1) amounted to CHF 4,500,000 (45,000,000 shares). The contingent share capital for financial instruments (Art. 5^{ter} 1a) amounted to CHF 3,000,000 (30,000,000 shares) and the other contingent share capital for employees (Art. 5^{ter} 2a) amounted to CHF 494,723.20 (4,947,232 shares).

On April 11, 2018, the Board of Directors launched a public share buy-back program for 1,740,000 of Zurich Insurance Group Ltd's own shares for cancellation purposes, which was completed on May 18, 2018. The respective capital reduction to cancel the shares repurchased under this share buy-back program was conducted in 2019.

Summary of changes in the ordinary share capital over the last two years

	Share capital in CHF	Number of shares	Nominal value in CHF
As of December 31, 2017	15,133,985.10	151,339,851	0.10
Newly issued shares from contingent capital	817.60	8,176	0.10
As of December 31, 2018	15,134,802.70	151,348,027	0.10
Newly issued shares from contingent capital	0.00	–	0.10
Capital reduction June 2019	174,000.00	1,740,000	
As of December 31, 2019	14,960,802.70	149,608,027	0.10

For information on changes of share capital during 2017, see the Annual Report 2017 of Zurich Insurance Group, pages 41 to 42 and pages 232 to 233 (www.zurich.com/en/investor-relations/results-and-reports).

Shares and participation certificates

Zurich Insurance Group Ltd's shares are registered shares with a nominal value of CHF 0.10 each. The shares are fully paid in. Pursuant to article 14 of the Articles of Association (www.zurich.com/IR-articles-of-association), each share carries one vote at shareholders' meetings, entitles all shareholders to dividend payments (excluding treasury shares) and the registered holder to exercise all other membership rights in respect of that share.

Some interests in shares are held by investors in the form of American Depositary Receipts (ADRs)[1]. As of December 31, 2019, investors held 21'244'780 ADRs (representing 2'124'478 Zurich Insurance Group Ltd shares).

Profit-sharing certificates

Zurich Insurance Group Ltd has not issued any profit-sharing certificates.

Limitations on transferability and nominee registrations

The Articles of Association do not provide for any limitations on transferability except for the following:

Registration as a shareholder requires a declaration that the shareholder has acquired the shares in his or her own name and for his or her own account. Nominees holding Zurich Insurance Group Ltd shares may for the benefit of, or as nominee for another person, be registered for up to 200,000 shares with voting rights, notwithstanding that the nominee does not disclose the identity of the beneficial owner. A nominee, however, is entitled to be registered as a shareholder with voting rights of more than 200,000 shares if the nominee discloses the identity of each beneficial owner and informs the beneficial owners about corporate actions, consults as to the exercise of voting rights and pre-emptive rights, transfers dividends and acts in the interests of and in accordance with the instructions of the beneficial owner.

There are special provisions relating to the registration and exercise of rights attached to shares by The Bank of New York Mellon Corporation in connection with the Zurich Insurance Group Ltd ADR program.

Convertible bonds and options

Zurich Insurance Group Ltd had no public convertibles or options outstanding as of December 31, 2019. For information on employee share plans, see the audited consolidated financial statements, note 21 on pages 250 to 251.

[1] Zurich Insurance Group Ltd has established an American Depositary Share, or ADS, level 1 program in the U.S. Under this program, The Bank of New York Mellon Corporation issues the ADSs. Each ADS represents the right to receive one-tenth of one share of Zurich Insurance Group Ltd. Each ADS also represents securities, cash or other property deposited with The Bank of New York Mellon Corporation but not distributed to ADS holders. Zurich's ADSs are traded over the counter (OTC) and are evidenced by American Depositary Receipts, or ADRs. Since July 1, 2010, Zurich's ADRs have been traded on "OTCQX", an electronic platform operated by OTC Markets Group Inc. under the symbol ZURVY. ADS holders are not treated as shareholders of Zurich Insurance Group Ltd and are not able to directly enforce or exercise shareholder rights. Only The Bank of New York Mellon Corporation as Depositary of the level 1 program may exercise voting rights with respect to instructions received from beneficial owners of ADRs.

Changes of control and defense measures

Duty to make an offer

The Articles of Association of Zurich Insurance Group Ltd do not provide for opting out or opting up in the meaning of articles 125 and 135 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading. Therefore, mandatory offers have to be submitted when a shareholder or a group of shareholders acting in concert exceed 33 1⁄3 percent ownership of the issued and outstanding share capital of Zurich Insurance Group Ltd.

Clauses on changes of control

Employment agreements have been entered into with members of the ExCo, setting out the terms and conditions on which they are employed. The longest notice period for members of the ExCo is 12 months. No other benefits are provided in the case of a change of control.

The Group's share-based compensation programs include regulations regarding the impact of a change of control. These regulations provide that in the case of a change of control, the plan administrator (the Remuneration Committee or the Group CEO, as applicable) has the right to roll over the existing share obligations into new share rights or to provide consideration for such obligations that are not rolled over. Participants who lose their employment as a result of a change of control have the right to the vesting of share obligations. No other benefits are provided to members of the ExCo in case of a change of control. No benefits are provided for the members of the Board in case of a change of control.

Risk management and internal control framework

For information regarding the Group's risk management and internal control framework, see the risk review of this Annual Report 2019 on pages 126 to 161. The Group no longer separately describes risk management and internal control information in this governance report.

Going concern

The Directors are satisfied that, having reviewed the performance of the Group and forecasts for the forthcoming year, the Group has adequate resources to enable it to continue in business for the foreseeable future. For this reason, the Directors have adopted the going concern basis for the preparation of the consolidated financial statements.

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Message from our Chairman of the Remuneration Committee

Rewarding achievements

"Reward decisions for Zurich's leadership reflect performance against business, customer and employee targets, as well as key risk objectives."

Christoph Franz
Chairman of the Remuneration Committee

Message from our Chairman of the Remuneration Committee

Zurich operates a balanced and effectively managed remuneration system. The remuneration report provides further details on this, as well as the link between business performance and variable pay decisions for 2019.

Dear Shareholder

The remuneration outcomes detailed in this report are a reflection of Zurich's performance achievements against the Group's strategic targets. In 2019 Zurich demonstrated further strong performance with the Group exceeding all targets with a business operating profit after tax return on equity of 14.2 percent, expense savings of over USD 1.5 billion, and net cash remittances of USD 10.9 billion, while maintaining a very strong capital base. In 2019, business operating profit (BOP) increased 16 percent, while net income attributable to shareholders (NIAS) increased by 12 percent and was at the highest level over the past decade.

Activities in 2019

Zurich supports continuous improvement to standards of governance, culture and remuneration, and has engaged with regulators in the markets in which we operate where changes to the regulation of remuneration have been proposed. We will continue to monitor developments and best practices in the areas of reward and remuneration-related regulation and review Zurich's remuneration approach accordingly.

2019 also saw the expansion of customer metrics, in addition to existing financial metrics, to further markets to assess the overall business performance for the funding of short-term incentive awards. The customer metrics now cover the majority of employees participating in short-term incentives, supporting continuous improvement of customer experience. In addition, the enhancements to the performance management and incentive approach shared in the previous year's remuneration report have been implemented to allow for more flexible, differentiated and merit-based awards.

Looking ahead

With the next strategic cycle commencing this year, the performance criteria for the long-term incentive plan (LTIP) have been aligned to the targets beginning as of the allocation in 2020. Further information is provided in the outlook section of this report.

Details on the remuneration votes of the Board and of the ExCo, are included in the 2020 Board of Directors Report of Zurich Insurance Group Ltd (Board of Directors Report), which accompanies the invitation to the AGM 2020 (www.zurich.com/investor-relations/shareholder-area/annual-general-meeting).

We welcome your feedback on this report and thank you for your ongoing support and engagement.

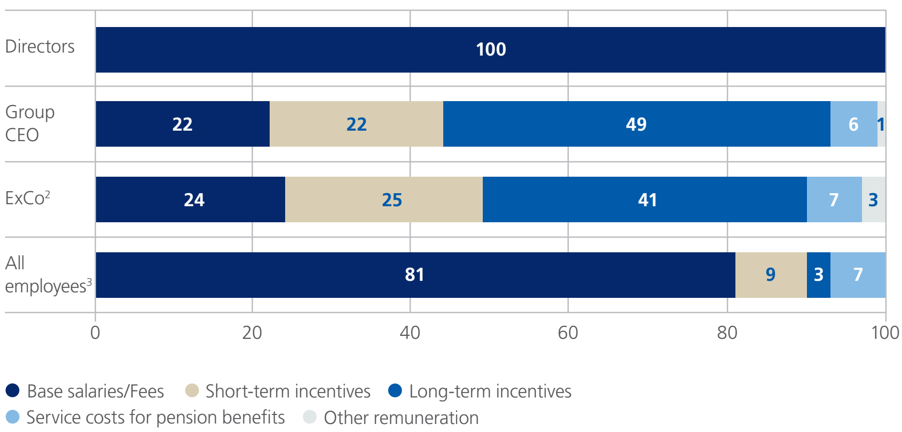
Christoph Franz
Chairman of the Remuneration Committee

Remuneration structure

Zurich's remuneration architecture puts a greater emphasis on variable remuneration elements, with a higher weighting on average towards the long term for our most senior employees. The variable remuneration is largely determined by the achievements against predefined measures which are aligned with the Group's strategy and financial targets.

2019 remuneration structure and weighting of elements[1]

%



[1] At target, as a percentage of total remuneration.
[2] Considering all members of the ExCo that were active for the full year, including the Group CEO.
[3] Other remuneration is included under base salaries/fees for all employees.

Short-term incentive plan (STIP)

109%

The overall STIP awarded as a percentage of target, considering the relevant BOP results and customer metrics in selected markets, along with an assessment of overall qualitative performance for 2019 (2018: 109%).

Long-term incentive plan (LTIP)

178%

Vesting level in 2020 as a percentage of target based on the actual achievements for relative total shareholder return (TSR), net income attributable to shareholders' return on common shareholders' equity (NIAS ROE) and cash remittance for the performance period 2017 to 2019 (2019: 149%).

Total variable remuneration

CHF 697m

The aggregate amount of variable remuneration for 2019 for the entire Group considering the Group's long-term economic performance (USD: 716m 2018: CHF 678m/USD 693m).

Remuneration report

Contents

Remuneration summary 2019

This summary provides an overview of the 2019 remuneration of Zurich Insurance Group Ltd and its affiliates (Group or Zurich), including details regarding the link between business performance and variable pay decisions for 2019.

Zurich's remuneration

Zurich operates a remuneration system which aims to provide competitive total remuneration opportunities and variable remuneration awards based on results achieved and good outcomes for all stakeholders. The remuneration system is closely integrated with the Group's risk management framework and is designed to not encourage or reward inappropriate risk-taking.

The members of the Board receive fixed remuneration as an annual fee, of which the basic fee is paid half in cash and half in five-year sales-restricted shares which are not subject to the achievement of any specific performance conditions. Total remuneration for employees, including members of the Executive Committee (ExCo), comprises as applicable, fixed remuneration consisting of base salaries, pensions and employee benefits, as well as variable remuneration consisting of short- and long-term incentive awards. The Group short-term incentive plan (STIP) and long-term incentive plan (LTIP) aim to align the remuneration architecture with the achievement of the Group's key financial targets, the execution of the business strategy, the risk management framework and the operational plans (see the remuneration framework section for more information on the elements of Zurich's remuneration).

2019 remuneration in light of the business results

Expenditure on remuneration is considered in the context of Zurich's overall revenues, capital base and profitability. The key financial figures in the following table show an increase in profitability and net income in 2019 compared with 2018.

Key financial figures

in USD millions, for the years ended December 31	2019	2018
Gross written premiums and fees[1]	54,305	52,689
Business operating profit (BOP)	5,302	4,566
Net income attributable to shareholders (NIAS)	4,147	3,716
Shareholders' equity	35,004	30,189
Return on common shareholders' equity (ROE)	14.4%	13.1%
Dividends paid to shareholders[2]	2,819	2,805
Total variable remuneration for all employees gross before tax[3]	716	693
– as a percentage of gross written premiums and fees	1%	1%
– as a percentage of shareholders' equity	2%	2%
– as a percentage of dividends paid to shareholders	25%	25%

[1] Consists of USD 50,525 million gross written premiums and policy fees, as well as USD 3,780 million Farmers management fees and other related revenues in 2019. Farmers Group, Inc., a wholly owned subsidiary of 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. The Farmers Exchanges are owned by their policyholders.
[2] Dividend at transaction day exchange rate in 2019 and 2018, respectively.
[3] The corresponding amount of total variable remuneration in Swiss francs is CHF 697m for 2019 and CHF 678m for 2018.

Remuneration report (continued)

As can be seen from the metrics in the previous table, relative to Zurich's overall revenues and shareholders' equity, expenditure on variable remuneration remains relatively small, also in relation to the amount of dividends payable to shareholders.

The total variable remuneration, amounting to CHF 697 million, includes the following elements:

- The total expenditure on cash incentives to be paid for the performance year comprising the amount of the aggregated funding pools under the STIP, and the amounts to be paid under local short-term incentive plans.
- The value of the target share allocations made in 2019 on the assumption that the allocations will vest at 100 percent of the target level in 2022 for performance over the three years 2019, 2020 and 2021.
- The total amount of sign-on payments[1] committed in 2019, regardless of when the payments are due, for people taking up their employment in 2019.
- The total amount of severance payments[2] committed in 2019, regardless of when the payments are due.

Commission payments made to employed sales agents are not included in the total variable remuneration amount.

In determining the amount of the total variable remuneration for all employees, the Board considers the long-term economic performance of the Group as well as other relevant factors. The average economic profit is calculated by subtracting the required return on economic capital, based on the weighted average cost of capital, from the adjusted BOP (the amount before interest and variable remuneration) after tax. In this respect, the Group has continued to generate economic profit over the long-term which exceeds the actual expenditure on variable pay.

The following table provides details on the overall STIP awarded and the LTIP vesting level in relation to the performance achievements under each plan. More information on the Group's variable remuneration plans can be found in the remuneration framework section later in this report.

[1] Zurich defines sign-on payments as payments that are agreed on the execution of an employment contract (whether paid immediately or over time). Sign-on payments may include compensation made prior to a person joining the company and providing any services (payments in advance) or compensation for benefits foregone with a previous employer (replacement payments). Payments in advance are not paid to members of the Board or the ExCo.
[2] Zurich defines severance payments as payments that are provided in connection with the termination of an employment relationship. Zurich does not include under the term severance payments, garden leave or similar payments for employees in jurisdictions where such payments are required by applicable law, or where they are based on contractual notice periods which conform with recognized market practice, or where they are non-contractual, but in line with recognized market practice. Zurich does include garden leave or similar payments however, that go beyond recognized market practice, irrespective of whether these are provided pursuant to an agreement or are ex gratia. Severance payments are not paid to members of the Board or the ExCo.

Remuneration report (continued)

Variable remuneration outcomes

Short-term incentive plan	Overall STIP awarded as a percentage of target 2019	2018
Context		
The primary measures driving STIP awards for 2019 are: ▶ the relevant BOP or other profitability metric achievements and, ▶ the relevant customer satisfaction achievements using the net promoter score (NPS) metric where applicable. The overall STIP awarded is a reflection of the relevant performance achievements against plan for 2019. Based on these results and along with a qualitative assessment, the overall STIP funding as a percentage of the STIP target amount, for plan participants across the Group (more than 39,000 employees), is the same as the previous year.	109%	109%

Long-term incentive plan	Vesting level as a percentage of target in 2020	2019
Context		
The key factors driving the vesting level in 2020, for the three-year performance period from 2017 to 2019, are the Group's: ▶ relative TSR against an international peer group of insurance companies, ▶ NIAS ROE and ▶ cash remittance. Each performance criteria has an equal weighting and no discretionary adjustment has been made to the calculated vesting level. Based on the achievements under the predefined performance criteria, the calculated vesting level is higher compared with the vesting level in 2019.	178%	149%

For 2019, the remuneration amounts were as follows:

Remuneration amounts

in CHF millions, for the years ended December 31	Fixed remuneration/ Fees[1]	Short-term incentives[2]	Long-term incentives[3]	Total remuneration 2019[4]	Total remuneration 2018[4,5]
Directors	4.7	–	–	4.7	4.3
ExCo	14.8	16.5	17.5	48.8	49.2
All employees[6]	4,941	558	139	5,638	5,231

1 For ExCo and all employees, fixed remuneration includes base salaries, employee benefits and service costs for pension benefits. For Directors, the amount includes the portion paid in sales-restricted shares.
2 The cash incentives earned for the year for all employees comprise the amounts under STIP and other local incentive plans which are subject to approval by the applicable local Boards. For all employees, sign-on and severance payments in cash are also included.
3 Represents the value of the target performance share allocations made in 2019, which assumes vesting in 2022 at 100 percent of target, and for all employees, also includes any other target share allocations such as sign-on payments in shares.
4 Actual, gross and for cash amounts based on the accrual principle.
5 The 2018 amounts have been restated from the U.S. dollar amounts disclosed in the remuneration report 2018, to Swiss francs using the relevant exchange rates.
6 Includes the remuneration for members of the ExCo.

Outlook summary for 2020

- **Performance management and short-term incentives:** Enhancements to the performance management and incentive approach that were implemented in 2019 will continue to be reviewed and refined to ensure they support the achievement of the Group's strategic goals and consider the interests of shareholders, customers, employees and other stakeholders. In addition, the customer net promoter score (NPS), a global best practice standard for measuring customer experience, has been rolled out to further markets to assess business performance, along with financial metrics, for STIP funding purposes. The customer NPS now covers the majority of STIP participants and will continue to be expanded to additional markets as sufficiently robust data becomes available.

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- **Long-term incentives:** The performance metrics for the LTIP have been aligned to the targets for the next strategic cycle from 2020. The adjusted performance criteria in the vesting grid will be effective for new allocations beginning with the performance period 2020–2022, relevant for vesting decisions from 2023. The changes include increases to the targets for both the NIAS ROE and cash remittance metrics, demonstrating that the bar has been raised with higher performance expectations. The details are outlined in the outlook section later in this report.

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- **Board:** No changes have been made to Board fees since 2015. As part of the regular monitoring of market developments on Board remuneration, a benchmarking analysis was conducted by Zurich's independent adviser. Some adjustments to the fee structure are proposed to bring certain fee elements closer to the relevant median levels for companies of a similar size in the Swiss Market Index (SMI). The adjustments are incorporated in the shareholder vote on the maximum amount of remuneration for the Board, and subject to approval, would be applicable from the AGM in 2020. This follows successful completion of the targets set for the strategic cycle ending in 2019 and aligns with the timing of the next strategic cycle from 2020. Further details are provided in the outlook section later in this report.

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- **ExCo:** No changes are proposed to the structure of remuneration for the ExCo in 2020. A benchmarking analysis including a review of best practices, market data, internal relativities and alignment with the strategy, will be carried out again in 2020.

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Remuneration governance

The following information on the governance of Zurich's remuneration framework can be found on pages 43 and 59 of the corporate governance report:

- The governance framework, including the approval framework, which underpins Zurich's remuneration philosophy, system and practices.
- Responsibilities and activities of the Remuneration Committee.

Outlined below is information regarding:

- The legal and regulatory requirements which this remuneration report complies with.
- The role of risk in Zurich's overall remuneration architecture and approach.
- Group share ownership guidelines.
- A review of the impact of Zurich's long-term compensation awards on possible share dilution.

Legal and regulatory requirements

This remuneration report provides all the information that is required by the following regulations with which Zurich complies:

- Chapter 5 of the Directive on Information Relating to Corporate Governance of the SIX Exchange Regulation (as of March 20, 2018).
- Swiss Code of Best Practice for Corporate Governance (Swiss Code of Best Practice), issued in 2002 by economiesuisse, as amended in October 2007 and in August 2014.
- Articles 14–16 of the Ordinance Against Excessive Compensation (AEC) (replacing the information in the notes to the consolidated financial statements according to Article 663bbis of the Swiss Code of Obligations).
- Information as required by Article 663c para 3 of the Swiss Code of Obligations.
- Requirements of the Circular 2010/1 on minimum standards for remuneration schemes of financial institutions, issued by the Swiss Financial Market Supervisory Authority (FINMA) on October 21, 2009 as amended on June 1, 2012, December 3, 2015 and September 22, 2016, as well as further guidance issued on January 19, 2011 (FINMA Circular on Remuneration Schemes).

Zurich's approach to implementing the requirements of the Ordinance AEC

Since the AGM in 2015, binding votes are held where shareholders vote on and approve the maximum total amount of remuneration for the Board for the next one-year period from AGM to AGM and the maximum total amount of remuneration for the ExCo for the subsequent financial year (Article 18 para 1 Articles of Association: www.zurich.com/en/investor-relations/our-shares/articles-of-association). Details on the votes can be found in the Board of Directors Report accompanying the invitation to the AGM 2020 (www.zurich.com/en/investor-relations/shareholder-area/annual-general-meeting). Additionally, details regarding the votes on pay, supplementary amounts for any new members of the ExCo during a period for which the remuneration for the ExCo has already been approved, performance-related remuneration for the ExCo, allocation of shares, as well as the approach regarding loans and credits, can be found in Articles 18, 28 and 34 of the Articles of Association (www.zurich.com/en/investor-relations/our-shares/articles-of-association).

Further, the information provided according to Articles 14–16 of the Ordinance AEC contained in the remuneration report has been externally audited following the audit requirements of the Ordinance AEC (Article 13 para 1 and Article 17 of the Ordinance AEC) and the information subject to audit is marked in the respective sections of the remuneration report.

Remuneration and risk

The Remuneration and the Risk and Investment Committees meet jointly once a year to discuss a risk review of the remuneration architecture and the remuneration governance framework. The assessment of risk in making reward decisions, and the ability to apply risk adjustments and exercise malus and clawback, if required, are features of Zurich's remuneration framework. Group Risk Management evaluated the remuneration architecture in 2019 and reported that the remuneration architecture is consistent with effective risk management and does not encourage inappropriate risk-taking that exceeds the Group's level of tolerated risk.

To help align remuneration with the Group's risk-taking capacity, Group Risk Management consults with other control and assurance functions to provide the Group CEO with a review of risk factors to consider when assessing overall performance for the annual funding of incentive awards. The Group Chief Risk Officer (Group CRO) is available to discuss these findings with the Remuneration Committee and the Board. The Group CEO takes into account Group Risk Management's assessment, amongst other factors, when proposing the STIP awards to the Remuneration Committee, which in turn makes its recommendation to the Board for final approval.

Group Risk Management reviews the processes and criteria for identifying the key risk taker roles annually. The criteria are based on factors that materially affect risk-taking within the Group, such as overall governance, capital consumption for each risk type as determined by the internal model, strategy and reputation. The criteria are then applied to those who take and those who control the specific risks at the level of the Group where the risks are most material. All leadership team roles are included in the analysis.

The remuneration for key risk taker positions includes STIP and LTIP with a greater emphasis toward long-term and therefore, deferred remuneration. Group Risk Management, together with other control and assurance functions, provide risk and compliance information about each key risk taker as part of the annual individual performance assessment and for the target cards of the leadership team including the ExCo. This is taken into account when assessing performance and making reward decisions.

The variable remuneration of employees in control functions is structured to avoid conflicts of interest, by linking to Group profitability metrics rather than the profitability of the business controlled by such functions.

Group Audit periodically assesses the operational implementation of Zurich's Remuneration Rules to verify that the remuneration architecture is adhered to across the Group.

Share ownership guidelines

To align the interests of the Board and the ExCo with those of shareholders, Directors and members of the ExCo are required to meet the following levels of share ownership:

- Members of the Board: one times the basic annual fee.
- Group CEO: vested awards at five times the base salary.
- Other members of the ExCo: vested awards at two-and-a-half times the base salary.

Directors achieve this requirement by obtaining part of their fee in five-year sales-restricted shares and market purchases. Members of the ExCo achieve this through their participation in the LTIP and market purchases. Directors, the Group CEO and other members of the ExCo have a period of five years to meet their ownership requirements and the Remuneration Committee monitors compliance with these guidelines on an annual basis.

As of December 31, 2019, Directors held 22,510 shares and members of the ExCo held 194,572 shares. At the end of 2019, all Directors and all members of the ExCo who have served at least five years on the Board or the ExCo respectively, met the required share ownership level.

Share dilution

In 2018, Zurich began purchasing its own shares on the market to fulfill share obligations for share-based compensation awards and currently the intention is to continue doing this. Zurich has also taken additional measures to offset the impact of dilution from previously vested long-term share plans in the past few years with the completion of its public share buyback program for cancellation purposes in 2018. On April 3, 2019, the Annual General Meeting approved the cancellation of the 1,740,000 own shares of Zurich Insurance Group Ltd with a nominal value of CHF 0.10 repurchased under the public share buy-back program. The corresponding reduction of the share capital of Zurich Insurance Group Ltd from 151,348,027 to 149,608,027 fully paid registered shares with a nominal value of CHF 0.10 each through cancellation of the repurchased own shares, was completed in June 2019.

Share dilution as of December 31

		2019	2018
Share dilution	Shares issued during the year[1]	–	8,176
	Shares cancelled during the year	1,740,000	–
	Registered shares as of December 31	149,608,027	151,348,027
LTIP	Total number of unvested target shares[2]	1,736,154	1,912,087
	– as a percentage of the registered shares	1.16%	1.26%

[1] No new shares were issued during 2019 and only a relatively small number of shares were issued in 2018 as the LTIP and other employee share plans continued to be funded predominantly by shares bought back from the market, as well as by treasury-owned shares. Moving forward, Zurich intends to continue purchasing shares on the market instead of issuing new shares to fund the LTIP and other employee share plans.
[2] Given the vesting level of 178 percent for the share allocations vesting in 2020 and assuming 100 percent vesting in 2021 and 2022. For 2018 the figure represents vesting of 149 percent in 2019 and assumed 100 percent vesting for 2020 and 2021.

Remuneration framework

Philosophy

The remuneration philosophy is an integral part of the overall employment offering to employees. Based on established remuneration principles, the Group operates a balanced and effectively managed remuneration system that provides competitive total remuneration opportunities to attract, retain, motivate and reward employees. The remuneration system and practices are embedded in the Group's risk management framework and take into consideration legal and regulatory requirements, as well as market developments.

Guiding principles of the remuneration philosophy

The guiding principles of the remuneration philosophy as set out in Zurich's Remuneration Rules are as follows:

- The remuneration architecture is simple, transparent, can be put into practice and considers the interests of key stakeholders such as customers, shareholders and employees.
- Remuneration is tied to long-term results for individuals who have a material impact on the Group's risk profile.
- The structure and level of total remuneration are aligned with the Group's risk policies and risk-taking capacity.
- Expected performance is clearly defined through a structured system of performance management and this is used as a basis for remuneration decisions.
- Variable remuneration awards are linked to key performance factors which include the performance of the Group, countries, business units, functions, as well as individual achievements.
- The Group's STIP and LTIP, used for variable remuneration, are linked to appropriate performance criteria and the overall expenditure on variable pay is considered in connection with the Group's long-term economic performance.
- The structure of the LTIP links remuneration with the future development of performance and risk by including features for deferred remuneration.
- Employees are provided with a range of benefits based on local market practices, taking into account the Group's risk-taking capacity on pension funding and investments.
- Reward decisions are made on the basis of merit – performance, skills, experience, qualifications and potential – and are free from discrimination toward or against particular diverse backgrounds. The remuneration system and practices ensure all employees have equal opportunities.

Elements of remuneration

Total remuneration

Total remuneration for an individual employee and its composition is influenced by factors including the scope and complexity of the role, level of responsibility, risk exposure, business performance and affordability, individual performance, professional experience, internal relativities, external competitiveness, geographic location and legal requirements. Remuneration is benchmarked towards median levels in clearly defined markets which can be local, regional or global, and reflects practices in either insurance, financial services or general industry depending on the role.

Remuneration report (continued)

Remuneration elements

	Fixed remuneration	Variable remuneration		Fixed benefits
	Base salary	Short-term incentives	Long-term incentives	Pensions and employee benefits
Description	Fixed pay for the role performed to attract and retain employees. It is reviewed annually.	Discretionary incentive awards to reward achievement of key business and individual objectives during the year.	Annual target share allocations, subject to vesting in accordance with predefined performance criteria. Designed to support Zurich's longer-term goals, encourage participants to operate the business in a sustainable manner and align the Group's long-term interests with those of shareholders.	Employee benefits are provided to attract and retain employees, in line with market practices and positioned toward the market median. Pension plans are designed and managed in line with the Group guidelines.
Drivers and/or performance metrics	Scope and complexity of the role, level of responsibility, professional experience and geographic location.	Award is driven by: – The relevant business profitability achievements, as well as customer experience where applicable. – Individual performance on personal objectives and behavior in line with Zurich's values, as assessed through the performance management process.	Vesting is determined based on (i) the position of the TSR compared with an international peer group of insurance companies derived from the Dow Jones Insurance Titans 30 Index, (ii) the NIAS ROE and (iii) cash remittance.	Market practice and Group guidelines.
Duration	n.a.	1 year.	3–6 years (target shares subject to three-year cliff vesting and for the ExCo one-half of the vested shares are sales-restricted for an additional three years).	n.a.
Range of opportunity	Generally paid within an 80–120 percent range around the relevant market median.	Award of 0 to 200 percent of an individual's target amount.	Vesting level of 0–200 percent of the individual target shares and dividend equivalent target shares.	n.a.
Eligibility	All employees.	Country specific (more than 39,000 plan participants in 2019).	Members of the ExCo and a defined group of the most senior positions, including key risk takers.	Country-specific.
Delivery	Fixed cash.	Performance-based cash.	Performance-based shares.	Country-specific fixed benefits.
Clawback, malus and hedging	n.a.	Clawback framework established for members of the ExCo, and in some jurisdictions for additional STIP participants, to allow for recovery, forfeiture and/or clawback, subject to specific conditions. Malus conditions to reduce or eliminate awards applicable to all STIP participants.	Clawback framework established for members of the ExCo, and in some jurisdictions for additional LTIP participants, to allow for recovery, forfeiture and/or clawback, subject to specific conditions. Malus conditions to reduce or eliminate awards applicable to all LTIP participants. Individual hedging of share-based remuneration is prohibited.	n.a.

Variable remuneration

Incentive plans are designed to provide a range of award opportunities linked to levels of performance. Business and individual performance may result in remuneration levels above target for superior performance, and reduced levels that are below target for performance below expectations. Variable remuneration opportunities are provided to motivate employees to achieve key short-term and long-term business goals. Further information on the Group's STIP and LTIP are set out below.

Short-term incentives

Short-term (one-year) incentives are performance-driven based on the following design for 2019:

Short-term incentives support employees to focus their performance on the achievement of key financial, customer and individual objectives set at the beginning of the year. The main enhancements outlined in last year's remuneration report and implemented in 2019[3] were:

- Simplification of the performance assessment approach with a move from a five-point rating scale to three performance categories. These are merit-based and are assigned on the basis of an individual's personal achievement on objectives and the behaviors demonstrated. Each performance category has further differentiation levels to define where on the range of performance an individual's performance lies. For STIP participants, the differentiation levels also allow for more flexible and differentiated award outcomes. In some markets the differentiated STIP awards only apply to employees above a certain job level.
- Use of the customer net promoter score (NPS), a global best practice standard for measuring customer experience, was extended to additional markets in 2019 to assess the overall business performance for a STIP pool in addition to the existing financial metrics. The customer metrics now cover the majority of STIP participants, supporting continuous improvement of customer experience.

Determination of the final individual STIP award for the year ending December 31, 2019, is set out in the following overview.[3] The STIP award is based on an individual's STIP target amount, the performance of the business and an individual's personal achievements. Except for individuals above a certain job level, markets have the option to base the award solely on the individual STIP target amount and the STIP pool achievement level without further individual differentiation.

[3] Farmers will implement the enhancements as of 2020. Local plans may deviate somewhat from the Group plan, however they broadly follow the same principles.

Remuneration report (continued)

STIP Target

STIP participants have a STIP target amount established for the performance year at a maximum of 100 percent of base salary, unless otherwise approved by the Board.

STIP pool achievement based on business performance

Key financial and customer metrics, where relevant, determine the STIP pool achievement level.

Business performance achievements, including a qualitative assessment of the achievements, determine the STIP pool achievement level and the respective funding or allowable spend available for each STIP pool. This can vary between 0 – 175 percent of the target amount. STIP participants are allocated to one of the following STIP pools with the associated key metrics:

STIP pools	Key measures
Group pools[1]	Group BOP and the overall customer NPS.[2]
Investment management	Investment results.
Countries	The relevant BOP, along with customer NPS as applicable.[2]
Farmers[3]	Growth, profitability and customer metrics.
Joint ventures	Relevant profitability metrics.

Individual performance

Individual performance determines the differentiation level for the STIP award.

Zurich has a clearly defined global performance and development approach where individuals, jointly with their managers, define and agree on annual objectives that support the achievement of the business strategy and operating plans. An individual's personal achievements consider performance on objectives, as well as the behaviors demonstrated. These continue to be guided by the Group's Code of Conduct, purpose and values. At the end of the year, one of three performance categories is assigned:

Partially met
Fully met
Exceeded

Differentiated award levels are determined across the range of performance within each of the performance categories.

STIP award

STIP target x STIP pool achievement x individual performance

Underperformance by the business and/or the individual can result in a STIP award that is below the target amount and can be 0 percent. Similarly, if business performance and/or individual performance is above expectations, this can result in a STIP award that is above the target amount and capped at 200 percent of the STIP target amount. The resulting STIP award is paid in cash.

1 Covering the leadership team, control functions, Group and regional employees.
2 The customer net promoter score (NPS) is one of the key measures (20 percent weight) used to determine business performance in markets where there is sufficiently robust data. The customer NPS currently applies to the majority of STIP participants and extending the metric to further markets will continue to be reviewed.
3 Including a separate pool for Farmers New World Life.

Short-term incentives are delivered primarily through the Group's STIP which is utilized across the organization and in many countries covers all employees. In some countries, based on market practice in that location, only the most senior individuals participate in STIP. In a small number of countries where local plans exist, they broadly follow the same principles as the Group's STIP.

Long-term incentives

Long-term (three- to six-year) incentives are performance-driven based on the following design for the performance period 2019 to 2021:

To support the achievement of the Group's longer-term financial goals, long-term incentives are utilized for a defined group of the most senior positions in the Group, those that have a significant influence on the risk profile of the Group, as well as individuals considered suitable for participation, for example due to market competitiveness given their skills and areas of expertise. This group generally contains the individuals with the highest levels of total remuneration. The LTIP aligns the incentives and behaviors of participants with the interests of the Group and its shareholders. To further support this purpose, the individual hedging of any shares of Zurich Insurance Group Ltd is prohibited.

In alignment with the Group's risk profile and business strategy, and taking into account best practice principles among insurance companies as well as views from proxy advisers and shareholders, long-term incentives are provided with a deferral element that takes into account material risks and their time horizon. Such deferred remuneration is structured to promote the risk awareness of participants and to encourage participants to operate the business in a sustainable manner. An overview of the LTIP for the performance period 2019–2021 is set out on the following page.

Details of the LTIP relevant for the 2020 vesting decision following the performance period from 2017–2019, can be found in the remuneration report 2017. For the next performance period, 2020–2022, an overview of the updates to the LTIP vesting grid reflecting the targets for the next strategic cycle, can be found in the outlook section of this report.

Remuneration report (continued)

Target shares

Each participant has an annual LTIP target amount determined as a percentage of the annual base salary. The number of target shares to be allocated on the third working day in April, is calculated by dividing the target amount by the closing share price on the day prior to the allocation. To further align plan participants with the interests of shareholders, target shares may be credited with dividend equivalent units (DEUs)[1] during the vesting period.

Vesting Level

Defines the percentage of target shares that will vest.

The vesting level is calculated according to an assessment of the predefined performance criteria detailed in the vesting grid below. At the end of the three-year performance period each performance metric is assessed independently and has an equal weighting. For the NIAS ROE and cash remittance metrics, linear interpolation is used to determine the level of vesting.

Assessment of the predefined performance criteria as per the vesting grid:

The vesting grid is set and reviewed by the Board annually to ensure alignment with the strategy and financial targets.

Performance criteria	0% vesting	50% vesting	100% vesting	150% vesting	200% vesting
Relative TSR position[2]	18th – 13th	12th – 10th	9th – 7th	6th – 4th	3rd – 1st
	Ensures that an external market industry view is taken by considering Zurich's performance in comparison to its peers.				
NIAS ROE (average annual rate over 3 years)	< 9.75% p.a.	9.75% p.a.	12.00% p.a.	13.125% p.a.	≥ 14.25% p.a.
	Key measure for shareholders, supporting the alignment of LTIP participants with shareholder interests, and reflecting the targets in the financial plan.				
Cash remittance (cumulative over the three-year period)	< USD 8.5 bn	USD 8.5 bn	USD 9.5 bn	USD 10 bn	≥ USD 10.5 bn
	Key component of Zurich's financial targets ensuring Zurich generates sufficient cash and demonstrates a commitment to creating liquidity for the business and shareholder requirements.				

LTIP award

Target shares x vesting level

Any vesting of shares for the LTIP award takes place on April 3, three years after the target shares were allocated to the participant.

At the vesting date, the number of target shares plus the accrued DEUs are assessed for vesting. In this way, only the number of target shares vesting are eligible for the accrual of DEUs. The final LTIP award for an individual is capped at 200 percent of the aggregate number of target shares and DEUs. For the ExCo, half of the vested shares, including vested DEUs, are sales-restricted for an additional three-year period after the date of vesting. This brings the overall vesting and sales-restriction period to a six-year holding period for this part of the award.

[1] Each year during the vesting period, the dividend amount is calculated on the number of target shares provided at the date of allocation and this amount is subsequently converted into DEUs based on the closing share price on the day prior to the dividend payment. No dividend equivalent target shares are credited in the year of allocation if the allocation is made after the ex-dividend date. Further, no dividends will accrue on the dividend equivalent target shares.

[2] The position of the TSR over the performance period compared with an international peer group of insurance companies derived from the Dow Jones Insurance Titans 30 Index. The Remuneration Committee reviews the peer companies to be included in the relative TSR assessment regularly to ensure that the peer group exhibits a strong TSR correlation and reflects the Group's business profile and geographic spread. The resulting industry peer group includes the following companies: AIG, Allianz, Allstate, Aviva, AXA, Chubb, Generali, Legal & General, Manulife Financial Corp., MetLife, Munich Re, Progressive Ohio, Prudential Plc, QBE, Swiss Re, The Hartford and Travelers Cos. Inc.

Remuneration report (continued)

Exceptional adjustments

The Board may exercise discretion when determining the vesting level to prevent unreasonable outcomes, or to reflect the financial impact of decisions taken to implement the strategy, or to deal with exceptional circumstances. An adjustment of +/–25 percent to the calculated vesting level may be applied and this can be positive or negative. No discretionary adjustment was made to the 2020 calculated vesting level.

The right to modify awards to reflect individual circumstances is reserved for the Group CEO except for modifications regarding members of the ExCo where this right is reserved for the Remuneration Committee and the Board. An adjustment of +/–25 percent to the calculated final vesting level may be applied on an individual level prior to vesting. However, if performance under exceptional or unusual circumstances warrants it, exceptions to the +/–25 percent adjustment may be made. In this respect Zurich reserves the right to adjust and even set the vesting level to 0 percent for an individual to reflect specific circumstances (e.g. in connection with a breach of internal or external rules) during the period prior to vesting. Any such adjustment is reserved exclusively for the Remuneration Committee and the Board.

LTIP vesting levels

To increase transparency for the reader, a table with the vesting levels under the LTIP is provided below.

Vesting levels for LTIP

		Vesting level as a percentage of target in				
		2018	2019	2020	2021	2022
Performance period	2015–2017	83%				
	2016–2018		149%			
	2017–2019			178%		
	2018–2020				n.a.	
	2019–2021					n.a.

Pensions

The Group provides a range of pension benefits to employees, which are designed to reflect local market practices. Benefit levels are positioned toward the relevant market median. The Group Pensions Committee oversees the management of the Group's pension arrangements within the de-risking frameworks established for benefit design, investments, funding and accounting. On a regular basis, the Group Pensions Committee and the local countries assess the competitive environment with regard to pensions. In recent years, there has been a significant shift away from final salary defined benefit pension arrangements such that almost all new employees are now enrolled in defined contribution and/or cash balance type arrangements.

Other remuneration including employee benefits

The Group also provides a range of other relevant employee benefits in line with the local market, for example life insurance, medical coverage and flexible benefits. Further, the Group operates a number of mobility-related policies to facilitate the movement of people across the organization.

Audited

The information provided according to Articles 14–16 of the Ordinance AEC contained in the remuneration report needs to be externally audited following the audit requirements of the Ordinance AEC (Article 13 para 1 and Article 17 of the Ordinance AEC). In addition, the information according to Article 663c of the Swiss Code of Obligations is being audited and disclosed as such in the remuneration report. All audited sections have been highlighted accordingly.

Remuneration and shareholdings 2019

The following section sets out the remuneration and shareholdings of members of the Board of Directors and of members of the ExCo, as well as the remuneration of all employees.

Board of Directors

Directors' fees

As a global insurance provider, Zurich's Directors' fees need to be established at a level which enables the Group to attract and retain individuals with a long-term interest in Zurich's success and reflecting the diversity of the Group's employee and customer base. To assist in determining Board remuneration, an independent adviser carries out benchmarking studies on a regular basis. Zurich aims to set the remuneration of its members of the Board at the relevant median levels using the Swiss Market Index (SMI) as a basis. Based on the role and the fee structure, fee levels are established for each member of the Board. Fees are paid in cash and in shares, with approximately half of the basic fee provided in five-year sales-restricted Zurich shares. The fees paid to Directors (including the portion provided in sales-restricted shares) are not subject to the achievement of any specific performance conditions.

The following table sets out the current fee structure and levels for the Chairman, the Vice-Chairman and the members of the Board, as well as committee fees and chair fees for the four committees. The outlook section later in this report details the proposed fee structure applicable from the AGM in 2020.

All Directors of Zurich are also members of the Board of Directors of Zurich Insurance Company Ltd, and the fees cover the duties and responsibilities under both boards.

Fee structure for members of the Board[1]

	Fee elements in cash (CHF 000)	Fee elements in sales-restricted shares (CHF 000)	Total fees in 2019 (CHF 000)	Total fees in 2018 (CHF 000)
Basic fee for the Chairman of the Board[2]	750	750	1,500	1,500
Basic fee for the Vice-Chairman of the Board[2]	200	200	400	400
Basic fee for a Member of the Board	120	120	240	240
Committee fee[3]	60	–	60	60
Chair fee for the Audit Committee	80	–	80	80
Chair fee for the Remuneration Committee[4]	60	–	60	60
Chair fee for the Risk and Investment Committee	60	–	60	60
Chair fee for the Governance, Nominations and Sustainability Committee[5]	60	–	60	60

[1] These amounts are for the period from AGM to AGM. The table excludes other fees for board memberships of subsidiary boards of Zurich.
[2] Neither the Chairman nor the Vice-Chairman receive any additional fees for their committee work on the Board of Zurich.
[3] Amount remains the same irrespective of the number of committees on which a member of the Board serves.
[4] No Chair fee has been paid for the Remuneration Committee since the end of the first quarter in 2018, following the designation of the Vice-Chairman of the Board as Chair of the Remuneration Committee.
[5] For 2019 and 2018 no Chair fee has been paid for the Governance, Nominations and Sustainability Committee, as the Chairman of the Board has been chairing this committee.

Remuneration report (continued)

The committees on which the Directors serve are set out in the corporate governance report on page 48. In 2019, the Board consisted entirely of non-executive Directors independent from management.

Where a Director is also a member of one or more subsidiary boards of Zurich, the Director is entitled to an additional fee of CHF 50,000 per annum plus CHF 10,000 per annum if he or she also chairs an audit committee of such a board. The fee structure for subsidiary boards can be modified if certain circumstances, for example, the additional time commitment to discharge the duties of a board member, warrant it.

The total aggregate fees allocated to the Directors of Zurich and Zurich Insurance Company Ltd for the calendar year ended December 31, 2019, amounted to CHF 4,650,000. This included CHF 2,620,000 in cash and CHF 2,030,000 in five-year sales-restricted shares. The share price at the allocation date was CHF 337.30. The corresponding amount for 2018 was CHF 4,257,500, which comprised CHF 2,467,500 in cash and CHF 1,790,000 in five-year sales-restricted shares. The share price at the allocation date in 2018 was CHF 297.20.

The following tables set out the actual fees paid to the Directors for 2019 and 2018 in Swiss francs. In 2019, eight members served for the full year and four members served for part of the year. In 2018, eight members served for the full year and four members served for part of the year.

Audited

Directors' fees 2019

in CHF	2019[1]						
	Fee elements in cash						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fees	Total cash	Total sales restricted shares[4,5]	Total fees
M. Liès, Chairman[6]	750,000	n.a.	n.a.	–	750,000	750,000	1,500,000
C. Franz, Vice-Chairman[6]	200,000	n.a.	n.a.	–	200,000	200,000	400,000
J. Amble, Member	120,000	60,000	–	–	180,000	120,000	300,000
C. Bessant, Member	120,000	60,000	–	–	180,000	120,000	300,000
A. Carnwath, Member	120,000	60,000	80,000	–	260,000	120,000	380,000
M. Halbherr, Member[7]	90,000	45,000	–	–	135,000	120,000	255,000
J. Hayman, Member	120,000	60,000	60,000	–	240,000	120,000	360,000
M. Mächler, Member	120,000	60,000	–	–	180,000	120,000	300,000
K. Mahbubani, Member	120,000	60,000	–	–	180,000	120,000	300,000
D. Nish, Member[7]	30,000	15,000	–	–	45,000	–	45,000
J. Staiblin, Member[7]	90,000	45,000	–	–	135,000	120,000	255,000
B. Stowe, Member[7]	90,000	45,000	–	–	135,000	120,000	255,000
Total in CHF[8]	**1,970,000**	**510,000**	**140,000**	**–**	**2,620,000**	**2,030,000**	**4,650,000**

Remuneration report (continued)

Audited

Directors' fees 2018

in CHF	2018[1]						
	Fee elements in cash						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fees[9]	Total cash	Total sales restricted shares[4,10]	Total fees
M. Liès, Chairman[6,11]	562,500	n.a.	n.a.	–	562,500	750,000	1,312,500
T. de Swaan, former Chairman[6,11]	187,500	n.a.	n.a.	–	187,500	–	187,500
C. Franz, Vice-Chairman[6,11]	180,000	15,000	15,000	–	210,000	200,000	410,000
F. Kindle, former Vice-Chairman[6,11]	50,000	n.a.	n.a.	–	50,000	–	50,000
J. Amble, Member	120,000	60,000	–	–	180,000	120,000	300,000
C. Bessant, Member[11]	120,000	60,000	–	–	180,000	120,000	300,000
S. Bies, Member[11]	30,000	15,000	15,000	12,500	72,500	–	72,500
A. Carnwath, Member	120,000	60,000	80,000	–	260,000	120,000	380,000
J. Hayman, Member	120,000	60,000	45,000	–	225,000	120,000	345,000
K. Mahbubani, Member	120,000	60,000	–	–	180,000	120,000	300,000
M. Mächler, Member	120,000	60,000	–	–	180,000	120,000	300,000
D. Nish, Member	120,000	60,000	–	–	180,000	120,000	300,000
Total in CHF[8]	**1,850,000**	**450,000**	**155,000**	**12,500**	**2,467,500**	**1,790,000**	**4,257,500**

1 The remuneration shown in the tables is gross, based on the accrual principle and does not include any business-related expenses incurred in the performance of the Directors' services.
2 Members of a committee receive a cash fee of CHF 60,000 for all committees on which they serve, irrespective of the number. The committees on which the Directors serve are set out in the corporate governance report.
3 Committee chairs receive an annual fee of CHF 60,000 and the chair of the Audit Committee receives an additional CHF 20,000. The committees on which the Directors serve and the chairs are set out in the corporate governance report.
4 The shares allocated to the Directors are not dependent on the achievement of performance criteria and are sales-restricted for five years.
5 As of June 16, 2019, Michel Liès was allocated 2,223 shares, Christoph Franz was allocated 592 shares, and the other members of the Board were allocated 355 shares. The share price as of June 15, 2019 (CHF 337.30) was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash.
6 Neither the Chairman nor the Vice-Chairman received any additional fees for their committee work on the Board of Zurich.
7 At the AGM on April 3, 2019, Michael Halbherr, Jasmin Staiblin and Barry Stowe were elected as members of the Board, and David Nish retired from the Board. Jasmin Staiblin was newly elected as a member of the Remuneration Committee.
8 In line with applicable laws, Zurich paid the company-related portion of contributions to social security systems, which amounted to CHF 191,738 in 2019. The corresponding contributions in 2018 were CHF 192,690. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above. Swiss-based Directors are eligible for selected employee benefits.
9 In addition to the fees received as a Director of Zurich Insurance Group Ltd, Susan Bies earned fees for her board membership of the subsidiary board Zurich American Insurance Company on a pro rata basis for her time in the role in 2018.
10 As of June 16, 2018, Michel Liès was allocated 2,523 shares, Christoph Franz was allocated 672 shares, and the other members of the Board were allocated 403 shares. The share price as of June 15, 2018 (CHF 297.20) was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash.
11 At the AGM on April 4, 2018, Michel Liès was elected to the Board as Chairman of the Board, and Tom de Swaan, Fred Kindle and Susan Bies retired from the Board. Michel Liès and Catherine Bessant were newly elected as members of the Remuneration Committee. At the constituent Board meeting following the AGM, the Board appointed Christoph Franz as Vice-Chairman of the Board.

Remuneration report (continued)

Audited

Special payments and termination arrangements, additional honoraria and remuneration and personal loans for Directors

At the AGM on April 3, 2019, Michael Halbherr, Jasmin Staiblin and Barry Stowe were elected as new members of the Board, and David Nish retired from the Board. No replacement payments or other benefits were provided. No termination payments (golden parachutes) were made, nor any other benefits such as additional contributions to occupational pension schemes were provided to the leaving member of the Board.

None of the Directors received any additional honoraria, remuneration or benefits-in-kind from the Group or from any of the Group's companies other than what is set out earlier. In addition none of the Directors had any outstanding loans, advances or credits as of December 31, 2019 and 2018.

Remuneration and personal loans for former Directors

No benefits (or waiver of claims), loans, advances or credits have been provided to former Directors during 2019 at conditions which are not at arm's length, nor were any provided during 2018.

Related parties to the Directors or to former Directors

No benefits (or waiver of claims) have been provided to related parties of the Directors or related parties of former members of the Board during the years 2019 and 2018, nor had any related party of the Directors or of former members of the Board any outstanding loans, advances or credits as of December 31, 2019 and 2018.

Share plans and shareholdings of Directors

The shareholdings of the Directors who held office at the end of 2019, in shares of Zurich Insurance Group Ltd are shown in the following table. All interests shown include the portion of shares allocated to the Directors as part of their fees, shares acquired in the market by the Directors and shares held by parties related to the Directors.

Directors' shareholdings[1]

Number of Zurich Insurance Group Ltd shares as of December 31	Ownership of shares	
	2019	2018
M. Liès, Chairman	4,746	2,523
C. Franz, Vice-Chairman	2,930	2,338
J. Amble, Member	2,133	1,778
C. Bessant, Member	1,178	823
A. Carnwath, Member	3,058	2,703
M. Halbherr, Member	355	n.a.
J. Hayman, Member	1,716	1,361
M. Mächler, Member	2,681	2,326
K. Mahbubani, Member	2,133	1,778
J. Staiblin, Member	1,225	n.a.
B. Stowe, Member	355	n.a.
Total	**22,510**	**15,630**

[1] None of the Directors, including parties related to them, held more than 0.5 percent of the voting rights of Zurich Insurance Group Ltd shares as of December 31, 2019 or 2018, respectively.

Executive Committee

Remuneration of the ExCo

The total remuneration of the members of the ExCo for 2019 comprises the value of base salaries, short-term cash incentives, the target share allocations made under the LTIP in 2019, pensions and other remuneration including employee benefits. To assist with decisions regarding the remuneration structure and the mix of the individual remuneration elements for members of the ExCo, the Board conducts benchmarking studies on a regular basis, taking into account relevant market practices within peer groups, as well as internal relativities.

The remuneration structures and practices of a core peer group, consisting of the following insurance and reinsurance firms in the Dow Jones Insurance Titans 30 Index, are analyzed:

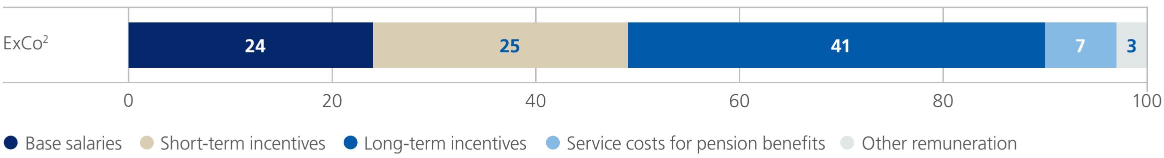
AIG, Allianz, Allstate, Aviva, AXA, Chubb, Generali, Legal & General, Manulife Financial Corp., MetLife, Munich Re, Progressive Ohio, Prudential Plc, QBE, Swiss Re, The Hartford and Travelers Cos. Inc.

The core peer group is regularly reviewed by the Remuneration Committee. Further, the analysis is supplemented by additional benchmarking studies as appropriate, for example reviewing practices of large SMI companies in Switzerland or similarly-sized companies in other countries.

The distribution of the individual elements making up the total remuneration of the ExCo in 2019, is set out in the following chart and is based on the target values for the performance-related remuneration. It shows an appropriate balance of remuneration elements, with a significant emphasis on performance-related remuneration (STIP and LTIP), particularly long-term, deferred remuneration.

2019 remuneration structure and weighting of elements[1]

%



[1] At target, as a percentage of total remuneration.
[2] Considering all members of the ExCo that were active for the full year, including the Group CEO.

Remuneration report (continued)

Amounts of remuneration for the ExCo

The following table shows the total remuneration in 2019 and 2018 for the highest-paid individual, which was Mario Greco, Group CEO, along with the total remuneration for all members of the ExCo (including the amounts for the Group CEO). Below the total amounts, the values of any one-time remuneration awards and the amounts of contractually agreed remuneration after stepping down from the ExCo and during the notice period, are shown.

Audited

Remuneration of the highest-paid individual and all members of the ExCo (including the highest-paid)

in CHF millions, for the years ended December 31	Highest-paid Group CEO		ExCo	
	2019[1]	2018[1]	**2019[1,2]**	2018[1,3,4]
Base salaries	1.7	1.6	10.6	10.9
Short-term incentives	3.2	3.0	16.5	15.9
Long-term incentives	3.8	3.6	17.5	17.8
Service costs for pension benefits	0.5	0.5	2.8	2.9
Value of other remuneration	0.1	0.1	1.4	1.7
Total in CHF[5]	**9.3**	**8.8**	**48.8**	**49.2**
Total in USD[5,6]	**9.4**	**9.1**	**49.9**	**50.6**
in CHF million, for the years ended December 31	**2019[7]**	2018[7]	**2019[7,2]**	2018[7,3,4]
Other payments and share allocations	–	–	0.0	2.5
Contractually agreed remuneration after stepping down and during notice period in the respective year	–	–	4.8	5.6

[1] The remuneration shown is gross, based on the accrual principle, for the time employees are members of the ExCo during the year and does not include any business-related expenses incurred in the performance of the members' services.
[2] On the basis of 14 members and former members of the ExCo, of whom 10 served in the ExCo during the full year in 2019.
[3] On the basis of 14 members and former members of the ExCo, of whom 11 served in the ExCo during the full year in 2018.
[4] The remuneration of the ExCo for 2018, disclosed in the remuneration report 2018 in U.S. dollars, has been restated in Swiss francs using the relevant exchange rates.
[5] In line with applicable laws where the executives are employed, Zurich paid the company-related portion of contributions to social security systems, which amounted to CHF 4.6 million in 2019 and CHF 2.0 million in 2018. Since the contributions are based on full earnings, whereas benefits are capped, there is no direct correlation between the costs paid to social security systems and the benefits received by the executives.
[6] The amounts have been translated from CHF to USD at the relevant exchange rates throughout the year and the cash incentive to be paid in 2020 has been translated at the year-end rate in 2019.
[7] The remuneration shown is gross, based on the accrual principle and does not include any business-related expenses incurred in the performance of the members' or former members' services.

Remuneration report (continued)

Based on these figures, the value of the total remuneration for all members of the ExCo comprises 30 percent in fixed remuneration comprising base salaries, service costs for pension benefits and other remuneration including employee benefits (31 percent in 2018), and 70 percent in performance-related remuneration comprising cash incentive awards under the STIP and the value of the target share allocations under the LTIP (69 percent in 2018). The emphasis within variable remuneration lies on the deferred part, with 52 percent represented by target performance shares under the LTIP and 48 percent as cash incentive awards under the STIP.

Explanations of the elements of remuneration for the ExCo

The individual remuneration elements shown in the previous table are described in more detail below.

Base salaries:

See the remuneration elements table on page 101 for further information.

Short-term incentives:

The amount shown in the table relates to the total cash incentives earned under the Group's STIP. The individual STIP awards for members of the ExCo are determined in a similar way as for all employees (see the overview on page 103), taking into account:

- **Business performance:** For the ExCo, including the Group CEO, the key metrics defined for the Group STIP pool determine the funding available. These are the Group's BOP with an 80 percent weight and the overall customer NPS with a 20 percent weight, followed by an overall qualitative assessment of the results. The BOP for 2019 was USD 5.3 billion reflecting a 16 percent increase compared with 2018. The overall customer NPS for the year was above plan and higher compared with 2018, also considering the additional markets included in the assessment for the first time in 2019. This stems from efforts to continuously improve the customer experience and transform the culture towards becoming truly customer led.
- **Individual performance:** At the beginning of the year, each member of the ExCo receives a target card for their area of responsibility. The target cards include objectives related to the execution of the strategy, in particular in the areas of financial measures, customers, people and relevant strategic projects. At the end of the year, each member of the ExCo conducts a self-assessment of their performance in relation to the targets set. Group Risk Management, together with other control and assurance functions, provide risk and compliance information to be considered as part of the ExCo members' individual performance assessment. A discussion is subsequently held between each member of the ExCo and the Group CEO. In a rigorous process, the Group CEO and the Remuneration Committee review the individual performance achievements of each member of the ExCo, including behavior and risk aspects. For the Group CEO, the review is conducted by the Remuneration Committee.
- **STIP target:** The STIP target percentages for the members of the ExCo for 2019 are 100 percent of the base salary.

As a result of the funding, and of the assessment of the performance achievements, individual STIP awards for each member of the ExCo are determined and approved by the Board. The maximum STIP award for all members of the ExCo is 200 percent of the individual target amount.

Long-term incentives:

The total number of target performance shares allocated under the Group's LTIP to members of the ExCo in 2019 for the three-year performance period 2019–2021, was 52,666. This reflects a value of target performance share allocations of CHF 17.5 million using the closing share price of CHF 332.80 on the day prior to the allocation (second working day in April), and assumes a vesting level of 100 percent in 2022. This compares with 57,555 target shares allocated in 2018 at a value of CHF 17.8 million. This does not include dividend equivalent target shares that may accrue during the performance period.

The LTIP target percentages for the allocation in 2019 varied between 125 percent and 225 percent of base salary for members of the ExCo and the maximum vesting level, to be assessed in 2022, is 200 percent of the aggregate number of target shares and dividend equivalent target shares.

The LTIP vesting level in 2020 for shares allocated in 2017 is 178 percent. No discretionary adjustment was made to the calculated vesting level.

Remuneration report (continued)

- **Service costs for pension benefits:**
  The total value of pension benefits accruing to members of the ExCo during the year are calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans, take the amount of the company contribution paid during the year. Members of the ExCo participate in the pension plan arrangements of the entities where they are employed. The Group's philosophy is to provide pension benefits through cash balance and/or defined contribution plans where funds are accumulated throughout a career to provide retirement benefits. The majority of the ExCo participate in such plans and over time, all future members of the ExCo will participate in such plans. The remaining members of the ExCo participate in defined benefit plans that provide retirement benefits based on final pensionable earnings and the number of years of service. Normal retirement ages vary from 60 to 65.
- **Value of other remuneration:**
  Members of the ExCo receive other remuneration in relation to employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under each member's employment contract. Benefits-in-kind have been valued using market rates.
- **Other payments and share allocations:**
  These are extraordinary and include payments and share allocations to compensate incentive plan forfeitures with previous employers.

  In extraordinary circumstances where payments are made to new hires to replace forfeitures under the incentive plans of the previous employer, the payments tend to mirror the type and timing of the forfeited payments and can include cash payments and/or awards of restricted or performance shares. Where payments are made in cash, there is typically a clawback period if the employee leaves the company voluntarily during the first two years of employment. Restricted share allocations typically vest over three to five years following the date of allocation and may also be credited with DEUs during the vesting period to compensate for any dividend paid. Restricted shares and associated DEUs are typically forfeited if the holder of such allocations leaves the company before the vesting date and the employment relationship terminates.

  No replacement payments were made in 2019.
- **Contractually agreed remuneration after stepping down and during notice period in the respective year:**
  The amount shown in the table relates to contractually agreed remuneration for the period of employment in 2019 or 2018 as applicable, after stepping down from the ExCo and during the notice period. Such remuneration may include base salaries, cash incentives, LTIP target allocations, pension service costs and other remuneration including employee benefits, on a pro rata basis for the relevant financial year, for members that have stood down from the ExCo.

Remuneration report (continued)

Audited

Special payments and termination arrangements, additional honoraria and remuneration, and personal loans for members of the ExCo

During 2019, there was one new member appointed to the ExCo as an external appointment, and one member relinquished all responsibilities as a member of the ExCo.

There were no termination payments (golden parachutes) or payments in advance made, nor any other benefits, such as agreements concerning special notice periods or longer-term employment contracts (exceeding 12 months in duration), or additional contributions to occupational pension schemes, provided.

None of the members of the ExCo received any remuneration from the Group or from any of the Group's companies in 2019 or 2018 other than as set out in the tables above.

As of December 31, 2019 and 2018, there were no loans, advances or credits outstanding for members of the ExCo.

Remuneration and personal loans for former members of the ExCo

Former members of the ExCo are eligible to continue their mortgage loans following retirement on similar terms to those when they were employed, in line with the terms available to employees in Switzerland. As of December 31, 2019 and 2018, no former member of the ExCo had any outstanding loans, advances or credits.

No former member of the ExCo received remuneration in 2019 other than disclosed in the remuneration report 2019.

Related parties to members or former members of the ExCo

No benefits (or waiver of claims) have been provided to related parties of members of the ExCo or related parties of former members of the ExCo during 2019 and 2018. No party related to members of the ExCo or former members of the ExCo had any outstanding loans, advances or credits as of December 31, 2019 and 2018.

Remuneration report (continued)

Shareholdings of the members of the ExCo

This section provides a summary of total outstanding share commitments under the LTIP and from restricted share allocations for members of the ExCo as of December 31, 2019.

Target share allocations under the LTIP and from restricted share allocations

As of December 31, 2019, the total number of unvested target share allocations under the LTIP was 171,320 (218,142 as of December 31, 2018). Further, the number of unvested restricted shares was 3,683 in 2019 (13,616 in 2018).

A summary of the unvested target share allocations as of December 31, 2019, under the LTIP and from restricted share allocations is set out in the following table:

Summary of unvested target share allocations for the ExCo as of December 31

		Year of vesting			
	Year of allocation	2020	2021	2022	Total
LTIP[1]	2017	59,906	–	–	59,906
	2018	–	55,581	–	55,581
	2019	–	–	55,833	55,833
Restricted shares[2]	2016	1,935	–	–	1,935
	2017	1,748	–	–	1,748
	2018	–	–	–	–
	2019	–	–	–	–

1 Dividend equivalent target shares are credited within the regular LTIP and are included in these amounts where they have already accrued. At the vesting date, the original number of target shares allocated, plus the dividend equivalent target shares, will be assessed for vesting in aggregate based on the performance achievements against the predefined vesting grid. No dividends will accrue on the dividend equivalent target shares.
2 No performance conditions are applicable for vesting. As of July 1, 2018, dividend equivalent shares are credited during the vesting period and included in these amounts where they have already accrued.

Within the context of the regular LTIP allocations made in 2019, these performance-based share allocations will be considered for vesting in 2022, with half of the resulting vested shares being sales-restricted for an additional three-year period.

The actual level of vesting is determined in accordance with the remuneration principles and vesting criteria set out in this report.

Remuneration report (continued)

Audited

Shareholdings of the members of the ExCo

The actual shareholdings of each member of the ExCo, active as of December 31, 2019, are shown in the following table for the past two years.

In addition to any shares acquired in the market, the numbers also include vested shares, whether sales-restricted or not, received under the LTIP. The table does not however, include the share interests of the members of the ExCo that are currently unvested target shares or unvested restricted shares. All interests include shares held by related parties to members of the ExCo.

Shareholdings of the members of the ExCo[1]

Number of shares, as of December 31	Shares	
	2019	2018
M. Greco, Group CEO	61,929	2,000
U. Angehrn, Group Chief Investment Officer	16,086	7,289
J. Dailey, CEO of Farmers Group, Inc.	19,117	12,055
C. Dill, CEO Latin America	14,825	13,865
P. Giger, Group Chief Risk Officer[2]	–	n.a.
J. Howell, CEO Asia Pacific	8,092	5,046
A. Martin, CEO EMEA and Bank Distribution[2]	3,747	2,487
G. Quinn, Group Chief Financial Officer	44,680	31,779
K. Savio, CEO North America	6,352	4,723
J. Shea, CEO Commercial Insurance	4,412	–
K. Terryn, Group Chief Operating Officer	15,332	14,136
Total	**194,572**	**93,380**

[1] None of the members of the ExCo, together with parties related to them, held more than 0.5 percent of the voting rights as of December 31, 2019 or 2018.
[2] Peter Giger was appointed as Group Chief Risk Officer as an external appointment effective October 1, 2019. A. Martin was appointed as CEO EMEA and Bank Distribution effective July 9, 2019.

Trading plans

To facilitate the sale of shares for members of the ExCo, the Board approved the implementation of trading plans under a predefined transaction program effective as of 2008. The terms and conditions of the transactions have to be defined and they cannot be changed. All trading plans require the approval of the Chairman of the Board. The establishment of a trading plan by an ExCo member is reported to the SIX Swiss Exchange according to the rules on disclosure of management transactions. As of December 31, 2019, there were no trading plans in place. Further, no trading plans were entered into in 2019 or 2018.

Remuneration report (continued)

All employees

Remuneration of all employees

Please refer to the remuneration framework section on page 100 for the key elements of remuneration and the benchmarking approach for all employees. The benchmarking analysis is mainly carried out and approved at a local level. The Group had 54,030 full-time equivalent employees as of December 31, 2019 (52,267 in 2018).

The following section includes information regarding the total remuneration earned by employees for 2019 and 2018 across the Group, including remuneration for members of the ExCo.

Total remuneration for all employees

in CHF millions, for the years ended December 31		2019	2018[1]
Fixed compensation	Base salaries and other remuneration[2]	4,534	4,126
	Service costs for pension benefits[3]	407	427
Variable remuneration	Cash incentive awards earned for the year[4]	558	538
	Value of target share allocations made in the year[5]	139	140
Total remuneration		**5,638**	**5,231**

[1] The 2018 amounts have been restated from the U.S. dollar amounts disclosed in the remuneration report 2018, to Swiss francs using the relevant exchange rates.
[2] Other remuneration includes amounts for employee benefits and any other payments due under employment contracts.
[3] This represents the present value of the defined benefits from pension and post-retirement benefit plans, plus employers' contributions to defined contribution plans, arising from employee service over the accounting period. The amount included in this figure for defined benefit plans is calculated using actuarial factors and can vary year-on-year as economic conditions change. These numbers are explained in greater detail in note 20 of the consolidated financial statements.
[4] Includes the amounts under the Group's STIP, as well as other cash incentive awards such as those from local plans which are subject to local Board approval and any sign-on and severance payments in cash.
[5] Includes the value of target performance share allocations made under the Group's LTIP, which assumes vesting in 2022 at 100 percent of target and any other target share allocations such as sign-on payments in shares.

Value of outstanding deferred remuneration

The Group's remuneration system includes instruments for the deferral of remuneration. The following table provides an overview of the overall value of outstanding deferred remuneration as of December 31, 2019 and 2018.

Value of outstanding deferred remuneration for all employees

in CHF millions, for the years ended December 31	2019	2018[1]
Unvested target share allocations	409	402
Unvested restricted share allocations	10	19
Vested but sales-restricted shares	229	113
Value of overall outstanding deferred remuneration	**648**	**534**

[1] The 2018 amounts have been restated from the U.S. dollar amounts disclosed in the remuneration report 2018, to Swiss francs using the relevant exchange rates.

The value of the deferred and unvested remuneration has been determined by multiplying the number of outstanding shares by the relevant share price at the original date of allocation and reflects the assumption of a future vesting level of 100 percent. The value of the vested, but sales-restricted shares considers the taxable value at the time of vesting.

Remuneration report (continued)

Impact on net income in 2019 and 2018 from remuneration made in prior years

The LTIP vesting level determines the actual number of shares to be awarded to participants relative to the target shares initially allocated. Differences in value between the initial estimated amount expensed in the income statement for the LTIP and the actual shares vesting in 2020, along with adjustments to the estimated value of shares vesting in 2021, depending on performance to date, are reflected in the 2019 consolidated income statement in line with accounting principles. For the 2017 and 2018 plans with shares vesting in 2020 and 2021 respectively, there was an increase of USD 55 million in the expense recognized in the 2019 income statement to reflect actual performance to date compared with original estimates. In 2018, there was an increase of USD 11 million to the expense recognized in the income statement to reflect adjustments due to actual performance.

Key risk takers

The following definition and principles for sign-on and severance payments apply.

- **Sign-on payments** are payments that are agreed on the execution of an employment contract (whether paid immediately or over time). Sign-on payments may include compensation made prior to a person joining the company and providing any services (payments in advance) or compensation for benefits foregone with a previous employer (replacement payments). Payments in advance are not paid to members of the Board or the ExCo. Any replacement payments for members of the ExCo, including the Group CEO, have to be approved by the Board based on a proposal by the Remuneration Committee.
- **Severance payments** are provided in connection with the termination of an employment relationship. Zurich does not include under the term severance payments, garden leave or similar payments for employees in jurisdictions where such payments are required by applicable law, or where they are based on contractual notice periods which conform with recognized market practice, or where they are non-contractual, but in line with recognized market practice. Zurich does include garden leave or similar payments however, that go beyond recognized market practice, irrespective of whether these are provided pursuant to an agreement or are ex gratia. Severance payments are not paid to members of the Board or the ExCo.

The Group as a principle does not make any sign-on or severance payments, however if circumstances in the Group's interest warrant such payments, these can be approved through a clear governance process. Any such payment with a value of CHF 1 million or more is approved by the Chairman of the Remuneration Committee prior to the time the employment offer is made or prior to the time the severance payment is committed to.

The following table discloses sign-on and severance payments committed to key risk takers. Key risk takers are incumbents of Zurich's most senior positions, as well as positions that have a significant influence on the risk profile of the company. For key risk taker roles where the incumbent is a member of the ExCo, no payments in advance and/or severance payments have been made. Replacement payments for the ExCo in 2019 and 2018 are included where such payments were made.

Sign-on and severance payments for key risk takers

in CHF millions, for the years ended December 31	**2019**		2018	
	Amount (CHF m)	**Number of beneficiaries**	Amount[1] (CHF m)	Number of beneficiaries
Sign-on payments/number of beneficiaries	1.7	4	11.4	15
Severance payments/number of beneficiaries	–	–	0.1	1

[1] The 2018 amounts have been restated from the U.S. dollar amounts disclosed in the remuneration report 2018, to Swiss francs using the relevant exchange rates.

Outlook 2020

With the next strategic cycle beginning from 2020, the remuneration architecture has been reviewed to ensure it continues to support the achievement of the new targets, complies with legal and regulatory requirements and best market practices, and aligns with risk considerations. Following the review, the main changes proposed relate to alignment of the LTIP performance criteria and adjustments to certain fee elements of the Board.

Long-term incentive plan:

- The performance criteria of the LTIP have been aligned to the targets of the next strategic cycle as set out at the Investor Day in November 2019. Increases to both the NIAS ROE and cash remittance performance metrics are outlined in the vesting grid below and show a commitment to higher performance expectations as of the next performance period 2020–2022.

Vesting grid for the new strategic cycle

Vesting grid relevant for LTIP allocations made from 2020 and applicable for vesting decisions from 2023:

Performance criteria	0% vesting	50% vesting	100% vesting	150% vesting	200% vesting
Relative TSR position (no change)	18th – 13th	12th – 10th	9th – 7th	6th – 4th	3rd – 1st
NIAS ROE[1]	< 11.75% p.a.	11.75% p.a.	14.00% p.a.	15.125% p.a.	≥ 16.25% p.a.
Cash remittance	< USD 10.5 bn	USD 10.5 bn	USD 11.5 bn	USD 12.0 bn	≥ USD 12.5 bn

[1] Subject to change following adoption of IFRS 17. Refer to note 2 of the consolidated financial statements for further information.

- The last change to the LTIP metrics took place in 2017 when the cash remittance targets were increased by USD 0.5 billion.

Board fee structure:

- As part of the regular review and monitoring of Zurich's Board fees, the independent adviser to the Board's Remuneration Committee carried out a benchmarking analysis of Board fees at similarly-sized companies in the SMI and Dow Jones Insurance Titans 30 Index.
- The last changes to Board fees were made in 2015. Given successful completion of the targets set for the 2017–2019 strategic cycle, as well as the results of the benchmarking analysis, some adjustments are proposed to bring certain elements of the fee structure closer to median levels of similarly-sized companies in the SMI. Applicable as of the AGM in 2020 and coinciding with the next strategic cycle from 2020, the proposal is to increase:
  - Chairman fees from CHF 1,500,000 to CHF 2,000,000;
  - Vice-Chairman fees from CHF 400,000 to CHF 450,000;
  - Committee membership allowances from CHF 60,000 to CHF 80,000;
  - Committee Chair fees by CHF 20,000 each.
- The basic fee for members of the Board remains the same. In addition, the amount for the committee fee continues to be paid only once, irrespective of the number of committees on which a member of the Board serves.
- The adjustments in the fee structure are incorporated in the maximum amount of remuneration for the Board, which is submitted for approval at the AGM. Further information can be found in the Board of Directors Report 2020 (www.zurich.com/investor-relations/shareholder-area/annual-general-meeting).

In addition to the topics outlined above, the enhancements to the performance management and incentive approach that were implemented in 2019 will continue to be reviewed and refined as needed. Incorporating customer metrics to assess business performance, along with existing financial metrics, for STIP funding purposes, will also be expanded to include additional markets once sufficiently robust data is available.

Shareholders are given the opportunity to express their opinion on the remuneration report 2019, through an advisory vote at the AGM in 2020. Shareholders will also receive the Board of Directors Report 2020 (www.zurich.com/investor-relations/shareholder-area/annual-general-meeting) which includes information regarding the two remuneration votes on the total maximum amounts of remuneration for the Board and for the ExCo, taking place at the AGM on April 1, 2020. The votes allow shareholders to have a say on the prospective remuneration for the Board and for the ExCo arising from Zurich's remuneration policies.

The Remuneration Committee will continue to seek dialogue with investors and proxy advisers in 2020. Further, the Remuneration Committee will ensure that the remuneration framework, including reviews of the framework and any subsequent changes proposed, are aligned with the strategy, embedded in the risk framework and comply with legal and regulatory requirements. As in previous years, the Remuneration Committee enforces the governance framework and carefully monitors the link between key performance factors and variable remuneration awards.

Report of the statutory auditor

Report of the statutory auditor

to the General Meeting of Zurich Insurance Group Ltd, Zurich

We have audited the accompanying remuneration report of Zurich Insurance Group Ltd for the year ended December 31, 2019. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled 'audited' on pages 108 to 110 and pages 112, 115 and 117 of the remuneration report.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility
Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the remuneration report of Zurich Insurance Group Ltd for the year ended December 31, 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Mark Humphreys Audit expert Auditor in charge	Nicolas Juillerat Audit expert

Zurich, February 12, 2020

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Risk review

Message from our Group Chief Risk Officer

Managing transition

successfully by embracing change

Connecting business strategy to risk taking

Rejoining Zurich as the Group Chief Risk Officer on October 1, 2019, I have inherited a sound risk management organization, evidenced by our strong Standard and Poor's rating for enterprise risk management.

Risk management supports our business actively to enable Zurich to take risks in an informed and disciplined manner, within a predetermined risk appetite and tolerance, and provides the business with constructive challenges to manage risks.

Our integrated risk management framework supports the achievement of the Group's strategy by upholding an effective risk-based control environment

> "We are experts in identifying and responding to emerging and current risks that impact our customers, societies and business."
>
> **Peter Giger**
> Group Chief Risk Officer

Message from our Group Chief Risk Officer

and helps protect capital, liquidity, earnings, and reputation.

By effectively managing our risks, we maintain our resilience and make sure we are there when our customers need us. Zurich's risk review describes our major risks and how we manage them.

Sustainability with a focus on climate change

The Group's commitment to sustainability, including managing the risks posed by climate change, continues to be an integral part of Zurich's risk management approach. The Group promotes best practices by managing the interconnectivity of environmental, social and governance (ESG) risks by engaging with its customers and investees.

Climate change is the most complex risk facing our society today: it is intergenerational, international, and interdependent. Zurich's approach to managing climate risk is rooted in our multi-disciplinary Group-wide risk management process. As the insurance industry is going through a transformation, a key focus area for Zurich is the transition risks which require far-reaching economic, technological and social structural changes.

Our well-established Total Risk Profiling™ methodology supports us in delivering oversight, risk insights and enhances Zurich's capabilities in managing risks.

In determining the Group's exposure to risks resulting from digital transformation, the Group assesses risks in cyber, information technology, data security and risks arising from emerging technologies and innovation to ensure our business remains resilient in the future.

Financial strength supports the Group's new strategic cycle

Rewarding shareholders through our attractive dividend policy based on sustainable earnings growth, a strong capital base and cash generation is part of our customer-centered strategy.

We use sensitivity and scenario analyses to assess the potential impact of conditions under stress. The Group identifies plausible threat scenarios and quantifies their potential impact on our businesses and financial metrics. Depending on the outcome, we develop, implement and monitor appropriate actions.

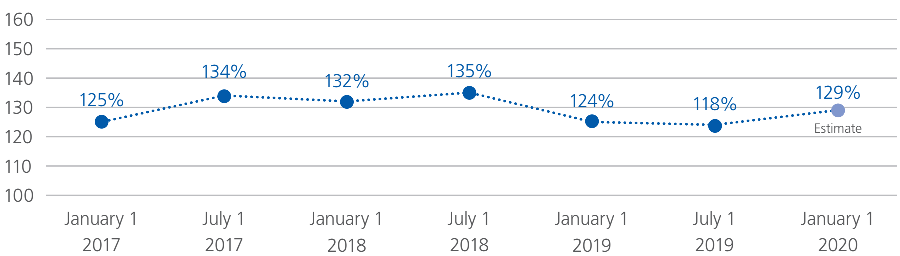
In this report, we present the Zurich Economic Capital Model (Z-ECM) results as well as sensitivity analysis to adverse scenarios. Zurich's very strong Z-ECM capital position and cash remittances support the resilience of the Group's dividend strategy to external events.

Peter Giger
Group Chief Risk Officer

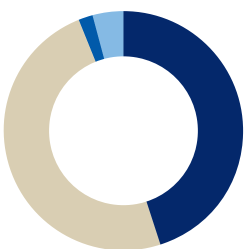
Economic risk profile

The Group's Z-ECM ratio decreased from 124 percent as of January 1, 2019 to 118 percent as of July 1, 2019. The January 1, 2020 estimate is 129 percent with an error margin of +/–5 percentage points. The development of the Z-ECM ratio in 2019 was driven mainly by continued economic profit generation, net of dividend accrual, which was partially offset by an increase in market risk due to the low interest rate environment.

Z-ECM ratio
%



Total Z-ECM capital required: USD 34.4 billion
%, as of July 1, 2019



Insurance risk	45%
Market risk, including investment credit risk	49%
Other credit risk	2%
Operational risk	4%

Highlights by risk type

Insurance risk

The Group's insurance risk is diversified by geography, line of business, product and customer, supported by our centralized purchase of reinsurance. With the falling interest rate environment, Life has replaced P&C as our largest business segment for Z-ECM capital.

More on **page 138**

Market risk

The Group's market risk portfolio remained well diversified across risk drivers and geographies in 2019. Interest-rate risk has increased, driven by falling interest rates, mainly in our German Life business.

More on **page 145**

Other credit risk

With proactive governance, the Group's credit risk exposure from reinsurance assets remains at a high quality.

More on **page 152**

Operational risk

Our frameworks support the identification, assessment, management, monitoring and reporting of operational risk within the Group.

More on **page 154**

Risk review

Contents

The risk review information marked 'audited' is an integral part of the consolidated financial statements.

Risk review (continued)

Audited

This 'audited' symbol indicates that the information contained within the shaded panel is audited and forms an integral part of the consolidated financial statements.

Audited

Risk management

Objectives of risk management

Taking and managing risk is an integral part of the insurance business. Zurich manages and takes risks in an informed and disciplined manner and within a pre-determined risk appetite and tolerance.

The major risk management objectives at Zurich Insurance Group (Zurich, or the Group) are to:

- Support achievement of the Group strategy and protect capital, liquidity, earnings and reputation by monitoring that risks are taken within the Group's risk tolerance
- Enhance value creation by embedding disciplined risk-taking in the company culture and contribute to an optimal risk-return profile where risk reward trade-offs are transparent, understood, and risks are appropriately rewarded
- Efficiently and effectively diversify risk and avoid or mitigate unrewarded risks
- Encourage openness and transparency to enable effective risk management
- Support decision-making processes by providing consistent, reliable and timely risk information
- Protect Zurich's reputation and brand by promoting a sound culture of risk awareness, and disciplined and informed risk taking

Risk management framework

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

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

The Group regularly reports on its risk profile at local and Group levels. The Group has procedures to refer risk topics to senior management and the Board of Directors in a timely way. To foster transparency about risk, the Board receives quarterly risk reports and risk updates. In 2019, reporting was supplemented with in-depth risk insights into topics such as information security management, accumulation risk, long-tail Life risk, credit risk and country risk.

The Group identifies, assesses, manages, monitors and reports risks that have an impact on the achievement of its strategic objectives by applying its proprietary Total Risk Profiling™ (TRP) methodology. The methodology allows Zurich to assess risks in terms of severity and probability 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.

Risk review (continued)

Audited

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

Zurich's goal is to maintain capital consistent with a 'AA' financial strength rating for the Group. The Group translates that goal into a quantified risk tolerance. The primary metric used to steer business is the Zurich Economic Capital Model (Z-ECM) which provides a key input into the Group's planning process as an assessment of the Group's risk profile against the Group's risk tolerance. The Z-ECM forms the basis for optimizing the Group's risk-return profile by providing consistent risk measurement across the Group.

Group's Z-ECM overall risk appetite and tolerance

<90%	90–100%	100–120%	120–140%	>140%
Z-ECM ratio below Group risk tolerance level, requiring appropriate remedial actions	Position may be tolerated for a certain length of time depending on the risk environment	'AA' target range No action required as within stated objective and equivalent to 'AA' rating	Consider increased risk-taking or remedial actions	Z-ECM ratio indicating over-capitalization, requiring implementation of mitigating actions

Z-ECM ratio

Risk-based remuneration

Based on the Group's remuneration rules, the Board of Directors designs and structures remuneration arrangements that support the achievement of strategic and financial objectives and do not encourage inappropriate risk-taking. Group Risk Management's role in respect to remuneration and its interaction with Board committees is described in the remuneration report.

Risk review (continued)

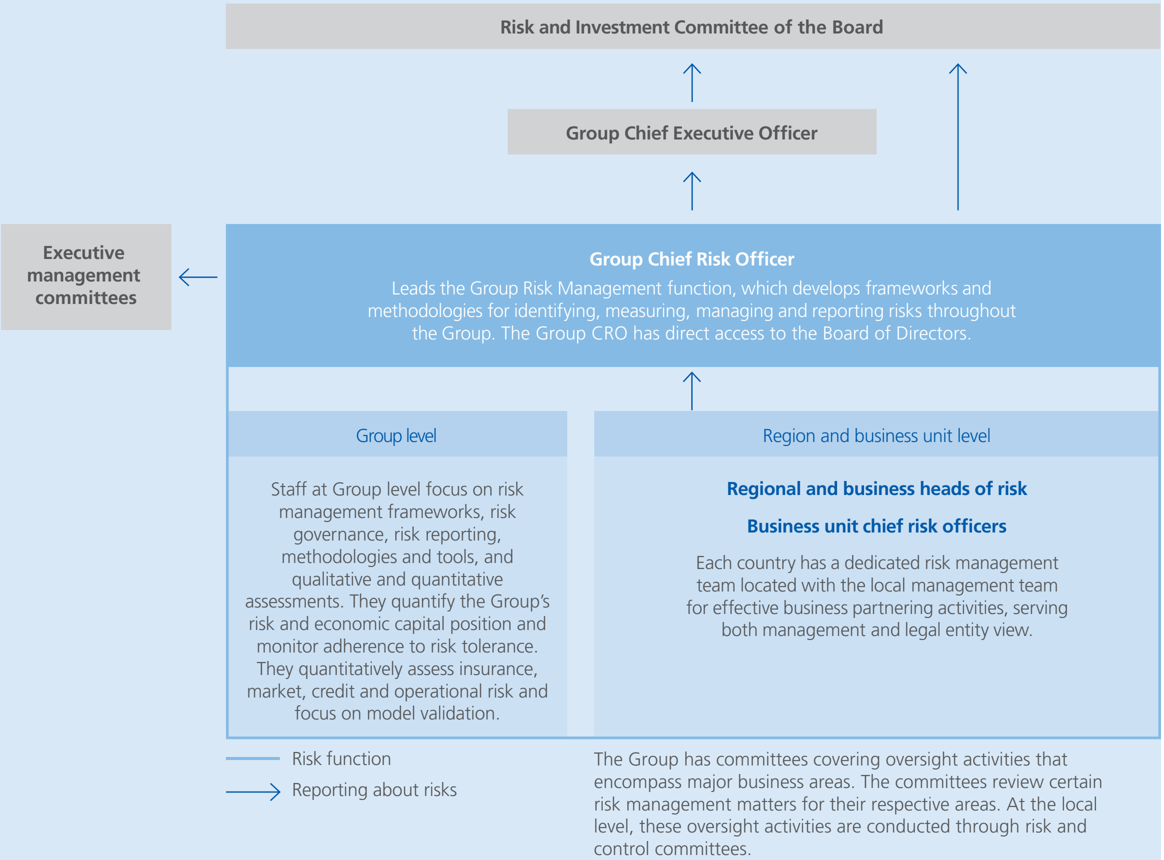
Audited

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 'corporate governance report (unaudited).'

Risk management organization

The Group Risk Management function is a global function, led by the Group CRO.



The risk function is independent of the business by being a vertically integrated function where global risk employees report directly into the Group CRO, except for Farmers' Chief Risk Officer, who has a matrix reporting line to the Group CRO, or unless otherwise required by local laws or regulations. Risk officers are embedded in the business, positioning them to support and advise, and independently challenge, business decisions from a risk perspective. As business advisers on risk matters, the risk officers, equipped with technical risk skills as well as business skills, help foster a risk-aware culture in the business.

Audited

Capital management

Objectives of capital management

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

As of December 31, 2019, shareholders' equity of USD 35.0 billion, subordinated debt of USD 6.9 billion and senior financial debt of USD 3.2 billion, excluding net new issued senior debt since the second quarter of 2018, were part of the capital available in the Group's economic framework. Further adjustments usually include items such as intangible assets, deferred tax assets and liabilities, allowing for discounting of liabilities and the value of in-force business, or inclusion of market value margin and expected profit over the next 12 months. For more information, see analysis of the 'Group's Z-ECM available financial resources' (unaudited).

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

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).

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 buy-backs, issuance of shares, issuance of senior and hybrid debt, securitization and purchase of reinsurance.

The Group seeks to maintain a balance between higher returns for shareholders on equity held, and the security a sound capital position provides. Dividends, share buy-backs, and issuances and redemption of debt have a significant influence on capital levels. In 2019, the Group paid a dividend out of retained earnings, bought own shares to avoid dilution from share-based employee plans and cancelled shares bought back in 2018 through the public share buy-back program, issued senior debt to finance redemptions and investments in the Group's development, and called hybrid debt that was re-financed during 2019.

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 Group Ltd faces no legal restrictions on dividends it may pay to its shareholders. As of December 31, 2019, the amount of the statutory general legal reserve was more than 30 times the paid-in share capital. 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 details on issuances and redemptions of debt, see note 18 of the consolidated financial statements.

For details on the share buy-back program, see note 19 of the consolidated financial statements.

Risk review (continued)

Audited

Risk and solvency assessment

Economic capital adequacy

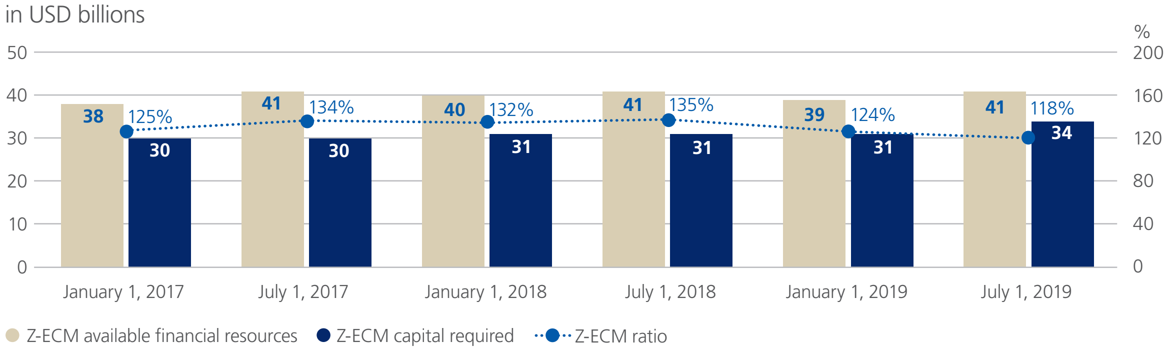
Internally, the Group uses its Zurich Economic Capital Model (Z-ECM) for assessing its economic capital adequacy. Z-ECM targets a total capital level that is calibrated to an 'AA' financial strength. Zurich defines the Z-ECM capital requirement as the capital required to protect the Group's policyholders in order to meet all of their claims with a confidence level of 99.95 percent over a one-year time horizon.

The Group uses Z-ECM to assess the economic capital consumption of its business on a one-balance-sheet approach. Z-ECM is an integral part of how the Group is managed. It is embedded in the Group's organization and decision-making processes, and is used in capital allocation, business performance management, pricing, and communication. Z-ECM quantifies the capital required for insurance-related risk (including premium and reserve, natural catastrophe, business and life insurance risk), market risk including investment credit risk, reinsurance credit risk, other credit risk, and operational risk.

At the Group level, Zurich compares Z-ECM capital required to the Z-ECM available financial resources (AFR) to derive an economic solvency ratio (Z-ECM ratio). Z-ECM AFR reflects financial resources available to cover policyholder liabilities in excess of their expected value. It is derived by adjusting the IFRS shareholders' equity to reflect the full economic capital base available to policyholders to absorb any unexpected volatility in the Group's business activities.

The chart below shows the development of the Group's Z-ECM AFR, Z-ECM capital required and Z-ECM ratio over time. As of January 1, 2020, the Z-ECM ratio was estimated at 129% with an error margin of +/–5 percentage points.

Analysis of the Group's Z-ECM available financial resources and Z-ECM capital required
in USD billions

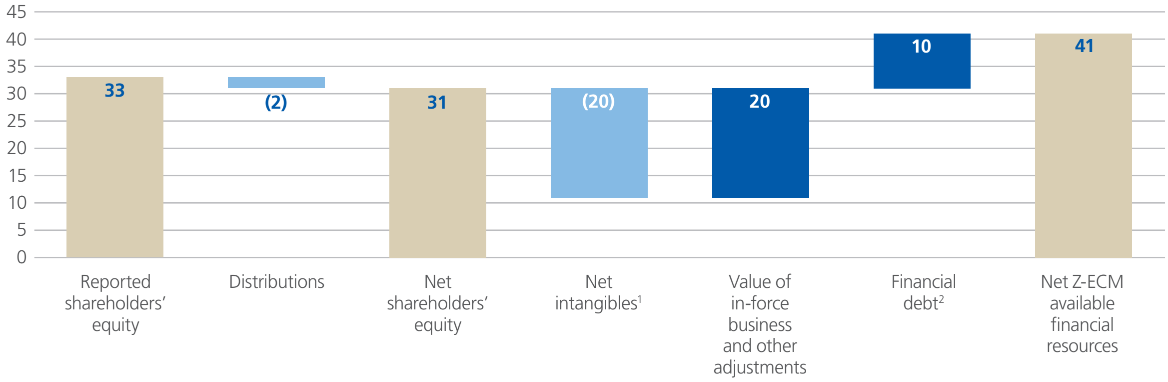


Risk review (continued)

The chart below shows an analysis of the composition of the Group's Z-ECM available financial resources as of July 1, 2019.

Analysis of the Group's Z-ECM available financial resources

in USD billions, as of July 1, 2019

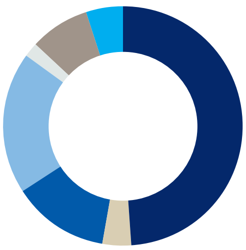


[1] Shareholders' intangible assets including deferred tax assets less deferred front-end fees and deferred tax liabilities
[2] All debt issues (senior and subordinated) excluding those classified as operational debt whereby, since the second quarter of 2019, excluding net new issued senior debt.

The chart below shows the Z-ECM capital required, split by risk type, as of July 1, 2019 and as of January 1, 2019. As of July 1, 2019, the largest proportion of Z-ECM capital required pertained to market risk which comprised 49 percent of the total. Z-ECM capital required for premium and reserve risk was the second-largest, comprising 19 percent. The increase in Z-ECM required capital between January 1, 2019 and July 1, 2019 is principally due to an increase in market risk and life insurance risk, mainly as a result of a falling interest rate environment.[1] Remaining risk types saw smaller movements between January 1, 2019 and July 1, 2019. However, in relative terms, they contribute less to the Group required capital due to larger market and life insurance risks. The increase in Z-ECM required capital is mainly attributable to the Life business, which as a result replaced Property and Casualty as the largest business segment as of July 1, 2019.

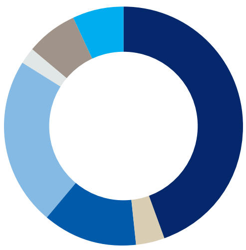
Z-ECM capital required, split by risk type

July 1, 2019
Total Z-ECM capital required: USD 34.4 billion



Market risk	**49%**
Operational risk	**4%**
Business risk	**13%**
Premium & reserve risk	**19%**
Reinsurance credit risk	**2%**
Life insurance risk	**8%**
Natural catastrophe risk	**5%**

January 1, 2019
Total Z-ECM capital required: USD 31.0 billion



Market risk	**45%**
Operational risk	**4%**
Business risk	**13%**
Premium & reserve risk	**23%**
Reinsurance credit risk	**2%**
Life insurance risk	**7%**
Natural catastrophe risk	**7%**

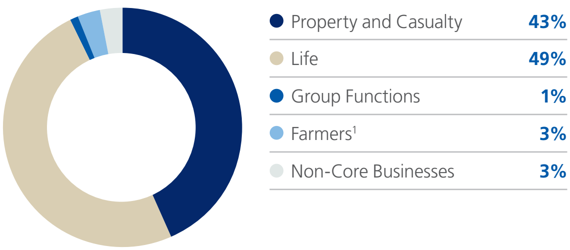
[1] The acquisition of OnePath, see note 5 in the consolidated financial statements, has been recognized as a preliminary estimate in Z-ECM required capital in July 1, 2019, contributing to the increase in life insurance risks and market risk

Risk review (continued)

The total allocated capital as of July 1, 2019 equaled USD 34.6 billion. As of July 1, 2019 the largest proportions of Z-ECM capital required were allocated to Life with 49 percent and Property and Casualty with 43 percent of the total. The following chart shows the Z-ECM capital required allocated to the businesses as of July 1, 2019 and January 1, 2019.

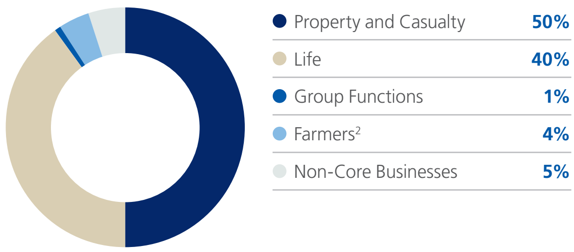
Total capital allocated, by business

July 1, 2019
Total capital allocated: USD 34.6 billion[1]



[1] Includes direct allocation of USD 0.2 billion to Farmers.

January 1, 2019
Total capital allocated: USD 31.2 billion[2]



[2] Includes direct allocation of USD 0.2 billion to Farmers.

Sensitivity and scenario analysis

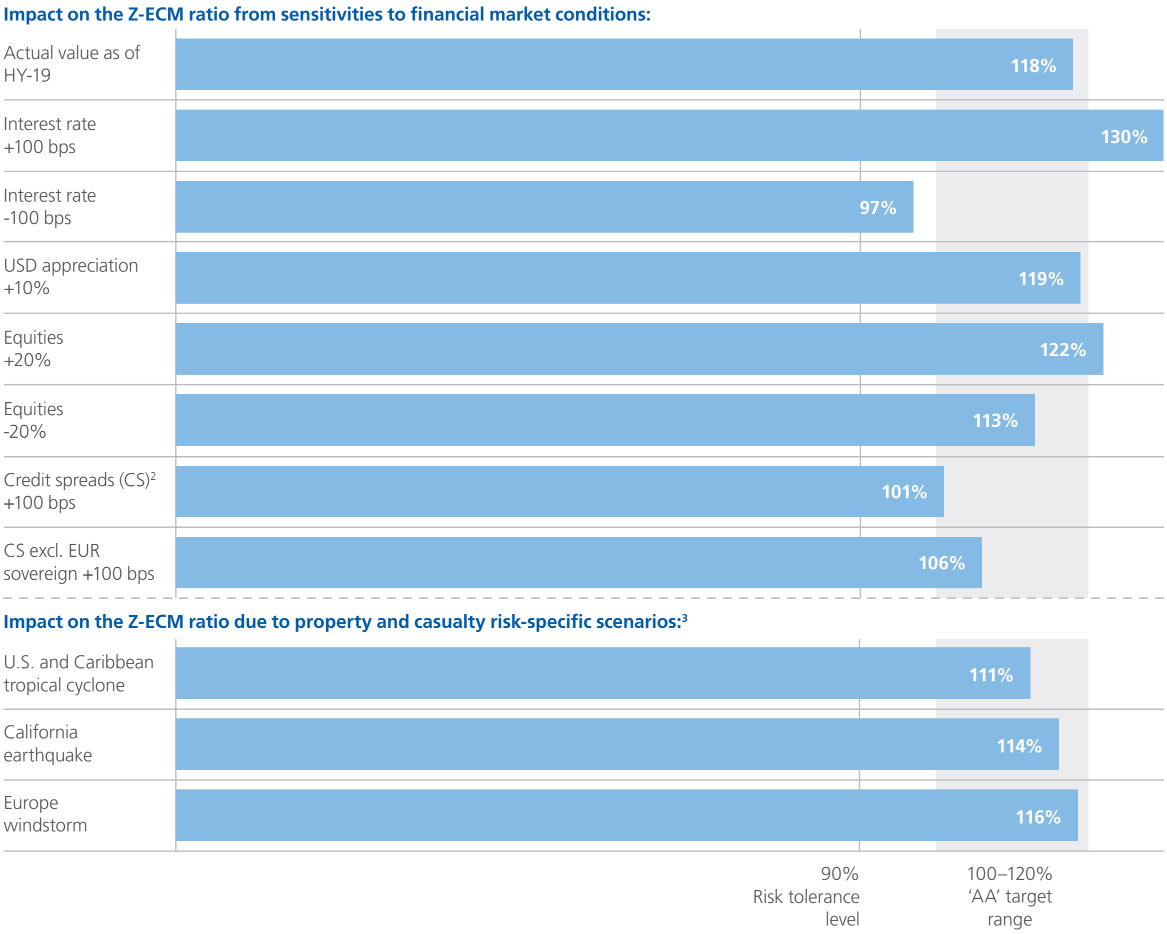
The Group evaluates sensitivities to, and stress scenarios on, the Z-ECM ratio, and presents results relative to Zurich's risk tolerance and appetite. The sensitivities and stress scenarios in the following chart capture two key risks to the Group: market risk and insurance risk. For insurance risk, the chart shows the three largest natural catastrophe events to which the Group is exposed.

Market risk sensitivities show the estimated impact on the Group's Z-ECM ratio of a one percentage point (100 basis points or bps) increase or decrease in yield curves, a 10 percent appreciation in the U.S. dollar, a 20 percent rise or decline in all stock markets, and a one percentage point change in credit spreads, with and without euro-denominated sovereign bonds. The sensitivities are considered as separate but instantaneous scenarios. They are a best estimate and non-linear, i.e., a change in the scenario input could result in disproportionally higher (or lower) impact on the Z-ECM ratio depending on the prevailing market conditions at the time.

Scenarios are defined as events that have a small probability of occurring but that could, if realized, negatively affect the Group's Z-ECM AFR. The impact of insurance-specific scenarios on the required capital is not taken into account.

Risk review (continued)

Z-ECM sensitivities and scenarios[1]
as of July 1, 2019



1 Z-ECM is calibrated at a 99.95 percentile of value at risk (equivalent to a 'AA' rating).
2 Credit spreads (CS) include mortgages, including and excluding euro sovereign spreads. Sensitivity is net of profit sharing with policyholders.
3 The insurance risk-specific scenarios relate to natural catastrophe events that are estimated on a modeled 250-year net aggregate loss (equivalent to a 99.6 percent probability of non-exceedance).

Audited

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, is an important element of Zurich's competitive position, particularly for the commercial customer segment. The Group's credit ratings derived from the financial strength ratings also affect the cost of capital.

On October 29, 2019, S&P Global Ratings revised to positive from stable the outlook of Zurich Insurance Company Ltd and its core subsidiaries and affirmed the 'AA–' long-term insurer financial strength and issuer credit ratings. This rating action is based on S&P Global Ratings increased confidence "in the strength and resilience of Zurich's profitability and business risk profile, relative to peers, and the sustainability of the Group's very strong capital adequacy."

As of December 31, 2019, the IFSR of Zurich Insurance Company Ltd, the main operating entity of the Group, was 'AA–/Positive' by S&P Global Ratings, 'Aa3/Stable' by Moody's, and 'A+ (Superior)/Stable' by A.M. Best.

Audited

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 volatility and meet local capital requirements.

Regulatory requirements in Switzerland

Under the Swiss Solvency Test (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 has to be calculated as per January 1 and must be submitted to the Swiss Financial Market Supervisory Authority (FINMA). Zurich filed with FINMA an SST ratio of 221 percent (unaudited) as of January 1, 2019.

In 2019, Zurich continued to enhance its internal model, completed the approval process with FINMA, and received approval for the outstanding modules of its internal model. Accordingly, the Group's SST Internal Model is now fully approved.

Regulatory requirements in other countries

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.

Regulatory requirements in the UK

The United Kingdom left the EU and the EEA on January 31, 2020. Under the EU Withdrawal Agreement Act, the regulatory requirements are expected to remain consistent with Solvency II until the end of the transition period, December 31, 2020. After that date we currently expect the UK regulatory regime to maintain a high level of ongoing alignment with the Solvency II regulatory requirements.

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 regulatory accounts, measures the minimum amount of the 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 taken approaches similar to Solvency II.

Analysis by risk type

Insurance risk

Section highlights

Total Z-ECM capital required: USD 34.4 billion
%, as of July 1, 2019

Insurance risk	45%
Market risk, including investment credit risk	49%
Other credit risk	2%
Operational risk	4%

Key risk and capital indicators
Z-ECM, in USD billions

	July 1, 2019	January 1, 2019
Business risk	4.4	3.9
Life liability risk	2.7	2.1
Premium & reserve risk	6.6	7.1
Natural catastrophe risk	1.9	2.1

Audited

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance cash flows. 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 and casualty insurance risk

Property and casualty 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 property and casualty predominantly relates to unexpected increases in the expenses relating to claims handling, underwriting, and administration.

Management of Property & Casualty business insurance risk

The Group's underwriting strategy takes advantage of the diversification of Property & Casualty (P&C) risks across lines of business and geographic regions. Zurich's underwriting governance is applicable throughout the Group. 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 philosophies and policies.

Property & Casualty 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 is monitored with insights feeding into actuarial reserving models and Zurich's underwriting processes and pricing.

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 on local and Group level.

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

Actions continue to rebalance the portfolio, reducing exposure to long tail lines. Governance is in place to ensure appropriate top-line targets and profitability. Reinsurance is deployed to help manage insurance risk. Group Risk Management also provides independent assurance through risk reviews.

Risk review (continued)

Audited

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. The most important peril regions and natural catastrophes (Nat Cat) continue to be U.S. and Caribbean windstorm, California earthquake and Europe windstorm.

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. The same view Zurich has on natural catastrophe risk also underpins profitability assessment and strategic capacity allocation and guides the type and quantity of reinsurance Zurich buys.

To ensure global consistency, Nat Cat exposures are modeled in a Group function. Potential losses from property policies with material exposure in hazard-prone geographical areas and from worker injury policies with material exposure in U.S. seismic zones are probabilistically modeled. Losses for other lines of business are estimated based on adjustments to these modeled results. Risk modeling mainly addresses climate-induced perils such as windstorm, flood, tornado, and hail, and geologically-induced perils such as earthquake.

Zurich constantly reviews and expands the scope and sophistication of its modeling and strives to improve data quality. Catastrophe research and development is strengthened to increase the focus on the risks from a changing climate. It supplements internal know-how with external knowledge (e.g., the Advisory Council for Catastrophes). Zurich is a shareholder of catastrophe exposure and loss data aggregation and estimation firm PERILS AG, Switzerland and is a member of the open-source initiative Oasis Loss Modeling 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 and selected cities in Europe. 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 to manage its underwriting and accumulations for cyber and casualty catastrophe. The Group actively monitors and manages its cyber exposure and continue to refine products to ensure their appropriateness. Improving modeling capabilities and data capture for cyber and casualty catastrophe risks are key focus areas.

Concentration of Property & Casualty business insurance risk

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

Tables 1.a and 1.b show the Group's concentration of risk within the P&C business by region and line of business based on direct written premiums before reinsurance. P&C premiums ceded to reinsurers (including retrocessions) amounted to USD 7.8 billion and USD 7.0 billion for the years ended December 31, 2019 and 2018, respectively. Reinsurance programs are managed on a global basis, and therefore, the net premium after reinsurance is monitored on an aggregated basis.

Risk review (continued)

Audited

Property & Casualty business – Direct written premiums and policy fees by line of business – current period

Table 1.a

in USD millions, for the year ended December 31, 2019	Motor	Property	Liability	Special lines	Worker injury	Total
Europe, Middle East & Africa	4,050	4,328	2,005	2,009	329	12,722
North America	1,499	5,126	2,719	2,361	2,684	14,389
Other regions	1,673	1,573	386	1,865	144	5,641
Total	**7,222**	**11,027**	**5,110**	**6,236**	**3,158**	**32,752**

Property & Casualty business – Direct written premiums and policy fees by line of business – prior period

Table 1.b

in USD millions, for the year ended December 31, 2018	Motor	Property	Liability	Special lines	Worker injury	Total
Europe, Middle East & Africa	4,546	4,118	1,962	1,986	343	12,955
North America	1,422	4,622	2,638	2,494	2,735	13,912
Other regions	1,595	1,402	356	1,769	150	5,272
Total	**7,563**	**10,142**	**4,957**	**6,249**	**3,228**	**32,139**

Analysis of sensitivities for Property & Casualty business risks

Tables 2.a and 2.b show the sensitivity of net income before tax and the sensitivity of net assets, using the 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 a 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 2.a and 2.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.

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

Table 2.a

in USD millions, for the year ended December 31, 2019	Europe, Middle East & Africa	North America	Asia Pacific	Latin America	Reinsurance	Total
+1% in net loss ratio						
Net income before tax	(115)	(96)	(24)	(22)	–	(256)
Net assets	(88)	(73)	(19)	(16)	–	(196)

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

Table 2.b

in USD millions, for the year ended December 31, 2018	Europe, Middle East & Africa	North America	Asia Pacific	Latin America	Reinsurance	Total
+1% in net loss ratio						
Net income before tax	(121)	(100)	(23)	(21)	1	(264)
Net assets	(91)	(75)	(17)	(16)	–	(199)

Risk review (continued)

Audited

Life insurance risk

The risks associated with life insurance include:

Life liability risk

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

Life business risk

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

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

A more diversified portfolio of risks is less likely than an undiversified portfolio to be affected across the board by a change in any subset of the risks. Diversification across regions and businesses (between unit-linked and other business including protection and life annuity products, as shown in Table 3 below) contributes to reducing the impacts of the risks associated with the Life business listed above.

Management of Life business insurance risk

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

Unit-linked products are designed to reduce much of the market and credit risk associated with the Group's traditional business. 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. To the extent that there are guarantees built into the product design, unit-linked products carry mortality/morbidity risk and market risk. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts, these risks are mitigated by mortality and morbidity charges.

Other life insurance liabilities include traditional life insurance products, such as protection and life annuity products. Protection products carry mortality, longevity and morbidity risk, as well as market and credit risk. Changes in medical treatments and lifestyle changes are among the most significant factors that could result in earlier or more claims than expected. Disability, defined in terms of the ability to perform an occupation, could be affected by adverse economic conditions. To reduce pricing cross-subsidies, where permitted, premiums are adjusted for factors such as age, gender and smoker status. Policy terms and conditions and disclosure requirements in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that could result in severe financial loss. In the life annuity business, medical advances and improved social conditions that lead to increased longevity are the most significant insurance risk. Annuitant (beneficiary) mortality assumptions include allowance for future mortality improvements.

Risk review (continued)

Audited

The Group is also exposed to risks posed by policyholder behavior and fluctuating expenses. Policyholder behavior risk is mitigated by designing products that, as closely as possible, match revenue and expenses associated with the contract. Expense risk is reduced by carefully controlling expenses, and through regular expense analysis and allocation exercises to ensure responsible and sustainable business practices.

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 have switched into less risky investment divisions. See heading 'other contracts' in note 7 of the consolidated financial statements for additional information.

Lower interest rates have led to an increase in both Life business risks and Life liability risks (especially Longevity risk).

Furthermore, interest rate guarantees (with concentration in traditional, guaranteed business in Germany and Switzerland and variable annuity business in the U.S. containing minimum guaranteed death benefits) expose Zurich to financial losses that may arise as a result of adverse movements in interest rates. 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 buy-back programs since 2015.

Concentration of Life business 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 policy type, or of underlying risks covered.

Observing best-estimate assumptions on cash flows related to benefits of insurance contracts gives some indication of the size of the exposure to risks and the extent of risk concentration. Table 3 shows the Group's concentration of risk within Life by region and line of business based on reserves for life insurance on a net of reinsurance basis. The life insurance reserves also include policyholder surplus reserves with a loss absorbing capacity[1], predominantly in Germany for an amount of USD 9.4 billion in 2019 (2018: USD 7.4 billion) and in the UK for an amount of USD 0.5 billion in 2019 (2018: USD 0.5 billion). The Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time. See note 8 of the consolidated financial statements for additional information on reserves for insurance contracts.

[1] Policyholder surplus reserves with loss-absorbing capacity refer to funds allocated to the policyholders that can be used by the shareholders, which, under certain conditions, may require regulatory approval.

Reserves, net of reinsurance, by region

Table 3

in USD millions, as of December 31	Unit-linked insurance contracts		Other life insurance liabilities		Total reserves	
	2019	2018	**2019**	2018	**2019**	2018
Life						
Europe, Middle East & Africa	46,919	41,229	81,372	77,756	128,291	118,985
of which:						
United Kingdom	16,371	15,323	3,786	3,271	20,157	18,594
Germany	19,001	15,976	38,511	36,980	57,512	52,956
Switzerland	776	634	17,456	17,294	18,232	17,928
Italy	2,709	1,568	5,348	4,521	8,057	6,089
Ireland	1,885	2,347	2,235	2,021	4,121	4,368
Spain	655	699	11,773	11,415	12,428	12,114
Zurich International	5,129	4,339	220	309	5,349	4,648
Rest of Europe, Middle East & Africa	392	342	2,043	1,946	2,435	2,288
North America	10,253	9,241	1,035	893	11,288	10,135
Asia Pacific	598	539	4,311	2,791	4,908	3,330
Latin America	15,093	13,159	5,826	5,385	20,919	18,544
Group Reinsurance	–	–	5	2	5	2
Eliminations	–	–	(12)	(13)	(12)	(13)
Subtotal	72,863	64,168	92,537	86,814	165,399	150,982
Other businesses	**4,821**	**4,598**	**9,940**	**9,474**	**14,761**	**14,072**
Total	**77,684**	**68,766**	**102,477**	**96,288**	**180,160**	**165,054**

Risk review (continued)

Audited

Analysis of sensitivities for Life business insurance risk

The Group uses market-consistent embedded value reporting principles, which allow Zurich to increase its understanding of, and report on, the risk profile of its life products, and how these risks would change under different market conditions. Embedded value is a measure that markets use to value life businesses. For more information, see the 'embedded value report 2019' (unaudited but subject to assurance review) at www.zurich.com/investor-relations/results-and-reports.

Reinsurance for Property & Casualty and Life businesses

The Group's objective in purchasing reinsurance is to provide market-leading capacity for customers while protecting the balance sheet, supporting earnings volatility management, and achieving capital efficiency. The Group follows a centralized reinsurance purchasing strategy for both Property & Casualty (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, the internal reinsurance vehicle applies to all externally reinsured lines of business. In addition, to actively manage and reduce potential claims-recovery risks on facultative cessions and to support the strategy on operational excellence, the Group started to tailor specific facultative property and casualty reinsurance facilities.

The Group structures and aligns its external reinsurance protection to its capital position to achieve an optimum risk-return ratio. This includes participation in the underlying risks through self-retentions. The Group manages its central reinsurance purchasing according to these principles. The cession rate for P&C was 23.0 percent as of December 31, 2019 and 21.0 percent as of December 31, 2018. The cession rate for Life was 8.0 percent as of December 31, 2019 and 7.0 percent as of December 31, 2018.

The Group uses traditional and collateralized reinsurance markets to protect itself against extreme single events, multiple event occurrences across regions, or increased frequency of events. Specifically, to protect the Group against man-made and natural catastrophe scenarios, per event Zurich arranges an annual aggregate global cover as illustrated on the graph on the next page.

The Group participates in the underlying risks through its retention and through its co-participation in excess layers. The natural catastrophe reinsurance covers are on a loss-occurrence basis except the global aggregate catastrophe cover, which operates on an annual aggregate basis. The in-force natural catastrophe covers renew annually, with the exception of the global catastrophe cover, which renewed on January 1, 2019, for a three-year term.

In addition to these covers, the Group purchases several regional catastrophe covers, entertains a bilateral risk swap, and various line of business-specific risk treaties. These covers are reviewed continuously and are subject to change going forward.

Changes in 2019 include the expansion of the Group's global catastrophe treaty limit to USD 1 billion (up from USD 750 million) and the transition from several regional surety treaties to one single global surety treaty to enhance coverage and generate efficiency.

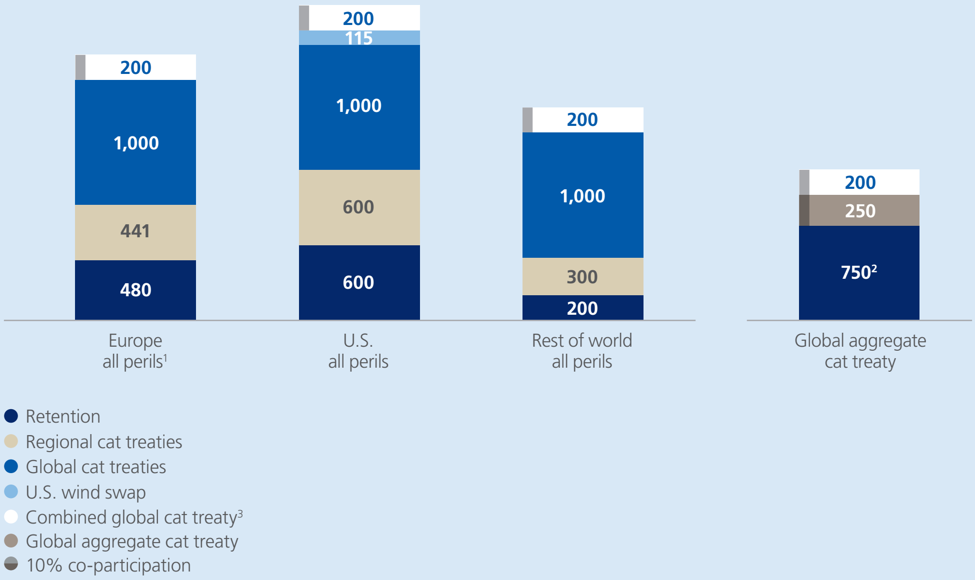
To complement existing treaties, the Group purchases catastrophe reinsurance specific to life insurance for its exposure to natural and man-made catastrophes.

Risk review (continued)

Audited

2019 Group catastrophe reinsurance protection

in USD millions, as of December 31, 2019



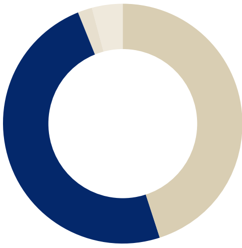
1 Europe cat treaty calculated with EUR/USD exchange rate as of July 31, 2019.
2 Franchise deductible of USD 25 million, i.e. losses greater than USD 25 million count toward the erosion of the retention (annual aggregate deductible).
3 This USD 200 million cover can be used only once, either for aggregated losses or for an individual occurrence or event. The attachment point for a U.S. Hurricane event is USD 2,315 million; for any other event USD 2,200 million.

Risk review (continued)

Market risk, including investment credit risk

Section highlights

Total Z-ECM capital required: USD 34.4 billion
%, as of July 1, 2019



Insurance risk	**45%**
Market risk, including investment credit risk	**49%**
Other credit risk	**2%**
Operational risk	**4%**

Key risk and capital indicators

Z-ECM, in USD billions	**July 1, 2019**	January 1, 2019
Market risk, including investment credit risk	16.9	13.9

Audited

Market risk is the risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets. Risk factors include:

- Equity market prices
- Real estate market prices
- Interest-rate risk
- Credit and swap spread changes
- Defaults of issuers
- 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 taking into account the Group's risk appetite and 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 has set limits on concentration in investments in single issuers and certain asset classes, as well as by how much asset interest rate sensitivities can 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 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 applies processes to manage market risks and to analyze market risk hotspots. Actions to mitigate risk are taken if necessary to manage fluctuations affecting asset/liability mismatch and risk-based capital.

Risk review (continued)

Audited

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 activity without 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 the Group's investment result, including impairments and the treatment of selected financial instruments, see note 6 of the consolidated financial statements. For more information on derivative financial instruments and hedge accounting, see note 7 of the 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. However, the Group is 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.

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 through 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 6 of the 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 when valuing interest rate sensitive investments and derivatives relative to fair value of insurance liabilities. It includes also other interest-rate sensitive balance sheet items such as liabilities investment contracts, debt issued by the Group, commercial and residential mortgages, employee benefit plans, and loans and receivables.

The Group manages credit-spread risk, which describes the sensitivity of the values of assets and liabilities due to changes in the level or the volatility of credit spreads, over the risk-free interest rate yield curves. 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 in so far as they affect the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

Risk review (continued)

Audited

Analysis of market risk sensitivities for interest rate, equity and credit-spread risks

Group investments sensitivities

The economic market risk sensitivities of the fair value for Group investments before tax as of 2019 was a negative USD 10.9 billion (negative USD 9.9 billion as of 2018) for a 100-basis-point increase in interest rate. For a 100-basis-point decrease in interest rate, the sensitivity was USD 12.7 billion in 2019 (USD 11.1 billion as of 2018). For a 10 percent decline in equity market, Group investments dropped in value by USD 1.3 billion in 2019 compared with USD 1.1 billion as of 2018. A 100-basis-point increase in credit spreads resulted in a decrease of USD 5.7 billion in 2019 compared with USD 5.2 billion as of 2018.

The following describes limitations of the Group investment sensitivities. Group sensitivities show the effects of a change of certain risk factors, while other assumptions remain unchanged. The interest rate scenarios assume a parallel shift of all interest rates in the respective currencies. They do not take into account the possibility that interest rate changes might differ by rating class; these are disclosed separately as credit spread risk sensitivities. The sensitivity analysis is based on economic assets, and not on shareholders' equity or net income as set out in the consolidated financial statements. The sensitivities only cover Group investments, not insurance or other liabilities. The equity market scenarios assume a concurrent movement of all stock markets. The sensitivity analysis does not take into account actions that might be taken to mitigate losses. Actions may involve changing the asset allocation, for example through selling and buying assets. The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent the Group's view of expected future market changes.

In addition to the sensitivities, management uses stress scenarios to assess the impact of more severe market movements on the Group's financial condition. For more information on stress scenarios, see Group economic net asset sensitivities (unaudited), below.

Group economic net asset sensitivities

Basis of presentation – Property & Casualty, Life, and rest of the business

The basis of the presentation for tables 4, 5, and 6 is an economic valuation represented by the fair value for Group investments. IFRS insurance liabilities are discounted at risk-free market rates to reflect the present value of insurance liability cash flows and other liabilities, for example, own debt. The Group describes risk-free market rates as swap rates. In the sensitivities, own debt does not include subordinated debt, which Zurich considers available to protect policyholders in a worst-case scenario.

The basis of presentation for the Life business to financial market movements uses replicating portfolios. The replicating portfolios are portfolios of assets that replicate the cash flows or present values of the life insurance liabilities under stochastic scenarios from the embedded value models. They are calibrated to match dependencies of life insurance liabilities on developments in the financial markets, in respect of interest rates, equity and property. The options and guarantees of the underlying life insurance liabilities are captured through the inclusion of options in the replicating portfolios.

The net impact – the difference between the impact on Group investments and liabilities – represents the economic risk related to changes in market risk factors that the Group faces. Tables 4, 5 and 6 show the estimated economic market risk sensitivities of the net impact. Positive values represent an increase in the balance, and values in parentheses represent a decrease. Mismatches in changes in value of assets relative to liabilities represent an economic risk to the Group.

In determining the sensitivities, investments and liabilities are fully re-valued in the given scenarios. Each instrument is re-valued separately, taking the relevant product features into account. Non-linear effects, where they exist, are reflected in the model. The sensitivities are shown before tax. They do not include the impact of transactions within the Group.

Sensitivities for the rest of the business include Farmers, Group Finance and Operations, and Non-Core Businesses.

Risk review (continued)

Analysis of economic sensitivities for interest-rate risk

Table 4 shows the estimated net impact before tax of a 100 basis point increase or decrease in yield curves after consideration of hedges in place, as of December 31, 2019 and 2018.

Economic interest rate sensitivities*

Table 4

In USD millions, as of December 31	**2019**	2018
100 basis point increase in the interest rate yield curves		
Property & Casualty	(61)	(180)
Life	1,045	655
Rest of the business	(155)	(192)
100 basis point decrease in the interest rate yield curves		
Property & Casualty	(165)	(8)
Life	(3,107)	(2,103)
Rest of the business	230	151

Analysis of economic sensitivities for equity risk

Table 5 shows the estimated net impact before tax from a 10 percent decline in stock markets, after consideration of hedges in place, as of December 31, 2019 and 2018.

Economic equity price sensitivities*

Table 5

in USD millions, as of December 31	**2019**	2018
10% decline in stock markets		
Property & Casualty	(598)	(593)
Life	(518)	(395)
Rest of the business	(80)	(83)

Analysis of economic sensitivities for credit spread risk

Table 6 shows the estimated net impact before tax from a 100 basis points increase in corporate credit spreads, as of December 31, 2019 and 2018. The sensitivities apply to all fixed income instruments, excluding government, supranational and similar debt securities. For Life business the loss-absorbing capacity of liabilities for losses on credit spreads are not included, as they are not modeled in the replicating portfolios.

Economic credit spread sensitivities*

Table 6

in USD millions, as of December 31	**2019**	2018
100 basis point increase in credit spreads		
Property & Casualty	(1,629)	(1,614)
Life	(3,640)	(3,048)
Rest of the business	(522)	(338)

* Limitations of the economic sensitivities: same limitations apply as for Group investments sensitivities, except that the above sensitivities are based on economic net assets including liability representation: see Note 1 of the consolidated financial statements.

Risk review (continued)

Audited

Risks from defaults of counterparties

Debt securities

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

Debt securities by rating of issuer

Table 7

as of December 31	2019		2018	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	36,066	24.5%	35,283	25.2%
AA	37,062	25.1%	37,362	26.7%
A	22,812	15.5%	20,998	15.0%
BBB	44,918	30.5%	39,529	28.3%
BB and below	5,342	3.6%	5,341	3.8%
Unrated	1,308	0.9%	1,357	1.0%
Total	**147,507**	**100.0%**	**139,870**	**100.0%**

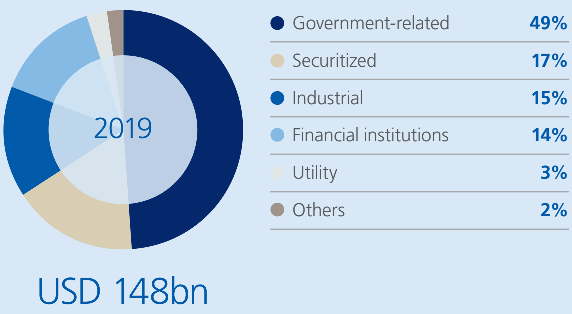
Table 7 shows the credit-risk exposure of debt securities, by credit rating. As of December 31, 2019, 95.5 percent of the Group's debt securities was investment grade and 24.5 percent was rated 'AAA.' As of December 31, 2018, 95.2 percent of debt securities was investment grade and 25.2 percent was rated 'AAA.'

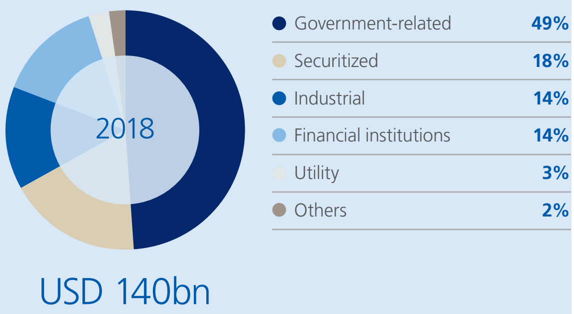
Exposure-level limits are in place and are based on default and recovery rates that tighten progressively for lower ratings. Where the Group identifies investments expected to trigger limit breaches, appropriate actions are implemented.

The risk-weighted average credit rating of the Group's debt securities portfolio is 'A–' in 2019, compared with 'A–' in 2018

Debt securities – credit risk concentration by industry

%, as of December 31





As of December 31, 2019, the largest concentration in the Group's debt securities portfolio was government-related at 49 percent of all debt securities. In all other categories, a total of USD 30.2 billion (41 percent) was secured. As of December 31, 2018, 49 percent of the Group's debt portfolio was invested in government-related securities. In all other categories, a total of USD 31.4 billion (44 percent) was secured.

The second-largest concentration in the Group's debt securities portfolio is securitized, including structured finance securities and covered bonds.

In addition to debt exposure, the Group had loan exposure of USD 4.1 billion and USD 4.4 billion to the German central government or the German federal states as of December 31, 2019 and 2018, respectively. For more information, see the 'mortgage loans and other loans' section.

Risk review (continued)

Audited

Cash and cash equivalents

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

Cash and cash equivalents amounted to USD 7.9 billion as of December 31, 2019 and USD 8.6 billion as of December 31, 2018. The risk-weighted average rating of the overall cash portfolio was 'A–' as of December 31, 2019 and 'A–' as of December 31, 2018. The ten largest bank exposures represent 74 percent of the total, whose risk-weighted average rating was 'A' as of December 31, 2019 and 'A+' as of December 31, 2018.

Mortgage loans and other loans

Mortgage loans amounted to USD 5.9 billion as of December 31, 2019 and USD 6.6 billion as of December 31, 2018. The Group's largest mortgage loan portfolios are held in Switzerland (USD 3.2 billion) and in Germany (USD 1.9 billion); these are predominantly secured against residential property but also include mortgages secured by commercial property. The Group invests in mortgages in the U.S. (USD 0.6 billion); these are mainly participations in large mortgage loans secured against commercial property.

The credit risk arising from other loans is assessed and monitored together with the debt securities portfolio. Out of the USD 8.3 billion reported loans as of December 31, 2019, 54 percent are government-related, of which 92 percent are to the German central government or the German federal states. As of December 31, 2019, USD 4.5 billion were rated as 'AAA' (55 percent) compared with 4.7 billion as of December 31, 2018; USD 1.6 billion as 'AA' (20 percent) compared with 0.7 billion as of December 31, 2018; USD 0.3 billion as 'A' (3 percent) compared with 0.3 billion as of December 31, 2018; USD 1.3 billion as 'BBB' and below (16 percent) compared with 1.2 billion as of December 31, 2018; and USD 0.5 billion as unrated (6 percent) compared with 0.7 billion as of December 31, 2018.

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 typically executed with counterparties rated 'A–' or better by an external rating agency, unless collateral is provided as per Zurich's risk policy manuals. 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 and British pound, as well as the U.S. dollar.

On local 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 local balance sheets within prescribed limits. Residual local mismatches are reported centrally to make use of the netting effect across the Group. Zurich hedges these residual local 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 consolidated financial statements. The monetary currency risk exposure on local 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 8 shows the total IFRS equity's sensitivity to changes in exchange rates for the main functional currencies to which the Group is exposed. Positive values represent an increase in the value of the Group's total equity. See notes 1, 3 and 7 of the consolidated financial statements for additional information on foreign currency translation and transactions.

Risk review (continued)

Audited

Sensitivity of the Group's total IFRS equity to exchange rate fluctuations

Table 8

in USD millions, as of December 31	**2019**	2018
10% increase in		
EUR/USD rate	382	336
GBP/USD rate	270	215
CHF/USD rate[1]	529	482
BRL/USD rate	178	163
AUD/USD rate[2]	308	130
Other currencies/USD rates[1]	510	439

[1] The 2018 figures have been updated.
[2] AUD/USD rate sensitivity has been included in 2019 due to the impact of the OnePath acquisition on the Group.

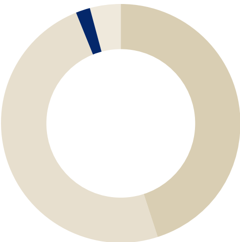
The sensitivities show the effects of a change of the exchange rates only, while other assumptions remain unchanged. The sensitivity analysis does not take into account management actions that might be taken to mitigate such changes. The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent Zurich's view of expected future market changes. While table 8 shows the effect of a 10 percent increase in currency exchange rates, a decrease of 10 percent would have the converse effect.

Risk review (continued)

Other credit risk

Section highlights

Total Z-ECM capital required: USD 34.4 billion
%, as of July 1, 2019



Insurance risk	45%
Market risk, including investment credit risk	49%
Other credit risk	2%
Operational risk	4%

Key risk and capital indicators
Z-ECM, in USD billions

	July 1, 2019	January 1, 2019
Reinsurance credit risk	0.7	0.8

Audited

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 market-risk-related asset categories. The Group's exposure to other credit risk is derived from the following main categories of assets:

- Reinsurance assets
- Receivables

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 external rating agencies' ratings differ, the Group generally applies the lowest, unless other indicators justify an alternative, which may be an internal credit rating.

The Group regularly tests and analyzes credit risk scenarios and prepares possible contingency measures that may be implemented if the credit risk environment worsens.

The Group actively uses collateral to mitigate credit risks. Nevertheless, 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, deductibles, 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. There was no unapproved material exposure in excess of the Group's limits for counterparty aggregation as of December 31, 2019 nor December 31, 2018.

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 Group also has off-balance sheet exposures related to undrawn loan commitments of USD 1.5 million and USD 2.0 million as of December 31, 2019 and 2018, respectively. See note 22 of the consolidated financial statements for undrawn loan commitments.

Risk review (continued)

Audited

Credit risk related to reinsurance assets

The Group's Corporate Reinsurance Security Committee manages the credit quality of cessions and reinsurance assets. The Group typically cedes new business to authorized reinsurers with a minimum rating of 'A–.' As of December 31, 2019 and 2018 respectively, 57 percent and 52 percent of the exposure ceded to reinsurers that are rated below 'A–' or are not rated, was collateralized. Of the exposure ceded to reinsurers that are rated below 'A–' or are not rated, 65 percent was ceded to captive insurance companies in 2019, and 50 percent in 2018.

Reinsurance assets included reinsurance recoverables (the reinsurers' share of reserves for insurance contracts) of USD 22.8 billion and USD 21.3 billion, and receivables arising from ceded reinsurance of USD 1.5 billion and USD 1.1 billion as of December 31, 2019 and 2018, respectively, gross of allowance for impairment. Reserves for potentially uncollectible reinsurance assets amounted to USD 119 million as of December 31, 2019 and USD 113 million as of December 31, 2018. 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 assets in table 9 are shown before taking into account collateral such as cash or bank letters of credit and deposits received under ceded reinsurance contracts. Unsecured reinsurance assets shown are after deducting collateral. Except for an immaterial amount, letters of credit are from banks rated 'A–' or better. Collateral increased by USD 0.7 billion to USD 10.3 billion per December 31, 2019, compared with 2018.

Table 9 shows reinsurance assets and unsecured reinsurance assets split by rating.

Table 9

Reinsurance assets and unsecured reinsurance assets by rating of reinsurer and captive

as of December 31	2019				2018			
	Reinsurance assets		Unsecured reinsurance assets		Reinsurance assets		Unsecured reinsurance assets	
	USD millions	% of total	USD millions	% of total	USD millions	% of total	USD millions	% of total
Rating								
AAA	6	0.0%	6	0.0%	9	0.0%	9	0.1%
AA	7,084	29.3%	6,309	45.7%	5,633	25.3%	5,173	40.8%
A	10,957	45.4%	4,871	35.3%	10,882	48.9%	4,740	37.4%
BBB	2,356	9.8%	1,095	7.9%	1,572	7.1%	983	7.8%
BB	335	1.4%	195	1.4%	447	2.0%	232	1.8%
B and below	256	1.1%	29	0.2%	645	2.9%	37	0.3%
Unrated	3,163	13.1%	1,308	9.5%	3,085	13.9%	1,510	11.9%
Total[1]	**24,157**	**100.0%**	**13,812**	**100.0%**	**22,273**	**100.0%**	**12,685**	**100.0%**

[1] The value of the collateral received amounts to USD 10.3 billion and USD 9.6 billion as of December 31, 2019 and 2018, respectively.

Credit risk related to receivables

The Group's largest credit-risk exposure to receivables is related to third-party agents, brokers and other intermediaries. It arises where premiums are collected from customers to be paid to the Group, or to pay claims to customers on behalf of the Group. The Group has policies and standards to manage and monitor credit risk related to intermediaries. The Group requires intermediaries to maintain segregated cash accounts for policyholder money. The Group also requires that intermediaries satisfy minimum requirements of capitalization, reputation and experience, and provide short-dated business credit terms.

Receivables that are past due but not impaired should be regarded as unsecured, but some of these receivable positions may be offset by collateral. The Group reports internally on Group past-due receivable balances and strives to keep the balance of past-due positions as low as possible, while taking into account customer satisfaction.

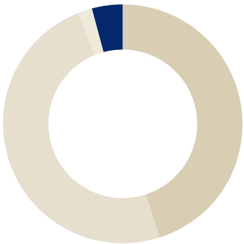
Receivables from ceded reinsurance are part of reinsurance assets and are managed accordingly. See notes 15 and 24 of the consolidated financial statements for additional information on receivables.

Risk review (continued)

Operational risk

Section highlights

Total Z-ECM capital required: USD 34.4 billion
%, as of July 1, 2019



Insurance risk	45%
Market risk, including investment credit risk	49%
Other credit risk	2%
Operational risk	4%

Key risk and capital indicators
Z-ECM, in USD billions

	July 1, 2019	January 1, 2019
Operational risk	1.3	1.2

Audited

Operational risk is the risk of financial loss or gain, adverse reputational, legal or regulatory impact, resulting from inadequate or failed processes, people, systems or from external events, including 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 Z-ECM capital required.
- Documents and reviews operational events exceeding a threshold determined per Zurich's risk policy manuals. 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 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 operational resilience (see sub-section digital and resilience risk, information security and operational 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 Z-ECM calculations, claims fraud is part of insurance risk and non-claims fraud is part of operational risk.

Risk management and internal controls

The Group considers internal control to be key for managing operational risk. The Board has overall responsibility for the Group's risk management and internal control frameworks. The objectives of the Group's internal control system are to provide reasonable assurance that Zurich's financial statements and disclosures are materially correct, support reliable operations, and to ensure legal and regulatory compliance. The internal control system is designed to mitigate rather than eliminate the risk that business objectives might not be met. Key controls are assessed for their design and operating effectiveness.

The Group promotes risk awareness and understanding of controls through communication and training. Risk management and internal control systems are designed at Group level and implemented Group-wide.

Management, as the first line of defense, is responsible for identifying, evaluating and managing risk, and designing, implementing and maintaining internal control. Key processes and controls in the organization are subject to review and challenge by management, Group Risk Management, Group Compliance and Group Audit. Control issues of Group-level significance and associated mitigation actions are reported regularly to the Audit Committee of the Board. The Risk and Investment Committee of the Board reviews the effectiveness of the Group's risk management system, including the Group's risk tolerance and enterprise-wide risk governance framework, in accordance with the charter for each committee.

The Group's Disclosure Committee, chaired by the Head of Group Financial Accounting and Reporting, assesses the content, accuracy and integrity of the disclosures and the effectiveness of the internal controls over financial reporting. The conclusions result in a recommendation to the Group Chief Financial Officer to release the financial disclosures to the Audit Committee of the Board, who may then challenge further. The Board reviews and approves the announcement of the results and the annual report before they are made public.

The internal and external auditors also regularly report conclusions, observations and recommendations that arise as a result of their independent reviews and testing of internal controls over financial reporting and operations.

Audited

Liquidity risk

Liquidity risk is the risk that 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 local businesses plan, manage and report their local 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 if the Group had to recapitalize local balance sheets. Similar guidelines apply at the Group level, and detailed liquidity forecasts are regularly conducted, based on local businesses' 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 Group's potential liquidity needs, 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 Group's credit rating. 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.

The Group regularly analyzes the liquidity of the investment assets and ensures that the liquidity of assets stays in line with liquidity requirements. During 2019, the Group was within its capacity to hold illiquid assets.

For more information on debt obligation maturities, see note 18 of the consolidated financial statements, and for information on commitments and guarantees, see note 22 of the 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 actual and forecast 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 Group's other financial liabilities, see note 16 of the consolidated financial statements. See note 6 of the 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 over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis. See note 22 of the consolidated financial statements.

Risk review (continued)

Audited

Strategic risk and risks to the Group's reputation

Strategic risk

Strategic risk corresponds to the risk that Zurich is unable to achieve its strategic targets.

Strategic risks can arise from:

- Inadequate risk-reward assessment of strategic plans
- Improper execution of strategic plans
- Unexpected changes to underlying assumptions

Zurich defines the 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 and strategic options.

The Group works to reduce unintended risks of 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 (ExCo) assessed potential risks from both external and internal factors, looking at 2020 and beyond. These include: macro-economic risks such as financial stress due to geopolitical uncertainties and monetary policy with impacts primarily on insurance and market risk; adoption to post-Brexit legal and regulatory regime; adequately transform propositions and approaches for new customer segments and other changes affecting competitiveness in markets where Zurich is active; and information security including cyber and business resilience risks. The ExCo has defined actions to respond as appropriate and reviews 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

Risks include acts or omissions by the Group or any of its employees that could damage the Group's reputation or lead to a loss of trust among its stakeholders. Every risk type has potential consequences for Zurich's reputation. Effectively managing each risk type supports preventing adverse reputation outcomes.

The Group aims to preserve its reputation by adhering to applicable laws and regulations, by following the core values and principles of the Group's code of conduct that promote integrity and good business practice, and by living up to its sustainability commitments. The Group centrally manages certain aspects of reputation risk, 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 TRP process.

Sustainability risk

Zurich's ambition is to be known as one of the most responsible and impactful businesses in the world. Trends like globalization, the mobility of talent and funds, shifting geopolitics, reskilling for a digital workforce, demographics, and climate change all pose immensely complex social issues. These issues demand solutions from an increasingly stretched set of governmental and multilateral institutions.

Sustainability risks are also becoming more complex and interconnected as a result of these trends. Insurers are increasingly expected to be agents of change and play a more impactful role in addressing these societal issues and interconnected risks.

Zurich works with its customers and investee companies to ensure responsible and sustainable business practices while promoting best practices in managing environmental, social, and governance (ESG) risks. The Group has policies in place that define the ESG topics for which Zurich has no underwriting or investment appetite. Zurich continuously works to develop relevant products and services that help solve today's most pressing societal and environmental issues.

Sustainability risk framework

To support the Group's businesses in applying its purpose and values as well as mitigating reputational risk impacts, Zurich has established a systematic and integrated approach to identifying, assessing and recommending action on potential risk and opportunity areas from a sustainability perspective across all the Group's activities, but in particular in Group Investment Management and Group underwriting.

This is a three step process:

- **Issue identification:** identify relevant issues, by monitoring channels such as media and social media, as well as information from non-government organizations (NGOs), Zurich's businesses, and identify issues to be taken up within the risk assessment process.
- **Risk assessment:** assess issues related to public commitments, the role of insurance underwriting, market exposure and materiality. The executive committee (ExCo) approves position statement on issues, recommends business actions, and issues for reputational management considerations.
- **Implementation:** implement mitigation actions and reputational action plans locally in the businesses. Mobilize expert support available across the Group and escalate as necessary, according to governance procedures.

Zurich's underwriting and investment activities apply those positions across portfolios based on stated thresholds and verified third-party data. Wherever possible, for customers that are on the margins of Zurich's thresholds, Zurich engages and works together with customers to ensure responsible and sustainable business practices. This engagement period may be short, but in some cases can be for a period of up to two years, depending on which part of the renewal cycle customers are in and the time required for them to demonstrate credible progress on ESG issues.

Clear roles and responsibilities, starting with the Zurich Insurance Group Ltd Board of Directors and including the Zurich management, aim to ensure effective oversight and action with respect to climate change and other sustainability risks.

Zurich's Sustainability Leaders Council ensures that its approach to sustainability is effectively integrated in the way business is conducted and enables Zurich to live up to its code of conduct, its purpose and values, and the United Nations (UN) Global Compact. The Council comprises senior executives from across the business and is chaired by the Group Head of Public Affairs and Sustainability.

Climate-change risk

Climate change is perhaps the most complex risk facing society today: it is intergenerational, international and interdependent. As a global insurer, Zurich faces risks from climate change and provides this disclosure per its commitment to adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Climate strategy

Zurich's climate strategy is guided by its commitment to the business ambition for 1.5°C pledge aimed at limiting average global temperature increases to 1.5°C. A comprehensive climate road-map to transform Zurich into a 1.5°C compatible company is under development, with the goal to protect the Group's balance sheet, capture climate-related service and product revenues by supporting our customers and society to build resilience to climate impacts and transition to a zero-carbon economy.

Climate-related physical risks

Changes are expected in the frequency, severity and geographical distribution of extreme weather events such as tropical cyclones and extreme rainfall and associated flooding or heat waves in the event that society fails to limit climate change to well below an increase of two degrees Celsius. Scientific consensus suggests society is likely to experience devastating impacts as a result of these changes. Current climate models, such as the International Panel on Climate Change (IPCC) model upon which Zurich bases its internal climate scenarios, indicate that physical climate-change risk will begin to rise more materially after the next two decades if left unmitigated.

Over the short term, natural climate variability will have a greater impact on natural catastrophe losses than long-term climate-change trends. Regional variations will be large, however, areas that are particularly exposed are likely to experience such changes earlier. To accommodate the evolving nature of climate risk, Zurich considers both near-term (three to five year) and long-term (five to 10 year) time horizons, with the long-term view used as a basis to develop mitigating actions. Overall the Group considers its near-term (less than five years) climate-change-related risks to be manageable and foreseeable, whereas long-term risks to be elevated and highly uncertain.

Risk review (continued)

Zurich is exposed to physical risk of climate change through the underwriting and real estate investment portfolios. While assessing and managing the impact of extreme weather events is part of Zurich's core business competency, changes in frequency and severity of events caused by climate change add to the challenges in accurately measuring expected impacts. As commercial catastrophe models are typically based on historical data and hence backward-looking, they might not sufficiently account for climate risks already materializing. Potential model gaps are addressed as part of Zurich's model validation process and the Zurich view approach provides further review for impacts that Zurich considers under-represented in the standard models. Generally, annual policy renewals provide a degree of insulation against increasing physical risks for short-tail business. However, the ability to isolate gradual changes to the risk (e.g., a change in frequency, severity or correlations), and therefore capture the impacts of a changing climate, become more pressing over a longer time-frame, especially for long-tail lines of business.

There is also a risk that physical events reduce the profitability of investments across asset classes (e.g., equities, real estate, sovereign or corporate bonds), though analysis suggests that very significant impairments would be required for Zurich's portfolio to be materially impacted.

Zurich considers the risk to its own operations from climate risk as less material, as they are generally not located in highly exposed areas and business continuity plans are in place to react to relevant extreme weather events.

Climate-related transition risk

Each major economy is likely to respond to transition risks in specific ways, and within different time periods. Shifts toward a low-carbon economy carried out in specific sectors are likely to affect not only those individual sectors, but other parts of the economy as well. There are at least three aspects to consider within this transition process; its affect on technologies, economies, and society. The insurable risks related to these transitions could develop in many different ways.

Achieving a transition to a low-carbon economy requires fundamental changes to all parts of the economy. While limiting climate change to 2°C or below will lower physical climate risk, the technological and policy changes required to achieve this create their own sets of risks. Independent of the precise pathway, the transition could be disruptive, as significant asset price moves are required to shift resources to low-carbon technology on a global scale. Changes in public perception and the regulatory landscape could reshape legal and reputational risks. Transition risks are considered to be more uncertain than physical risks. Zurich uses a climate scorecard to measure transition-risk-related indicators, with Zurich's assessment indicating that a physical risk path currently is significantly more likely than a transition path. However, transition risks and physical risks are not mutually exclusive and can potentially co-exist, depending on the timing, speed and effectiveness of the path followed.

Zurich could be exposed to transition risks if it fails to manage changing market conditions and customer needs as part of the transition to a low-carbon economy, resulting in asset impairment, opportunity cost and lost market share. In a transition scenario, industries unable to de-carbonize could experience declining profitability and lack of re-financing, which could lead to a lack of maintenance with increasing rates of outages and equipment break-downs that translate into higher insurance losses. Failure to manage transition risk could also lead to reputational impacts, both internal and external, resulting from a failure to deliver on publicly stated commitments. Although not considered material in the near-term, the increasing frequency of climate-related legal action suggests climate-related litigation could represent a significant potential risk in the long term.

While transition risks are not considered material in the short term, strategic responses to these risks are underway. These include the definition of an overall differentiated market position on climate change that is tied to the Group's purpose and values, and the development of an underpinning suite of products and services that complement its existing responsible investment strategy. Zurich recently signed-up to the United Nations global compact business ambition for 1.5°C pledge limiting average global temperature increases to 1.5°C. The implementation of this will further reduce the Group's exposure to transition risk.

Climate-related opportunities

Zurich sees business opportunities both in helping its customers manage physical risk and transition risk, as well as benefiting from the changes required to move towards a low-carbon economy. As an innovative insurer, Zurich is positioned to take advantage through its climate-change-related products and services which enable existing and prospective customers to better understand and manage their exposure to climate risks and to enhance their resilience to both physical and transition risk.

Risk review (continued)

Climate-related regulations aimed at incentivizing a low-carbon economy result in an increased demand for alternative low-carbon solutions and provide opportunities for new markets. The impact which is currently expected to be low in the short to medium-term, will increase over time. Zurich has considerable expertise in providing insurance solutions for green assets and takes advantage of environmentally oriented opportunities through products and services for electric vehicles, renewable energy, etc., around the world. For example, electric vehicles (EV) are expected to be a significant and growing segment in the new vehicle market with Zurich leading the way in developing customized motor insurance solutions that meet the needs of EV customers.

As an investor, Zurich has established responsible investment and climate-change investment strategies, including impact investments, green bonds, and a comprehensive approach to ESG integration. Impact investments can help mitigate climate change through their targeted, positive impact, and also offer a financial return commensurate with risks. Zurich will consider impact investments that help increase energy efficiency, generate renewable energy or mitigate climate change or protect the environment in other ways. Through its commitment to the green bonds market, Zurich is seeking to capture opportunities across the universe of environmental oriented, social and sustainable bonds.

Risk management

Zurich's approach to managing climate risk is embedded within its multi-disciplinary Group-wide risk management processes. As such, climate risk is managed in a manner consistent with how other risks to the Group are managed. Under the sponsorship of the Group CRO, Zurich conducts an annual Group-wide assessment of climate-change-related risks using the Total Risk Profile (TRP^{TM}) approach. This assessment, involving subject matter experts from relevant business areas, includes identifying management actions appropriate to the risks identified.

Internal scenarios representing an archetypical-transition path and a physical-risk path provide the assumptions underlying the assessment. Zurich developed a climate-change scorecard, which aims to measure developments in a range of climate-transition-related areas. It uses quantitative data and draws on various climate-change scenarios constructed by the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA). To assess financial impacts of potential climate scenarios, climate risks are also assessed as part of its Own Risk and Solvency Assessment (ORSA) and this year it included a scenario based on the rapid implementation of economic and other policies to stress-test potential transition risk exposure.

For more information on how Zurich manages its liability exposure to climate-related natural catastrophes, see sub-section 'Insurance risk'.

Metrics

Key performance indicators (KPIs) for sustainability focus areas were defined to ensure continuous improvement in performance on responsible business practices. The metrics in place are designed to track the mitigation of operational and investment related risks. Latest data for these metrics, along with historical data to facilitate trend analysis, can be found on the webpage. https://www.zurich.com/sustainability/being-a-responsible-business/measuring-our-progress

Digital and resilience risk

Digital transformation and technological advances have not only created a wide spectrum of benefits for society but also amplified risks that need to be understood and managed. Assessing cyber risk, information and data security risk, risks arising from emerging technologies and innovation in the digital space remain a key focus in determining the Group's exposure to risks resulting from digital transformation. Based on a dedicated framework, these assessments support delivering assurance, risk insights and oversight, and make use of enhanced capabilities to ensure the Group's resilience.

Holistic and interdisciplinary approach

By applying a holistic approach to assessing digital trends, the Group provides new risk insights that enable Zurich to achieve a rapid and resilient digital transformation. In order to ensure effective governance and monitoring, on-going proactive, pragmatic and solution-oriented approaches focus on risk and controls with a strong emphasis on enabling the business while safeguarding the enterprise from risks in the digital space.

Cyber and technology risk

The relevance of technological risks such as cyber risk is rapidly increasing across all data-driven industries. Exposure to these risks has grown in lockstep with the significant rise in digital services provided directly to customers and the increasing prevalence of digital ecosystems and cloud solutions in today's interconnected world. On a continuous basis, Zurich assesses and monitors exposure to defined information security and cyber risk scenarios through key risk indicators (KRIs) to effectively focus on actions and adequate resource allocation.

Data risk

The strategic relevance of data as a business asset is rising at a rapid pace and the risks associated with data management are growing more and more prominent. Preventing risks such as data losses and privacy breaches, and assessing and monitoring the potential misuse of data and losses triggered by failures in data management remain in focus. Specifically, appropriate governance of data for business purposes and decision-making processes, including automation, machine-learning techniques and other advanced technologies are a priority. As Zurich strives to inspire confidence in a digital society with its data commitment, assurance on the ethical use of advanced technologies is provided from a risk management perspective for the protection and privacy of data of our customers and all other stakeholders.

Third-party and transformation risk

Outsourcing and the engagement with third parties introduces risks relevant to the delivery of our strategy, such as data loss or disclosure, disruption to critical customer services and regulatory compliance. Digitization has accelerated the complexity and changes to the Group's third party ecosystem. Zurich looks to address risks associated with third-party engagements along its supply and value chain. Applying a consistent Group-wide approach to outsourcing governance is among Zurich's key priorities.

Business resilience risk

Zurich, along with the rest of the insurance industry, is going through a period of transformation in order to meet changing customer expectations. In addition, increasing automation of processes, development of advanced analytics capabilities, and fragmented supply chains have contributed to an increasingly complex operating environment. In response to these challenges and to better protect the interests of our stakeholders, Zurich has initiated a business resilience program which clearly defines resilience-action-plan responsibility, identifies critical business services susceptible to systemic technology failure, integrates its response frameworks, and provides enhanced transparency through a set of KRIs addressing resilience across the organization.

Digital policy – new insights and sustainability

Internal policies for managing digital risk are aligned to Zurich's sustainability strategy and are implemented by the businesses. Zurich's aspires to not only follow but also influence the public policy discourse on digital transformation and innovation risks. Zurich takes an active role in thought leadership in digital risk management across the industry and is committed to strengthening the link between digitization and sustainability, supporting digital literacy to enable effective risk management and it is endorsing the trustworthy use of advanced technologies to make sure the Group's values are adhered to and observed.

Financial review

Message from our Group Chief Financial Officer

All targets exceeded

“The results show the Group making further strong progress. All 2017 to 2019 targets were exceeded, with all business units contributing. Together with our customer-focused strategy, a simplified operating model and strong balance sheet, these results position us well for the future.”

George Quinn
Group Chief Financial Officer

Full year 2019 results show strong performance across all businesses, with business operating profit (BOP) up 16 percent and a BOPAT ROE of 14.2 percent. Net income increased 12 percent to the highest level in a decade. A dividend increase of 5 percent has been proposed.

Well positioned for the future

Together with the Group's customer-focused strategy and simplified operating model, the results position the Group well to take advantage of ongoing changes within the global insurance industry and to deliver further value to shareholders.

2017 to 2019 targets exceeded

The Group has exceeded the ambitious targets set in 2016, resulting in a simpler, more agile and efficient company. The business has been further strengthened through targeted acquisitions in key geographies.

2017–2019 financial targets

Target: >12.0%
BOPAT ROE[1]
14.2%
FY 2019

Target range: 100–120%
Estimated Z-ECM ratio[2]
129%
FY 2019

Target: >USD 9.5bn
Cumulative cash remittances
USD 10.9bn
As of FY 2019

Target: USD 1.5bn
Cumulative net expense savings
USD 1.6bn
As of FY 2019

[1] Business operating profit after tax return on equity, excluding unrealized gains and losses.
[2] Full year 2019 Z-ECM reflects midpoint estimate with an error margin of +/–5 percentage points.

Message from our Group Chief Financial Officer

Progress made across all businesses

Property & Casualty results showed further strong year-on-year progress with BOP up 38 percent, driven by an improved underwriting performance and higher investment results, which more than compensated for a challenging year in the Group's North American crop business.

Gross written premiums increased 2 percent with growth strengthening over the year, led by hardening pricing and underlying growth, with current positive pricing trends expected to continue through 2020.

The Group's combined ratio improved by 1.4 percentage points over the year, continuing the trend of recent years and despite adverse development of the North American crop insurance business.

The results also continued to demonstrate the strength of the Group's reserves, with prior year reserve development of 2.3 points at the same level as in 2018.

The Group's Life business delivered a strong performance against a high 2018 result with BOP declining 4 percent due to adverse currency movements. On a like-for-like basis adjusting for acquisitions, disposals and currency movements, growth was 2 percent, despite a lower contribution from favorable one-time items.

The Group's strategy of focusing on protection business and capital-efficient savings products positions it well for a continuation of low investment yields, with 85 percent of annual premium equivalent (APE) sales from protection and capital-efficient savings products.

Farmers delivered business operating profit growth of 4 percent, reflecting fee growth and favorable mark-to-market movements on a deferred compensation plan at Farmers Management Services, as well as a strong performance at Farmers Life. The Farmers Exchanges continued to deliver steady and consistent growth supported by Farmers strategy to deepen customer relationships, broaden product offerings and expand in the eastern U.S.

Group Functions and Operations showed an improved performance with the associated net loss reduced by 5 percent due to lower net costs associated with the Group's headquarters.

A strong capital position and cash generation

During the year, management continued to improve the Group's focus and optimize the use of capital. The Group's balance sheet and internal economic capital model (Z-ECM) remained very strong at an estimated 129 percent[2], above the target range.

Conversion of earnings into distributable cash was strong, with USD 3.4 billion of net cash remittances over the year bringing the total net remittances to USD 10.9 billion over the past three years, well ahead of the USD 9.5 billion set in 2016.

5 percent proposed dividend increase

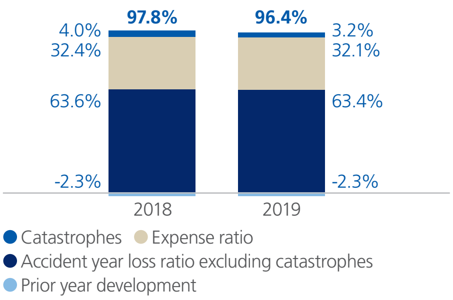
In line with the stated dividend policy, the board proposed a 5 percent increase in the dividend to CHF 20 per share.

George Quinn
Group Chief Financial Officer

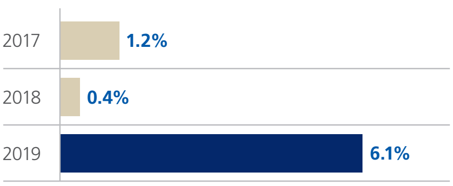
Continued strong performance across all businesses

Property & Casualty (P&C)

Combined ratio (%)

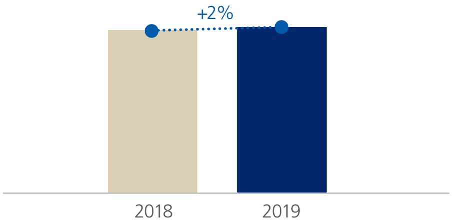


Like-for-like GWP growth (%)[4]

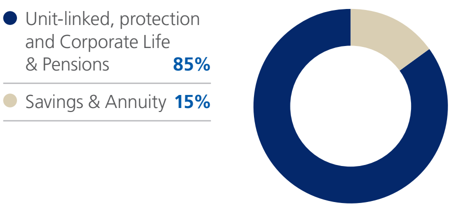


Life

Like-for-like BOP growth (%)[4]

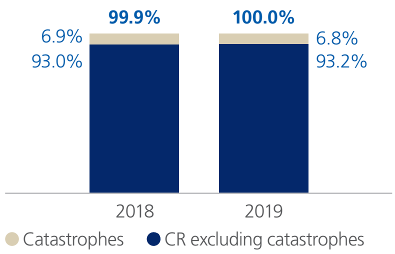


2019 APE share of non-traditional products (%)

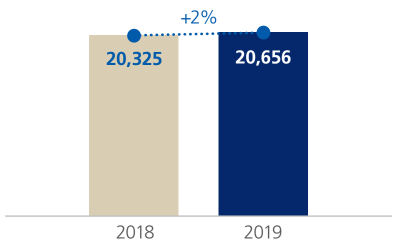


Farmers Exchanges[3]

Combined ratio (CR) (%)



GWP growth (in USD millions)



[3] Provided for informational purposes only. Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims services and ancillary services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services.
[4] In local currency and adjusted for closed acquisitions and disposals.

Financial overview

Contents

The information contained within the financial review is unaudited and is based on the consolidated results of the Group for the years ended December 31, 2019 and 2018. 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 annual results 2019 of the Group and in particular with its consolidated financial statements and embedded value report for the year ended December 31, 2019.

In addition to the figures stated in accordance with International Financial Reporting Standards (IFRS), the 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 separately published 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 27 (table 27.4) of the audited consolidated financial statements for the years ended December 31, 2019.

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

Financial highlights

in USD millions, for the years ended December 31	2019	2018	Change[1]
Business operating profit	**5,302**	4,566	16%
Net income attributable to shareholders	**4,147**	3,716	12%
P&C business operating profit	**2,878**	2,085	38%
P&C gross written premiums and policy fees	**34,184**	33,505	2%
P&C combined ratio	**96.4%**	97.8%	1.4 pts
Life business operating profit	**1,486**	1,554	(4%)
Life gross written premiums, policy fees and insurance deposit	**33,479**	33,448	0%
Life new business annual premium equivalent (APE)[2]	**4,331**	4,639	(7%)
Life new business margin, after tax (as % of APE)[2]	**25.8%**	24.1%	1.8 pts
Life new business value, after tax[2]	**976**	981	(1%)
Farmers business operating profit	**1,707**	1,643	4%
Farmers Management Services management fees and other related revenues	**3,780**	3,204	18%
Farmers Management Services managed gross earned premium margin	**7.0%**	7.0%	(0.0 pts)
Farmers Life new business annual premium equivalent (APE)[2]	**82**	84	(3%)
Average Group investments[3]	**190,237**	190,235	0%
Net investment result on Group investments[3]	**7,391**	6,288	18%
Net investment return on Group investments[3,4]	**3.9%**	3.3%	0.6 pts
Total return on Group investments[3,4]	**8.2%**	0.6%	7.6 pts
Shareholders' equity	**35,004**	30,189	16%
Z-ECM[5]	**129%**	124%	5 pts
Return on common shareholders' equity (ROE)[6]	**14.4%**	13.1%	1.3 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[6]	**14.2%**	12.1%	2.2 pts

1 Parentheses around numbers represent an adverse variance.
2 Details of the principles for calculating new business are included in the embedded value report in 2019. New business value and new business margin are calculated after the effect of non-controlling interests, whereas APE is presented before non-controlling interests.
3 Including investment cash.
4 Calculated on average Group investments.
5 Ratio for December 31, 2019 reflects midpoint estimate with an error margin of +/- 5 pts.
6 Shareholders' equity used to determine ROE and BOPAT ROE is adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges.

Business operating profit (BOP) for the year ended December 31, 2019 was USD 5.3 billion, up 16 percent compared with the prior period. This was driven by underlying growth across the business and a strong underwriting performance in Property & Casualty.

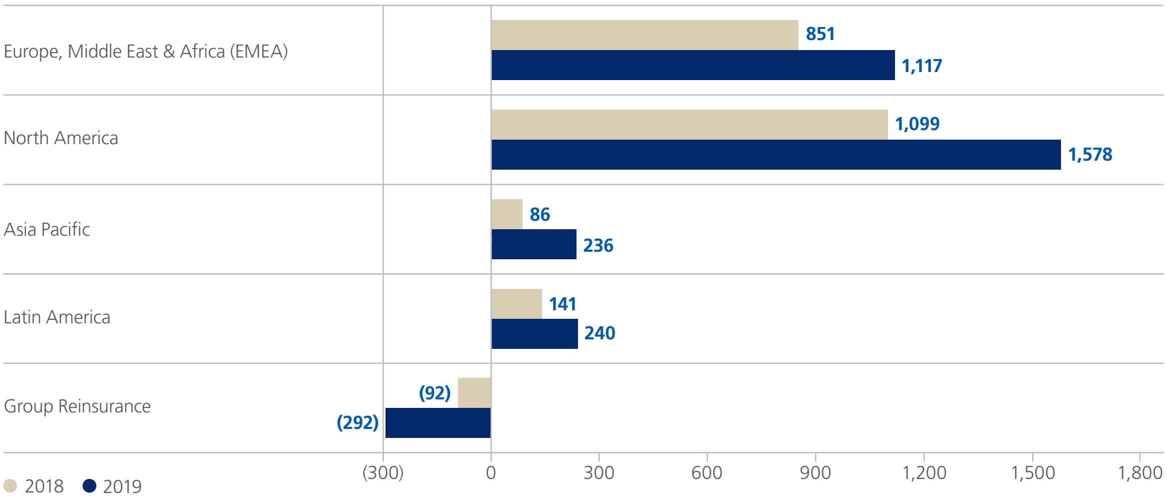
Net income attributable to shareholders (NIAS) increased 12 percent in the year 2019, with growth driven by the increase in business operating profit, higher realized gains, together with a reduction in the effective tax rate.

Operating update

Property & Casualty (P&C)

in USD millions, for the years ended December 31	2019	2018	Total Change
Gross written premiums and policy fees	34,184	33,505	2%
Net earned premiums and policy fees	25,608	26,431	(3%)
Insurance benefits and losses, net of reinsurance	16,475	17,291	5%
Net underwriting result	922	574	61%
Net investment result	2,171	1,884	15%
Business operating profit	**2,878**	**2,085**	**38%**
Loss ratio	64.3%	65.4%	1.1 pts
Expense ratio	32.1%	32.4%	0.3 pts
Combined ratio	**96.4%**	**97.8%**	**1.4 pts**

P&C business operating profit (BOP)
in USD millions, for the years ended December 31



Property & Casualty gross written premiums returned to growth in 2019, increasing 2 percent on a reported basis in U.S. dollars terms and 6 percent on a like-for-like basis, after adjusting for closed acquisitions and disposals and currency movements. Underlying growth was achieved in all regions.

Net earned premiums for the year decreased 3 percent in U.S. dollars and increased 1 percent on a like-for-like basis, with growth impacted by the earn-through of reductions in gross written premiums in the prior year and changes in reinsurance programs.

Business operating profit for the year ended December 31, 2019 was USD 2.9 billion, 38 percent higher than in the previous year, showing a strong performance across all regions. The strong regional performance was partly offset by higher losses in the Group Reinsurance unit.

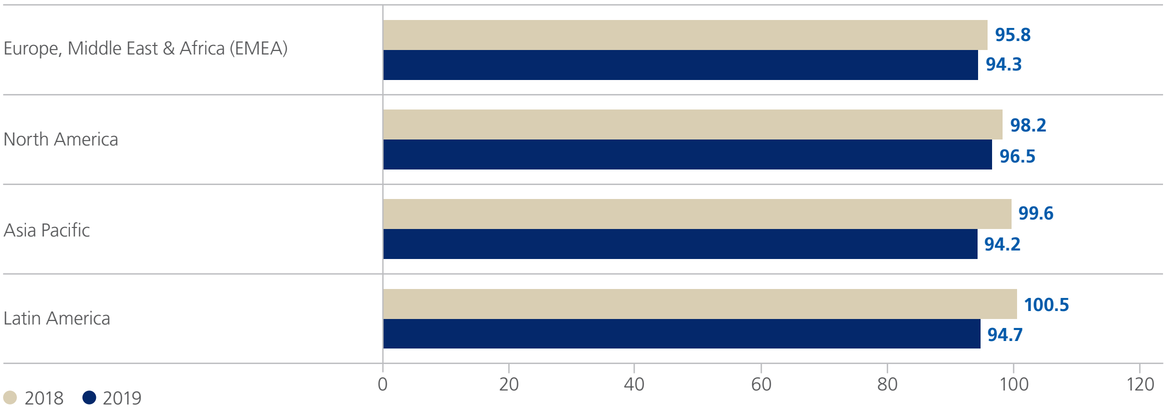
The combined ratio improved by 1.4 percentage points to 96.4 percent in 2019, leading to a USD 348 million increase in the net underwriting result to USD 922 million.

Investment income increased by 1 percent, with growth in investment income in North America and Latin America more than offsetting a decline in Europe, Middle East & Africa (EMEA). The strong performance of financial markets in 2019 led to an increase in fair value gains on the Group's hedge fund portfolio amounting to USD 211 million compared to a loss of USD 48 million in 2018.

The contribution of other items, which include the net non-technical result and non-controlling interests, was USD 158 million higher than in the previous year, mainly driven by the absence of major restructuring charges included within business operating profit and a foreign exchange gain of USD 29 million.

Operating update (continued)

P&C combined ratio
%, for the years ended December 31



The EMEA combined ratio of 94.3 percent for 2019 was 1.5 percentage points lower than in 2018, with improvement in the expense ratio and higher prior year reserve releases the main drivers.

In North America, the combined ratio was 96.5 percent, 1.7 percentage points below 2018, with a lower level of natural catastrophes and weather-related events in 2019 more than offsetting weaker results from the crop insurance portfolio.

The Asia Pacific combined ratio reduced by 5.3 percentage points to 94.2 percent, mainly due to improvements in other underwriting expenses and a lower level of natural catastrophes and weather-related events.

In Latin America, the combined ratio of 94.7 percent was 5.8 percentage points lower than in 2018, driven mainly by an improved accident year loss ratio in Mexico and Argentina and higher prior year reserve releases.

Operating update (continued)

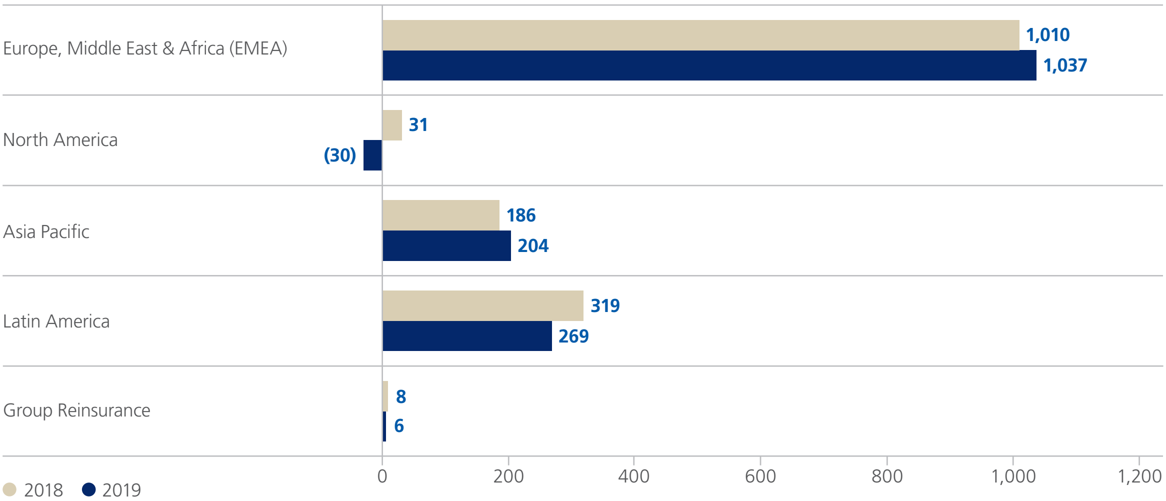
Life

in USD millions, for the years ended December 31	2019	2018	Change
Insurance deposits	18,328	18,694	(2%)
Gross written premiums and policy fees	15,151	14,754	3%
Net investment income on Group investments	2,915	3,035	(4%)
Insurance benefits and losses, net of reinsurance	(10,190)	(9,702)	(5%)
Business operating profit	**1,486**	**1,554**	**(4%)**
Net policyholder flows[1]	6,320	7,425	(15%)
Assets under management[2]	275,423	254,248	8%
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)	226,765	202,024	12%

[1] Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.
[2] Assets under management comprise on balance sheet Group investments and unit-linked investments plus assets that are managed by third parties, on which fees are earned.

Life business operating profit (BOP)

in USD millions, for the years ended December 31



Life delivered a strong underlying performance against a strong 2018 result. Business operating profit decreased 4 percent to USD 1.5 billion due to a strengthening of the U.S. dollar against a number of key currencies compared to 2018 and increased 2 percent on a like-for-like basis, after adjusting for closed acquisitions and disposals and currency movements. Net positive one-off items included within the 2019 results were also lower than in the prior year.

In EMEA, business operating profit increased 3 percent in U.S. dollars and 9 percent on a like-for-like basis. Underlying growth was driven by a combination of business mix, expense savings, together with a number of favorable one-off items amounting to USD 54 million.

In Latin America, business operating profit decreased 16 percent in U.S. dollars compared to an increase of 6 percent on a like-for-like basis as a result of the devaluation of several Latin American currencies. Growth in the largest market Brazil was partially offset by higher claims in corporate protection business in Chile.

Asia Pacific business operating profit increased 10 percent in U.S. dollars, with a decrease of 4 percent on a like-for-like basis. The underlying reduction was driven primarily by weaker results in Australia which more than offset a gain related to the sale and lease-back of an own-use property.

In North America, earnings decreased by USD 61 million due to a combination of higher mortality claims and unfavorable assumption updates which offset a positive change in reserving methodology.

Net inflows decreased 15 percent compared to the prior year. The decline was primarily driven by lower volumes of savings business in EMEA which were only partially offset by higher volumes of unit-linked business in Latin America.

Assets under management increased 8 percent, mainly due to favorable market movements compared to 2018.

Operating update (continued)

NBV, APE and NBM by Segment

in USD millions, for the years ended December 31

	New business value, after tax (NBV)[1]		New business annual premium equivalent (APE)[2]		New business margin, after tax (as % of APE) (NBM)[3]	
	2019	2018	**2019**	2018	**2019**	2018
Europe, Middle East & Africa (EMEA)	576	619	2,760	2,890	21.9%	22.8%
North America	49	15	139	82	35.2%	18.3%
Asia Pacific	211	186	268	231	79.9%	82.2%
Latin America	140	161	1,164	1,437	18.9%	15.3%
Total	**976**	**981**	**4,331**	**4,639**	**25.8%**	**24.1%**

[1] New business value is calculated on embedded value principles net of non-controlling interests.
[2] APE is shown gross of non-controlling interests.
[3] New business margin is calculated using new business value as a percentage of APE based on figures net of non-controlling interests for both metrics.

2019 Life new business annual premium equivalent (APE) decreased 7 percent in U.S. dollars and 3 percent on a like-for-like basis.

In EMEA, like-for-like APE was flat as strong growth in the corporate pension business in Switzerland, higher unit linked sales in Italy, and higher retail protection sales in the UK were offset by the absence of a large corporate protection scheme concluded in 2018.

In Latin America APE sales decreased 15 percent on a like-for-like basis. Strong growth in Brazil was more than offset by the absence of a large corporate protection scheme in Chile written in 2018 and which is offered for tender every two years.

APE sales in Asia Pacific remained flat on a like-for-like basis. Growth in protection business in most countries was offset by lower sales in Japan.

North America APE grew 30 percent on a like-for-like basis with growth in all product lines.

New business value (NBV) increased 4 percent on a like-for-like basis and decreased 1 percent in U.S. dollars. Underlying improvements in business and country mix as well as positive operating assumptions were partially offset by adverse economic assumption updates.

EMEA and Latin America saw a decrease of NBV mainly due to adverse changes in economic assumptions and unfavorable foreign exchange movements.

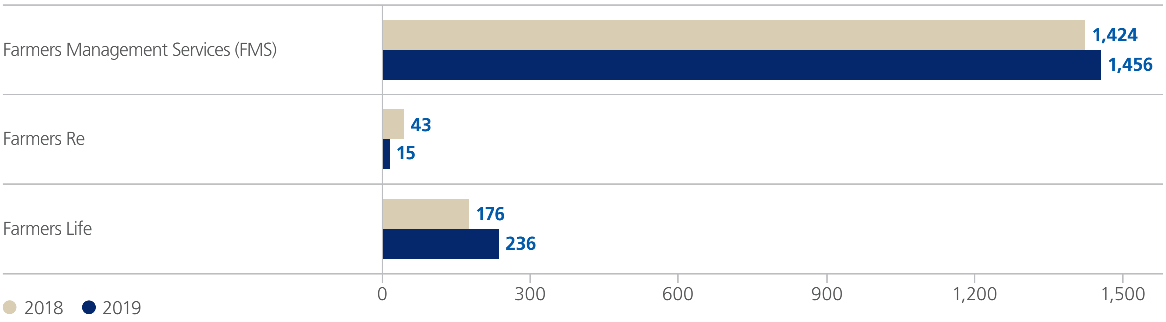
In APAC, the increase in NBV was largely driven by positive operating assumption changes. The North America NBV increased due to higher volumes and a favorable business mix.

The new business margin improved by 1.8 percentage points to 25.8 percent driven by the improvement in NBV.

Operating update (continued)

Farmers

Farmers business operating profit (BOP)
in USD millions, for the years ended December 31



Farmers Management Services (FMS) business operating profit grew 2 percent in 2019. This was driven by 1 percent growth in the gross management result, in line with the development of the Farmers Exchanges' gross earned premiums, and a USD 19 million favorable mark-to-market impact on a deferred compensation plan, compared with a USD 10 million unfavorable impact in 2018. The managed gross earned premium margin remained stable at 7.0 percent.

Farmers Re business operating profit of USD 15 million was USD 28 million lower than in 2018. This reflects the ongoing impact of the reduction in the all-lines quota share participation, further reduced to 0.25 percent effective December 31, 2019, as well as higher natural catastrophe losses and adverse prior year development from periods with a higher quota share participation.

Farmers Life business operating profit of USD 236 million was USD 59 million higher than in the prior year. Results benefited from a combination of continued growth in the in-force portfolio, favorable experience and a positive year-over-year impact from annual assumption updates. Within this, favorable mortality experience and lower amortization of deferred acquisition costs accounted for around half of the improvement.

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	**2019**	2018	Change
Gross written premiums	20,656	20,325	2%
Gross earned premiums	20,441	20,171	1%

The Farmers Exchanges showed continued growth in top-line through 2019. Gross written premiums increased by 2 percent with growth across all lines of business. Growth was also supported by the expansion of the Farmers Exchanges in the Eastern U.S., with gross written premiums up 6 percent in the expansion states, and a broadening of the agreement with Uber to provide commercial rideshare insurance in twelve additional states and the District of Columbia, building on the experience in the two states of Pennsylvania and Georgia.

Group Functions and Operations

in USD millions, for the years ended December 31	**2019**	2018	Change
Holding and Financing	(449)	(443)	(1%)
Headquarters	(268)	(310)	14%
Total business operating profit	**(716)**	**(753)**	**5%**

The business operating loss reported under Group Functions and Operations improved by USD 36 million to USD 716 million. This was driven by a USD 43 million reduction in headquarter expenses, while Holding and Financing costs remained in line with the prior year.

Non-Core Businesses

in USD millions, for the years ended December 31	**2019**	2018	Change
Zurich Legacy Solutions	(49)	43	nm
Other run-off	(3)	(7)	59%
Total business operating profit	**(52)**	**37**	**nm**

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 52 million. The loss primarily reflected the net impact of previously announced transactions to exit legacy portfolios related to UK employers' liability, U.S. asbestos and environmental business, and German professional architects' and engineers' professional indemnity, as well as reserve strengthening in selected portfolios.

Financial update

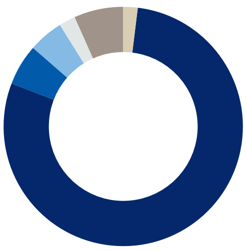
Balance sheet review

The total assets for the Group increased to USD 405 billion in 2019 from USD 395 billion in 2018. In 2019, there was an increase in total investments as market valuations improved, particularly in debt and equity securities and investments for unit-linked contracts. This is partially offset by a reduction in other assets as assets held for sale decreased following the divestment of certain businesses in the UK. Additionally, upon adoption of IFRS 16 'Leases' in January 2019, the Group recognized a Right-of-use asset (RoU) of USD 1.4 billion and the Group's 2019 acquisitions added USD 977 million of goodwill.

These factors also drove an increase in the total liabilities for the Group to USD 368 billion from USD 364 billion in 2018.

Group assets

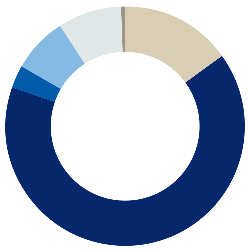
Total assets as of December 31, 2019
(in USD millions)



Cash and cash equivalents	7,880
Total investments	319,523
Reinsurers' share of liabilities	22,752
Deferred policy acquisition costs	19,207
Goodwill and other intangible assets	8,968
Other assets	26,357

Group liabilities and equity

Total liabilities and equity as of December 31, 2019
(in USD millions)



Liabilities for investment contracts	61,761
Liabilities for insurance contracts	264,140
Debt	11,999
Other liabilities	30,238
Shareholders' equity	35,004
Non-controlling interests	1,545

The Group's shareholder equity increased to USD 35 billion in 2019 from USD 30 billion in 2018. The increase primarily resulted from unrealized gains on available-for-sale investments. The Group's 2019 net income attributable to shareholders of USD 4.1 billion was offset by a dividend payment of USD 2.8 billion.

Treasury and capital management

The Group's balance sheet remains very strong, as demonstrated by S&P and Moody's financial strength ratings for the Zurich Insurance Company Ltd of AA- (positive outlook) and Aa3 (stable outlook), respectively. In addition, as of December 31, 2019, the Group's estimated Z-ECM ratio remained very strong at 129 percent, with an error margin of +/–5 percentage points.

During the year the Group saw net cash remittances of USD 3.4 billion, with total remittances over the 2017–2019 period of USD 10.9 billion, a level consistent with the Group's target for remittances to exceed USD 9.5 billion over this period. The level of remittances has been driven both by core remittances from operational earnings and capital released by management actions.

Net cash remittances by business

for the year ended December 31, 2019 (in USD millions)

Property & Casualty	2,262
Life	943
Farmers	1,217
Non-Core Businesses	(94)
Group Functions and Operations	(928)

Significant transactions in 2019

The Group continued to drive its strategic objectives of investing to improve the quality of service and experience of our customers and becoming a more agile organization.

In May 2019 the Group completed the acquisition of 100 percent of the Australian life and consumer credit insurance business (OnePath Life and OnePath General Insurance) of Australia and New Zealand Banking Group Limited (ANZ) for USD 1.4 billion, making Zurich one of the largest Life insurance players in Australia. As part of the transaction, Zurich will enter into a 20-year strategic alliance agreement with ANZ in Australia to distribute life insurance products through ANZ bank channels.

The Group continues to focus on growth opportunities in the Asia Pacific region. In November 2019 the Group completed the acquisition to acquire 80 percent of Adira Insurance from Bank Danamon Indonesia and a minority investor for approximately USD 465 million. The acquisition includes a 20-year distribution agreement.

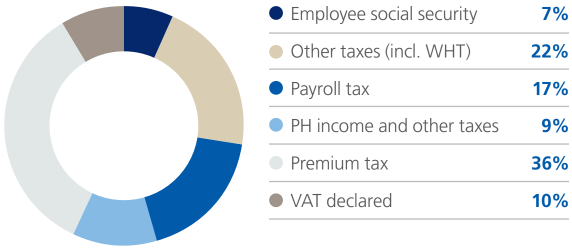
Being a responsible taxpayer

As part of Zurich's tax strategy, the Group strives to manage tax costs and control associated risks for the benefit of its customers, employees, shareholders and for society as a whole. The Group employs rigorous tax accounting and reporting oversight. The location of Group subsidiaries and affiliated companies is driven by business reasons and not the avoidance of tax. The Group's consolidated result includes only a very limited number of companies located in low or nil tax rate jurisdictions and in all cases these carry out operative insurance, reinsurance and asset management activities.

Total tax contribution reflects Zurich's economic contribution to the economy in taxes – the direct and indirect taxes paid by Zurich ('tax borne by the shareholders') and those taxes that Zurich is legally obliged to collect on behalf of the tax administrations ('tax collected'):

Taxes borne by Shareholders
Total 2018: USD 2.1bn
(all numbers based on IFRS excluding deferred income tax)

Taxes collected
Total 2018: USD 6bn
(all numbers based on IFRS excluding deferred income tax)



See more details on our tax strategy in our Sustainability pages at www.zurich.com.

The shareholders' effective tax rate decreased to 23.6 percent for the period ended December 31, 2019 compared with 24.9 percent for the same period of 2018. The decrease was driven primarily by one-off tax benefits through the recalibration of net deferred tax liabilities arising from the Swiss corporate tax reform enacted in 2019, under which Swiss profits of the Group are now taxed at 21.0 percent, compared with 22.0 percent in previous years.

Message from our Group Chief Investment Officer

Strong performance across asset classes supports investment return

Solid net investment income of USD 5.3 billion and exceptional total investment return of 8.2 percent contributed strongly to Group financial performance in 2019.

Policy easing drives markets higher

2019 was an extraordinary year in capital markets. Many asset classes posted new records despite slowing global growth, social unrest and geopolitical friction. Government bonds, credit, equities and real estate all performed strongly, driven in large part by a profound shift toward policy easing by central banks. Amid fears of a manufacturing recession and escalating trade tensions, yields decreased markedly, with some sovereign bond yield curves dropping below zero. As a result, the levels of negative-yielding debt reached an all-time high. For institutional investors such as Zurich, with about 80 percent of assets invested in fixed income, such developments presented challenges when investing their cash flow and managing assets against liabilities.

> "We continue delivering attractive returns while maintaining discipline and focusing on the quality of our investment portfolios."
>
> **Urban Angehrn**
> Group Chief Investment Officer

Total investments[1]

(%)

Credit, private debt	**44.2%**
Government and government guaranteed	**34.1%**
Real estate	**7.2%**
Cash	**5.2%**
Equities	**5.2%**
Mortgages	**2.4%**
Hedge funds, private equity	**1.7%**

[1] Market value of the investment portfolio (economic view).

Message from our Group Chief Investment Officer

Solid investment result

Despite lower yields and volatile markets, we achieved USD 5.3 billion of net investment income (NII), 2 percent lower than in 2018 in U.S. dollar terms. Excluding currency effects, NII increased by 5 percent. We achieved this strong performance through a combination of higher business inflows, measures to preserve book yield, and by continuing to deploy our strategy to increase allocation into illiquid assets such as real estate and private debt.

Net capital gains totaled USD 2.1 billion, USD 1.2 billion higher than in 2018. The increase was largely driven by turnover in the equity portfolio in a rallying market, and by gains realized from several real estate transactions. Overall, full-year total investment return reached an exceptional level of 8.2 percent.

Focus on portfolio quality and investment discipline

We aim to generate superior risk-adjusted investment returns relative to liabilities. To achieve this, disciplined risk-taking and a focus on portfolio quality are key imperatives. Zurich's fixed income portfolio remains of a very high quality with investment-grade securities making up 95 percent of the total. Our credit portfolio is well-diversified across investment segments and issuers: more than 93 percent of this portfolio consists of investment grade securities and 61 percent of the portfolio has a credit rating of at least 'A.'

We are disciplined in growing our private debt portfolio by, for instance, investing in well-diversified senior corporate loans, AAA-rated tranches of collateralized loan obligations, and infrastructure debt investments. In 2019 our allocation to this asset class comprised slightly more than 5 percent of Zurich's total investment portfolio. Our high-quality real estate portfolio expanded to USD 14.8 billion[2] and now constitutes 7.2 percent of our investment assets.

[2] incl. own-use real estate

Doing well and doing good

2019 was an important year for our responsible investment strategy. Our allocation to impact investments increased to USD 4.6 billion, of which USD 3.6 billion was held in green, social and sustainability bonds. We also developed an innovative framework that allows us to measure the social and environmental impact of our impact investment portfolio. And Zurich has joined the UN Net-Zero Asset Owner Alliance as a founding member, committing to a zero-emission portfolio of investments by 2050. I am proud of these achievements. These are tangible steps toward Zurich's ambition to become one of the most responsible and impactful businesses in the world.

Urban Angehrn
Group Chief Investment Officer

Rating of credit, private debt securities

(%)

AAA	**21%**
AA	**15%**
A	**25%**
BBB	**33%**
Non-investment grade	**5%**
Unrated	**2%**

Credit and private debt

(%)

Non-Financial Credit	**31%**
Financial Credit	**22%**
Municipals, Agencies, State Credit	**18%**
Other	**12%**
Asset Backed Securities	**10%**
Covered Bonds	**8%**

Direct investment real estate

(%)

Europe	**43%**
Switzerland	**40%**
United States	**14%**
Other	**3%**

Consolidated financial statements

Contents

Consolidated financial statements (continued)

Consolidated income statements

in USD millions, for the years ended December 31	Notes	2019	2018
Revenues			
Gross written premiums		48,056	47,038
Policy fees		2,469	2,447
Gross written premiums and policy fees		50,525	49,485
Less premiums ceded to reinsurers		(9,274)	(8,255)
Net written premiums and policy fees		41,251	41,230
Net change in reserves for unearned premiums	10	(949)	(224)
Net earned premiums and policy fees		40,302	41,007
Farmers management fees and other related revenues	26	3,780	3,204
Net investment income on Group investments		5,298	5,387
Net capital gains/(losses) and impairments on Group investments		2,093	901
Net investment result on Group investments	6	7,391	6,288
Net investment result on unit-linked investments		19,485	(4,374)
Net gains/(losses) on divestment of businesses	5	(295)	(24)
Other income		1,129	1,080
Total revenues		71,792	47,180
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	10	33,620	33,483
Less ceded insurance benefits and losses	10	(6,051)	(5,837)
Insurance benefits and losses, net of reinsurance	10	27,570	27,646
Policyholder dividends and participation in profits, net of reinsurance	10	20,582	(2,736)
Underwriting and policy acquisition costs, net of reinsurance	10	8,529	8,565
Administrative and other operating expense	12	8,020	7,761
Interest expense on debt		401	402
Interest credited to policyholders and other interest		590	433
Total benefits, losses and expenses		65,692	42,070
Net income before income taxes		6,100	5,110
of which: Attributable to non-controlling interests		356	400
Income tax (expense)/benefit	17	(1,716)	(1,134)
attributable to policyholders	17	(365)	183
attributable to shareholders	17	(1,351)	(1,317)
of which: Attributable to non-controlling interests		(119)	(139)
Net income after taxes		**4,384**	**3,977**
attributable to non-controlling interests		237	261
attributable to shareholders		4,147	3,716
in USD			
Basic earnings per share	19	28.01	25.10
Diluted earnings per share	19	27.69	24.83
in CHF			
Basic earnings per share	19	27.84	24.55
Diluted earnings per share	19	27.51	24.28

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

Consolidated financial statements (continued)

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31

	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges
2018			
Comprehensive income for the period	3,716	(2,428)	(47)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		(2,049)	(5)
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(733)	(48)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		419	11
Foreign currency translation effects		(65)	(5)
2019			
Comprehensive income for the period	4,147	3,336	91
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		4,924	126
Reclassification to income statement (before tax, foreign currency translation effects and allocation to policyholders)		(1,042)	(39)
Reclassification to retained earnings		–	–
Deferred income tax (before foreign currency translation effects)		(580)	(3)
Foreign currency translation effects		34	7

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

Consolidated financial statements (continued)

Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Total comprehensive income attributable to non-controlling interests	Total comprehensive income
(914)	(3,389)	(17)	582	564	(2,825)	892	137	1,028
(914)	(2,968)	39	551	591	(2,378)			
–	(781)	–	–	–	(781)			
–	–	(66)	–	(66)	(66)			
–	431	9	(96)	(87)	344			
–	(70)	–	126	126	56			
(103)	3,323	13	(41)	(28)	3,295	7,442	478	7,921
154	5,204	9	49	58	5,262			
(258)	(1,338)	–	–	–	(1,338)			
–	–	–	–	–	–			
–	(583)	4	(28)	(24)	(607)			
–	41	–	(62)	(62)	(22)			

Consolidated financial statements (continued)

Consolidated balance sheets

Assets

in USD millions, as of December 31	Notes	2019	2018
Assets:			
Cash and cash equivalents		**7,880**	**8,649**
Total Group investments	6	193,312	182,647
Equity securities		18,296	16,220
Debt securities		147,507	139,870
Investment property		13,261	12,351
Mortgage loans		5,935	6,556
Other loans		8,274	7,614
Investments in associates and joint ventures		39	36
Investments for unit-linked contracts		126,211	109,294
Total investments		**319,523**	**291,940**
Reinsurers' share of liabilities for insurance contracts	8	22,752	21,197
Deposits made under reinsurance contracts		726	883
Deferred policy acquisition costs	11	19,207	19,541
Deferred origination costs	11	400	419
Receivables and other assets	15	19,357	18,225
Deferred tax assets	17	1,151	1,125
Assets held for sale[1]	5	2,087	24,124
Property and equipment[2]	13	2,635	1,037
Attorney-in-fact contracts	14	1,025	1,025
Goodwill	14	3,610	2,634
Other intangible assets	14	4,333	4,542
Total assets		**404,688**	**395,342**

[1] In 2019, the Group reclassified USD 2 billion of assets to held for sale based on agreements signed to sell business in the UK and Germany (see note 5). Net decrease in total assets held for sale by USD 22 billion relates to completion of the sale in the UK. As of December 31, 2018, the Group had USD 24 billion of assets held for sale based on agreements signed to sell business in the UK, Venezuela and Germany (see note 5).
[2] The increase in property and equipment is mainly due to the establishment of a right-of-use asset upon the adoption of IFRS 16 (see note 2).

Consolidated financial statements (continued)

Liabilities and equity

in USD millions, as of December 31	Notes	2019	2018
Liabilities			
Liabilities for investment contracts	9	61,761	51,439
Deposits received under ceded reinsurance contracts		994	612
Deferred front-end fees		5,173	5,177
Liabilities for insurance contracts	8	264,140	249,208
Obligations to repurchase securities		977	1,316
Other liabilities[1]	16	16,567	14,321
Deferred tax liabilities	17	4,533	3,915
Liabilities held for sale[2]	5	1,996	25,539
Senior debt	18	5,148	5,237
Subordinated debt	18	6,852	6,775
Total liabilities		**368,139**	**363,540**
Equity			
Share capital	19	11	11
Additional paid-in capital	19	1,235	1,180
Net unrealized gains/(losses) on available-for-sale investments		3,985	649
Cash flow hedges		454	363
Cumulative foreign currency translation adjustment		(9,553)	(9,676)
Revaluation reserve		223	211
Retained earnings		38,649	37,452
Shareholders' equity		35,004	30,189
Non-controlling interests		1,545	1,613
Total equity		**36,549**	**31,802**
Total liabilities and equity		**404,688**	**395,342**

[1] The increase in other liabilities is mainly due to the adoption of IFRS 16 'Leases' (see note 2).
[2] In 2019, the Group reclassified USD 2 billion of liabilities to held for sale based on agreements to sell certain businesses in the UK and Germany (see note 5). Net decrease in total liabilities held for sale by USD 24 billion relates to completion of the sale in the UK. As of December 31, 2018, the Group had USD 26 billion of liabilities held for sale based on agreements to sell certain businesses in the UK, Venezuela and Germany (see note 5).

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

Consolidated financial statements (continued)

Consolidated statements of cash flows

in USD millions, for the years ended December 31	**2019**	2018
Cash flows from operating activities		
Net income attributable to shareholders	4,147	3,716
Adjustments for:		
Net (gains)/losses on divestment of businesses	295	24
(Income)/expense from equity method accounted investments	(3)	(1)
Depreciation, amortization and impairments of fixed and intangible assets	967	898
Other non-cash items	248	128
Underwriting activities:	19,597	(8,726)
Liabilities for insurance contracts, gross	11,073	(1,547)
Reinsurers' share of liabilities for insurance contracts	(2,423)	(744)
Liabilities for investment contracts	11,159	(5,424)
Deferred policy acquisition costs	(761)	(1,506)
Deferred origination costs	18	19
Deposits made under assumed reinsurance contracts	154	365
Deposits received under ceded reinsurance contracts	377	110
Investments:	(20,390)	9,752
Net capital (gains)/losses on total investments and impairments	(20,006)	5,274
Net change in derivatives	(347)	(7)
Net change in money market investments	(584)	563
Sales and maturities		
Debt securities	54,248	62,303
Equity securities	61,018	65,915
Other	7,369	7,093
Purchases		
Debt securities	(56,272)	(61,496)
Equity securities	(59,392)	(64,091)
Other	(6,423)	(5,801)
Net changes in sale and repurchase agreements	(361)	(19)
Movements in receivables and payables	718	(1,103)
Net changes in other operational assets and liabilities	(636)	(294)
Deferred income tax, net	302	15
Net cash provided by/(used in) operating activities	4,884	4,388

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

Consolidated financial statements (continued)

in USD millions, for the years ended December 31	2019	2018
Cash flows from investing activities		
Additions to tangible and intangible assets	(752)	(1,152)
Disposals of tangible and intangible assets	114	292
(Acquisitions)/disposals of equity method accounted investments, net	(5)	(17)
Acquisitions of companies, net of cash acquired	(1,672)	(465)
Divestments of companies, net of cash divested	108	(13)
Dividends from equity method accounted investments	1	1
Net cash provided by/(used in) investing activities	(2,206)	(1,352)
Cash flows from financing activities		
Dividends paid	(3,036)	(3,015)
Issuance of share capital	–	2
Net movement in treasury shares	(101)	(957)
Issuance of debt	1,398	3,079
Repayment of debt	(1,367)	(1,566)
Lease principal repayments	(196)	–
Net cash provided by/(used in) financing activities	(3,302)	(2,457)
Foreign currency translation effects on cash and cash equivalents	41	(319)
Change in cash and cash equivalents	(583)	260
Cash and cash equivalents as of January 1	9,110	8,850
Total cash and cash equivalents as of December 31	**8,527**	**9,110**
of which: Cash and cash equivalents	7,880	8,649
of which: Unit-linked	647	461
Other supplementary cash flow disclosures		
Other interest income received	4,830	4,851
Dividend income received	1,764	1,993
Other interest expense paid	(907)	(883)
Income taxes paid	(1,534)	(1,598)

Cash and cash equivalents

in USD millions, as of December 31	2019	2018
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	7,989	8,535
Cash equivalents	537	575
Total	**8,527**	**9,110**

For the periods ended December 31, 2019 and 2018, cash and cash equivalents held to meet local regulatory requirements were USD 313 million and USD 825 million, respectively.

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

Consolidated financial statements (continued)

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital
Balance as of December 31, 2017 as previously reported	11	1,162
Effect of adoption IFRS 15[1]	–	–
Balance as of January 1, 2018 after the adoption of IFRS 15	11	1,162
Issuance of share capital	–	2
Dividends to shareholders	–	(14)
Share-based payment transactions	–	30
Treasury share transactions	–	–
of which: share buy-back program[2]	–	–
Reclassification from revaluation reserves	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of December 31, 2018	11	1,180
Balance as of December 31, 2018 as previously reported	11	1,180
Effect of adoption IFRS 16[3]	–	–
Effect of adoption IAS 29[4]	–	–
Balance as of January 1, 2019 after the adoption of IFRS 16 and IAS 29	11	1,180
Issuance of share capital	–	–
Dividends to shareholders	–	–
Share-based payment transactions	–	55
Treasury share transactions	–	–
of which: share buy-back program	–	–
Cumulative foreign currency translation adjustment due to hyperinflation[5]	–	–
Reclassification from revaluation reserves	–	–
Total comprehensive income for the period, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization of non-controlling interests	–	–
Balance as of December 31, 2019	**11**	**1,235**

[1] Effect of adoption of IFRS 15 'Revenue from Contracts with Customers.'
[2] Share buy-back program reflecting the purchase value of 1.74 million shares.
[3] Effect of adoption of IFRS 16 'Leases' (see note 2).
[4] Effect of adoption of IAS 29 'Financial Reporting in Hyperinflationary Economies' (see note 3).
[5] Current year effect of IAS 29 'Financial Reporting in Hyperinflationary Economies' (see note 3).

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

Consolidated financial statements (continued)

Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
3,078	410	(8,762)	228	36,936	33,062	1,831	34,893
–	–	–	–	(70)	(70)	–	(70)
3,078	410	(8,762)	228	36,866	32,993	1,831	34,824
–	–	–	–	–	2	–	2
–	–	–	–	(2,790)	(2,805)	(210)	(3,015)
–	–	–	–	(1)	29	–	29
–	–	–	–	(956)	(957)	–	(957)
–	–	–	–	(555)	(555)	–	(555)
–	–	–	–	36	36	–	36
(2,429)	(47)	(914)	(17)	4,298	891	137	1,028
–	–	–	–	3,716	3,716		
(2,428)	–	–	–	–	(2,428)		
–	(47)	–	–	–	(47)		
–	–	(914)	–	–	(914)		
–	–	–	(17)	–	(17)		
–	–	–	–	582	582		
–	–	–	–	–	–	(145)	(145)
649	363	(9,676)	211	37,452	30,189	1,613	31,802
649	363	(9,676)	211	37,452	30,189	1,613	31,802
–	–	–	–	(130)	(130)	–	(130)
–	–	116	–	(66)	50	13	63
649	363	(9,561)	211	37,256	30,109	1,626	31,735
–	–	–	–	–	–	–	–
–	–	–	–	(2,819)	(2,819)	(218)	(3,036)
–	–	–	–	(63)	(8)	–	(8)
–	–	–	–	169	169	–	169
–	–	–	–	–	–	–	–
–	–	111	–	–	111	8	119
–	–	–	–	–	–	–	–
3,336	91	(103)	13	4,106	7,442	478	7,921
–	–	–	–	4,147	4,147		
3,336	–	–	–	–	3,336		
–	91	–	–	–	91		
–	–	(103)	–	–	(103)		
–	–	–	13	–	13		
–	–	–	–	(41)	(41)		
–	–	–	–	–	–	(350)	(350)
3,985	**454**	**(9,553)**	**223**	**38,649**	**35,004**	**1,545**	**36,549**

Consolidated financial statements (continued)

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

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

On February 12, 2020, the Board of Directors of Zurich Insurance Group Ltd authorized these consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on April 1, 2020.

1. Basis of presentation

General information

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. Where IFRS does not contain clear guidance governing the accounting treatment of certain transactions, including those that are specific to insurance and reinsurance products, IFRS permits reference to another comprehensive body of accounting principles that uses a similar conceptual framework. The Group's accounting policies for insurance and reinsurance contracts are therefore based on those developed by the Group before the adoption of IFRS 4 in areas where IFRS 4 did not include specific requirements. Before the adoption of IFRS 4, the Group typically applied U.S. GAAP pronouncements issued by the Financial Accounting Standards Board (FASB) on insurance and reinsurance contracts. Any changes to such pronouncements subsequent to this adoption are not reflected in the Group's accounting policies. In case of business combinations, the Group may decide to maintain the local statutory treatment if this does not distort the fair presentation of the financial position of the Group. If significant, the impact of such cases would be described elsewhere in the notes to these consolidated financial statements.

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

Disclosures under IFRS 4 'Insurance Contracts' and IFRS 7 'Financial Instruments: Disclosures' relating to the nature and extent of risks, and capital disclosures under IAS 1 'Presentation of Financial Statements' have been included in the audited sections of the risk review on pages 129 to 157, and they form an integral part of the consolidated financial statements.

The Group's consolidated balance sheets are not presented using a current/non-current classification. The following balances are generally considered to be current: cash and cash equivalents, deferred policy acquisition costs on property & casualty contracts, receivables, reserve for premium refunds and obligations to repurchase securities.

The following balances are generally considered to be non-current: equity securities, investment property, investments in associates and joint ventures, deferred policy acquisition costs on life insurance contracts, deferred tax assets, property and equipment, goodwill, other intangible assets and deferred tax liabilities.

The following balances are mixed in nature (including both current and non-current portions): debt securities, mortgage loans, other loans, reinsurers' share of liabilities for insurance contracts, deposits made under assumed reinsurance contracts, deferred origination costs, other assets, reserves and investments for unit-linked contracts, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees, reserves for losses and loss adjustment expenses, reserves for unearned premiums, future life policyholder benefits, policyholder contract deposits and other funds, other liabilities, senior and subordinated debt, and assets and liabilities held for sale.

Maturity tables have been provided for the following balances: debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), reserves for insurance contracts (tables 8.9a and 8.9b), liabilities for investment contracts (tables 9.3a and 9.3b), finance lease receivables (table 13.6), other financial liabilities (table 16.2), lease liabilities (table 16.3) and outstanding debt (table 18.2).

Consolidated financial statements (continued)

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

Table 1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD (70) million and USD 63 million for the years ended December 31, 2019 and 2018, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 40 million and USD 168 million for the years ended December 31, 2019 and 2018, respectively. In 2019, a cumulative foreign currency translation adjustment loss of USD 258 million was recognized upon closure of the sale of the Group's Venezuelan operations (see note 5).

Table 1

Principal exchange rates

USD per foreign currency unit	Consolidated balance sheets at end-of-period exchange rates		Consolidated income statements and cash flows at average exchange rates	
	12/31/19	12/31/18	**12/31/19**	12/31/18
Euro	1.1223	1.1451	1.1196	1.1811
Swiss franc	1.0326	1.0163	1.0063	1.0224
British pound	1.3243	1.2746	1.2762	1.3354
Brazilian real	0.2481	0.2581	0.2540	0.2755
Australian dollar	0.7026	0.7049	0.6953	0.7479

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early-adopted as of January 1, 2019 and relevant for the Group's operations

Table 2.1 shows new accounting standards or amendments to and interpretations of standards relevant to the Group that have been implemented for the financial year beginning January 1, 2019. The impact of applying IFRS 16 'Leases' is disclosed below. The other standards/interpretation have no material impact on the Group's financial position or performance and have been applied prospectively to transactions occurring in the current financial year.

Table 2.1

Standard/ Interpretation

		Effective date
New standards/interpretations		
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
Amended standards		
IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
IAS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019

IFRS 16 'Leases'

IFRS 16 introduces new requirements for lease accounting which have an impact on contracts where the Group acts as a lessee (and intermediate lessor). Under IFRS 16, the Group recognized a right-of-use asset and a lease liability for real estate rental contracts which were mainly classified as operating leases under IAS 17 'Leases.'

The Group adopted IFRS 16 on January 1, 2019. As permitted by the transitional provisions of IFRS 16, the Group elected to apply the modified retrospective approach and has not restated comparative figures. The adoption of IFRS 16 resulted in an increase in total assets of USD 1.4 billion and total liabilities of USD 1.5 billion. The cumulative effect of USD 130 million net of tax resulting from the measurement of the right-of-use assets on a retrospective basis was recognized as a decrease in opening retained earnings. For leases previously classified as a finance lease, the carrying amounts were not adjusted on transition to IFRS 16.

The Group applied the following practical expedients permitted on transition to IFRS 16 where the Group acts as a lessee in a lease previously classified as an operating lease:

- No reassessment whether a contract is, or contains, a lease;
- Reliance on previous assessments on whether a lease contract is onerous;
- Scope exemption for operating leases with a remaining lease term of less than 12 months as at January 1, 2019;
- Exclusion of initial direct costs for the measurement of the right-of-use asset;
- Use of hindsight in assessing whether the Group is reasonably certain to exercise an option to extend or terminate a lease.

The Table 2.2 reconciles the operating lease obligations as of December 31, 2018 to the opening lease liabilities recognized as of January 1, 2019:

Consolidated financial statements (continued)

IFRS 16: Lessee – Transition disclosures

Table 2.2

in USD millions, as of December 31	2018
Operating lease commitments applying IAS 17	2,149

in USD millions, as of January 1	**2019**
Discounted operating lease commitments applying IAS 17[1]	1,807
Transition differences resulting from:	(188)
Lease extension options	54
Software licenses	(65)
Non-lease components	(124)
Short-term/Low-value	(40)
Other	(13)
Lease liabilities	**1,619**

[1] Applied weighted average incremental borrowing rate as of January 1, 2019 amounted to 2.8%.

Right-of-use assets are presented in 'Property and equipment' and lease liabilities in 'Other liabilities.' Finance lease receivables are included in 'Other loans.' Depreciation expense for right-of-use assets amounted to USD 204 million and is disclosed in note 12 within 'Building and infrastructure costs.' Interest expense on lease liabilities included in 'Interest credited to policyholders and other interest' amounted to USD 44 million. The impact resulting from the change in accounting policy on the Group's consolidated balance sheet as of January 1, 2019 is summarized in Table 2.3.

IFRS 16: The impact of change in accounting policy

Table 2.3

in USD millions, as of January 1	**2019**
Property and Equipment	1,381
Deferred Tax Assets	26
Other Liabilities[1]	(1,543)
Deferred Tax Liabilities	5
Retained earnings	130

[1] Includes derecognition of onerous lease provisions amounted to USD 76 million.

Accounting policies applied for IFRS 16 are disclosed in note 3 paragraph k).

Consolidated financial statements (continued)

Standards, amendments and interpretations issued that are not yet effective or adopted by the Group
Table 2.4 shows new accounting standards or amendments to and interpretations of standards relevant to the Group, which are not yet effective or adopted by the Group.

Standard/ Interpretation

Table 2.4

		Effective date
New standards/interpretations		
IFRS 9	Financial Instruments	January 1, 2021
IFRS 17	Insurance Contracts	January 1, 2021
Amended standards		
IFRS 3	Definition of a Business	January 1, 2020
IAS 1/IAS 8	Definition of Material	January 1, 2020
IFRS 9	Prepayment Features with Negative Compensation	January 1, 2021

IFRS 17 'Insurance contracts' and IFRS 9 'Financial Instruments'

IFRS 17 'Insurance contracts' was published on May 18, 2017 with an effective date of January 1, 2021 (retrospective application). IFRS 17 provides comprehensive guidance on accounting for insurance contracts and investment contracts with discretionary participation features. For non-life and short-term life insurance contracts IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk, for which confidence level equivalent disclosure will be required. Further, IFRS 17 will change the presentation of insurance contract revenue, as gross written premium will no longer be presented in the statements of comprehensive income.

For long-duration life insurance contracts, IFRS 17 is expected to have a significant impact on actuarial modeling as granular cash flow projections and regular updates of all assumptions will be required resulting in either profit or loss volatility or affecting 'contractual service margin,' a separate component of the insurance liability representing unearned profits from in-force contracts. Further, IFRS 17 introduces different measurement approaches for the insurance contract liabilities reflecting a different extent of policyholder participation in investment or insurance entity performance (non-participating, indirect participating, direct participating).

In September 2016, the IASB issued an amendment to IFRS 4 introducing a temporary exemption from the adoption of IFRS 9 for reporting entities that have not previously applied any version of IFRS 9 and whose activities are predominantly related to insurance. Based on the analysis performed as of December 31, 2015, the Group was eligible to apply the temporary exemption as the predominance ratio reflecting the share of liabilities connected with insurance to total liabilities exceeded 90 percent. No reassessment of eligibility was required during subsequent annual periods up to and including 2019 as there was no significant change in the activities performed by the Group. We refer to the Annual Report 2016 for further details on the eligibility assessment. Due to the strong interaction between underlying assets held and the measurement of participating insurance contracts, the Group decided to use the option to defer the full implementation of IFRS 9 until IFRS 17 becomes effective.

Under IFRS 9, all equity securities and fund investments, and more debt instruments will be measured at fair value through profit or loss because the characteristics of the contractual cash flows from such instruments are not solely payments of principal and interest on the principal amount outstanding. Furthermore, credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in other comprehensive income (OCI), are expected to increase due to the introduction of the expected credit loss methodology. Though overall profit or loss volatility is expected to increase under IFRS 9, the measurement approach for direct participating contracts in IFRS 17 allows such volatility to be largely absorbed in the measurement of insurance liabilities with an option to reflect in shareholders' equity (OCI) the effect of any asset-liability mismatch. For further information on effects from IFRS 9 see note 24.

In order to adopt IFRS 17 in the consolidated financial statements, a joint IFRS 17 and IFRS 9 Group Implementation Program (Program) sponsored by the Group Chief Financial Officer has been operating since 2017. A steering committee comprised of senior management from various functions (Finance, Risk, IT, Operations and Investment Management) oversees the work performed by individual work streams.

A dedicated methodology work stream covers group accounting policies, actuarial methodologies and disclosure requirements to be consistently implemented throughout the Group. This work stream further contributes to the industry wide discussions on standard interpretation and its operational effects and closely monitors the developments in the IASB Transition Resource Group for IFRS 17 to evaluate the effects and align the accounting policies and actuarial methodologies accordingly. The implementation work stream drives the analysis of processes, data and systems implications which have revealed implementation challenges. In 2019, considerable progress was made in finalizing the core development of the target solution landscape at Group and local levels which concluded with the successful completion of dry-run simulations. In 2020, the focus of the Program will be on finalizing the implementation efforts, analyzing the effects from IFRS 17 on the consolidated financial statements and education of key stakeholders.

In June 2019, the IASB issued an Exposure Draft with limited amendments to IFRS 17, including a proposal to defer by one year, to January 1, 2022, the effective date of IFRS 17 and the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9, so that both standards can be applied simultaneously. The Group completed the analysis of the proposed amendments and will closely monitor the IASB re-deliberations while continuing Program delivery according to the current implementation plan.

The Group is currently assessing the impact of the application of both IFRS 17 and IFRS 9. As of December 31, 2019, it was not practicable to quantify what the potential impact would be on the Group's financial position or performance once these standards are adopted.

Other standards, amendments and interpretations shown in table 2.4 are expected to have no or an insignificant impact on the Group's financial position or performance.

3. Summary of significant accounting policies

Significant accounting policies applied in these consolidated financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated. Other accounting policies are presented as part of the respective note disclosures.

a) Consolidation principles

The Group's consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Group Ltd and its subsidiaries. A subsidiary is an entity that Zurich Insurance Group Ltd either directly or indirectly controls. The results of subsidiaries acquired are included in the consolidated financial statements from the date of acquisition. The results of subsidiaries that have been divested during the year are included up to the date control ceased. All intra-Group balances, profits and transactions are eliminated.

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

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

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

b) Foreign currency translation and transactions

Foreign currency translation

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

Foreign currency transactions and balances

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

- Foreign currency translation differences that are recognized in OCI in conjunction with the recognition of unrealized gains or losses on available-for-sale investments; and
- Foreign currency translation differences arising on monetary items that form part of net investments in foreign operations, as well as foreign currency translation differences arising from monetary items that are designated as hedging instruments in a qualifying net investment hedge relationship, are included directly in OCI as CTA.

Hyperinflation

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

c) Insurance contracts and investment contracts with discretionary participating features (DPF)

Classification

Contracts issued that transfer significant insurance risk to the Group and obligations arising from investment contracts with DPF are accounted for as insurance contracts.

Consolidated financial statements (continued)

The Group also issues products containing embedded options that entitle the policyholder to switch all or part of the current and future invested funds into another product issued by the Group. Where this results in the reclassification of an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are reclassified and are accounted for in accordance with the accounting policy that is to be applied to the new product on a prospective basis. As a consequence, no gain or loss is recognized when a contract is reclassified from an investment to an insurance contract.

Once a contract has been classified as an insurance contract, no reclassification can subsequently be made.

Premiums

Property & Casualty

Premiums from the sale of property & casualty products are generally recorded when written and are recognized as revenue in relation to the insurance coverage provided. The unearned premium reserve represents the portion of the premiums written related to the unexpired coverage period.

Life insurance

Premiums from traditional life insurance contracts, including participating contracts and annuity policies with life contingencies, are recognized as revenue when they are due from the policyholder. For single premium and limited pay contracts, premiums are recognized as revenue when due, with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from investment-type insurance contracts such as universal life, unit-linked and unitized with-profits contracts are generally reported as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration and surrenders during the period. Front-end fees charged to the customer at inception, particularly for single premium contracts, are deferred and recognized over the estimated life of the contracts following the same pattern that is applied to deferred acquisition costs and addressed below. Regular fees charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds are billed in advance and recognized on a straight-line basis over the period in which the service is rendered. Fees charged at the end of the period are accrued over the service period as a receivable and are offset against the financial liability when charged to the customer.

Cash flows from certain universal life-type contracts in the Group’s Spanish operations are recognized as gross written premiums and insurance benefits and losses and not as deposits.

Reserves for losses and loss adjustment expenses

Losses and loss adjustment expenses are charged to income as incurred. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed. The Group does not discount its loss reserves, other than for claims with payment patterns which are fixed and reasonably determinable, and claims in economies determined to be hyperinflationary where inflation constitutes a significant input in the reserving process.

Reserves for life benefits

Future life policyholder benefits represent the estimated future benefit liability for traditional life insurance policies and include the value of accumulated declared bonuses or dividends that have vested to policyholders.

The reserves for life benefits for participating traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions taking into account guaranteed mortality benefits and interest rates.

The reserves for life benefits for other traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions including mortality, persistency, expenses and investment return, plus a margin for adverse deviations. These assumptions are locked in at inception and are regularly assessed as part of the liability adequacy testing over the period of the contract.

Policyholder contract deposits represent the estimated policy benefits for investment type insurance contracts invested in non-unit-linked funds. This liability comprises the accumulation of premiums received, less charges, plus declared policyholder dividends.

Certain insurance contracts and investment contracts with DPF offered by the Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the Group. Where that discretion has not been exercised, the total amount expected to be allocated to policyholders as required by local insurance regulation or contractual provisions is included in the policyholder other funds.

Consolidated financial statements (continued)

Unrealized gains or losses arising on the revaluation of available-for-sale assets are recorded directly in OCI in accordance with the Group's accounting policy for such assets. Where these assets are related to life insurance, corresponding adjustments to the reserves for life benefits and related assets are also recognized directly in OCI.

Reserves for unit-linked contracts are based on the fair value of the financial instruments backing those contracts less any fees and assessments charged to the policyholders. The related assets for unit-linked insurance contracts are designated at fair value through profit or loss in order to reduce measurement inconsistencies.

For products containing guarantees in respect of minimum death benefits (GMDB), retirement income benefits (GRIB) and/or annuitization options (GAO), additional liabilities are recorded in proportion to the receipt of the contracted revenues which are subject to a loss adequacy test taking into account policyholder behavior and current market conditions.

For products managed on a dynamic basis, an option in IFRS 4 is used to measure insurance liabilities using current financial and non-financial assumptions to better reflect the way that these products are managed. Financial assets related to these liabilities are designated at fair value through profit or loss.

Deferred acquisition costs (DAC)

Costs that vary with and are directly related to the acquisition of new and renewal business, including for example commissions and certain underwriting and policy issue expenses, are deferred and subsequently amortized over a defined period. Such costs are presented on balance sheet net of commissions paid to reinsurers in respect of business ceded.

Property & Casualty

DAC for property & casualty contracts is amortized over the period in which the related premiums are earned.

Life insurance

DAC for traditional participating life insurance contracts is amortized based on estimated gross margins expected to be realized over the life of the contract. Estimated gross margins are updated for actual and anticipated future experience and discounted using the latest revised interest rate for the remaining benefit period. Resulting deviations are reflected in income.

DAC for other traditional life insurance and annuity contracts is amortized over the life of the contracts, based on expected premiums. Expected premiums are estimated at the date of policy issue for application throughout the life of the contract unless a premium deficiency subsequently occurs.

DAC for investment type insurance contracts such as universal life, unit-linked and unitized with-profits contracts is amortized based on estimated gross profits expected to be realized over the life of the contract. Estimated gross profits are updated for actual and anticipated future experience and discounted using either the interest rate in effect at the inception of the contracts or the latest revised interest rate for the remaining benefit period, depending on whether crediting is based on the policyholder's or on the reporting entity's investment performance. Resulting deviations are reflected in income.

Unamortized DAC for life insurance contracts accrues interest at a rate consistent with the related assumptions for reserves.

For traditional participating and investment-type life insurance contracts, DAC is adjusted for the impact of unrealized gains/(losses) on allocated investments that are recorded in OCI.

Liability adequacy tests

Liability adequacy tests are performed annually for groupings of contracts determined in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

Property & Casualty

For property & casualty contracts, unearned premiums are tested to determine whether they are sufficient to cover related expected losses, loss adjustment expenses, policyholder dividends, unamortized DAC and maintenance expenses, using current assumptions and considering anticipated investment returns. If a premium deficiency is identified, the DAC asset for the respective grouping of contracts is written down by the amount of the deficiency. If, after writing down the DAC asset to nil, a premium deficiency still exists for the respective grouping of contracts, then a premium deficiency reserve is established for the amount of the remaining deficiency.

Life insurance
For life insurance contracts, the carrying amount of the existing reserve for life benefits, including any deferred front-end fees, reduced by the unamortized balance of DAC or present value of future profits of acquired insurance contracts (PVFP), is compared with the reserve for life benefits, calculated using revised assumptions for actual and anticipated experience as of the valuation date. If a deficiency is identified, the DAC or PVFP for the respective grouping of contracts is written down by the amount of the deficiency. If, after writing down the DAC or PVFP to nil, a deficiency still exists for the respective grouping of contracts, the reserve for life benefits is increased by the amount of the remaining deficiency.

Reinsurance
The Group's insurance subsidiaries cede risk in the normal course of business to limit the potential for losses arising from certain exposures. Reinsurance does not relieve the originating insurer of its liability. Certain Group insurance companies assume reinsurance business as part of their normal business.

Reinsurance contracts that do not transfer significant insurance risk are accounted for using the deposit method.

A deposit asset or liability is recognized based on the premium paid, or received less any explicitly identified premiums or fees to be retained by the ceding company. Interest on deposits is accounted for using the effective interest rate method. Future cash flows are estimated to calculate the effective yield, and revenues and expenses are recorded as interest income or expense. Reinsurance deposit assets or liabilities also include funds deposited or held by the Group under assumed or ceded reinsurance contracts, respectively, when funds are retained by the reinsured under the terms of the contract.

Reinsurance is recorded gross in the consolidated balance sheet. Reinsurance assets include balances expected to be recovered from reinsurance companies for ceded paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for the liabilities associated with the underlying insurance contracts.

Reinsurance assets are assessed for impairment on a regular basis and impairment losses, if any, are recorded in the same manner as for loans and receivables.

d) Liabilities for investment contracts (without DPF)
Investment contracts are those contracts that do not transfer significant insurance risk. The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

Unit-linked investment contracts
These represent portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks related to the investments. The liabilities are carried at fair value, which is determined by reference to the underlying financial assets. Changes in fair value are recorded in income. The related assets for unit-linked investment contracts are designated at fair value through profit or loss in order to reduce measurement inconsistencies.

The services provided by the Group under such contracts are investment management and policy administration services that are provided over time and are not contingent on meeting specified performance criteria. Fees from such services are recognized ratably over the service period as policy fee revenue except where such fees are charged in connection with contract origination in which case such fees are recognized as contract liabilities (included within deferred front-end fees). The costs to fulfill over time services are generally recognized as incurred, except the costs of acquiring new investment contracts with investment management services, such as commissions and other incremental expenses directly related to the issuance of each new contract. Such fees enhance the resources that will be used to satisfy future performance obligations and – to the extent recoverable – are capitalized as contract assets (deferred origination costs; DOC) and amortized in line with the revenue generated by providing investment management services. Refer to note 11 for further information.

Investment contracts at amortized cost
Liabilities for investment contracts with fixed and guaranteed terms are measured at amortized cost using the effective interest rate method. Transaction costs are included in the calculation of the effective yield. As of each reporting date, the Group re-estimates the expected future cash flows and re-calculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the original effective interest rate for the financial liability. Any adjustment is immediately recognized in income.

Consolidated financial statements (continued)

e) Group investments excluding derivative financial instruments

Group investments are accounted for at either (a) fair value through OCI; (b) fair value through profit or loss; or (c) amortized cost.

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

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

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

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

Realized and unrealized gains and losses arising from changes in the fair value are recognized in income, within net capital gains/(losses) on investments and impairments, in the period in which they arise. Interest income determined using the effective interest method and dividend income from financial assets at fair value through profit or loss is included in net investment income.

Group investments include investment property accounted for at fair value through profit or loss. Rental income from investment property is recognized on a straight-line basis over the lease term and included in net investment income along with rental operating expenses for investment property recognized on an accrual basis.

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

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that loss events have occurred that negatively affect the estimated future cash flows of a financial asset or a group of financial assets. The evaluation of whether a financial asset is impaired requires significant judgment (see note 4).

f) Derivative financial instruments and hedge accounting

Derivative financial instruments, except those designated under a qualifying cash flow or net investment hedge relationship, are carried at fair value on the balance sheet with changes in fair value recognized in income.

Derivative financial instruments that qualify for hedge accounting

Derivative financial instruments are used by the Group to economically hedge risks. In limited circumstances derivative financial instruments are designated as hedging instruments for accounting purposes in:

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

Consolidated financial statements (continued)

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

The accounting treatment of a qualifying hedge relationship is further described in note 7.

g) Attorney-in-fact (AIF) contracts

The AIF contracts reflect the ability of the Group to generate future revenues through Farmers Group Inc. (FGI) based on the FGI's relationship with the Farmers Exchanges. The Farmers Exchanges are not owned by FGI, a wholly owned subsidiary of the Group. In determining that these relationships have an indefinite useful life, the Group took into consideration the organizational structure of inter-insurance exchanges, under which subscribers exchange contracts with each other and appoint an attorney-in-fact to provide non-claims services, and the historical AIF relationship between FGI and the Farmers Exchanges. The value of the AIF contracts is tested for impairment at least annually.

The services provided by FGI under such contracts are non-claims services including risk selection, preparation and mailing of policy documents and invoices, premium collection, management of the investment portfolios and certain other administrative functions. The multiple performance obligations covered by the consideration received are considered to be a series with the same pattern of transfer, therefore, the performance obligations are not separated. The revenue for the services provided includes Farmers management fee, membership fees and revenues for ancillary services. Farmers management fees are determined as a percentage of gross premiums earned by the Farmers Exchanges and recognized ratably over the period the services are provided. Membership fees are one-time fees charged at the time of the policy issuance that do not cover a distinct performance obligation. Such fees are recognized as revenue over the expected life of the customer relationship. The incremental costs incurred in connection with the customer setup activity are recognized as an asset and subsequently amortized using the same pattern as the related revenue. The revenue for ancillary services includes remuneration for services provided that are not covered by Farmers management fees where FGI acts as a principal. Typically, these services are provided over time, so that the revenue is also recognized over time. Refer to note 26 for further information.

h) Goodwill

Goodwill on the acquisition of subsidiaries is capitalized and tested for impairment annually, or more frequently if there are indications of impairment. For the purpose of impairment testing, goodwill is allocated to cash-generating units (CGUs) based on the level at which management monitors operations and makes decisions related to the continuation or disposal of assets and operations. If goodwill has been allocated to a CGU and an operation within that unit is disposed of, the carrying amount of the operation includes attributable goodwill when determining the gain or loss on disposal.

i) Intangible assets

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

Present value of future profits from acquired insurance contracts (PVFP)

An intangible asset representing the PVFP arises from the acquisition of life insurance businesses. Such an asset is amortized over the expected life of the acquired contracts, following the same principles as for DAC. The carrying value of the PVFP asset is tested periodically for impairment as part of the liability adequacy test for insurance contracts.

Distribution agreements

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

Software

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

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

The useful lives of computer software licenses and capitalized internal software development costs generally range from three to five years. In limited circumstances, capitalized software development costs may be amortized over a period of up to ten years, taking into account the effects of obsolescence, technology, competition and other economic and legal factors.

j) Employee benefits

Share-based compensation and cash incentive plans

The Group operates long-term incentive plans that are accounted for as equity-settled share-based compensation plans. The fair value of these incentive plans is determined at the grant date and is recognized as an expense in income over the vesting period, with a corresponding increase recorded in additional paid-in capital.

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

Retirement benefits

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

Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Group's expense related to these plans is accrued over the employees' service periods based on the actuarially determined cost for the period. Net interest and service costs are determined using the spot rate approach. Actuarial gains and losses are recognized, in full in the period in which they occur, in OCI. Past service costs, which result from plan amendments and curtailments, are recognized in income when the plan amendment or curtailment occurs (which is the date from which the plan change is irrevocable) and the date on which a constructive obligation arises. Settlement gains or losses are recognized in income when the settlement occurs.

Other post-employment benefits

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

k) Leases

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

When acting as a lessee, under IFRS 16, the Group recognizes a right-of-use asset and a corresponding lease liability at the lease commencement date when the leased asset is available for use by the Group. The lease liability is measured at the present value of the lease payments due over the lease term, discounted using the Group's incremental borrowing rate. Any options to extend or terminate a lease that the Group is reasonably certain to exercise are included in the lease term. The right-of-use asset is initially recognized at an amount equal to the lease liability adjusted for lease prepayments made or lease incentives received, initial direct costs and any estimated costs to dismantle or restore the leased asset.

The right-of-use asset is depreciated over the shorter of the leased asset's useful life or the lease term on a straight-line basis. The right-of-use asset is included in 'Property and equipment' and disclosed separately in note 13. The carrying amount of the lease liability is increased to reflect the unwinding of the discount so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period and is reduced by the lease payments made during the period. Lease payments include fixed payments and variable payments that depend on a non-leveraged index or a rate. Lease liabilities are included within 'Other Liabilities.'

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

Under IAS 17 all operating leases were accounted for off balance sheet with lease expense recognized on a straight-line basis over the lease term. Future payments under the non-cancellable operating leases were disclosed in note 22.

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

4. Critical accounting judgments and estimates

The application of certain accounting policies necessitates critical accounting estimates that involve discretionary judgments and the use of assumptions which are susceptible to change due to inherent uncertainties. Because of the uncertainties involved, actual results could differ significantly from the assumptions and estimates made by management. Such critical accounting estimates are of significance to insurance reserves and deferred acquisition costs, the determination of fair value for financial assets and liabilities, impairment charges, deferred taxes and employee benefits.

a) Reserves for insurance contracts and deferred acquisition costs

Property & Casualty

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

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

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

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

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

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

Consolidated financial statements (continued)

Life insurance

The reserves for future life policyholder benefits and policyholder contract deposits and other funds contain a number of assumptions regarding mortality or longevity, lapses, surrenders, expenses, discount rates and investment returns. These assumptions can vary by country, year of policy issuance and product type and are determined with reference to past experience adjusted for new trends, current market conditions and future expectations. As such the liabilities for future life policyholder benefits and policyholder contract deposits may not represent the ultimate amounts paid out to policyholders. For example:

- The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty arises because of the potential for pandemics and wide-ranging lifestyle changes, such as changes in eating, smoking and exercise habits, which could result in earlier deaths for age groups in which the Group has significant exposure to mortality risk.
- For contracts that insure the risk of longevity, such as annuity contracts, an appropriate allowance is made for people living longer. Continuing improvements in medical care and social conditions could result in further improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.
- Under certain contracts, the Group has offered product guarantees (or options to take up product guarantees), including fixed minimum interest rate or mortality rate returns. In determining the value of these options and/or benefits, estimates have been made as to the percentage of contract holders that may exercise them. Changes in investment conditions could result in significantly more contract holders exercising their options and/or benefits than has been assumed.
- Estimates are made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.
- Assumptions are determined with reference to current and historical customer data, as well as industry data. Interest rate assumptions reflect expected earnings on the assets supporting the future policyholder benefits. The information used by the Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions, available experience studies and profitability analysis.

Deferred policy acquisition costs and the present value of future profits (PVFP) are recognized on balance sheet only to the extent that they are recoverable from future policy income which also depends on the above assumptions. Recoverability is tested at contract inception and subsequently on a regular basis with reference to current expectations of future profits or margins.

See note 8 for further information on liabilities for insurance contracts and note 11 for deferred policy acquisition costs. Also refer to the insurance risk section of the risk review.

b) Fair value measurement

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

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

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

c) Impairment of assets

Financial assets

A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more occurred loss events that have an impact on the estimated future cash flows of the financial asset.

The evaluation of whether an available-for-sale debt security is impaired requires analysis of the credit standing of a particular issuer and involves management judgment. When assessing impairment of available-for-sale debt securities, the Group places emphasis on issuer specific factors, such as significant financial difficulty, default or delinquency on interest or principal payments. A credit rating downgrade, worsened liquidity or decline in fair value below the weighted-average cost is not by itself considered a loss event, but rather incorporated in the impairment analysis along with other available information.

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

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

Goodwill and attorney-in-fact (AIF) contracts

Goodwill is allocated to a cash generating unit (CGU) as outlined in note 3. The Group has defined the CGUs according to regions, separating Property & Casualty (P&C), Life businesses and other (see note 27). The CGUs which carry the majority of goodwill and AIF contracts are presented in table 4.

For goodwill impairment testing, the recoverable amount is the higher of its fair value less costs to sell and its value-in-use.

Fair value is determined, considering quoted market prices, current share values in the market place for similar publicly traded entities, and recent sale transactions of similar businesses.

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

The discount rates used in the recoverable amount calculations for developed markets are based on the capital asset pricing model and consider government bond rates which are further adjusted for equity risk premium, appropriate beta and leverage ratio. In emerging markets, discount rates are based on the U.S. dollar discount rate taking into account inflation differential expectations and country risks. All input factors to the discount rates are based on observable market data.

The recoverable amounts of AIF contracts and goodwill are determined on the basis of value-in-use calculations further described above. The basis for determining the values assigned to the key assumptions are current market trends and earnings projections.

Table 4 sets out for the major CGUs the applied discount rates and the perpetual nominal growth rates beyond the projection period that depend on expectations about country-specific growth rates and inflation as of the date of valuation, as well as the value of goodwill and AIF contracts as of December 31, 2019. No impairment was identified.

Consolidated financial statements (continued)

Table 4

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

	Business	in USD millions	Discount rates in % 2019	Discount rates in % 2018	Perpetual nominal growth rate in % 2019	Perpetual nominal growth rate in % 2018
Farmers	Farmers	1,845	8.5	9.7	–	–
North America	P&C	355	7.8	8.9	2.0	1.6
Europe, Middle East & Africa	P&C	260	6.6	7.4	2.0	1.9
Asia Pacific	P&C	657	7.6	8.2	2.2	2.0
Asia Pacific	Life	1,108	7.6	8.8	2.0	2.0
Latin America	P&C	260	13.6	16.1	3.8	4.7
Latin America	Life	84	11.9	11.2	3.6	3.0

Sensitivity tests have been performed on goodwill and AIF contracts that typically comprise of an analysis for either a decrease in cash flows of up to 30 percent, a decrease in the perpetual growth rate of up to 1.0 percentage point or an increase in the discount rate of up to 3.5 percentage points, so as to capture potential future variations in market conditions. The recoverability of the Latin America Property & Casualty CGU goodwill is very sensitive to key assumptions such as macroeconomic conditions, industry and market growth considerations, and cost factors in particular in Brazil and Mexico.

In 2018, the Group recognized USD 52 million of goodwill relating to the acquisition of mobile solution technology. The recoverability of this goodwill is reliant upon successful achievement of ambitious growth targets.

Distribution agreements

Qualitative analyses have been performed on distribution agreements, typically comprised of an analysis of the current financial performance, any change in the conditions in the agreement and environment that would indicate an impairment. No impairment was identified.

See notes 3, 6, 13, 14 and 15 for further information on impairment of assets.

d) Deferred taxes

Deferred tax assets are recognized if sufficient future taxable income, including income from the reversal of existing taxable temporary differences and available tax planning strategies, is available for realization. The utilization of deferred tax assets arising from temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases depends on the generation of sufficient taxable profits in the period in which the underlying asset or liability is recovered or settled. If applicable tax law acknowledges different types of expenses to be tax deductible, deferred tax assets are only recognized if they give rise to deductions against the same type of taxable income. The utilization of deferred tax assets arising from unused tax losses or tax credits depends on the generation of sufficient taxable profits before the unused tax losses or tax credits expire. As of each balance sheet date, management evaluates the recoverability of deferred tax assets and, if it is considered probable that all or a portion of the deferred tax asset will not be utilized, then a valuation allowance is recognized.

See note 17 for further information on deferred taxes.

e) Employee benefits

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

See note 20 for further information on employee benefits.

5. Acquisitions and divestments

Transactions in 2019

Acquisitions

OnePath

On December 11, 2017, the Group announced that it had entered into an agreement to acquire 100 percent of the Australian life and consumer credit insurance business (OnePath Life and OnePath General Insurance, hereafter OnePath) of Australia and New Zealand Banking Group Limited (ANZ). In order to gain early exposure to a portion of OnePath's earnings, the Group entered into a quota share agreement to reinsure the existing death, disability and critical illness business of OnePath as of May 1, 2018 for an upfront commission payment of USD 754 million. On May 31, 2019, the Group completed its acquisition of OnePath for USD 1.4 billion, subject to purchase price adjustments. As part of the transaction, Zurich will enter into a 20-year strategic alliance agreement with ANZ in Australia to distribute life insurance products through its bank channels.

Table 5.1 shows the preliminary balance sheet line items as of the OnePath acquisition date, representing the fair value of tangible and intangible assets and draft goodwill.

Table 5.1

OnePath preliminary balance sheet as of the acquisition date

in USD millions, as of May 31, 2019	Total[1]
Cash and cash equivalents	252
Total Group investments	2,233
Total unit-linked investments	770
Total investments	3,003
Reinsurers' share of reserves for insurance contracts	168
Receivables and other assets	223
Deferred tax assets	328
Property and equipment	1
Goodwill	936
Other intangible assets	47
Assets acquired	**4,957**
Liabilities for insurance contracts	2,175
Liabilities for investment contracts	1,206
Accrued liabilities	18
Other liabilities	150
Deferred tax liabilities	12
Liabilities acquired	**3,562**
Net assets acquired	1,395
Non-controlling interests	
Total acquisition costs	**1,395**

[1] As of December 31, 2019, the assets and liabilities of OnePath are recognized at acquisition date, May 31, 2019. The Group is currently in the process of assessing preliminary purchase price adjustments.

OnePath's pro-forma gross written premiums and net income after taxes for the twelve months ended December 31, 2019, were approximately USD 1.1 billion and USD 42 million, respectively. In addition, the Group generated net income after taxes of USD 14 million for the respective period on its existing reinsurance agreement with OnePath. The Group incurred transaction-related costs of approximately USD 26 million in non-technical expenses in BOP, the majority of which were incurred in 2019.

Adira Insurance

On September 27, 2018, Zurich Insurance Group entered into agreements to acquire 80 percent of PT Asuransi Adira Dinamika (Adira Insurance), a General Insurance provider, from PT Bank Danamon Indonesia (Bank Danamon) and a minority investor for approximately USD 465 million, including potential future incremental payments based on business performance. The agreement includes a 20-year distribution agreement. On November 27, 2019, Zurich Insurance Group completed the acquisition. Based on the purchase price, the preliminary value of intangible assets, mainly comprising goodwill and distribution agreements, are estimated at USD 340 million, including the 20 percent portion relating to non-controlling interest.

Consolidated financial statements (continued)

Divestments

Held for sale

On November 19, 2019, Zurich Financial Services (UKISA) Limited and Allied Zurich Holdings Limited (AZH) entered into an agreement with Embark Group Limited (Embark) to sell the UK Retail Wealth business, which includes an Investment and Retail Wealth Platform business, Sterling ISA Managers Limited (SIML), and an Investment Management business, Zurich Investment Services (UK) Limited (ZISUK). The sale is expected to be completed in Q2 2020, subject to regulatory approval. The Group has recorded a pre-tax loss of USD 123 million in the statement of income, including an impairment of assets of USD 209 million. As of December 31, 2019, assets and liabilities reclassified to held for sale were USD 57 million and USD 7 million, respectively.

On September 15, 2019, Zurich Insurance plc entered into an agreement to transfer the German Architects & Engineers portfolio to Darag Group. As of December 31, 2019, assets reclassified to held for sale were USD 177 million and liabilities reclassified to held for sale were USD 177 million.

On December 14, 2018, Zurich Insurance plc entered into an agreement with Catalina Holdings (Bermuda) Ltd and certain of its subsidiaries to transfer a portfolio of pre-2007 United Kingdom legacy employers' liability policies to Catalina London Limited, subject to regulatory and court approvals. The transfer is expected to be completed in 2020. As of December 31, 2019, assets reclassified to held for sale were USD 1.8 billion and liabilities reclassified to held for sale were USD 1.8 billion.

As of December 31, 2019, due to the completion of the sale of the UK workplace pensions and savings business by Zurich Assurance Ltd in the UK (see note below), the total assets and liabilities reclassified to held for sale decreased by USD 22 billion and USD 23.5 billion, to USD 2.1 billion and USD 2 billion, respectively.

UK workplace pensions and savings business
On October 12, 2017 the Group announced a strategic deal under which Lloyds Banking (LBG) would acquire the UK workplace pension and savings business. On April 3, 2018, Sterling ISA Managers Limited completed the sale of its Corporate Savings Platform together with the associated infrastructure, assets and business to LBG subsidiary, Scottish Widows Administration Services Limited. On July 1, 2019, the remaining insurance business was transferred by Zurich Assurance Ltd to Scottish Widows Limited by a UK court process under Part VII of the Financial Services and Markets Act 2000. In 2019, the Group has recorded a pre-tax gain of USD 24 million in the statement of income upon completion of the sale.

Venezuelan Operations
On May 24, 2019, the Group completed the sale of its 69 percent participation in Zurich Seguros, S.A. The Group has recorded a pre-tax loss of USD 260 million, of which USD 258 million results from negative currency translation adjustments, in the statement of income upon completion of the sale.

ADAC Autoversicherung AG and Bonnfinanz AG
On January 1, 2019, the Group completed the sale of its 51 percent participation in ADAC Autoversicherung AG and on April 2, 2019, the Group completed the sale of Bonnfinanz AG, with pre-tax gains of USD 19 million and USD 39 million, respectively, recorded within net gains/(losses) on divestment of businesses.

Transactions in 2018

Acquisitions

Blue Insurance
On October 3, 2018, Cover-More Australia Pty Ltd, a fully owned subsidiary of Zurich Insurance Company Ltd, completed the acquisition of Blue Insurance Ltd (Blue Insurance), an Irish-domiciled insurance intermediary acquired for approximately USD 64 million, subject to performance adjustments. Based on purchase price accounting, goodwill amounted to USD 37 million, including a USD 2 million increase in goodwill from post-acquisition adjustments in 2019.

EuroAmerica portfolio in Chile
On April 20, 2018, the Group announced it had entered into an agreement to acquire the individual and group life insurance portfolios as well as the long-term savings operations of EuroAmerica in Chile. The Group finalized the acquisition on November 5, 2018, for an estimated aggregate price of USD 144 million, subject to purchase price adjustments. Based on purchase price accounting, goodwill amounted to USD 90 million, including a USD 12 million reduction of goodwill in 2019 from post-acquisition adjustments.

Consolidated financial statements (continued)

Travel Ace and Universal Assistance
On March 12, 2018, the Group announced the acquisition of Travel Ace and Universal Assistance, the leading providers of traveler assistance in Latin America, for approximately USD 82 million. The transaction encompassed 19 legal entities operating throughout Latin America, most notably in Argentina, Brazil, Chile, Colombia and Mexico. Based on purchase price accounting, goodwill amounted to USD 94 million.

QBE Latin America
On February 24, 2018, the Group entered into an agreement to acquire the Latin American operations of the Australian insurer QBE Insurance Group Limited (QBE) with operations in Argentina, Brazil, Colombia, Ecuador and Mexico. On July 2, 2018, the acquisitions of Argentina and Brazil were closed for an amount, including purchase price adjustments, of USD 190 million and USD 27 million, respectively. The acquisitions of Mexico and Ecuador were closed on August 31, 2018 and October 1, 2018, each for an amount of USD 46 million including purchase price adjustments. The acquisition of Colombia was completed on February 1, 2019, for an amount of USD 18 million, subject to purchase price adjustments.

Table 5.2 shows the main balance sheet line items, including post-acquisition adjustments, representing the fair value of acquired QBE Latin America's net tangible assets, intangible assets and goodwill, based on purchase price accounting.

Table 5.2

QBE Latin America balance sheet as of the acquisition dates

in USD millions	**Total**
Cash and cash equivalents	89
Total investments	397
Receivables and other assets	411
Deferred tax assets	21
Property and equipment	21
Goodwill	222
Other intangible assets	51
Assets acquired	**1,212**
Liabilities for insurance contracts	736
Other liabilities	142
Deferred tax liabilities	8
Liabilities acquired	**886**
Net assets acquired	326
Total acquisition costs	**326**

QBE Latin America's net income after taxes for the months since the acquisition dates, as included in the Group consolidated income statements for the year ended December 31, 2018, amounts to USD 3 million including transaction-related costs. Pro-forma net income after taxes for the full 12 months ended December 31, 2018, amounts to approximately USD 21 million, adjusted for transaction-related costs incurred by QBE Latin America. In addition, the Group incurred transaction-related costs of approximately USD 9 million in non-technical expenses in BOP. The majority has been incurred in 2018.

Divestments

Endsleigh Limited
On March 29, 2018, the Group completed the sale of the Endsleigh Limited group of companies to A-Plan Holdings. A pre-tax loss of USD 116 million has been recorded within net gains/losses on divestment of businesses, of which USD 97 million were recognized in December 2017 at the time the sale was announced.

Consolidated financial statements (continued)

6. Group investments

Group investments are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Net investment result on Group investments includes returns on investment-related cash, which is included in cash and cash equivalents on the consolidated balance sheets.

Net investment result on Group investments

Table 6.1

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) and impairments		Net investment result		of which impairments	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Investment cash	20	8	–	–	20	8	–	–
Equity securities	470	438	1,150	355	1,620	794	(80)	(218)
Debt securities	4,051	4,103	685	84	4,736	4,187	(129)	(32)
Investment property[1]	473	487	581	401	1,054	888	–	–
Mortgage loans	161	186	7	1	168	187	–	1
Other loans	365	382	27	14	393	397	(7)	12
Investments in associates and joint ventures	3	1	(1)	–	1	2	–	–
Derivative financial instruments	–	–	(356)	45	(356)	45	–	–
Investment result, gross, on Group investments	5,542	5,606	2,093	901	7,635	6,507	(216)	(238)
Investment expenses on Group investments	(244)	(219)	–	–	(244)	(219)	–	–
Investment result, net, on Group investments	**5,298**	**5,387**	**2,093**	**901**	**7,391**	**6,288**	**(216)**	**(238)**

[1] Rental operating expenses for investment property amounted to USD 141 million and USD 98 million for the years ended December 31, 2019 and 2018, respectively.

Details of Group investments by category

Table 6.2

as of December 31	2019		2018	
	USD millions	**% of total**	USD millions	% of total
Equity securities:				
Fair value through profit or loss	4,391	2.3	3,633	2.0
Available-for-sale	13,905	7.2	12,587	6.9
Total equity securities	18,296	9.5	16,220	8.9
Debt securities:				
Fair value through profit or loss	6,713	3.5	5,229	2.9
Available-for-sale	138,676	71.7	132,522	72.6
Held-to-maturity	2,117	1.1	2,118	1.2
Total debt securities	147,507	76.3	139,870	76.6
Investment property	13,261	6.9	12,351	6.8
Mortgage loans	5,935	3.1	6,556	3.6
Other loans	8,274	4.3	7,614	4.2
Investments in associates and joint ventures	39	0.0	36	0.0
Total Group investments[1]	**193,312**	**100.0**	**182,647**	**100.0**

[1] 2019 Group investments include equity securities, debt securities and other loans related to the OnePath acquisition (see note 5).

Investments with a carrying value of USD 6.2 billion are held to meet local regulatory requirements in each of the years ended December 31, 2019 and 2018.

Consolidated financial statements (continued)

Details of debt securities by category

Table 6.3

in USD millions, as of December 31	Fair value through profit or loss		Available-for-sale		Held-to-maturity		Total	Total
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Debt securities:								
Government and supra-national bonds	3,542	2,759	66,196	59,395	1,942	1,917	71,681	64,071
Corporate securities	2,682	2,061	54,846	55,229	175	201	57,703	57,490
Mortgage and asset-backed securities	489	409	17,634	17,899	–	–	18,123	18,308
Total debt securities	**6,713**	**5,229**	**138,676**	**132,522**	**2,117**	**2,118**	**147,507**	**139,870**

Debt securities maturity schedule

Table 6.4

in USD millions, as of December 31	Fair value through profit or loss		Available-for-sale		Held-to-maturity		Total	Total
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Debt securities:								
< 1 year	743	564	7,412	6,438	20	7	8,175	7,009
1 to 5 years	1,513	1,226	35,878	35,933	816	816	38,206	37,975
5 to 10 years	1,295	981	32,681	32,632	729	462	34,706	34,076
> 10 years	2,674	2,049	45,071	39,620	552	833	48,296	42,502
Subtotal	6,225	4,820	121,042	114,624	2,117	2,118	129,384	121,562
Mortgage and asset-backed securities:								
< 1 year	–	–	19	36	–	–	19	36
1 to 5 years	115	112	2,017	1,869	–	–	2,133	1,981
5 to 10 years	67	63	1,801	2,265	–	–	1,867	2,328
> 10 years	307	235	13,797	13,728	–	–	14,104	13,963
Subtotal	489	409	17,634	17,899	–	–	18,123	18,308
Total	**6,713**	**5,229**	**138,676**	**132,522**	**2,117**	**2,118**	**147,507**	**139,870**

The analysis in table 6.4 is provided by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Investment property

Table 6.5

in USD millions	Total	
	2019	2018
As of January 1	12,351	12,238
Additions and improvements	1,284	757
Acquisitions/(divestments)	–	1
Disposals	(777)	(563)
Market value revaluation	428	247
Transfer from/to assets held for own use	25	–
Transfer to assets held for sale	(36)	(15)
Foreign currency translation effects	(15)	(315)
As of December 31	**13,261**	**12,351**

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

Consolidated financial statements (continued)

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

Table 6.6

in USD millions, as of December 31	Total 2019	2018
Equity securities: available-for-sale	1,570	137
Debt securities: available-for-sale	12,997	6,567
Other	536	164
Gross unrealized gains/(losses) on Group investments	15,103	6,868
Less amount of unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(8,574)	(4,857)
Life deferred acquisition costs and present value of future profits	(914)	(490)
Deferred income taxes	(1,085)	(476)
Non-controlling interests	(91)	(33)
Total[1]	**4,439**	**1,012**

[1] Net unrealized gains/(losses) on Group investments include net gains arising on cash flow hedges of USD 454 million and USD 363 million as of December 31, 2019 and 2018, respectively.

Securities lending, repurchase and reverse repurchase agreements

Table 6.7

in USD millions, as of December 31	2019	2018
Securities lending agreements		
Securities lent under securities lending agreements[1]	156	599
Collateral received for securities lending	190	676
of which: Cash collateral	56	47
of which: Non-cash collateral[2]	134	629
Liabilities for cash collateral received for securities lending	56	47
Repurchase agreements		
Securities sold under repurchase agreements[3]	978	1,318
Obligations to repurchase securities	977	1,316
Reverse repurchase agreements		
Securities purchased under reverse repurchase agreements[4]	57	48
Receivables under reverse repurchase agreements	56	47

[1] The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 150 million and USD 599 million as of December 31, 2019 and 2018, respectively. The majority of these assets were debt securities.
[2] The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of USD 126 million and USD 629 million as of December 31, 2019 and 2018, respectively.
[3] The Group's counterparties had the right to sell or repledge, in the absence of default, assets pledged as collateral with a fair value of USD 350 million and USD 609 million as of December 31, 2019 and 2018, respectively. The majority of these assets were debt securities.
[4] The Group had the right to sell or repledge, in the absence of default by its counterparties, securities received as collateral with a fair value of nil as of December 31, 2019 and 2018, respectively.

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

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

7. Group derivative financial instruments and hedge accounting

The Group uses derivative financial instruments mainly for economic hedging purposes to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates. Derivative financial instruments with a positive fair value are reported in receivables and other assets (see note 15) and those with a negative fair value are reported in other liabilities (see note 16).

Table 7.1 shows the fair value and notional amounts for instruments which did not qualify for hedge accounting as of December 31, 2019 and 2018. While these notional amounts express the extent of the Group's involvement in derivative transactions, they do not, however, represent the amounts at risk.

Table 7.1

Maturity profile of notional amounts and fair values of Group derivative financial instruments

in USD millions, as of December 31	2019						2018		
	Maturity by notional amount								
	< 1 year	1 to 5 years	> 5 years	Notional amounts	Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
Interest rate contracts:									
OTC									
Swaps	330	256	1,980	2,566	156	(50)	2,686	66	(15)
Swaptions	337	3,753	1,462	5,551	105	(69)	2,127	54	–
Exchange traded									
Futures	472	–	–	472	2	(2)	209	3	(2)
Total interest rate contracts	**1,139**	**4,009**	**3,442**	**8,589**	**263**	**(121)**	**5,022**	**123**	**(17)**
Equity contracts:									
OTC									
Swaps	–	–	36	36	–	(7)	–	–	–
Options	10,301	475	319	11,095	83	(42)	3,361	67	(35)
Exchange traded									
Futures	211	–	–	211	–	(2)	225	7	–
Total equity contracts	**10,511**	**475**	**355**	**11,341**	**83**	**(51)**	**3,586**	**75**	**(35)**
Foreign exchange contracts:									
OTC									
Swaps and forwards	17,091	–	–	17,091	159	(68)	19,840	129	(155)
Total foreign exchange contracts	**17,091**	**–**	**–**	**17,091**	**159**	**(68)**	**19,840**	**129**	**(155)**
Credit default swaps	–	–	–	–	–	–	4,000	–	(31)
Total credit contracts	**–**	**–**	**–**	**–**	**–**	**–**	**4,000**	**–**	**(31)**
Other contracts:									
OTC									
Options	–	–	–	–	–	–	54	–	(4)
Swaps	–	–	–	–	–	–	42	–	(4)
Total other contracts	**–**	**–**	**–**	**–**	**–**	**–**	**95**	**–**	**(8)**
Total Group derivative financial instruments	**28,741**	**4,484**	**3,797**	**37,022**	**505**	**(240)**	**32,543**	**327**	**(245)**

Interest rate contracts

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

Equity contracts

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

Foreign exchange contracts

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

Consolidated financial statements (continued)

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.

Other contracts

Other contracts predominantly include stable value products (SVPs) issued to insurance company separate accounts in connection with certain life insurance policies (Bank Owned Life Insurance (BOLI) and Company Owned Life Insurance (COLI)) with an account value of USD 11.1 billion as of December 31, 2019 and USD 10.8 billion as of December 31, 2018, and with a market value of the underlying investments of USD 11.1 billion and USD 10.4 billion as of December 31, 2019 and 2018, respectively (not included in the table above). The Group includes the likelihood of surrender as one of the input parameters to determine the fair value of the SVPs which was nil as of December 31, 2019 and 2018.

In certain circumstances, derivative financial instruments meet the requirements of an effective hedge for accounting purposes. Where this is the case, hedge accounting may be applied. Financial information for these instruments is set out in table 7.2.

Table 7.2

Maturity profile of notional amounts and fair values of Group derivative financial instruments

in USD millions, as of December 31				2019					2018
	Maturity by notional amount			Notional	Positive	Negative	Notional	Positive	Negative
		1 to 5		principal	fair	fair	principal	fair	fair
	< 1 year	years	> 5 years	amounts	values	values	amounts	values	values
Fair value hedges:									
Cross currency swaps	–	–	62	62	–	(54)	62	–	(49)
Interest rate swaps	–	–	421	421	15	–	2,240	63	(1)
Forex swaps and forwards	313	–	–	313	3	–	478	4	(1)
Forwards bonds	108	–	–	108	–	(8)	–	–	–
Total fair value hedges	**421**	**–**	**482**	**904**	**19**	**(61)**	**2,779**	**67**	**(52)**
Cash flow hedges:									
Interest rate swaptions	–	873	1,286	2,158	562	–	2,124	424	–
Cross currency swaps	–	261	109	370	18	(5)	343	21	(4)
Interest rate swaps[1]	2	10	771	783	8	(50)	799	7	(4)
Forex swaps and forwards	–	–	–	–	–	–	31	–	(1)
Forwards bonds	84	539	–	623	80	(9)	286	20	(20)
Total cash flow hedges	**86**	**1,683**	**2,165**	**3,934**	**669**	**(64)**	**3,583**	**472**	**(29)**
Net investment hedges:									
Forex swaps and forwards	1,606	–	–	1,606	34	–	1,666	32	–
Total net investment hedges	**1,606**	**–**	**–**	**1,606**	**34**	**–**	**1,666**	**32**	**–**

[1] Includes USD 623 million and USD 636 million notional related to derivatives centrally cleared as of December 31, 2019 and 2018, respectively.

Fair value hedges

Designated fair value hedges consist of interest rate swaps used to protect the Group against changes in interest rate exposure and foreign currency exposure of debt issued by the Group.

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

The Group also has fair value hedge relationships consisting of cross currency swaps and forwards to protect the Group from foreign currency fluctuation of certain fixed income securities and hybrid equity securities denominated in a currency other than the functional currency of the reporting entity.

Forward Bonds are used to hedge bond's fair values against rates movements.

Changes in the fair value of the derivative financial instruments designated as fair value hedges and changes in the fair value of the hedged item in relation to the risk being hedged are both recognized in income.

Consolidated financial statements (continued)

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

Table 7.3

Gains/(losses) arising from fair value hedges

in USD millions, for the years ended December 31	2019	2018
Gains/(losses)		
on hedging instruments[1]	23	(7)
on hedged items attributable to the hedged risk	(24)	(2)

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

Cash flow hedges

Designated cash flow hedges, such as interest rate swaptions and forwards are used to protect the Group against variability of future cash flows due to changes in interest rates associated with expected future purchases of debt securities required for certain life insurance policies. The effective portion of the gains and losses on these swaptions are initially recognized in OCI. Subsequently the gains or losses will be recycled to profit or loss within net investment income on Group investments over the period to December 31, 2036. The gains and losses related to the ineffective portion of these hedges are recognized immediately in income within net capital gains/(losses) on investments and impairments.

The Group also uses interest rate swaps and cross currency swaps for cash flow hedging to protect against the exposure to variability of cash flows attributable to interest rate and currency risk. The hedging instrument is measured at fair value, with the effective portion of changes in its fair value recognized in OCI. The effective portion, related to spot rate changes in the fair value of the hedging instrument, is reclassified to profit or loss within administrative and other operating expense as an offset to foreign currency revaluation on the underlying hedged debt. The ineffective portion of the change in fair value is recognized directly in income within administrative and other operating expense.

The Group uses foreign exchange swaps and forwards to protect against the exposure of the variability of future cash outflows related to reinsurance transactions. The effective portion of the gains and losses are initially recognized in OCI and will be recycled to profit or loss within underwriting and policy acquisition costs using the same pattern as the hedged item.

As of December 31, 2019, there were no debt issuances designated as hedged items in a cash flow hedge relationship (see note 18).

The net change of gains/(losses) deferred in OCI on derivative financial instruments designated as cash flow hedges were USD 196 million and USD (3) million before tax for the years ended December 31, 2019 and 2018, respectively.

The Group recognized gains of USD 33 million and USD 34 million in the consolidated income statement within net investment income on Group investments for the years ended December 31, 2019 and 2018, respectively. The Group also recognized net gains/(losses) of USD 4 million and USD 5 million within administrative and other operating expense for the years ended December 31, 2019 and 2018, respectively, as an offset to the foreign currency revaluation on the underlying hedged items.

A nil amount for the years ended December 31, 2019 and 2018, respectively, was recognized in net capital gains/(losses) and impairments due to hedge ineffectiveness.

Net investment hedges

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

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

The net change of gains/(losses) deferred in OCI were USD (40) million and USD (114) million before tax for the years ended December 31, 2019 and 2018, respectively as a result of a hedge relationship by foreign exchange forwards and swaps.

The Group has also designated certain debt issuances as hedging instruments on a non-derivative net investment hedge relationship. The notional amount of these financial instruments was USD 8.1 billion and USD 7.5 billion for the years ended December 31, 2019 and 2018, respectively. The net gains/(losses) deferred in OCI were USD 242 million and USD 148 million before tax for the years ended December 31, 2019 and 2018, respectively.

Information on debt issuances designated as hedging instruments in a net investment hedge relationship is set out in note 18.

No ineffectiveness of net investment hedges was recognized in net capital gains/(losses) and impairments for the years ended December 31, 2019 and 2018.

Derivative financial instruments: offsetting of financial assets and liabilities

Table 7.4 shows the net asset and liability position of Group derivative financial instruments subject to enforceable master netting arrangements and collateral agreements. Master netting arrangements are used by the Group to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. These arrangements commonly create a right of offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or other circumstances which would not be expected to arise in the normal course of business.

Table 7.4

Group derivative financial instruments subject to enforceable master netting arrangements and collateral agreements

in USD millions, as of December 31	Derivative assets		Derivative liabilities	
	2019	2018	**2019**	2018
Fair value	1,226	899	(365)	(325)
Related amounts not offset	(99)	(169)	100	168
Cash collateral (received)/pledged	(1,089)	(666)	116	90
Non-cash collateral (received)/pledged	(29)	(26)	54	60
Net amount	**9**	**38**	**(94)**	**(7)**

Consolidated financial statements (continued)

8. Liabilities for insurance contracts and reinsurers' share of liabilities for insurance contracts

Liabilities for insurance contracts

Table 8.1

in USD millions, as of December 31	Gross		Ceded		Net	
	2019	2018	**2019**	2018	**2019**	2018
Reserves for losses and loss adjustment expenses	59,165	60,913	(12,137)	(11,535)	47,028	49,378
Reserves for unearned premiums	17,551	16,714	(3,412)	(3,211)	14,139	13,503
Future life policyholder benefits	77,756	74,950	(3,978)	(3,110)	73,778	71,839
Policyholder contract deposits and other funds	27,480	24,266	(3,285)	(3,416)	24,195	20,850
Reserves for unit-linked insurance contracts	77,684	68,766	–	–	77,684	68,766
Other insurance liabilities	4,505	3,599	(1)	–	4,503	3,599
Total liabilities for insurance contracts[1,2]	**264,140**	**249,208**	**(22,813)**	**(21,273)**	**241,327**	**227,936**

[1] Includes USD 2.2 billion Gross liabilities for insurance contracts from the OnePath acquisition (see note 5).
[2] Total liabilities for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 61 million and USD 76 million as of December 31, 2019 and 2018, respectively.

Discounted reserves for losses and loss adjustment expenses

Table 8.2

in USD millions, as of December 31	Gross		Ceded		Net	
	2019	2018	**2019**	2018	**2019**	2018
Reserves for losses and loss adjustment expenses	59,165	60,913	(12,137)	(11,535)	47,028	49,378
of which: Discounted reserves	3,078	2,843	(40)	(33)	3,038	2,810
Discount effect	1,219	1,274	(24)	(26)	1,195	1,248
Undiscounted reserves for losses and loss adjustment expenses	60,384	62,187	(12,161)	(11,561)	48,223	50,627
of which: Undiscounted amount of discounted reserves	4,297	4,117	(64)	(59)	4,233	4,058
Average discount rate[1]	3.9%	2.3%	2.0%	2.5%	4.0%	2.3%

[1] Average discount rate increase due to hyperinflationary economy in Argentina.

Development of reserves for losses and loss adjustment expenses

Table 8.3

in USD millions	Gross		Ceded		Net	
	2019	2018	**2019**	2018	**2019**	2018
As of January 1	60,913	65,368	(11,535)	(11,070)	49,378	54,298
Losses and loss adjustment expenses incurred:						
Current year	22,400	22,973	(5,151)	(4,903)	17,249	18,071
Prior years	(769)	(726)	186	52	(583)	(674)
Total incurred	21,631	22,248	(4,965)	(4,851)	16,666	17,397
Losses and loss adjustment expenses paid:						
Current year	(8,782)	(8,533)	1,095	1,209	(7,687)	(7,324)
Prior years	(14,551)	(14,393)	3,720	2,807	(10,831)	(11,586)
Total paid	(23,333)	(22,926)	4,815	4,016	(18,518)	(18,910)
Interest effects of discounted reserves	145	64	(3)	(6)	142	59
Acquisitions/(divestments) and transfers[1]	17	(2,354)	(519)	156	(502)	(2,198)
Foreign currency translation effects	(209)	(1,486)	70	219	(139)	(1,267)
As of December 31	**59,165**	**60,913**	**(12,137)**	**(11,535)**	**47,028**	**49,378**

[1] In 2019, the Group reclassified USD 177 million to liabilities held for sale in Germany (see note 5). In addition, a retroactive reinsurance agreement of a Non-Core Business portfolio resulted in a decrease of net reserves by USD 402 million. In 2018 the Group reclassified USD 1.8 billion to assets and liabilities held for sale in UK and Germany (see note 5). Additional movements mainly related to QBE and Travel Ace and Universal Assistance acquisitions (see note 5) and portfolio transfers in Germany and Australia with retroactive reinsurance agreements signed in 2018.

The Group establishes loss reserves, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates or judgments are reflected in the results of operations in the period in which estimates and judgments are changed.

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

For the year ended December 31, 2019, the decrease of USD 2.3 billion in net reserves for losses and loss adjustment expenses is mainly driven by a decrease in North America Commercial due to higher reinsurance cessions in Property, as well as the disposal of U.S. asbestos and environmental liability insurance portfolios.

Net favorable reserve development emerged from reserves established in prior years amounting to USD 583 million mainly related to the following:

- In EMEA, favorable prior year development of USD 423 million driven by motor and liability in retail segment;
- In North America, favorable prior year development of USD 174 million driven by workers' injury in retail and commercial segments.

For the year ended December 31, 2018, the decrease of USD 4.9 billion in net reserves for losses and loss adjustment expenses is mainly driven by reclassification of USD 1.8 billion to assets and liabilities held for sale (see note 5) and decrease of USD 1.3 billion due to foreign currency translation effects. In addition, certain portfolios with retroactive reinsurance agreements signed in 2018 in Germany and Australia were transferred to external parties, resulting in a decrease of net reserves of USD 690 million.

Net favorable reserve development emerged from reserves established in prior years amounting to USD 674 million mainly related to the following:

- In EMEA, favorable prior year development of USD 357 million driven by motor and liability in retail;
- In North America, favorable prior year development of USD 206 million driven by workers' injury.

Consolidated financial statements (continued)

Development of insurance losses, net

Table 8.4

in USD millions, as of December 31	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
Gross reserves for losses and loss adjustment expenses (undiscounted)	68,274	67,762	69,986	68,312	64,472	62,971	62,254	66,715	62,187	60,384
Reinsurance recoverable (undiscounted)	(12,093)	(12,421)	(12,601)	(10,993)	(9,770)	(9,231)	(9,796)	(11,092)	(11,561)	(12,161)
Initial net reserves for losses and loss adjustment expenses	56,180	55,341	57,385	57,319	54,703	53,739	52,458	55,623	50,627	48,223
Cumulative paid as of:										
One year later	*(13,092)*	*(13,525)*	*(13,799)*	*(13,301)*	*(12,576)*	*(11,690)*	*(10,994)*	*(11,586)*	*(10,831)*	
Two years later	*(21,073)*	*(21,245)*	*(21,465)*	*(21,002)*	*(19,460)*	*(18,562)*	*(17,808)*	*(18,277)*		
Three years later	*(27,137)*	*(26,871)*	*(27,064)*	*(26,021)*	*(24,475)*	*(23,590)*	*(22,540)*			
Four years later	*(31,375)*	*(31,129)*	*(30,691)*	*(29,851)*	*(28,105)*	*(27,106)*				
Five years later	*(34,478)*	*(33,836)*	*(33,515)*	*(32,509)*	*(30,667)*					
Six years later	*(36,556)*	*(35,935)*	*(35,579)*	*(34,426)*						
Seven years later	*(38,192)*	*(37,625)*	*(37,108)*							
Eight years later	*(39,568)*	*(38,838)*								
Nine years later	*(40,562)*									
Cumulative incurred:										
One year later	*(1,302)*	*(571)*	*(757)*	*(59)*	*149*	*(479)*	*(326)*	*(674)*	*(583)*	
Two years later	*(1,819)*	*(891)*	*(652)*	*(139)*	*(25)*	*(1,106)*	*(1,043)*	*(1,516)*		
Three years later	*(2,028)*	*(677)*	*(777)*	*(72)*	*(438)*	*(1,666)*	*(1,996)*			
Four years later	*(1,891)*	*(804)*	*(709)*	*(214)*	*(823)*	*(2,402)*				
Five years later	*(2,020)*	*(826)*	*(912)*	*(576)*	*(1,382)*					
Six years later	*(2,051)*	*(1,018)*	*(1,136)*	*(1,041)*						
Seven years later	*(2,107)*	*(1,112)*	*(1,552)*							
Eight years later	*(2,188)*	*(1,576)*								
Nine years later	*(2,504)*									
Net undiscounted reserves re-estimated[1]:										
One year later	*54,878*	*54,770*	*56,628*	*57,259*	*54,852*	*53,260*	*52,131*	*54,949*	*50,044*	
Two years later	*54,361*	*54,450*	*56,734*	*57,180*	*54,677*	*52,633*	*51,415*	*54,108*		
Three years later	*54,152*	*54,664*	*56,609*	*57,246*	*54,265*	*52,073*	*50,462*			
Four years later	*54,289*	*54,537*	*56,676*	*57,105*	*53,880*	*51,337*				
Five years later	*54,160*	*54,515*	*56,474*	*56,743*	*53,321*					
Six years later	*54,129*	*54,323*	*56,250*	*56,278*						
Seven years later	*54,073*	*54,229*	*55,834*							
Eight years later	*53,992*	*53,765*								
Nine years later	*53,676*									
Cumulative (deficiency)/ redundancy of net reserves	2,504	1,576	1,552	1,041	1,382	2,402	1,996	1,516	583	
Cumulative (deficiency)/ redundancy as a percentage of initial net reserves	4.5%	2.8%	2.7%	1.8%	2.5%	4.5%	3.8%	2.7%	1.2%	
Gross reserves re-estimated	64,176	64,717	66,435	65,781	62,136	59,757	59,125	64,664	61,418	
Cumulative (deficiency)/ redundancy of gross reserves	4,097	3,045	3,552	2,531	2,337	3,213	3,129	2,051	769	
Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves	6.0%	4.5%	5.1%	3.7%	3.6%	5.1%	5.0%	3.1%	1.2%	

[1] Undiscounted amounts starting 2016, prior years are shown discounted.

Consolidated financial statements (continued)

Table 8.4 presents changes in the historical reserves for losses and loss adjustment expenses, net of reinsurance, that the Group established in 2010 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. Similarly, the cumulative incurred losses section details the sum of the cumulative paid amounts shown in the triangle above and the changes in loss reserves since the end of each financial year. The net undiscounted reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2019. It is the difference between the initial net reserve estimate and the last entry of the diagonal in the net undiscounted reserves re-estimated portion of the table. Conditions and trends that have affected the development of reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.4.

The Group has considered asbestos, including latent injury, claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Group continues to be advised of indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, together with increased medical diagnostic capabilities and awareness have often caused actual loss development to exhibit more variation than in other lines of business. Such claims require specialized reserving techniques and the uncertainty of the ultimate cost of these types of claims has tended to be greater than the uncertainty related to standard lines of business.

Net reserves for losses and loss adjustment expenses for asbestos amounted to USD 123 million and USD 384 million for the years ended December 31, 2019 and 2018, respectively.

Development of future life policyholder benefits

Table 8.5

in USD millions	Gross		Ceded		Net	
	2019	2018	**2019**	2018	**2019**	2018
As of January 1	74,950	77,529	(3,110)	(3,201)	71,839	74,328
Premiums	13,634	13,270	(1,368)	(1,222)	12,266	12,048
Claims	(10,631)	(10,360)	1,098	952	(9,534)	(9,408)
Fee income and other expenses	(3,911)	(4,281)	258	335	(3,652)	(3,945)
Interest and bonuses credited to policyholders	2,107	1,951	(101)	(89)	2,007	1,862
Changes in assumptions	49	(24)	–	2	49	(21)
Acquisitions/(divestments) and transfers[1]	1,305	23	(753)	12	552	35
Increase/(decrease) recorded in other comprehensive income	876	(228)	–	–	876	(228)
Foreign currency translation effects	(623)	(2,931)	(2)	101	(626)	(2,830)
As of December 31	**77,756**	**74,950**	**(3,978)**	**(3,110)**	**73,778**	**71,839**

[1] The 2019 net movement is mainly related to the acquisition of OnePath (see note 5), the 2018 net movement is mainly related to the EuroAmerica acquisition in Chile (see note 5) and sale of a portfolio in Singapore.

Long-duration contract liabilities included in future life policyholder benefits result primarily from traditional participating and non-participating life insurance products. Short-duration contract liabilities are primarily accident and health insurance products.

Future life policyholder benefits are generally calculated by a net premium valuation. In terms of U.S. dollars, the weighted average discount rate used in the calculation of future life policyholder benefits is 2.3 percent and 2.4 percent as of December 31, 2019 and 2018, respectively.

The amount of policyholder dividends to be paid is determined annually by each life insurance subsidiary. Policyholder dividends include life policyholder share of net income and unrealized appreciation of investments that are required to be allocated by the insurance contract or by local insurance regulations. Experience adjustments related to future policyholder benefits and policyholder contract deposits vary according to the type of contract and the country. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

Consolidated financial statements (continued)

The net impact of changes in assumptions on future life policyholder benefits by type of assumption is shown in table 8.6.

Table 8.6

Effect of changes in assumptions for future life policyholder benefits

in USD millions, for the years ended December 31	2019	2018
Interest rates	15	(1)
Investment return	30	(3)
Expense	4	(9)
Morbidity	(5)	(3)
Longevity	5	(6)
Lapses	3	5
Other	(2)	(6)
Net impact of changes in assumptions	**48**	**(23)**

Table 8.7

Policyholder contract deposits and other funds gross

in USD millions, as of December 31	2019	2018
Universal life and other contracts	13,679	13,250
Policyholder dividends	13,801	11,016
Total	**27,480**	**24,266**

Table 8.8

Development of policyholder contract deposits and other funds

in USD millions	Gross		Ceded		Net	
	2019	2018	2019	2018	2019	2018
As of January 1	24,266	24,944	(3,416)	(3,533)	20,850	21,411
Premiums	1,175	1,073	(76)	(73)	1,099	999
Claims	(1,327)	(1,319)	306	318	(1,021)	(1,001)
Fee income and other expenses	(291)	(402)	–	(6)	(290)	(407)
Interest and bonuses credited to policyholders	1,393	1,406	(119)	(123)	1,274	1,284
Acquisitions/(divestments) and transfers[1]	244	422	–	–	244	422
Increase/(decrease) recorded in other comprehensive income	2,328	(1,125)	–	–	2,328	(1,125)
Foreign currency translation effects	(308)	(734)	20	–	(287)	(734)
As of December 31	**27,480**	**24,266**	**(3,285)**	**(3,416)**	**24,195**	**20,850**

[1] The 2019 movement relates to the acquisition of OnePath (see note 5), the 2018 net movement is mainly related to the acquisition of EuroAmerica in Chile (see note 5).

Consolidated financial statements (continued)

Tables 8.9a and 8.9b provide an analysis of the expected maturity profile of reserves for insurance contracts, net of reinsurance, based on expected cash flows without considering the surrender values as of December 31, 2019 and 2018. Reserves for unit-linked insurance contracts amounting to USD 78 billion and USD 69 billion as of December 31, 2019 and 2018, respectively, are not included, as policyholders can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are largely borne by the policyholders of unit-linked contracts.

Expected maturity profile for reserves for insurance contracts, net of reinsurance – current period

Table 8.9a

in USD millions, as of December 31, 2019	Reserves for losses and loss adjustment expenses	Future life policyholder benefits	Policyholder contract deposits and other funds	Total
< 1 year	14,214	9,043	1,680	24,937
1 to 5 years	19,221	15,908	1,988	37,116
5 to 10 years	6,403	15,019	2,348	23,770
10 to 20 years	4,762	12,654	2,818	20,234
> 20 years	2,428	21,154	15,362	38,944
Total	**47,028**	**73,778**	**24,195**	**145,001**

Expected maturity profile for reserves for insurance contracts, net of reinsurance – prior period

Table 8.9b

in USD millions, as of December 31, 2018	Reserves for losses and loss adjustment expenses	Future life policyholder benefits	Policyholder contract deposits and other funds	Total
< 1 year	14,128	9,425	1,613	25,167
1 to 5 years	19,969	17,523	1,722	39,215
5 to 10 years	7,353	14,077	2,280	23,710
10 to 20 years	5,437	13,512	2,644	21,593
> 20 years	2,491	17,301	12,591	32,383
Total	**49,378**	**71,839**	**20,850**	**142,068**

Consolidated financial statements (continued)

9. Liabilities for investment contracts

Liabilities for investment contracts

Table 9.1

in USD millions, as of December 31	2019	2018
Unit-linked investment contracts	48,967	41,188
Investment contracts (amortized cost)	931	504
Investment contracts with DPF	11,863	9,746
Total	**61,761**	**51,439**

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

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

Development of liabilities for investment contracts

Table 9.2

in USD millions	2019	2018
As of January 1	51,439	55,627
Premiums	10,913	13,133
Claims	(9,587)	(15,353)
Fee income and other expenses	(425)	(464)
Interest and bonuses credited to policyholders	10,257	(2,739)
Acquisitions/(divestments) and transfers[1]	(1,916)	4,139
Increase/(decrease) recorded in other comprehensive income	660	(302)
Foreign currency translation effects	419	(2,603)
As of December 31	**61,761**	**51,439**

[1] As of December 31, 2019, the net carrying amount of liabilities for investment contracts decreased by USD 3.1 billion due to the completion of the sale in the UK (see note 5) and increased by USD 1.2 billion from the acquisition of OnePath (see note 5).

Consolidated financial statements (continued)

Tables 9.3a and 9.3b provide an analysis of investment contract liabilities according to maturity, based on expected cash flows as of December 31, 2019 and 2018. The undiscounted contractual cash flows for investment contract liabilities are USD 62 billion and USD 51 billion as of December 31, 2019 and 2018, respectively. Liabilities for unit-linked investment contracts amounted to USD 49 billion and USD 41 billion as of December 31, 2019 and 2018, respectively. Policyholders of unit-linked investment contracts can generally surrender their contracts at any time, leading the underlying assets to be liquidated, risks arising from liquidation of unit-linked assets are borne by the policyholders. Certain non-unit-linked contracts also allow for surrender of the contract by the policyholder at any time. Liabilities for such contracts amounted to USD 417 million and USD 463 million as of December 31, 2019 and 2018, respectively. The Group actively manages the Life in-force business to improve persistency and retention.

Expected maturity profile for liabilities for investment contracts – current period

Table 9.3a

in USD millions, as of December 31, 2019	**Liabilities related to unit-linked investment contracts**	**Liabilities related to investment contracts (amortized cost)**	**Liabilities related to investment contracts with discretionary participation features**	**Total**
< 1 year	3,888	647	494	5,029
1 to 5 years	7,449	130	1,720	9,299
5 to 10 years	8,525	69	2,278	10,873
10 to 20 years	7,601	63	1,184	8,848
> 20 years	21,503	22	6,188	27,712
Total	**48,967**	**931**	**11,863**	**61,761**

Expected maturity profile for liabilities for investment contracts – prior period

Table 9.3b

in USD millions, as of December 31, 2018	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	2,624	227	416	3,267
1 to 5 years	6,364	140	1,477	7,981
5 to 10 years	7,548	74	1,792	9,414
10 to 20 years	6,682	42	1,113	7,837
> 20 years	17,971	22	4,948	22,940
Total	**41,188**	**504**	**9,746**	**51,439**

10. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 10.1

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2019	2018	2019	2018	2019	2018
Losses and loss adjustment expenses	21,631	22,248	(4,965)	(4,851)	16,666	17,397
Life insurance death and other benefits	11,989	11,236	(1,085)	(986)	10,903	10,250
Total insurance benefits and losses	**33,620**	**33,483**	**(6,051)**	**(5,837)**	**27,570**	**27,646**

Policyholder dividends and participation in profits

Table 10.2

in USD millions, for the years ended December 31	2019	2018
Change in policyholder contract deposits and other funds	1,080	1,245
Change in reserves for unit-linked insurance contracts	9,515	(1,350)
Change in liabilities for investment contracts – unit-linked	10,050	(2,930)
Change in liabilities for investment contracts – other	219	190
Change in unit-linked liabilities related to UK capital gains tax	(283)	109
Total policyholder dividends and participation in profits	**20,582**	**(2,736)**

Underwriting and policy acquisition costs

Table 10.3

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2019	2018	2019	2018	2019	2018
Amortization of deferred acquisition costs	6,525	6,466	(866)	(810)	5,660	5,655
Amortization of deferred origination costs	71	74	–	–	71	74
Commissions and other underwriting and acquisition expenses[1]	3,141	2,882	(342)	(47)	2,798	2,835
Total underwriting and policy acquisition costs	**9,737**	**9,422**	**(1,208)**	**(857)**	**8,529**	**8,565**

[1] Net of additions related to deferred acquisition and origination costs.

Change in reserves for unearned premiums

Table 10.4

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2019	2018	2019	2018	2019	2018
Change in reserves for unearned premiums	**1,187**	**339**	**(239)**	**(115)**	**949**	**224**

Consolidated financial statements (continued)

11. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 11.1

in USD millions	Property & Casualty		Life		Other businesses[1]		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
As of January 1	5,367	5,289	12,350	11,624	1,824	1,751	19,541	18,663
Acquisition costs deferred[2]	4,569	4,449	1,849	2,533	169	179	6,586	7,161
Amortization	(4,236)	(4,252)	(1,296)	(1,280)	(117)	(123)	(5,648)	(5,655)
Impairments[3]	–	–	(177)	–	–	–	(177)	–
Amortization (charged)/ credited to other comprehensive income	–	–	(367)	136	(46)	29	(413)	166
Acquisitions/(divestments) and transfers[4]	4	37	(736)	–	(12)	(11)	(745)	26
Foreign currency translation effects	(9)	(156)	74	(663)	–	–	64	(820)
As of December 31	**5,694**	**5,367**	**11,695**	**12,350**	**1,818**	**1,824**	**19,207**	**19,541**

[1] Net of eliminations from inter-segment transactions.
[2] In May 2018, the Group entered into a quota share reinsurance agreement with OnePath and made an upfront commission payment of USD 754 million.
[3] Impairment related to UK held for sale transaction (see note 5).
[4] 2019 movement in Life is related to the elimination of the internal reinsurance agreement on consolidation of OnePath (see note 5), Property & Casualty movement of USD 4 million is related to the acquisition of OnePath and the other businesses movement of USD 12 million is mainly related to the portfolio transfer in Farmers. The 2018 Property & Casualty movement mainly related to QBE acquisition and sale of Endsleigh Limited (see note 5). The 2018 other businesses movement mainly related to the sale of a portfolio in Singapore.

Development of deferred origination costs

Table 11.2

in USD millions	**2019**	2018
As of January 1	419	460
Origination costs deferred	53	55
Amortization	(71)	(74)
Foreign currency translation effects	(1)	(22)
As of December 31	**400**	**419**

12. Expenses

Table 12 shows expenses by functional area and by type of expense.

Expenses

Table 12[1]

in USD millions, for the years ended December 31	2019	2018
Administrative and other operating expenses	8,020	7,761
Underwriting and policy acquisition costs, net of reinsurance	8,529	8,565
Claims handling expenses[2]	2,535	2,574
Investment expenses	338	315
Total	**19,422**	**19,215**
of which:		
Personnel and other related costs	6,229	6,084
Building and infrastructure costs	441	836
Brand and marketing expenses	653	332
Commissions (net of DAC)	6,588	6,422
Premium taxes (net of DAC)	514	477
Asset and other non-income taxes	86	54
IT expenses	1,909	2,054
Outsourcing and professional services	2,272	2,490
Foreign currency translation	70	(63)
Other	661	529
Total	**19,422**	**19,215**

[1] In 2019, the Group changed the presentation of table 12 and added the underwriting commission expenses as well as the allocated loss adjustment expenses (ALAE). These modifications provide a more holistic view of expenses and allow for more clear reference to other parts of the consolidated financial statements. As a result of this presentation change, the expenses disclosed in this table increased by USD 7.7 billion in 2019 (underwriting commissions USD 6.4 billion – ALAE USD 1.3 billion) and by USD 8.0 billion in 2018 (underwriting commissions USD 6.4 billion – ALAE USD 1.5 billion).
[2] Included within losses and loss adjustment expenses (see table 10.1).

13. Property and equipment

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

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

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

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

Table 13.1

Property and equipment overview

in USD millions, as of December 31	Real Estate 2019	Equipment 2019	Total 2019
Right-of-use	1,610	57	1,667
Owned and subject to operating lease	451	517	968
Total	**2,061**	**574**	**2,635**

Table 13.2[1]

Property and equipment – current period

in USD millions	Real Estate				Equipment			Total		
	Owned	Owned – subject to operating lease	Right-of-use	Total	Owned	Right-of-use	Total	Owned incl. operating lease	Right-of-use	Total
Gross carrying value as of January 1, 2019	**606**	**3**	**2,146**	**2,755**	**1,379**	**117**	**1,496**	**1,988**	**2,263**	**4,251**
Less: accumulated depreciation/impairments	(147)	(1)	(793)	(941)	(844)	(43)	(888)	(992)	(836)	(1,829)
Net carrying value as of January 1, 2019	**459**	**2**	**1,353**	**1,814**	**535**	**74**	**608**	**995**	**1,427**	**2,422**
Additions and improvements	76	–	469	545	121	17	138	197	486	683
Lease modifications	–	–	(3)	(3)	–	(3)	(3)	–	(6)	(6)
Depreciation and impairments	(6)	–	(181)	(187)	(123)	(22)	(145)	(129)	(203)	(332)
Acquisitions/(divestments) and transfers[2]	(82)	–	(27)	(109)	(18)	(9)	(27)	(100)	(35)	(135)
Foreign currency translation effects	2	–	(1)	2	2	–	2	4	–	4
Net carrying value as of December 31, 2019	**449**	**2**	**1,610**	**2,061**	**517**	**57**	**574**	**968**	**1,667**	**2,635**
Plus: accumulated depreciation/impairments	140	1	862	1,003	907	58	965	1,048	920	1,968
Gross carrying value as of December 31, 2019	**589**	**3**	**2,472**	**3,064**	**1,424**	**115**	**1,539**	**2,016**	**2,587**	**4,603**

[1] Current Year table reflects adoption of IFRS 16 'Leases.'
[2] Includes the sale of owned real estate in Australia of USD 87 million.

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Property and equipment – prior period

Table 13.3[1]

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value January 1, 2018	**155**	**415**	**380**	**326**	**740**	**2,017**
Less: accumulated depreciation/impairments	–	(165)	(233)	(244)	(413)	(1,055)
Net carrying value January 1, 2018	**155**	**250**	**147**	**82**	**327**	**961**
Additions and improvements	–	70	42	57	110	279
Acquisitions	5	12	2	1	2	22
Disposals[2]	–	(1)	–	–	(28)	(29)
Transfers	–	(1)	–	–	1	(1)
Depreciation and impairments	(2)	(14)	(41)	(42)	(75)	(173)
Foreign currency translation effects	(3)	(9)	(3)	(2)	(6)	(23)
Net carrying value as of December 31, 2018	**155**	**309**	**147**	**96**	**331**	**1,037**
Plus: accumulated depreciation/impairments	–	165	223	235	401	1,023
Gross carrying value as of December 31, 2018	**155**	**473**	**370**	**330**	**732**	**2,060**

[1] Prior year table does not reflect adoption of IFRS 16 'Leases.'
[2] Includes USD 25 million related to the sale of business in the UK (Endsleigh) (see note 5).

Lessee – lease expenses and income

Table 13.4

in USD millions, for the years ended December 31	2019
Lease expenses[1]	
Interest expense on lease liabilities[2]	44
Short-term lease expenses	16
Low-value asset lease expenses	24
Lease income	
Income from subleasing ROUA	32
Gains arising from sale and leaseback transactions[3]	53

[1] Total cash outflow for leases as of December 31, 2019 was USD 280 million, excluding USD 1.6 billion future cash outflows due to extension & termination options.
[2] Included within 'Interest credited to policyholders and other interest.'
[3] On October 23, 2019 a contract was signed between Zurich Australian Property Holdings Pty Ltd (ZAPH) and an Australian entity – Mount St Pty Ltd, for the sale of the Mount Street land and building for a total consideration of USD 245 million. Settlement took place on November 15, 2019 upon completion of all conditional precedents. Total consideration is formed of the following components: land USD 35 million, building constructed to date USD 52 million, estimated construction costs USD 70 million, final development fee (FDF) USD 88 million. 10 year lease term is expected to start from October 2020 to September 2029 with total lease payments of USD 104 million.

Lessor – finance lease and operating lease income

Table 13.5

in USD millions, for the years ended December 31	2019
Finance lease	
Selling profit or loss	7
Interest income on finance lease receivables	72
Total	**79**
Operating lease	
Operating lease income – property and equipment	23
Operating lease income – investment property	615
Total	**638**

Consolidated financial statements (continued)

Maturity schedule – finance lease receivable

Table 13.6

in USD millions, as of December 31	2019		
	Carrying value	Unearned interest	Undiscounted cash flows
< 1 year	127	24	151
1 to 2 years	54	25	79
2 to 3 years	37	15	52
3 to 4 years	113	12	126
4 to 5 years	83	10	93
> 5 years	163	65	227
Total	**577**	**151**	**728**

Maturity schedule – operating lease payments to be received

Table 13.7

in USD millions, as of December 31	Undiscounted cash flows
	2019
< 1 year	397
1 to 2 years	275
2 to 3 years	232
3 to 4 years	194
4 to 5 years	155
> 5 years	978
Total	**2,230**

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

Intangible assets – current period

Table 14.1

in USD millions	Attorney-in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2019	1,025	2,938	2,539	4,304	4,845	309	15,960
Less: accumulated amortization/impairments	–	(276)	(2,041)	(1,578)	(3,682)	(109)	(7,687)
Net carrying value as of January 1, 2019	1,025	2,662	498	2,726	1,162	199	8,272
Additions and acquisitions	–	977	7	97	351	34	1,467
Divestments and transfers	–	–	–	–	(11)	–	(11)
Amortization[1]	–	–	(36)	(225)	(331)	(12)	(604)
Amortization charged to other comprehensive income	–	–	(24)	–	–	–	(24)
Impairments	–	–	–	–	(29)	(1)	(31)
Foreign currency translation effects	–	(30)	(5)	(64)	–	(3)	(102)
Net carrying value as of December 31, 2019	**1,025**	**3,610**	**440**	**2,534**	**1,141**	**218**	**8,968**
Plus: accumulated amortization/impairments	–	274	2,116	1,752	3,917	113	8,171
Gross carrying value as of December 31, 2019	1,025	3,883	2,556	4,286	5,059	331	17,140

[1] Amortization of distribution agreements is included within underwriting and policy acquisition costs.

As of December 31, 2019, intangible assets related to non-controlling interests were USD 54 million for present value of future profits (PVFP) of acquired insurance contracts, USD 967 million for distribution agreements, USD 10 million for software, USD 8 million for goodwill and USD 4 million for other intangible assets.

As a result of the acquisition of OnePath, intangible assets increased by USD 991 million, of which USD 936 million is goodwill, USD 55 million is distribution agreements and other intangible assets. The acquisition of QBE Colombia increased goodwill by USD 23 million (see note 5). As a result of an acquisition in Slovenia, intangible assets increased by USD 21 million, of which USD 11 million is goodwill and USD 9 million is software. A small acquisition in Germany increased intangible assets by USD 7 million.

Intangible assets by business – current period

Table 14.2

in USD millions, as of December 31, 2019	Attorney-in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Property & Casualty	–	1,531	–	877	659	193	3,260
Life	–	1,197	388	1,657	63	25	3,330
Farmers	1,025	819	52	–	336	–	2,233
Group Functions and Operations	–	63	–	–	83	–	145
Net carrying value	**1,025**	**3,610**	**440**	**2,534**	**1,141**	**218**	**8,968**

Consolidated financial statements (continued)

Intangible assets – prior period

Table 14.3

in USD millions	Attorney-in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Gross carrying value as of January 1, 2018	1,025	2,706	2,619	4,293	4,780	247	15,671
Less: accumulated amortization/ impairments	–	(353)	(2,112)	(1,465)	(3,492)	(109)	(7,531)
Net carrying value as of January 1, 2018	1,025	2,353	507	2,828	1,288	139	8,140
Additions and acquisitions	–	462	40	570	348	81	1,501
Divestments and transfers	–	–	–	(262)	(2)	–	(263)
Amortization[1]	–	–	(46)	(220)	(406)	(10)	(681)
Amortization charged to other comprehensive income	–	–	22	–	–	–	22
Impairments	–	–	(2)	–	(37)	(1)	(40)
Foreign currency translation effects	–	(180)	(24)	(228)	(30)	(14)	(476)
Net carrying value as of December 31, 2018	**1,025**	**2,634**	**498**	**2,689**	**1,162**	**194**	**8,202**
Plus: accumulated amortization/ impairments	–	276	2,041	1,565	3,678	109	7,669
Gross carrying value as of December 31, 2018	1,025	2,911	2,539	4,254	4,840	303	15,871

[1] Amortization of distribution agreements is included within underwriting and policy acquisition costs.

As of December 31, 2018, intangible assets related to non-controlling interests were USD 63 million for present value of future profits (PVFP) of acquired insurance contracts, USD 1 billion for distribution agreements, USD 10 million for software, USD 9 million for goodwill and USD 3 million for other intangible assets.

As a result of the acquisition of the QBE Latin America operations intangible assets increased by USD 250 million, of which USD 195 million is goodwill and USD 55 million is distribution agreements, software and other intangible assets. As a result of the acquisition of EuroAmerica in Chile, intangible assets increased by USD 143 million, of which USD 102 million is goodwill and USD 40 million is present value of future profits (PVFP). The acquisition of Travel Ace and Universal Assistance increased goodwill by USD 94 million and distribution agreements, software and other intangible assets by USD 19 million. As a result of the acquisition of Bright Box intangible assets increased by USD 77 million, of which USD 52 million related to goodwill and USD 25 million to software. As a result of the acquisition of Blue Insurance intangible assets increased by USD 56 million, of which USD 35 million is goodwill and USD 21 million is distribution agreements, software and other intangible assets. The remaining minus USD 16 million relates to a post-acquisition adjustment of Cover-More (see note 5).

In 2018, a distribution agreement in Brazil was signed replacing the existing distribution agreement. Additional intangible assets of USD 263 million related to this distribution agreement were recorded as at December 31, 2018.

Intangible assets by business – prior period

Table 14.4

in USD millions, as of December 31, 2018	Attorney-in-fact contracts	Goodwill	PVFP	Distribution agreements	Software	Other	Total
Property & Casualty	–	1,492	–	941	452	194	3,079
Life	–	271	434	1,748	284	1	2,737
Farmers	1,025	819	63	–	339	–	2,247
Group Functions and Operations	–	52	–	–	88	–	139
Net carrying value	**1,025**	**2,634**	**498**	**2,689**	**1,162**	**194**	**8,202**

15. Receivables and other assets

Receivables and other assets

Table 15

in USD millions, as of December 31	2019	2018
Financial assets		
Group derivative assets	1,226	899
Unit-linked derivative assets	3	3
Receivables from policyholders	3,434	3,281
Receivables from insurance companies, agents and intermediaries	4,999	5,514
Receivables arising from ceded reinsurance	1,465	1,114
Reverse repurchase agreements	56	47
Amounts due from investment brokers	857	972
Other receivables	2,412	2,426
Allowance for impairments[1]	(263)	(243)
Accrued premiums	895	849
Accrued investment income[2]	1,550	1,601
Assets for defined benefit plans[3]	316	232
Other financial assets	231	144
Non-financial assets		
Current income tax receivables	859	634
Prepaid expenses	437	391
Other non-financial assets	880	361
Total receivables and other assets	**19,357**	**18,225**

[1] Includes receivables arising from ceded reinsurance of USD 58 million and USD 38 million as of December 31, 2019 and 2018, respectively.
[2] Accrued investment income on the unit-linked investments amounts to USD 79 million and USD 102 million as of December 31, 2019 and 2018, respectively.
[3] See note 20.

Receivables are carried at notional amounts, and are generally settled within one year. The notional and fair value amounts are not significantly different.

Consolidated financial statements (continued)

16. Other liabilities

Other liabilities

Table 16.1

in USD millions, as of December 31	2019	2018
Other financial liabilities		
Group derivative liabilities	365	325
Unit-linked derivative liabilities	2	12
Amounts due to agents & intermediaries	844	870
Liabilities for cash collateral received for securities lending	56	47
Amounts due to investment brokers	1,444	987
Bank deposits	1	1
Collateralized bank financing for structured lease vehicles	287	436
Liabilities for defined benefit plans[1]	2,519	2,491
Other liabilities for employee benefit plans	118	129
Lease liabilities[2]	1,917	38
Accrued liabilities	2,194	2,067
Other financial liabilities[2]	5,184	5,235
Other non-financial liabilities		
Current income tax payables	661	601
Restructuring provisions	106	258
Other non-financial liabilities	868	824
Total other liabilities	**16,567**	**14,321**

[1] See note 20.
[2] Lease liabilities separated from other financial liabilities as the effect of adoption IFRS 16.

Table 16.2 shows the maturity schedule of other financial liabilities excluding liabilities for defined benefit plans and lease liabilities as of December 31, 2019 and 2018. 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.

Maturity schedule – other financial liabilities

Table 16.2

in USD millions, as of December 31	2019		2018	
	Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
< 1 year	9,928	9,955	9,440	9,558
1 to 2 years	108	121	188	237
2 to 3 years	194	203	49	56
3 to 4 years	43	47	131	142
4 to 5 years	7	10	42	51
> 5 years	215	384	259	491
Total	**10,495**	**10,721**	**10,109**	**10,535**

Maturity schedule – lease liabilities

Table 16.3

in USD millions, as of December 31	2019	
	Carrying value	Undiscounted cash flows
< 1 year	205	249
1 to 2 years	197	234
2 to 3 years	182	216
3 to 4 years	155	183
4 to 5 years	124	150
> 5 years	1,054	1,201
Total	**1,917**	**2,232**

Consolidated financial statements (continued)

Restructuring provisions

Table 16.4

in USD millions	2019	2018
As of January 1	258	269
Provisions made during the period	53	191
Increase of provisions set up in prior years	65	45
Provisions used during the period	(192)	(226)
Provisions reversed during the period	(8)	(13)
Foreign currency translation effects	–	(8)
Other changes[1]	(69)	–
As of December 31	**106**	**258**

[1] Other changes relate to the adjustment of right-of-use assets following the implementation of IFRS 16 'Leases.'

During the year ended December 31, 2019 the Group incurred total restructuring costs of USD 160 million, of which USD 110 million is due to net increases in restructuring provisions, affecting mainly Property & Casualty in Europe, Middle East & Africa (EMEA) and North America.

During the year ended December 31, 2018 the Group incurred total restructuring costs of USD 350 million, of which USD 223 million is due to net increases in restructuring provisions, affecting mainly Property & Casualty in Europe, Middle East & Africa (EMEA), North America and Farmers.

Consolidated financial statements (continued)

17. Income taxes

Income tax expense – current/deferred split

Table 17.1

in USD millions, for the years ended December 31	**2019**	2018
Current	1,414	1,119
Deferred	302	15
Total income tax expense/(benefit)	**1,716**	**1,134**

Expected and actual income tax expense

Table 17.2

in USD millions, for the years ended December 31	**Rate**	**2019**	Rate	2018
Net income before income taxes		6,100		5,110
less: income tax (expense)/benefit attributable to policyholders		(365)		183
Net income before income taxes attributable to shareholders		5,735		5,293
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	21.0%	1,204	22.0%	1,165
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		(111)		(27)
Tax exempt and lower taxed income		(123)		(106)
Non-deductible expenses		138		152
Tax losses not recognized		206		98
Prior year adjustments and other		36		34
Actual income tax expense attributable to shareholders	**23.6%**	**1,351**	**24.9%**	**1,317**
plus: income tax expense/(benefit) attributable to policyholders		365		(183)
Actual income tax expense	28.1%	1,716	22.2%	1,134

Table 17.2 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate, which is the rate applicable in the jurisdiction where the ultimate parent company is resident. Following recent changes in the Swiss tax legislation, the applicable Swiss statutory tax rate has been revised to 21.0 percent for 2019 from 22.0 percent in 2018.

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

Taxes paid by certain of the Group's life insurance businesses are based on the investment result less allowable expenses. To the extent these taxes exceed the amount that would have been payable in relation to the shareholders' share of taxable profits, it is normal practice for certain of the Group's businesses to recover this portion from policyholders. While the relevant company has the contractual right to charge policyholders for the taxes attributable to their share of the investment result less expenses, the obligation to pay the tax authority rests with the company and therefore, the full amount of tax including the portion attributable to policyholders is accounted for as income tax. Income tax expense therefore includes an element attributable to policyholders.

Consolidated financial statements (continued)

Deferred tax assets/(liabilities) analysis by source

Table 17.3

in USD millions, as of December 31	2019 Assets	2019 Liabilities	2018 Assets	2018 Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	71	(514)	52	(658)
Depreciable and amortizable assets	208	(141)	27	(86)
Life policyholders' benefits and deposits[1]	5	(8)	4	(1)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	8	(4)	109	(49)
Accruals and deferred income	26	(25)	92	(16)
Reserves for losses and loss adjustment expenses	297	(14)	295	(116)
Reserves for unearned premiums	554	–	722	(66)
Deferred front-end fees	5	–	–	–
Pensions and other employee benefits	481	(56)	537	(72)
Other assets/liabilities	237	(52)	170	(44)
Tax loss carryforwards	390	–	634	–
Gross deferred tax assets/(liabilities) before valuation allowance	2,281	(813)	2,643	(1,110)
Valuation allowance	(317)	–	(408)	–
Gross deferred tax assets/(liabilities) after valuation allowance	1,964	(813)	2,235	(1,110)
Deferred tax assets	**1,151**		**1,125**	
Gross deferred tax				
Deferred acquisition and origination costs	22	(2,377)	25	(2,125)
Depreciable and amortizable assets	326	(1,818)	133	(1,699)
Life policyholders' benefits and deposits[1]	1,947	(1,087)	1,924	(1,017)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	248	(1,348)	288	(860)
Accruals and deferred income	170	(99)	76	(122)
Reserves for losses and loss adjustment expenses	228	(484)	57	(90)
Reserves for unearned premiums	217	(70)	18	(6)
Deferred front-end fees	494	–	511	–
Pensions and other employee benefits	386	(348)	340	(325)
Other assets/liabilities	682	(1,697)	646	(1,732)
Tax loss carryforwards	432	–	131	–
Gross deferred tax assets/(liabilities) before valuation allowance	5,152	(9,329)	4,149	(7,976)
Valuation allowance	(357)	–	(89)	–
Gross deferred tax assets/(liabilities) after valuation allowance	4,796	(9,329)	4,061	(7,976)
Deferred tax liabilities		**(4,533)**		**(3,915)**
Net deferred tax liabilities		**(3,382)**		**(2,790)**

[1] Includes reserves for unit-linked contracts.

The Group's deferred tax assets and liabilities are recorded by its tax-paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate. The first part of table 17.3 includes single taxpayers with a net deferred tax asset position and the second part includes single taxpayers with a net deferred tax liability position.

As of December 31, 2019 and 2018, 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 24 billion and USD 19 billion, respectively. In the remote likelihood that these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

Consolidated financial statements (continued)

Development of net deferred tax liabilities

Table 17.4

in USD millions	2019	2018
As of January 1	(2,790)	(3,281)
Net change recognized in the income statement	(302)	(15)
Net change recognized in equity	(607)	344
Net changes due to acquisitions/(divestments)	314	75
Foreign currency translation effects	3	86
As of December 31	**(3,382)**	**(2,790)**
attributable to policyholders	(675)	(457)
attributable to shareholders	(2,707)	(2,333)

The net deferred tax liabilities related to non-controlling interests amounted to USD 179 million and USD 189 million as of December 31, 2019 and 2018, respectively.

Development of deferred income taxes included in equity

Table 17.5

in USD millions	2019	2018
As of January 1	406	73
Net unrealized (gains)/losses on available-for-sale investments	(580)	419
Cash flow hedges	(3)	11
Revaluation reserve	4	9
Net actuarial (gains)/losses on pension plans	(28)	(96)
Foreign currency translation effects	8	(10)
As of December 31	**(193)**	**406**

Tax loss carryforwards and tax credits

Table 17.6

in USD millions, as of December 31	2019	2018
For which deferred tax assets have been recognized, expiring		
< 5 years	8	50
5 to 20 years	117	198
> 20 years or with no time limitation	448	747
Subtotal	573	994
For which deferred tax assets have not been recognized, expiring		
< 5 years	122	89
5 to 20 years	270	12
> 20 years or with no time limitation	2,313	2,010
Subtotal	2,705	2,112
Total	**3,278**	**3,106**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 24.4 percent and 23.0 percent as of December 31, 2019 and 2018, 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, 2019, to be recoverable.

18. Senior and subordinated debt

Senior and subordinated debt

Table 18.1

in USD millions, as of December 31		2019	2018
Senior debt			
Zurich Insurance Company Ltd	1.500% CHF 400 million notes, due June 2019[1,2]	–	409
	1.125% CHF 400 million notes, due September 2019[1,2]	–	411
	0.625% CHF 250 million notes, due July 2020[1]	260	258
	2.875% CHF 250 million notes, due July 2021[1]	257	253
	3.375% EUR 500 million notes, due June 2022[1,3]	579	598
	1.875% CHF 100 million notes, due September 2023[1]	113	110
	1.750% EUR 500 million notes, due September 2024[1,3]	579	583
	0.500% CHF 350 million notes, due December 2024[1]	362	356
	0.510% CHF 120 million loan, due December 2024	124	122
	1.500% CHF 150 million notes, due July 2026[1]	175	165
	0.750% CHF 200 million notes, due October 2027[1]	206	–
	1.000% CHF 200 million notes, due October 2028[1]	207	204
	1.500% EUR 500 million notes, due December 2028[1,3]	557	568
Zurich Holding Comp. of America Inc	Euro commercial paper notes, due in less than 12 months	399	399
Zurich Finance (Australia) Limited	Floating rate AUD 241 million loan due July 2020	169	170
	3.271% AUD 200 million loan due May 2023	141	141
	3.477% AUD 350 million notes, due May 2023[1]	245	246
	4.500% AUD 250 million notes, due July 2038[1]	175	176
Zurich Finance (Ireland) DAC	1.625% EUR 500 million notes, due June 2039[1,3]	559	–
Other	Various debt instruments	41	69
Senior debt		5,148	5,237
Subordinated debt			
Zurich Insurance Company Ltd	7.500% EUR 425 million notes, due July 2039, first callable July 2019[1,3]	–	486
	2.750% CHF 225 million perpetual capital notes, first callable June 2021[1]	232	228
	2.750% CHF 200 million perpetual capital notes, first callable September 2021[1]	212	209
	4.750% USD 1 billion perpetual capital notes, first callable January 2022[1,3]	997	996
	4.250% EUR 1 billion notes, due October 2043, first callable October 2023[1,3]	1,117	1,138
	4.250% USD 300 million notes, due October 2045, first callable October 2025[1,3]	299	299
	5.625% USD 1 billion notes, due June 2046, first callable June 2026[1,3]	997	997
	3.500% EUR 750 million notes, due October 2046, first callable October 2026[1,2,3]	853	855
	5.125% USD 500 million notes, due June 2048, first callable June 2028[1,3]	498	498
	4.875% USD 500 million notes, due October 2048, first callable October 2028[1,3]	498	498
	2.750% EUR 500 million notes, due February 2049, first callable February 2029[1,3]	555	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes, first callable October 2022[1]	593	570
Subordinated debt		6,852	6,775
Total senior and subordinated debt		**11,999**	**12,012**

[1] Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).
[2] The Group applied the fair value hedge methodology either partially or in full to hedge the interest rate exposure.
[3] These bonds are part of a qualifying net investment hedge to hedge the foreign currency exposure.

None of the debt instruments listed in table 18.1 were in default as of 31 December 2019 or 31 December 2018.

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

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

Table 18.2

Maturity schedule of outstanding debt

in USD millions, as of December 31	2019		2018	
	Carrying value	**Undiscounted cash flows**	Carrying value	Undiscounted cash flows
< 1 year	870	1,272	1,894	2,319
1 to 2 years	701	1,093	308	676
2 to 3 years	2,169	2,510	690	1,056
3 to 4 years	1,615	1,882	2,164	2,473
4 to 5 years	1,065	1,254	1,636	1,880
5 to 10 years	4,845	5,402	5,144	5,756
> 10 years	734	899	176	256
Total	**11,999**	**14,310**	**12,012**	**14,416**

Debt maturities reflect original contractual dates, taking early redemption options into account. For call/redemption dates, see table 18.1. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 18.2. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2019 and 2018. Floating interest rates are assumed to remain constant as of December 31, 2019 and 2018. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Table 18.3

Development of debt arising from financing activities

in USD millions	Total	
	2019	2018
As of January 1	12,012	10,784
Issuance of debt recognized in cash flows	1,398	3,079
Repayment of debt recognized in cash flows	(1,367)	(1,566)
Acquisitions/(divestments) and transfers[1]	–	(1)
Changes in fair value	60	(7)
Other changes	(13)	(9)
Foreign currency translation effects	(90)	(269)
As of December 31	**11,999**	**12,012**

[1] The 2018 movement of USD 1 million is related to the sale of Endsleigh Limited (see note 5).

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19. Shareholders' equity, dividends and earnings per share

Share capital

Table 19.1

	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2017	15,133,985	151,339,851	0.10
New shares issued from contingent capital in 2018	818	8,176	0.10
As of December 31, 2018	15,134,803	151,348,027	0.10
New shares issued from contingent capital in 2019	–	–	0.10
Capital reduction in 2019 (as per AGM resolutions 2019)	174,000	1,740,000	0.10
As of December 31, 2019	**14,960,803**	**149,608,027**	**0.10**
Authorized, contingent and issued share capital			
As of December 31, 2018	23,129,526	231,295,259	0.10
As of December 31, 2019	22,955,526	229,555,259	0.10

The following information related to authorized share capital and contingent share capital is specified in articles 5bis and 5ter of the Articles of Association of Zurich Insurance Group Ltd.

a) Authorized share capital

Until April 4, 2020, the Board of Zurich Insurance Group Ltd is authorized to increase the share capital of Zurich Insurance Group Ltd (Company) by an amount not exceeding CHF 4,500,000 by issuing up to 45,000,000 fully-paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising subscription rights, and the commencement of entitlement to dividends.

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

The Board is further authorized to restrict or exclude the subscription rights of shareholders and to allocate them to third parties, the Company or one of its Group companies, up to a maximum of 15,000,000 fully-paid registered shares, if the shares are to be used:

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

Up to April 4, 2020, the total of new shares issued from (i) authorized share capital where the subscription rights were restricted or excluded, and (ii) contingent share capital in connection with Financial Instruments where the advance subscription rights were restricted or excluded, may not exceed 30,000,000 new shares.

b) Contingent share capital

Financial Instruments

The share capital of Zurich Insurance Group Ltd may be increased by an amount not exceeding CHF 3,000,000 by issuing of up to 30,000,000 fully-paid registered shares with a nominal value of CHF 0.10 each by the voluntary or mandatory exercise of conversion and/or option rights which are granted in connection with the issuance of Financial Instruments by the Company or one of its Group companies or by mandatory conversion of Financial Instruments issued by the Company or one of its Group companies, that allow for contingent mandatory conversion into shares of the Company, or by exercising option rights which are granted to the shareholders. The subscription rights are excluded. The then-current owners of the Financial Instruments shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

Consolidated financial statements (continued)

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

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

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

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

Up to April 4, 2020, the total of new shares issued from (i) authorized share capital where the subscription rights were restricted or excluded, and (ii) contingent share capital in connection with Financial Instruments where the advance subscription rights were restricted or excluded, may not exceed 30,000,000 new shares.

Employee participation

During 2019 no shares were issued to Group employees out of the contingent capital. During 2018, 8,176 shares were issued to employees from contingent share capital. The remaining contingent share capital, available for issuance to employees amounted to CHF 494,723 and 4,947,232 fully paid registered shares as of December 31, 2019 and 2018, respectively, with a nominal value of CHF 0.10 each. Subscription rights, as well as advance subscription rights of the shareholders are excluded. The issuance of new shares or respective option rights to employees is subject to one or more regulations to be issued by the Board and taking into account performance, functions, levels of responsibility and criteria of profitability. New shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

c) Additional paid-in capital

This reserve is not ordinarily available for distribution. However, as of January 1, 2011, a Swiss tax regulation based on the Swiss Corporate Tax Reform II became effective, allowing for payments free of Swiss withholding tax to shareholders out of the capital contribution reserve, created out of additional paid-in capital. Therefore, amounts qualifying under this regulation can be paid out of additional paid-in capital. As of December 31, 2019, the general capital contribution reserve amounted to CHF 29 million.

d) Treasury shares

Table 19.2

Treasury shares

number of shares, as of December 31	**2019**	2018	2017
Treasury shares	1,549,714	2,342,432	1,156,567
Treasury shares (repurchased under the public share buy-back program for cancellation purposes, see f))	–	1,740,000	–
Total Treasury shares	**1,549,714**	**4,082,432**	**1,156,567**

Treasury shares comprise shares acquired in the market as well as shares repurchased via the 2018 public share buy-back program and cancelled in June 2019 (see f) below).

e) Dividends

The dividend of CHF 19 per share was paid out of the available earnings on April 9, 2019, as approved at the Annual General Meeting on April 3, 2019. The difference between the respective amounts of the dividend at transaction day exchange rates amounting to USD 2.8 billion and at historical exchange rates are reflected in the cumulative foreign currency translation adjustment.

In 2018, the dividend of CHF 18 per share was partially paid out of the capital contribution reserve and partially out of the available earnings on April 10, 2018, as approved at the Annual General Meeting on April 4, 2018. The difference between the respective amounts of the dividend at transaction day exchange rates amounting to USD 2.8 billion and at historical exchange rates are reflected in the cumulative foreign currency translation adjustment.

f) Share buy-back program

On April 11, 2018, Zurich Insurance Group Ltd launched a public share buy-back program for up to 1,740,000 shares of Zurich Insurance Group Ltd, which was completed on May 18, 2018. A total of 1,740,000 shares were repurchased on a second trading line on the SIX Swiss Exchange via Zürcher Kantonalbank as agent.

On April 3, 2019 the Annual General Meeting 2019 approved the cancellation of the 1,740,000 own shares of Zurich Insurance Group Ltd with a nominal value of CHF 0.10 repurchased under the public share buy-back program.

The corresponding reduction of the share capital of Zurich Insurance Group Ltd from 151,348,027 to 149,608,027 fully paid registered shares with a nominal value of CHF 0.10 each through cancellation of the repurchased own shares was completed in June 2019.

g) Earnings per share

Table 19.3

Earnings per share

for the years ended December 31	Net income attributable to common shareholders (in USD millions)	Weighted average number of shares	Per share (USD)	Per share (CHF)[1]
2019				
Basic earnings per share	**4,147**	**148,033,715**	**28.01**	**27.84**
Effect of potentially dilutive shares related to share-based compensation plans		1,739,334	(0.33)	(0.32)
Diluted earnings per share	**4,147**	**149,773,049**	**27.69**	**27.51**
2018				
Basic earnings per share	**3,716**	**148,048,737**	**25.10**	**24.55**
Effect of potentially dilutive shares related to share-based compensation plans		1,620,039	(0.27)	(0.27)
Diluted earnings per share	**3,716**	**149,668,776**	**24.83**	**24.28**

[1] The translation from U.S dollars to Swiss francs is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2019 and 2018.

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

20. Employee benefits

The Group had 54'030 and 52'267 employees (full-time equivalents) as of December 31, 2019 and 2018, respectively. Personnel and other related costs incurred were USD 6.2 billion and USD 6.1 billion for the years ended December 31, 2019 and 2018, respectively, including wages, salaries and social security contributions of USD 5.5 billion and USD 5.3 billion respectively.

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

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

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

Governance of the Group's pension and post-employment benefit plans is the responsibility of the Group Pensions Committee. This committee is responsible for developing, reviewing and advising on the Group governance framework for matters related to pension and post-retirement benefit plans, including the relevant policies and processes. The committee provides oversight and guidance over the Group's principal pension and post-retirement benefit plans for accounting, benefit design, funding and investment and plan governance purposes. This includes, but is not limited to:

- oversight of the impact of the Group's principal defined benefit pension and post-retirement benefit plans in terms of cash, expense, and balance sheet accounting impact and capital implications
- development and maintenance of policies on funding, asset allocation, risk assessment and management, and assumption setting

The Group Pensions Committee provides a point of focus and co-ordination on the topic of pensions and post-retirement benefits at Group level for the supervision and exercise of company powers and obligations in relation to pension and post-retirement benefit plans.

The Group's policy on funding and asset allocation is subject to local legal and regulatory requirements and tax efficiency.

a) Defined benefit pension plans

Employees of the Group's companies are or have been covered by various pension plans, the largest of which are in Switzerland, the UK, the U.S. and Germany, which together comprise over 90 percent of the Group's total defined benefit obligation. The remaining plans in other countries are not individually significant, therefore no separate disclosure is provided.

Certain Group companies provide defined benefit pension plans, some of which provide benefits on retirement, death or disability related to employees' service periods and pensionable earnings. Others provide cash balance plans where the participants receive the benefit of the accumulated employer and employee contributions (where paid) together with additional cash credits in line with the rules of the plan. Eligibility for participation in the various plans is either immediate on commencement of employment or based on completion of a specified period of continuous service.

Most of the Group's defined benefit pension plans are funded through contributions by the Group and, in some cases also by employees, to investment vehicles managed by trusts or foundations independent of the Group's finances, or by management committees with fiduciary responsibilities. Where a trust or foundation exists, it is required by law or by articles of association to act in the interests of the fund and of all relevant beneficiaries to the plan, which can also include the sponsoring company, and is responsible for the investment policy with regard to the assets of the fund. The trust/foundation board or committee is usually composed of representatives from both employers and plan members. In these cases, the annual funding requirements are determined in accordance with the Group's overall funding policy and local regulation. Independent actuarial valuations for the plans are performed as required. It is the Group's general principle to ensure that the 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 risks. To the extent that pension plans are funded, the assets held mitigate some of the liability risk but introduce investment risk.

The overall investment policy and strategy for the Group's defined benefit pension plans is to achieve an investment return which, together with contributions, targets having sufficient assets to pay pension benefits as they fall due while also mitigating the various risks in the plans. The actual asset allocation is determined by reference to current and expected economic and market conditions and in consideration of specific asset class risk in the risk profile. The Group has a governance framework to ensure the trust/foundation board or committee considers how the asset investment strategy correlates with the maturity profile of the plan liabilities and the potential impact on the funding status of the plans, including short-term liquidity requirements. The investment strategies for each pension plan are independently determined by the governance body in each country, with oversight by the Group Pensions Committee. The pension assets are invested in diversified portfolios across geographical regions and asset classes to ensure diversified returns, also taking into account local pension laws. The investment strategies aim to mitigate asset-liability mismatches in the long run.

For post-employment defined benefit plans, total contributions to funded plans and benefits paid directly by the Group were USD 282 million for 2019 compared with USD 642 million for 2018. The estimated total for 2020 is USD 278 million (actual amount may differ).

Swiss pension plan

The plan provides benefits that exceed the minimum benefit requirements under Swiss pension law. It provides a lifetime pension to members 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. 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 plans. The amount of pension payable on retirement is a result of the conversion rate applied on the accumulated balance of the individual participant's pension account at the retirement date.

The trustees review the Pension Plan's funding status regularly as well as the technical interest rate and the conversion rates. The conversion rate at age 65 is currently being phased down to 5 percent until 2023 to align it more closely with the low interest rate environment and increased life expectancy. In 2018, both the employer and employee savings contributions were increased. The insured salary was increased by reducing the coordination deduction. The flexibility of both plans was improved by introducing three levels of savings. Top-up payments from the company were introduced to those members' pension accounts which had been part of the plan in 2017 and were affected by the changes. For them, this ensures that expected benefits at normal retirement age will be at least equal to 98.5 percent of their pensions expectations under the previous conversion rates. The top up payments will be made until 2023.

Although the Swiss plan operates like a defined contribution plan under local regulations, it is accounted for as a defined benefit pension plan under IAS 19 'Employee Benefits' because of the need to accrue interest on the pension accounts and the payment of a lifetime pension at a fixed conversion rate under the plan rules.

Actuarial valuations are completed annually and if the plan becomes underfunded under local regulations, options for dealing with this include the Group paying additional contributions into the plan and/or reducing future benefits. At present, the plan is sufficiently funded, meaning that no additional contributions into the plans are expected to be required in the next year. The investment strategy of the Swiss plan is constrained by Swiss pension law including regulations related to diversification of plan assets. Under IAS 19, volatility arises in the Swiss pension plan net asset because the fair value of the plan assets is not directly correlated to movements in the value of the plan's defined benefit obligation in the short-term.

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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, 2016 and was finalized in June 2017. This valuation disclosed a funding surplus of USD 411 million (GBP 304 million) after taking into account the value of the asset-backed funding arrangement established in 2014. The statutory valuation as at June 30, 2019 is underway and expected to be finalized by September 2020.

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) plan and the Farmers Group, Inc. (FGI) pension plan. Both plans are funded entirely by the participating employers. The ZNA plan is a cash balance and the FGI pension plan utilizes a cash balance pension formula for benefits accruing after January 1, 2009, except with respect to certain grandfathered participants who retained a final average pay formula. Under a cash balance pension formula, an amount is credited to the cash balance account each quarter, determined by an employee's age, service and their level of earnings up to and above the social security taxable wage base. The minimum annual interest credited on the account balance is 5 percent. The cash balance account is available from age 65, or age 55 with five years of service. The benefit can be taken as a monthly annuity or as a lump sum. Both the ZNA plan and the FGI pension plan have fiduciaries as required under local pension laws. The fiduciaries are responsible for the governance of the plans. Actuarial valuations are completed regularly. The annual employer minimum required contributions are equal to the present value of benefits accrued 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. In 2007, a contractual trust arrangement was set up to support all pension commitments of the employing companies in Germany. From this time, new contributions to the contractual trust arrangement relate to the pension payment refund of the employer companies.

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.

The defined benefit plans provide benefits on either a final salary, career average salary or a cash balance basis. These plans are now closed to new entrants, who instead participate in a new cash balance arrangement, which has the characteristics of a defined contribution arrangement with 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 20.1a and 20.1b set out the reconciliation of the defined benefit obligation and plan assets for the Group's post-employment defined benefit plans.

Table 20.1a

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

in USD millions	Defined benefit obligation	Fair value of assets	Asset ceiling	Net defined benefit asset/ (liability)
As of January 1, 2019	(20,593)	18,447	(113)	(2,260)
Net post-employment benefit (expense)/income:				
Current service cost	(138)	–	–	(138)
Interest (expense)/income	(432)	373	–	(59)
Settlements gains/(losses)	29	(24)	–	5
Past service (cost)/credit	(7)	–	–	(7)
Net post-employment benefit (expense)/income	(547)	349	–	(199)
Remeasurement effects included in other comprehensive income:				
Return on plan assets excluding interest income	–	2,350	–	2,350
Experience gains/(losses)	(89)	–	–	(89)
Actuarial gains/(losses) arising from changes in demographic assumptions	404	–	–	404
Actuarial gains/(losses) arising from changes in financial assumptions	(2,308)	–	–	(2,308)
Change in asset ceiling	–	–	(323)	(323)
Remeasurement effects included in other comprehensive income	(1,992)	2,350	(323)	35
Employer contributions	–	252	–	252
Employer contributions paid to meet benefits directly	35	–	–	35
Plan participants' contributions	(65)	65	–	–
Payments from the plan (incl. settlements)	828	(828)	–	–
Foreign currency translation effects	(503)	437	–	(67)
As of December 31, 2019	**(22,838)**	**21,071**	**(436)**	**(2,203)**
of which: Assets for defined pension plans				316
of which: Liabilities for defined pension plans				(2,519)

Consolidated financial statements (continued)

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

Table 20.1b

in USD millions	Defined benefit obligation	Fair value of assets	Asset ceiling	Net defined benefit asset/ (liability)
As of January 1, 2018	(23,227)	19,934	(95)	(3,388)
Net post-employment benefit (expense)/income:				
Current service cost	(252)	–	–	(252)
Interest (expense)/income	(429)	350	–	(78)
Settlements gains/(losses)	169	(149)	–	20
Past service (cost)/credit	(28)	–	–	(28)
Net post-employment benefit (expense)/income	(540)	201	–	(339)
Remeasurement effects included in other comprehensive income:				
Return on plan assets excluding interest income	–	(713)	–	(713)
Experience gains/(losses)	199	–	–	199
Actuarial gains/(losses) arising from changes in demographic assumptions	316	–	–	316
Actuarial gains/(losses) arising from changes in financial assumptions	909	–	–	909
Change in asset ceiling	–	–	(18)	(18)
Remeasurement effects included in other comprehensive income	1,424	(713)	(18)	693
Employer contributions	–	611	–	611
Employer contributions paid to meet benefits directly	34	–	–	34
Plan participants' contributions	(65)	65	–	–
Payments from the plan (incl. settlements)	965	(965)	–	–
Foreign currency translation effects	816	(686)	–	129
As of December 31, 2018	**(20,593)**	**18,447**	**(113)**	**(2,260)**
of which: Assets for defined pension plans				232
of which: Liabilities for defined pension plans				(2,491)

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.

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Table 20.2 provides a breakdown of plan assets by asset class.

Table 20.2

Fair value of assets held in funded defined benefit pension plans

in USD millions, as of December 31	**2019**				2018			
	Quoted in active markets	**Other**	**Total**	**% of Total**	Quoted in active markets	Other	Total	% of Total
Cash and cash equivalents	(735)	–	(735)	(3%)	(282)	–	(282)	(2%)
Equity securities	4,629	159	4,788	23%	3,658	132	3,790	21%
Debt securities	91	15,098	15,190	72%	84	13,112	13,196	72%
Investment property	–	1,495	1,495	7%	–	1,443	1,443	8%
Mortgage loans	–	325	325	2%	–	291	291	2%
Other assets[1]	–	8	8	–	–	7	7	–
Total	**3,986**	**17,085**	**21,071**	**100%**	**3,461**	**14,986**	**18,447**	**100%**

[1] UK annuity policies.

For the classification of pension assets the Group follows the same principles as outlined in note 23 (Fair value measurement). Assets meeting the criteria of Level 1 are generally considered quoted in active markets, while assets meeting the criteria of Level 2 or Level 3 are generally considered in other assets.

Tables 20.3a and 20.3b provide a breakdown of the key information included in tables 20.1a and 20.1b for the main countries for the years ended December 31, 2019 and 2018, respectively.

Table 20.3a

Key information by main country – current period

in USD millions, as of December 31, 2019	**Switzerland**	**United Kingdom**	**United States**	**Germany**	**Other**	**Total**
Defined benefit obligation	(4,843)	(11,608)	(3,707)	(1,430)	(1,250)	(22,838)
Fair value of plan assets	5,442	9,787	3,386	1,370	1,086	21,071
Impact of asset ceiling	(407)	(30)	–	–	–	(436)
Net defined benefit asset/(liability)	**192**	**(1,851)**	**(321)**	**(60)**	**(164)**	**(2,203)**
Net post-employment benefit (expense)/income[1]	(67)	(61)	(34)	(21)	(21)	(204)

[1] Canada includes a past service credit of USD 5 million.

Table 20.3b

Key information by main country – prior period

in USD millions, as of December 31, 2018	Switzerland	United Kingdom	United States	Germany	Other	Total
Defined benefit obligation	(4,590)	(10,140)	(3,387)	(1,316)	(1,160)	(20,593)
Fair value of plan assets	4,881	8,410	3,008	1,181	967	18,447
Impact of asset ceiling	(95)	(18)	–	–	–	(113)
Net defined benefit asset/(liability)	**196**	**(1,748)**	**(380)**	**(135)**	**(193)**	**(2,260)**
Net post-employment benefit (expense)/income	(98)	(95)	(106)	(26)	(13)	(339)

Consolidated financial statements (continued)

Table 20.4 shows the key financial assumptions used to calculate the Group's post-employment defined benefit obligations and the Group's post-employment benefit expenses.

Key financial assumptions used for major plans

Table 20.4

as of December 31	2019				2018			
	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany
Discount rate	0.2%	1.9%	3.2%	0.9%	0.8%	2.7%	4.2%	1.7%
Inflation rate (CPI)[1]	1.2%	1.9%	2.0%	1.4%	1.2%	2.2%	2.0%	1.6%
Salary increase rate	1.2%	2.8%	4.5%	2.7%	1.2%	2.0%	4.5%	2.9%
Expected future pension increases	0.1%	3.5%	n/a	1.4%	0.1%	3.6%	n/a	1.6%
Interest crediting rate	0.3%	n/a	5.0%	n/a	0.8%	n/a	5.0%	n/a

[1] In the UK part of the liability is linked to the inflation measure of the Retail Price Index (RPI), which is assumed to be 1.0 percent higher than the Consumer Price Index (CPI) as of both December 31, 2019 and 2018.

Tables 20.5a and 20.5b set out the life expectancies used in the valuation of the Group's major plans. The mortality assumptions in each country have been based on mortality tables in accordance with typical practice in that country.

Mortality tables and life expectancies for major plans – current period

Table 20.5a

in years, as of December 31, 2019		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
		aged 65	aged 45	aged 65	aged 45
Country	Mortality table for major plans				
Switzerland	BVG 2015 with generational projections according to CMI model adapted to Swiss mortality with a long-term trend rate of 1.25%	21.60	23.20	23.60	25.10
United Kingdom	113% of S3PMA Light (males) or 100% of S3PFA (females) with CMI_2018 projection using a long-term rate of 1.0%	21.83	22.83	23.73	24.93
	Pri-2012 with MP-2019 Generational projection and white collar adjustment	21.99	23.51	23.40	24.94
United States	RP 2014 with plan specific adjustments	21.30	22.26	23.31	24.21
Germany	Heubeck 2018G	20.18	22.96	23.69	25.93

Mortality tables and life expectancies for major plans – prior period

Table 20.5b

in years, as of December 31, 2018		Life expectancy at age 65 for a male currently		Life expectancy at age 65 for a female currently	
		aged 65	aged 45	aged 65	aged 45
Country	Mortality table for major plans				
Switzerland	BVG 2015 Generational	22.50	24.30	24.50	26.40
United Kingdom	PNXA00 with CMI_2017 projection with plan specific adjustments	22.53	23.63	23.25	24.45
	RP 2014 with MP-2018 Generational projection and white collar adjustment	22.19	23.74	23.71	25.23
United States	RP 2014 with plan specific adjustments	21.25	22.22	23.27	24.16
Germany	Heubeck 2018G	20.04	22.83	23.57	25.83

Table 20.6 shows the expected benefits to be paid under the Group's major plans in the future. It should be noted that actual amounts may vary from expected amounts. Therefore future benefit payments may differ from the amounts shown.

Table 20.6

Maturity profile of future benefit payments for major plans

as of December 31	2019				2018			
	Switzerland	**United Kingdom**	**United States**	**Germany**	Switzerland	United Kingdom	United States	Germany
Duration of the defined benefit obligation (in years)	15.3	19.8	12.5	14.2	14.1	21.0	12.2	14.0
Maturity analysis of benefits expected to be paid (in USD millions):								
< 1 year	221	343	227	49	215	479	220	58
1 to 5 years	917	1,449	892	231	893	1,819	879	254
5 to 10 years	1,117	2,340	1,065	297	1,129	2,070	1,069	348

Table 20.7 sets out the sensitivity of the defined benefit obligation to changes in key actuarial assumptions. The effect on the defined benefit obligation shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. While this table illustrates the overall impact on the defined benefit obligation of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the overall defined benefit obligation. In particular, the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for different plans. The sensitivity analysis is intended to illustrate the inherent uncertainty in the evaluation of the defined benefit obligation under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the overall defined benefit obligation. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Group's view of expected future changes in the defined benefit obligation. Any management actions that may be taken to mitigate the inherent risks in the post-employment defined benefit plans are not reflected in this analysis.

Table 20.7

Sensitivity analysis of significant actuarial assumptions

	Defined benefit obligation[1]	
in USD millions, as of December 31	**2019**	2018
Discount rate +50 bps	1,824	1,647
Discount rate –50 bps	(2,093)	(1,886)
Salary increase rate +50 bps	(73)	(71)
Salary decrease rate –50 bps	70	65
Price inflation increase rate +50 bps	(1,038)	(865)
Price inflation decrease rate –50 bps	903	763
Cash balance interest credit rate +50 bps	(76)	(116)
Cash balance interest credit rate –50 bps	72	73
Mortality 10% increase in life expectancy	(2,162)	(1,841)
Mortality 10% decrease in life expectancy	2,086	1,789

[1] A negative number indicates an increase and a positive number indicates a decrease in the defined benefit obligation.

b) Defined contribution pension plans

Certain of the Group's companies 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 12 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 283 million and USD 184 million for the years ended December 31, 2019 and 2018, respectively.

21. Share-based compensation and cash incentive plans

The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, can be awarded. Share-based compensation plans are based on the provision of Zurich Insurance Group Ltd shares.

a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business. 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 511 million and USD 523 million for the years ended December 31, 2019 and 2018, respectively.

b) Share-based compensation plans for employees and executives

The Group encourages employees to own shares in Zurich Insurance Group Ltd and has set up a framework based on the implementation of performance share programs. Actual plans are tailored to meet local market requirements.

The cost of share-based payments depends on various factors, including achievement of targets, and are subject to the discretion of the Remuneration Committee and the Board. Costs may therefore vary significantly from year to year. The net amounts of USD 229 million and USD 215 million for the years ended December 31, 2019 and 2018, respectively, reflect all aspects of share-based compensation, including adjustments made during the year.

The explanations below provide a more detailed overview of the main plans of the Group.

Employee share plans

Share Incentive Plan for employees in the UK

The Group established an Inland Revenue approved Share Incentive Plan and launched the Partnership Shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Insurance Group Ltd shares at the prevailing market price from their gross earnings. This plan was terminated in 2007. There were 34 and 47 participants in the plan as of December 31, 2019 and 2018, respectively.

A revised Partnership Share Scheme was launched in March 2013. Participants benefit from purchasing shares by making deductions from gross salary up to a maximum of GBP 1,800 or 10 percent of their year-to-date earnings. There were 658 and 688 active participants in the plan as of December 31, 2019 and 2018, respectively.

The Group also operates a profit-sharing element of the Share Incentive Plan (Reward Shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on business operating profit (BOP) after tax for the year achieved by the business unit of each participating employee. Individual awards are subject to a maximum of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,600. The total number of participating employees in Reward Shares as of December 31, 2019 and 2018 was 2,612 and 3,192, respectively.

A Dividend Shares scheme was launched in 2014 which allows employees to reinvest their dividends from Partnership Shares 3 and Reward Shares 3. As of December 31, 2019 and 2018, there were 439 and 385 participants in the scheme, respectively.

Share Incentive Plan for employees in Switzerland

Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is equivalent to CHF 3,500 per employee per annum. During 2019, 4,096 employees were eligible to participate in the share incentive plan, compared with 4,097 in 2018. For the years ended December 31, 2019 and 2018, 1,761 and 1,648 employees, respectively, purchased shares under the 2018 and 2019 share plans.

The Group Long-Term Incentive Plan (LTIP)

Participants in this plan are allocated a target number of performance shares as notional shares of Zurich Insurance Group Ltd in April each year (target shares). The number of target shares is calculated as a percentage of annual base salary of each participant.

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Target shares allocated in 2019 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 target shares allocated, depending on the achievement of pre-defined performance criteria. The performance criteria used to determine the level of vesting are the Group's return on shareholders' equity (ROE), the position of its relative total shareholder return (TSR) measured against an international peer group of insurance companies, and the achievement of cash remittance targets. The three pre-defined performance criteria are each assessed over a period of three consecutive financial years starting in the year of allocation and have an equal weighting. One half of the shares that actually vest are sales-restricted for a further three years for members of the Executive Committee. To further align the participants with the interests of the shareholders, effective from January 1, 2014, the target shares are credited with dividend equivalent shares during the vesting period to compensate participants in LTIP for dividends paid to shareholders. As of December 31, 2019 and 2018 there were 1,133 and 1,031 participants in this plan, respectively.

Shares allocated during the period

Table 21

for the years ended December 31	Number		Fair value at the allocation date (in CHF)	
	2019	2018	**2019**	2018
Shares allocated during the period	517,101	544,780	333	310

The shares allocated each year are based on target under the Group's LTIP. The level of vesting will depend on the level of achievements in the performance criteria. If the vesting level is different to target, the actual cost of the share-based payments is adjusted accordingly in the year when the level of vesting is determined.

22. Commitments and contingencies, legal proceedings and regulatory investigations

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

Quantifiable commitments and contingencies

Table 22.1

in USD millions, as of December 31	**2019**	2018
Remaining commitments under investment agreements	1,398	2,283
Guarantees and letters of credit[1]	1,003	2,083
Future operating lease commitments[2]	–	2,149
Undrawn loan commitments	1	2
Other commitments and contingent liabilities[3,4]	732	2,346

[1] Guarantee features embedded in life insurance products are not included.
[2] Movement driven by the implementation of IFRS 16 'Leases.'
[3] Movement is related to the acquisition of OnePath in May 2019 (see note 5).
[4] Includes USD 131 million future cash outflows, that the Group as lessee is potentially exposed to which are not reflected in the measurement of lease liabilities in the balance sheet, of which USD 104 million is a lease agreement in Australia commencing in 2020 (see note 13.4).

Commitments under investment agreements

The Group has committed to contribute capital to third parties that engage in making investments in direct private equity, private equity funds and real estate. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis.

Guarantees and letters of credit

In 2019 and 2018, USD 629 million and USD 605 million, respectively, related to guarantees in the aggregate amount of GBP 475 million which were provided to the directors of a wholly owned subsidiary in connection with the repatriation of capital. These guarantees have no expiry date.

The Group knows of no event of default that would require it to satisfy financial guarantees. Irrevocable letters of credit have been issued to secure certain reinsurance contracts.

The Group is active in numerous countries where insurance guarantee funds exist. The design of such funds varies from jurisdiction to jurisdiction. In some, funding is based on premiums written, in others the Group may be called upon to contribute to such funds in case of a failure of another market participant. In addition, in some jurisdictions the amount of contribution may be limited, for example, to a percentage of the net underwriting reserve net of payments already made.

The Group carries certain contingencies in the ordinary course of business in connection with the sale of its companies and businesses. These are primarily in the form of indemnification obligations provided to the acquirer in a transaction in which a Group company is the seller. They vary in scope and duration by counterparty and generally are intended to shift the potential risk of certain unquantifiable and unknown loss contingencies from the acquirer to the seller.

Zurich Insurance Group Ltd has provided unlimited guarantees in support of entities belonging to the Zurich Capital Markets group of companies.

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Other contingent liabilities

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

The Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA– by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available amounts to nil as of both December 31, 2018 and 2019.

In common with other insurance companies, the Group is mindful of the trend toward enhanced consumer protection. There is significant uncertainty about the ultimate cost this trend might have on our business. The main areas of uncertainty concern court decisions as well as the volume of potential customer complaints related to sales activities and withdrawal rights, and their respective individual assessments.

Pledged assets

The majority of assets pledged to secure the Group's liabilities relate to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 1.4 billion and USD 2 billion as of December 31, 2019 and 2018, respectively.

Terms and conditions associated with the financial assets pledged to secure the Group's liabilities are usual and standard in the markets in which the underlying agreements were executed.

Legal, compliance and regulatory developments

In recent years there has been an increase in the number of legislative initiatives that require information gathering and tax reporting regarding the Group's customers and their contracts, including the U.S. Foreign Account Tax Compliance Act (FATCA) and the expected introduction of other automatic tax information exchange regimes based on the Common Reporting Standard (CRS). The Group's compliance activities in this area could result in higher compliance costs, remedial actions and other related expenses for its life insurance, savings and pension business. There has also been increased scrutiny by various tax and law enforcement officials regarding cross-border business activities, including in particular by U.S. government authorities looking into activities of U.S. taxpayers with investments held outside the U.S. and activities of non-U.S. financial institutions that hold such investments.

The Group, on its own initiative, undertook an internal review of the life insurance, savings and pension business sold by its non-U.S. operating companies with relevant cross-border business to customers with a nexus to the U.S. The Group engaged outside counsel and other advisors to assist in this review, which was focused on assessing compliance with relevant U.S. tax laws. The review confirmed that the Group's cross-border business with U.S. persons was very limited and of a legacy nature, with the large majority of sales having occurred more than a decade ago. The review also confirmed that the Group's U.S. operating companies were not involved in or connected to those activities.

The Group has voluntarily disclosed the results of the review and the regulatory issues presented by sales to U.S. residents to the Swiss Financial Market Supervisory Authority (FINMA), the U.S. Department of Justice (DOJ) and other authorities. The Group is cooperating with these authorities.

On April 25, 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 agreed to pay USD 5 million to the U.S. Treasury and to comply with certain specified conditions during the four-year term of the NPA.

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

Legal proceedings and regulatory investigations

The Group's business is subject to extensive supervision, and the Group is in regular contact with various regulatory authorities. The Group is continuously involved in legal proceedings, claims and regulatory investigations arising, for the most part, in the ordinary course of its business operations.

While the Group believes that it is not a party to, nor are any of its subsidiaries the subject of, any unresolved current legal proceedings, claims, litigation and investigations that will have a material adverse effect on the Group's consolidated financial condition, proceedings are inherently unpredictable, and it is possible that the outcome of any proceeding could have a material impact on results of operations in the particular reporting period in which it is resolved.

23. Fair value measurement

To measure fair value, the Group gives the highest priority to quoted and unadjusted prices in active markets. In the absence of quoted prices, fair values are calculated through valuation techniques, making the maximum use of relevant observable market data inputs. Whenever observable parameters are not available, the inputs used to derive the fair value are based on common market assumptions that market participants would use when pricing assets and liabilities. Depending on the observability of prices and inputs to valuation techniques, the Group classifies instruments measured at fair value within the following three levels (the fair value hierarchy):

Level 1 – includes assets and liabilities for which fair values are determined directly from unadjusted current quoted prices resulting from orderly transactions in active markets for identical assets/liabilities.

Level 2 – includes assets and liabilities for which fair values are determined using significant inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable market inputs.

Level 3 – includes assets and liabilities for which fair values are determined using valuation techniques with at least one significant input not being based on observable market data. This approach is used only in circumstances when there is little, if any, market activity for a certain instrument, and the Group is required to rely on third party providers or develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability.

The governance framework and oversight of the Group's standards and procedures regarding the valuation of financial instruments measured at fair value lies within the responsibility of Group Risk Management, Group Investment Management, Treasury Capital Management and Group Finance. Specialists from these departments ensure the adequacy of valuation models, approve methodologies and sources to derive model input parameters, provide oversight over the selection of third party pricing providers, and on a semi-annual basis review the classification within the fair value hierarchy of the financial instruments in scope.

The Group makes extensive use of third-party pricing providers to determine the fair values of its available-for-sale and fair value through profit or loss financial instruments, and only in rare cases places reliance on prices that are derived from internal models. Investment accounting, operations and process functions, are independent from those responsible for buying and selling the assets, and are responsible for receiving, challenging and verifying values provided by third party pricing providers to ensure that fair values are reliable, as well as ensuring compliance with applicable accounting and valuation policies. The quality control procedures used depend on the nature and complexity of the invested assets. They include variance and stale price analysis, and comparisons with fair values of similar instruments and with alternative values obtained from asset managers and brokers.

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Table 23.1 compares the fair value with the carrying value of financial assets and financial liabilities. Certain financial instruments are not included in this table as their carrying value is a reasonable approximation of their fair value. Such instruments include cash and cash equivalents, obligations to repurchase securities, deposits made under assumed reinsurance contracts, deposits received under ceded reinsurance contracts and other financial assets and liabilities. This table excludes financial assets and financial liabilities related to unit-linked contracts.

Fair value and carrying value of financial assets and financial liabilities

Table 23.1

in USD millions, as of December 31	Total fair value		Total carrying value	
	2019	2018	**2019**	2018
Available-for-sale securities				
Equity securities	13,905	12,587	13,905	12,587
Debt securities	138,676	132,522	138,676	132,522
Total available-for-sale securities	152,581	145,110	152,581	145,110
Fair value through profit or loss securities				
Equity securities	4,391	3,633	4,391	3,633
Debt securities	6,713	5,229	6,713	5,229
Total fair value through profit or loss securities	11,105	8,862	11,105	8,862
Derivative assets	1,226	899	1,226	899
Held-to-maturity debt securities	2,757	2,655	2,117	2,118
Mortgage loans	6,351	6,935	5,935	6,556
Other loans	9,879	9,123	8,274	7,614
Total financial assets[1]	**183,899**	**173,583**	**181,239**	**171,158**
Derivative liabilities	(365)	(325)	(365)	(325)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(1,106)	(606)	(931)	(504)
Senior debt	(5,388)	(5,329)	(5,148)	(5,237)
Subordinated debt	(7,558)	(6,722)	(6,852)	(6,775)
Total financial liabilities held at amortized cost	(14,052)	(12,658)	(12,930)	(12,516)
Total financial liabilities[1]	**(14,417)**	**(12,983)**	**(13,296)**	**(12,842)**

[1] 2019 includes equity securities, debt securities, other loans and liabilities due to investment contracts related to the OnePath acquisition (see note 5).

All of the Group's financial assets and financial liabilities are initially recorded at fair value. Subsequently, available-for-sale financial assets, fair value through profit or loss financial assets, and derivative financial instruments are carried at fair value as of the balance sheet date. All other financial instruments are carried at amortized cost and the valuation techniques used to determine their fair value measurement are described below.

Fair values of held-to-maturity debt securities and senior and subordinated debt are obtained from third party pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for identical assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. Such instruments are categorized within level 2.

Discounted cash flow models are used for mortgage loans and other loans. 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.

Fair values of liabilities related to investment contracts and investment contracts with DPF are determined using discounted cash flow models. Such instruments are categorized within level 3 due to the unobservability of certain inputs used in the valuation.

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Recurring fair value measurements of assets and liabilities

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

Table 23.2a

in USD millions, as of December 31, 2019	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	9,633	2,855	1,417	13,905
Debt securities	–	130,963	7,713	138,676
Total available-for-sale securities	9,633	133,818	9,129	152,581
Fair value through profit or loss securities				
Equity securities	1,611	602	2,179	4,391
Debt securities	–	6,632	81	6,713
Total fair value through profit or loss securities	1,611	7,234	2,260	11,105
Derivative assets	2	1,092	132	1,226
Investment property	–	2,760	10,501	13,261
Reinsurers' share of liabilities for insurance contracts fair value option[1]	–	–	206	206
Total	**11,246**	**144,905**	**22,228**	**178,379**
Derivative liabilities	(4)	(320)	(42)	(365)
Liabilities for insurance contracts fair value option[2]	–	–	(2,215)	(2,215)
Total	**(4)**	**(320)**	**(2,257)**	**(2,581)**

[1] Included within reinsurers' share of liabilities for insurance contracts.
[2] Included within liabilities for insurance contracts.

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

Table 23.2b

in USD millions, as of December 31, 2018	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Equity securities	8,854	2,515	1,219	12,587
Debt securities	–	124,963	7,559	132,522
Total available-for-sale securities	8,854	127,478	8,778	145,110
Fair value through profit or loss securities				
Equity securities	1,409	25	2,198	3,633
Debt securities	–	5,151	78	5,229
Total fair value through profit or loss securities	1,409	5,176	2,276	8,862
Derivative assets	10	810	79	899
Investment property	–	2,269	10,082	12,351
Reinsurers' share of liabilities for insurance contracts fair value option[1]	–	–	204	204
Total	**10,273**	**135,733**	**21,419**	**167,425**
Derivative liabilities	(2)	(288)	(35)	(325)
Liabilities for insurance contracts fair value option[2]	–	–	(2,203)	(2,203)
Total	**(2)**	**(288)**	**(2,238)**	**(2,528)**

[1] Included within reinsurers' share of liabilities for insurance contracts.
[2] Included within liabilities for insurance contracts.

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Fair value hierarchy – unit-linked – current period

Table 23.3a

in USD millions, as of December 31, 2019	Level 1	Level 2	Level 3	Total
Fair value through profit or loss securities				
Equity securities	92,528	18,203	919	111,650
Debt securities	–	8,042	21	8,062
Other loans	–	2,818	–	2,818
Total fair value through profit or loss securities	**92,528**	**29,062**	**940**	**122,530**
Derivative assets	1	2	–	3
Investment property	–	–	3,034	3,034
Total investments for unit-linked contracts[1]	**92,529**	**29,064**	**3,974**	**125,567**
Financial liabilities at FV through profit or loss				
Liabilities related to unit-linked investment contracts	–	(48,967)	–	(48,967)
Derivative liabilities	(2)	–	–	(2)
Total	**(2)**	**(48,967)**	**–**	**(48,969)**

[1] Excluding cash and cash equivalents.

Fair value hierarchy – unit-linked – prior period

Table 23.3b

in USD millions, as of December 31, 2018	Level 1	Level 2	Level 3	Total
Fair value through profit or loss securities				
Equity securities	76,887	18,985	619	96,490
Debt securities	–	6,431	21	6,452
Other loans	–	2,667	–	2,667
Total fair value through profit or loss securities	76,887	28,083	640	105,610
Derivative assets	1	2	–	3
Investment property	–	–	3,222	3,222
Total investments for unit-linked contracts[1]	76,888	28,084	3,863	108,835
Financial liabilities at FV through profit or loss				
Liabilities related to unit-linked investment contracts	–	(40,828)	–	(40,828)
Derivative liabilities	(11)	(1)	–	(12)
Total	(11)	(40,829)	–	(40,840)

[1] Excluding cash and cash equivalents.

Within level 1, the Group has classified common stocks, exchange traded derivative financial instruments, investments in unit trusts that are exchange listed and daily published and other highly liquid financial instruments.

Within level 2, the Group has classified government and corporate bonds, investments in unit trusts, agency mortgage-backed securities (MBS) and 'AAA' rated non-agency MBS and other asset-backed securities (ABS) where valuations are obtained from independent pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for similar assets, alternative pricing methods such as matrix pricing or an income approach employing discounted cash flow models. If such quoted prices are not available, then fair values are estimated on the basis of information from external pricing providers or internal pricing models (for example, discounted cash flow models or other recognized valuation techniques).

Where there are active and transparent markets and no significant adjustments to the observable data required, the Group classified also a small portion of its investment property within level 2.

Over the counter derivative financial instruments are valued using internal models. The fair values are determined using dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for underlying instruments, time to expiry, yield curves and volatility of underlying instruments. Such instruments are classified within level 2 as the inputs used in pricing models are generally market observable or derived from market observable data.

Fair values of liabilities related to unit-linked investment contracts are usually determined by reference to the fair value of the underlying assets backing these liabilities. Such instruments are classified within level 2.

Within level 3, the Group has classified:

- Unlisted stocks, private equity funds and hedge funds that are not actively traded. Such instruments are obtained from net asset value information and audited financial statements provided by the issuing company. Quantitative unobservable inputs are not developed by the Group when measuring fair value of these assets.
- Non-agency MBS and ABS rated below 'AAA' that are valued by independent pricing providers using a variety of valuation techniques which may require use of significant unobservable input parameters such as asset prepayment rate, default rates and credit curves. Quantitative unobservable inputs are not developed by the Group when measuring fair value of these assets.
- Options and long-dated derivative financial instruments with fair values determined using counterparty valuations or calculated using significant unobservable inputs such as historical volatilities, historical correlation, implied volatilities from the counterparty or derived using extrapolation techniques. Quantitative information on unobservable inputs are not available when counterparty pricing was used. For internally calculated fair values significant increases/(decreases) in volatilities or correlation, would result in a significantly higher/(lower) fair value measurement.
- Investment properties for which fair value is based on valuations performed annually by internal valuation specialists and generally on a rotation basis at least once every three years by an independent qualified appraiser. In general the portfolio is valued using an internal income capitalization approach. The model is asset specific and capitalizes the sustainable investment income of a property with its risk specific cap rate. This cap rate is an 'all risk yield' with components such as asset class yield for core assets (lowest risk) plus additional premiums for additional risks, for example second tier location or deterioration risk. All cap rate components (risk premiums) are reviewed and, if necessary, adjusted annually before revaluations are performed. The model takes into consideration external factors such as interest rate, market rent and vacancy rate. The significant unobservable inputs which are outside this model, are estimated rental value, rental growth, long term vacancy rate and discount rate. Significant increases/(decreases) in rental value and rental growth, in isolation, would result in a significantly higher/(lower) fair value measurement. Significant increases/(decreases) in the long term vacancy rate and discount rate, in isolation, would result in a significantly lower/(higher) fair value measurement.
- Reinsurers' share of liabilities and liabilities for insurance contracts fair value option. The fair values are determined using discounted cash flow models. The discount factors used are based on derived rates for LIBOR swap forwards, spreads to U.S. Treasuries and spreads to U.S. corporate A or higher rated bond segments for financials, industrials and utilities. The liability-projected cash flows use contractual information for premiums, benefits and agent commissions, administrative expenses under third party administrative service agreements and best estimate parameters for policy decrements. The primary unobservable inputs are the policy decrement assumptions used in projecting cash flows. These include disability claim parameters for incidence and termination (whether for recovery or death) and lapse rates. Significant increases/(decreases) in claim incidence rates and significant decreases/(increases) in claim termination rates would result in a significantly higher/(lower) fair value measurement.
- The Group's private debt holdings comprise certain private placements and other collateralized loan obligations (CLO) which are valued by dedicated external asset managers applying a combination of expert judgment and other specific adjustments for which interest rates as well as credit spreads serve as input parameters. Quantitative unobservable inputs are not developed by the Group when measuring fair value of these assets.

For details on Group investments sensitivities, refer to section analysis by risk type in the risk review.

The fair value hierarchy is reviewed at the end of each reporting period to determine whether significant transfers between levels have occurred. Transfers between levels mainly arise as a result of changes in market activity and observability of the inputs to the valuation techniques used to determine the fair value of certain instruments.

No material transfers between level 1 and level 2 occurred for the year ended December 31, 2019.

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Table 23.4a

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

in USD millions	Available-for-sale securities		Fair value through profit or loss securities				
	Equity securities	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities	Investment property
As of January 1, 2019	1,219	7,559	2,198	78	79	(35)	10,082
Realized gains/(losses) recognized in income[1]	107	7	26	–	(12)	–	183
Unrealized gains/(losses) recognized in income[1,2]	(8)	(16)	198	2	(6)	(17)	213
Unrealized gains/(losses) recognized in other comprehensive income	34	286	–	–	61	18	–
Purchases	286	1,271	237	9	14	(8)	854
Settlements/sales/redemptions	(228)	(809)	(491)	(1)	(2)	–	(882)
Transfer from/to assets held for own use	–	–	–	–	–	–	18
Transfers into level 3	–	34	–	–	–	–	–
Transfers out of level 3	(11)	(619)	–	(7)	–	–	–
Foreign currency translation effects	17	–	11	1	(1)	1	33
As of December 31, 2019	**1,417**	**7,713**	**2,179**	**81**	**132**	**(42)**	**10,501**

[1] Presented as net capital gains/(losses) and impairments on Group investments in the audited consolidated income statements.
[2] Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

For the year ended December 31, 2019, the Group transferred USD 619 million of available-for-sale debt securities out of level 3 into level 2 and USD 34 million out of level 2 into level 3. The transfers were mainly driven by a pricing provider change for a significant portfolio of syndicated loans receiving market quotes on a regular basis as a result of orderly market transactions and a rating upgrading of none-agency asset backed securities to 'AAA.'

Table 23.4b

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

in USD millions	Available-for-sale securities		Fair value through profit or loss securities				
	Equity securities	Debt securities	Equity securities	Debt securities	Derivative assets	Derivative liabilities	Investment property
As of January 1, 2018	988	6,251	2,566	84	61	(30)	9,464
Realized gains/(losses) recognized in income[1]	104	14	38	–	(1)	–	123
Unrealized gains/(losses) recognized in income[1,2]	(9)	(15)	(43)	(2)	(6)	(5)	136
Unrealized gains/(losses) recognized in other comprehensive income	102	(163)	–	–	11	1	–
Purchases	278	2,456	511	–	8	(4)	689
Settlements/sales/redemptions	(212)	(1,181)	(870)	(2)	(6)	–	(668)
Transfer to assets held for sale	–	–	–	–	–	–	(15)
Transfers into level 3	4	352	–	–	17	–	554
Transfers out of level 3	–	(43)	–	–	–	–	–
Foreign currency translation effects	(37)	(111)	(4)	(2)	(3)	2	(201)
As of December 31, 2018	**1,219**	**7,559**	**2,198**	**78**	**79**	**(35)**	**10,082**

[1] Presented as net capital gains/(losses) and impairments on Group investments in the audited consolidated income statements.
[2] Unrealized gains/(losses) recognized in income for available-for-sale securities relate to impairments.

For the year ended December 31, 2018, the Group transferred USD 352 million of available-for-sale debt securities out of level 2 into level 3. The transfers were mainly due to a review of the classification of certain collateralized loan obligations due to the observability of the inputs used in the valuation techniques to determine its fair value. The Group also transferred USD 554 million of investment property out of level 2 into level 3. The transfer resulted from a review of the classification of the real estate property due to the observability of the inputs used in the valuation techniques to determine its fair value.

Consolidated financial statements (continued)

Development of liabilities for insurance contracts fair value option classified within level 3 – current period

Table 23.5a

in USD millions	Gross	Ceded	Net
As of January 1, 2019	2,203	(204)	1,999
Premiums	54	(5)	50
Claims	(233)	15	(218)
Fee income and other expenses	1	5	6
Interest and bonuses credited to policyholders	194	(18)	176
Changes in assumptions	(3)	–	(3)
As of December 31, 2019	**2,215**	**(206)**	**2,010**

Development of liabilities for insurance contracts fair value option classified within level 3 – prior period

Table 23.5b

in USD millions	Gross	Ceded	Net
As of January 1, 2018	2,436	(224)	2,212
Premiums	62	(5)	57
Claims	(249)	22	(227)
Fee income and other expenses	(15)	2	(12)
Interest and bonuses credited to policyholders	(26)	1	(24)
Changes in assumptions	(6)	–	(6)
(Decreases)/increases recorded in other comprehensive income	–	–	–
As of December 31, 2018	**2,203**	**(204)**	**1,999**

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

Table 23.6a

in USD millions	Fair value through profit or loss securities		
	Equity securities	Debt securities	Investment property
As of January 1, 2019	619	21	3,222
Realized gains/(losses) recognized in income[1]	4	–	(55)
Unrealized gains/(losses) recognized in income[1]	61	–	20
Purchases	292	–	144
Sales/redemptions	(57)	(2)	(418)
Transfers into level 3	1	–	–
Transfers out of level 3	–	–	–
Acquisitions and divestments	–	–	7
Foreign currency translation effects	(1)	–	112
As of December 31, 2019	**919**	**21**	**3,034**

[1] Presented as net investment result on unit-linked investments in the consolidated income statements.

Consolidated financial statements (continued)

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

Table 23.6b

in USD millions	Fair value through profit or loss securities Equity securities	Debt securities	Investment property
As of January 1, 2018	503	51	3,410
Realized gains/(losses) recognized in income[1]	6	–	134
Unrealized gains/(losses) recognized in income[1]	–	1	(18)
Purchases	162	–	232
Sales/redemptions	(84)	(14)	(333)
Transfers into level 3	32	–	–
Transfers out of level 3	–	(16)	–
Acquisitions and divestments	–	–	(9)
Foreign currency translation effects	(1)	(1)	(195)
As of December 31, 2018	**619**	**21**	**3,222**

[1] Presented as net investment result on unit-linked investments in the consolidated income statements.

Non-recurring fair value measurements of assets and liabilities

Under certain circumstances, the Group may measure certain assets or liabilities at fair value on a non-recurring basis when an impairment charge is recognized.

Consolidated financial statements (continued)

24. Analysis of financial assets

Tables 24.1a and 24.1b provide an analysis, for non-unit-linked businesses, of the age of financial assets that are past due but not impaired, and of financial assets that are individually determined to be impaired.

Table 24.1a

Analysis of financial assets – current period

in USD millions, as of December 31, 2019	Debt securities	Mortgage loans	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	147,382	5,882	8,268	11,775	173,307
Past due but not impaired financial assets					
Past due by:					
1 to 90 days	–	32	5	1,504	1,541
91 to 180 days	–	9	1	193	203
181 to 365 days	–	3	–	171	174
> 365 days	–	4	–	289	293
Past due but not impaired financial assets	–	48	6	2,157	2,211
Financial assets impaired	125	11	21	173	330
Gross carrying value	**147,507**	**5,941**	**8,295**	**14,105**	**175,848**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	2	21	69	93
Impairment allowances on collectively assessed financial assets	–	4	–	194	198
Net carrying value	**147,507**	**5,935**	**8,274**	**13,841**	**175,558**

Table 24.1b

Analysis of financial assets – prior period

in USD millions, as of December 31, 2018	Debt securities	Mortgage loans	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	139,831	6,475	7,592	12,061	165,959
Past due but not impaired financial assets					
Past due by:					
1 to 90 days	–	58	–	1,425	1,482
91 to 180 days	–	9	–	214	222
181 to 365 days	–	4	–	234	239
> 365 days	–	4	–	208	212
Past due but not impaired financial assets	–	75	–	2,080	2,155
Financial assets impaired	39	12	21	133	204
Gross carrying value	**139,870**	**6,561**	**7,614**	**14,273**	**168,318**
Less: impairment allowance					
Impairment allowances on individually assessed financial assets	–	1	–	74	75
Impairment allowances on collectively assessed financial assets	–	4	–	169	174
Net carrying value	**139,870**	**6,556**	**7,614**	**14,030**	**168,070**

Consolidated financial statements (continued)

Tables 24.2a and 24.2b show how the allowances for impairments of financial assets in tables 24.1a and 24.1b developed during the periods ended December 31, 2019 and 2018, respectively.

Development of allowance for impairments – current period

Table 24.2a

in USD millions	Mortgage loans	Other loans	Receivables
As of January 1, 2019	6	–	243
Increase/(decrease) in allowance for impairments	–	7	22
Amounts written-off	–	15	(1)
Acquisitions and divestments	–	–	4
Foreign currency translation effects	–	–	(5)
As of December 31, 2019	**6**	**21**	**263**

Development of allowance for impairments – prior period

Table 24.2b

in USD millions	Mortgage loans	Other loans	Receivables
As of January 1, 2018	7	11	258
Increase/(decrease) in allowance for impairments	(1)	(12)	(10)
Amounts written-off	–	–	–
Acquisitions and divestments	–	–	15
Foreign currency translation effects	–	–	(20)
As of December 31, 2018	**6**	**–**	**243**

The Group has elected to defer the full implementation of IFRS 9 until IFRS 17 becomes effective on January 1, 2021. For further information on the Group's eligibility to the temporary exemption from IFRS 9, please refer to note 2.

Under IFRS 9, the classification and measurement of all debt instruments will be driven by the business model in which these assets are held and by their contractual terms. The combined effect of the application of the business model and contractual cash flows characteristics determine whether the financial assets are measured at amortized cost, fair value with changes recognized in other comprehensive income (OCI) or fair value through profit or loss. The business model will be assessed at the date of the initial application of IFRS 9.

Debt instruments with contractual terms that give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding (SPPI) will be measured at either amortized cost or at fair value with changes recognized in OCI, unless they are managed on a fair value basis. The assessment of the features of the contractual terms is referred to as the SPPI test. Debt instruments that do not pass the SPPI test will always be measured at fair value through profit or loss.

Equity instruments including fund investments will be accounted for at fair value through profit or loss. The Group does not intend to make use of the election to present changes in fair value of certain equity instruments that are not held for trading in OCI with no subsequent reclassification of realized gains or losses to the income statement.

Table 24.3a and Table 24.3b show the fair value and the carrying value at the end of current and previous reporting period for the following two groups of financial assets:

- Financial assets with contractual terms that give rise to cash flows that are SPPI;
- Other financial assets not passing the SPPI test, as well as financial assets managed on a fair value basis for which no SPPI assessment has been performed. Financial assets that have not passed the SPPI test include equities, callable bonds with significant prepayment features, hybrid bonds with certain cash flows at the discretion of the issuer and some ABS/MBS that do not fulfill the SPPI criteria for contractually linked instruments.

Net unrealized gains/(losses) on debt securities available for sale that are not SPPI amounted to USD 277 million and USD (143) million for the years ended December 31, 2019 and 2018, respectively. The carrying value on held-to-maturity debt securities, mortgage loans, other loans, and receivables include impairment allowances of USD 270 million and USD 249 million of the years ended December 31, 2019 and 2018, respectively.

Consolidated financial statements (continued)

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

Table 24.3a

in USD millions, as of December 31, 2019	SPPI		Other financial assets		Total	
	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value
Available-for-sale securities						
Equity securities	–	–	13,905	13,905	13,905	13,905
Debt securities	131,040	131,040	7,637	7,637	138,676	138,676
Total available-for-sale securities	131,040	131,040	21,542	21,542	152,581	152,581
Fair value through profit or loss securities						
Equity securities	–	–	4,391	4,391	4,391	4,391
Debt securities	–	–	6,713	6,713	6,713	6,713
Total fair value through profit or loss securities	–	–	11,105	11,105	11,105	11,105
Held-to-maturity debt securities	2,702	2,074	55	43	2,757	2,117
Mortgage loans	6,351	5,935	–	–	6,351	5,935
Other loans [1]	8,987	7,534	66	66	9,053	7,600
Receivables	12,679	12,679	–	–	12,679	12,679
Derivative assets	–	–	1,226	1,226	1,226	1,226
Total financial assets	**161,758**	**159,262**	**33,994**	**33,982**	**195,752**	**193,244**

[1] Do not include policyholder loans, which will come under IFRS 17 and are therefore not applicable for IFRS 9, of USD 826 million and USD 674 million for fair value and carrying value, respectively.

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

Table 24.3b

in USD millions, as of December 31, 2018	SPPI		Other financial assets		Total	
	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value
Available-for-sale securities						
Equity securities	–	–	12,587	12,587	12,587	12,587
Debt securities	124,829	124,829	7,694	7,694	132,522	132,522
Total available-for-sale securities	124,829	124,829	20,281	20,281	145,110	145,110
Fair value through profit or loss securities						
Equity securities	–	–	3,633	3,633	3,633	3,633
Debt securities	–	–	5,229	5,229	5,229	5,229
Total fair value through profit or loss securities	–	–	8,862	8,862	8,862	8,862
Held-to-maturity debt securities	2,655	2,118	–	–	2,655	2,118
Mortgage loans	6,935	6,556	–	–	6,935	6,556
Other loans [1]	8,295	6,865	86	112	8,381	6,978
Receivables [2]	12,665	12,665	–	–	12,665	12,665
Derivative assets	–	–	899	899	899	899
Total financial assets	**155,379**	**153,033**	**30,127**	**30,154**	**185,506**	**183,187**

[1] Do not include policyholder loans, which will come under IFRS 17 and are therefore not applicable for IFRS 9, of USD 742 million and USD 636 million for fair value and carrying value, respectively.
[2] Include a reduction of USD 293 million compared to 2018, due to a reassessment resulting in those assets not being classified as SPPI.

With IFRS 9, the incurred loss impairment approach will be replaced by a forward-looking expected credit loss (ECL) approach that will apply to debt securities, loans and receivables that are not accounted for at fair value through profit or loss. Thus, the same ECL requirements will apply to all financial assets measured at amortized cost and those measured at fair value with changes recognized in OCI.

At initial recognition of a debt instrument, a loss allowance is recognized for expected credit losses resulting from default events within the next 12 months after the reporting date (12-month ECL). Such instruments are classified as Stage 1. The Group does not originate or acquire financial assets that are credit-impaired at initial recognition.

In the event of a significant increase in credit risk (SICR) since initial recognition, IFRS 9 requires the ECL allowance to be measured at an amount equal to lifetime expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Such instruments are referred to as Stage 2.

Consolidated financial statements (continued)

The Group applies the 'low credit risk practical expedient,' by assuming that no increase in credit risk has occurred since initial recognition for financial assets that have an external or internal rating equivalent to 'investment grade' (i.e., 'AAA' to 'BBB-') at the reporting date. For the remaining financial assets, the Group considers all relevant reasonable supporting information that is available without undue cost or effort when determining whether a SICR has occurred since initial recognition, or not. An increase in credit risk is assessed using a transition matrix approach that determines SICR thresholds depending on the credit rating at initial recognition and residual time to maturity of the instrument. Where necessary, the quantitative assessment is supplemented by a qualitative assessment of the issuer's credit quality. For certain less material portfolios, including residential mortgage loans, the '30 days past due' criterion is used as a primary indicator of a SICR. Where a SICR is no longer observed, the instrument transitions back to stage 1.

The Group has elected to apply the simplified approach for receivables from policyholders and other receivables that are allocated to 'Stage 2' unless individually impaired. Financial assets that have become credit-impaired are allocated to stage 3 based on similar principles as are applied under IAS 39 to determine whether credit loss has been incurred.

The tables 24.4a and 24.4b show the fair value and the carrying amount (before adjusting for any impairment in case of financial assets measured at amortized cost) of financial assets whose contractual terms give rise to cash flows that are SPPI, by impairment stages:

Financial assets (SPPI) by stages – current period

Table 24.4a

in USD millions, as of December 31, 2019	Stage 1 Fair value	Stage 1 Carrying value	Stage 2 Fair value	Stage 2 Carrying value	Stage 3 Fair value	Stage 3 Carrying value	Total Fair value	Total Carrying value
Available-for-sale debt securities	130,333	130,333	505	505	202	202	131,040	131,040
Held-to-maturity debt securities	2,702	2,074	–	–	–	–	2,702	2,074
Mortgage loans	6,304	5,895	22	21	25	25	6,351	5,941
Other loans[1]	8,957	7,506	29	29	–	–	8,987	7,534
Receivables	1,875	1,910	10,761	10,923	43	109	12,679	12,942
Total financial assets	**150,172**	**147,718**	**11,316**	**11,477**	**269**	**336**	**161,758**	**159,531**

[1] Do not include policyholder loans, which will come under IFRS 17 and are therefore not applicable for IFRS 9, of USD 826 million and USD 674 million for fair value and carrying value, respectively.

Financial assets (SPPI) by stages – prior period

Table 24.4b

in USD millions, as of December 31, 2018	Stage 1 Fair value	Stage 1 Carrying value	Stage 2 Fair value	Stage 2 Carrying value	Stage 3 Fair value	Stage 3 Carrying value	Total Fair value	Total Carrying value
Available-for-sale debt securities	124,194	124,194	502	502	132	132	124,829	124,829
Held-to-maturity debt securities	2,653	2,115	3	3	–	–	2,655	2,118
Mortgage loans	6,870	6,498	36	34	29	29	6,935	6,561
Other loans[1]	8,191	6,762	40	40	64	64	8,295	6,866
Receivables[2]	1,637	1,647	10,936	11,126	92	136	12,665	12,909
Total financial assets	**143,545**	**141,217**	**11,517**	**11,705**	**318**	**362**	**155,379**	**153,283**

[1] Do not include policyholder loans, which will come under IFRS 17 and are therefore not applicable for IFRS 9, of USD 742 million and USD 636 million for fair value and carrying value, respectively.
[2] Include a reduction of USD 293 million in stage 2 compared to 2018, due to a reassessment resulting in those assets not being classified as SPPI.

25. Related-party transactions

In the normal course of business, the Group enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions, or one other party controls both. Related parties of the Group include, among others, subsidiaries, associates, joint ventures, key management personnel, and the post-employment benefit plans (see note 20). Transactions between the Group and its subsidiaries are eliminated on consolidation, and they are not disclosed in the consolidated financial statements. A list of the Group's significant subsidiaries is shown in note 28. The transactions of the Group concluded with its associates and with its joint ventures are not considered material to the Group, either individually or in aggregate.

Table 25 summarizes related-party transactions with key management personnel reflected in the consolidated financial statements. Key management personnel includes members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd and members of the Executive Committee.

Related party transactions – key personnel

Table 25

in USD millions, for the years ended December 31	**2019**	2018
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	32	30
Post-employment benefits	4	4
Share-based compensation	35	23
Other remuneration	5	3
Total remuneration of key personnel	**76**	**60**

As of December 31, 2019 and 2018, 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, 2019 and 2018. The terms 'members of the Board of Directors' and 'members of the Executive Committee' in this context include the individual as well as members of their respective households. The figures in table 25 include the fees paid to members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd, which were USD 5 million and USD 4 million for the years ended December 31, 2019 and 2018 respectively.

Information required by art. 14–16 of the Swiss Ordinance against Excessive Compensation and art. 663c paragraph 3 of the Swiss Code of Obligations is disclosed in the Remuneration report.

The cash compensation, current benefits and fees are short term in nature.

26. Relationship with the Farmers Exchanges

Farmers Group, Inc. and its subsidiaries (FGI) provide certain non-claims services to the Farmers Exchanges as their attorneys-in-fact, and also provide certain ancillary services to the Farmers Exchanges. Farmers Group Inc. is a wholly owned subsidiary of the Group. Attorney-in-fact services primarily include risk selection, preparation and mailing of policy documents and invoices, premium collection, management of the investment portfolios and certain other administrative and managerial functions. Fees for these services are primarily determined as a percentage of gross premiums earned by the Farmers Exchanges. Ancillary services primarily include information technology, brand advertising and certain distribution related services that are not covered under the attorney-in-fact contracts for which FGI acts as a principal in arranging for those services to the Exchanges. The finances and operations of the Farmers Exchanges are governed by independent Boards of Governors. In addition, the Group has the following relationships with the Farmers Exchanges.

a) Certificates of contribution/surplus notes issued by the Farmers Exchanges

As of December 31, 2019 and 2018, FGI and its subsidiary held the following surplus note and certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI subsidiaries in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 26.1

Certificates of contribution/surplus note

in USD millions, as of December 31	**2019**	2018
3.758% surplus note, due December 2027	100	100
Various other certificates of contribution	23	23
Total	**123**	**123**

In March 2019, the Farmers Exchanges repaid a USD 0.5 million certificate of contribution at an 8.50 percent rate to the Fire Underwriters Association. The USD 100 million of 10-year, no call five year notes at a 3.758 percent rate that the Farmers Exchanges issued to Farmers New World Life Insurance Company remain unchanged.

Conditions governing payment of interest and repayment of principal are outlined in the surplus note and certificates of contribution. Generally, repayment of principal and payment of interest may be made only when the issuer has an appropriate amount of surplus, and then only after approval is granted by the appropriate state insurance regulatory department in the U.S. Additionally, the approval by the issuer's governing board is needed for repayment of principal.

b) Quota share reinsurance treaty with the Farmers Exchanges

The Farmers Exchanges cede risk through a quota share reinsurance treaty, the All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Reinsurance Company (Farmers Re Co), a wholly owned subsidiary of FGI. The All Lines agreement can be terminated after 90 days' notice by any of the parties.

The All Lines agreement provides for a cession of a quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges.

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Quota share reinsurance treaty

Table 26.2

in USD millions, for the years ended December 31	All Lines agreement	
	2019[1]	2018[2]
Net earned premiums and policy fees	197	193
Insurance benefits and losses, net[3]	(143)	(129)
Total net technical expenses[4]	(63)	(62)
Net underwriting result	**(9)**	**2**

[1] From January 1, 2019, Farmers Re Co assumed a 1.0 percent quota share. Another 28.0 percent was assumed by third parties. Effective December 31, 2019, Farmers Re participation in the All Lines agreement was reduced by 0.75 percent to 0.25 percent. Another 25.75 percent was assumed by third parties.
[2] From January 1, 2018, Farmers Re Co assumed a 1.0 percent quota share. Another 28.0 percent was assumed by third parties.
[3] Under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a provisional maximum of 6.75 percent of net earned premiums dependent on loss experience and recoveries at a specified rate for each year. Based on the results for 2019, the total catastrophe recoveries subject to the All Lines agreement was USD 1.3 billion.
[4] Under the All Lines agreement, the Farmers Exchanges receive a ceding commission of 26.7 percent, 8.1 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses.

c) Farmers management fees and other related revenues

Farmers Group, Inc. and its subsidiaries (FGI), wholly-owned subsidiaries of the Group, are the appointed attorneys-in-fact of the Farmers Exchanges, which are not owned by FGI. As the attorney-in-fact, FGI is permitted by policyholders of the Farmers Exchanges to receive a management fee of up to 20 percent (up to 25 percent in the case of the Fire Insurance Exchange) of the gross premiums earned by the Farmers Exchanges. This management fee, the primary source of revenue for FGI, has an agreed upon margin cap of 7% 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 Board 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 20.4 billion and USD 20.2 billion for the years ended December 31, 2019 and 2018, respectively.

Farmers Management Services

Table 26.3

in USD millions, for the years ended December 31	**2019**	2018	Change
Management fees and other related revenues	3,780	3,204	18%
Management fees	2,804	2,796	
Revenues for ancillary services[1]	858	287	
Membership fees	60	60	
Other revenues	58	62	
Management and other related expenses	2,356	1,792	31%
Expenses for ancillary services[1]	858	287	
Management and other expenses	1,498	1,505	
Gross management result	**1,424**	**1,412**	**1%**
Managed gross earned premium margin	7.0%	7.0%	0.0 pts

[1] 2019 balance includes additional effect of adoption of IFRS 15 'Revenue from Contracts with Customers.'

27. Segment information

The Group pursues a customer-centric strategy, where the Property & Casualty (P&C) and Life businesses are managed on a regional basis. The Group's reportable segments have been identified on the basis of the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. The Group has identified 13 reportable segments in accordance with IFRS 8 'Operating Segments' and segment information is presented accordingly as follows:

- Property & Casualty regions
- Life regions
- Farmers
- Group Functions and Operations
- Non-Core Businesses

The Group's reportable segments comprise the following:

Property & Casualty and Life regions

- Europe, Middle East & Africa
- North America
- Asia Pacific
- Latin America
- Group Reinsurance

Property & Casualty regions provide a variety of motor, home and commercial products and services for individuals, as well as small and large businesses on both a local and global basis. Products are sold through multiple distribution channels including agents, brokers and bank distribution.

Life regions provide a comprehensive range of life and health insurance products on both an individual and a group basis, including annuities, endowment and term insurance, unit-linked and investment-oriented products, as well as full private health, supplemental health and long-term care insurance. In addition to the agent distribution channel, certain of these products are offered via bank distribution channels.

Farmers, through Farmers Group, Inc. and its subsidiaries (FGI), provides certain non-claims services and ancillary services to the Farmers Exchanges, which are owned by their policyholders. This segment also includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S. In addition, this segment includes the activities of Farmers Life, a writer of individual life insurance business in the U.S.

Group Functions and Operations comprise the Group's Holding and Financing, Headquarter and Zurich Insurance Mobile Solutions (ZIMS) activities. Certain alternative investment positions not allocated to business operating segments are included within Holding and Financing. In addition, this segment includes operational technical governance activities relating to technology, underwriting, claims, actuarial and pricing.

Non-Core Businesses include insurance and reinsurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. Non-Core Businesses are mainly situated in the U.S., Bermuda, and in Europe.

Consolidated financial statements (continued)

Aggregations and additional information

Regional Property & Casualty and Life results are further aggregated to show a total Property & Casualty and total Life business view.

- Property & Casualty – total
- Life – total

For additional informational purposes, the Group also discloses income statement information for Property & Casualty Commercial Insurance and Property & Casualty Retail and Other Insurance results. Other Insurance includes SME, direct market and other program business.

- Property & Casualty Commercial Insurance
- Property & Casualty Retail and Other Insurance

Business operating profit

The segment information includes the Group's internal performance measure, business operating profit (BOP). This measure is the basis on which the Group manages all of its business units. It indicates the underlying performance of the Group's business units, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and impairments on investments (except for certain non-insurance operations included in Non-Core Businesses, investments in hedge funds as at fair value through profit or loss, certain securities held for specific economic hedging purposes and policyholders' share of investment results for the life businesses) and non-operational foreign exchange movements. Significant items arising from special circumstances, including restructuring charges, legal matters or large one-off regulatory projects outside the ordinary course of business, gains and losses on divestment of businesses, certain business combination integration costs and impairments of goodwill are also excluded from BOP.

In 2019 the Group amended its BOP policy to exclude the monetary gains and losses resulting from the application of IAS 29 'Financial Reporting in Hyperinflationary Economies.' The policy change was implemented with prospective effect, as the impact on comparable balances was not material to the Group's financial results.

Consolidated financial statements (continued)

Property & Casualty – Overview by segment

Table 27.1

in USD millions, for the years ended December 31	Europe, Middle East & Africa		North America	
	2019	2018	**2019**	2018
Revenues				
Direct written premiums	12,722	12,955	14,389	13,912
Assumed written premiums	1,836	1,645	833	804
Gross written premiums and policy fees	14,558	14,600	15,223	14,716
Less premiums ceded to reinsurers	(2,739)	(2,389)	(5,551)	(4,988)
Net written premiums and policy fees	11,818	12,211	9,672	9,728
Net change in reserves for unearned premiums	(327)	(125)	(116)	277
Net earned premiums and policy fees	11,491	12,086	9,556	10,005
Net investment income on Group investments	578	621	1,081	1,026
Net capital gains/(losses) and impairments on Group investments	37	(8)	174	(40)
Net investment result on Group investments	615	613	1,255	986
Other income	355	320	79	50
Total BOP revenues	12,461	13,019	10,890	11,041
Benefits, losses and expenses				
Insurance benefits and losses, net	7,438	7,884	6,555	7,109
Policyholder dividends and participation in profits, net	7	8	8	10
Underwriting and policy acquisition costs, net	2,168	2,315	2,295	2,318
Administrative and other operating expense (excl. depreciation/amortization)	1,458	1,741	309	515
Interest credited to policyholders and other interest	172	181	66	(23)
Restructuring costs and other items not included in BOP	(100)	(108)	(23)	(110)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	11,142	12,022	9,210	9,819
Business operating profit (before interest, depreciation and amortization)	**1,318**	**998**	**1,681**	**1,222**
Depreciation and impairments of property and equipment	92	36	66	37
Amortization and impairments of intangible assets	83	76	37	84
Interest expense on debt	18	16	–	1
Business operating profit before non-controlling interests	1,125	869	1,578	1,099
Non-controlling interests	8	18	–	–
Business operating profit	**1,117**	**851**	**1,578**	**1,099**

Consolidated financial statements (continued)

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
2,851	2,646	2,790	2,627	–	–	–	–	32,752	32,139
179	212	81	77	593	364	(2,091)	(1,736)	1,432	1,366
3,030	2,858	2,871	2,704	593	364	(2,091)	(1,736)	34,184	33,505
(505)	(486)	(583)	(466)	(534)	(447)	2,091	1,736	(7,822)	(7,041)
2,525	2,372	2,289	2,237	59	(83)	–	–	26,362	26,465
(75)	(122)	(132)	(93)	(104)	28	–	–	(754)	(34)
2,449	2,250	2,157	2,145	(45)	(55)	–	–	25,608	26,431
74	68	217	204	11	13	–	–	1,961	1,932
–	–	–	–	–	–	–	–	211	(48)
74	68	217	204	11	13	–	–	2,171	1,884
145	137	59	32	30	62	–	–	668	601
2,669	2,454	2,432	2,381	(4)	21	–	–	28,447	28,916
1,358	1,304	840	960	285	35	–	–	16,475	17,291
–	–	–	1	(2)	–	–	–	12	19
579	580	910	916	(13)	7	–	–	5,939	6,136
441	463	354	239	9	33	–	–	2,571	2,992
4	1	32	–	(3)	(4)	–	–	271	156
(7)	(13)	(50)	9	–	–	–	–	(180)	(221)
2,376	2,335	2,086	2,126	274	72	–	–	25,088	26,373
293	**120**	**346**	**255**	**(279)**	**(51)**	**–**	**–**	**3,359**	**2,543**
37	18	18	6	1	3	–	–	214	101
19	16	13	10	–	–	–	–	151	187
–	–	1	–	12	37	–	–	32	55
237	86	315	238	(292)	(92)	–	–	2,962	2,200
1	–	76	97	–	–	–	–	84	115
236	**86**	**240**	**141**	**(292)**	**(92)**	**–**	**–**	**2,878**	**2,085**

Consolidated financial statements (continued)

Life – Overview by segment

Table 27.2

in USD millions, for the years ended December 31	Europe, Middle East & Africa		North America	
	2019	2018	**2019**	2018
Revenues				
Life insurance deposits	13,839	16,025	778	227
Gross written premiums	8,025	8,509	122	80
Policy fees	1,564	1,594	339	326
Gross written premiums and policy fees	9,589	10,103	461	407
Net earned premiums and policy fees	8,899	9,439	447	392
Net investment income on Group investments	2,313	2,474	34	22
Net capital gains/(losses) and impairments on Group investments	798	367	16	(11)
Net investment result on Group investments	3,111	2,840	49	11
Net investment income on unit-linked investments	1,278	1,375	–	–
Net capital gains/(losses) and impairments on unit-linked investments	15,236	(6,534)	676	(29)
Net investment result on unit-linked investments	16,514	(5,159)	676	(29)
Other income	369	458	41	36
Total BOP revenues	28,893	7,579	1,214	408
Benefits, losses and expenses				
Insurance benefits and losses, net	7,571	7,774	352	267
Policyholder dividends and participation in profits, net	17,537	(3,596)	676	(29)
Income tax expense/(benefit) attributable to policyholders	333	(171)	–	–
Underwriting and policy acquisition costs, net	917	925	123	68
Administrative and other operating expense (excl. depreciation/amortization)	1,255	1,302	54	57
Interest credited to policyholders and other interest	212	218	39	8
Restructuring costs and other items not included in BOP	(99)	(47)	–	–
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	27,725	6,404	1,244	372
Business operating profit (before interest, depreciation and amortization)	**1,168**	**1,175**	**(29)**	**37**
Depreciation and impairments of property and equipment	23	12	–	–
Amortization and impairments of intangible assets	54	103	–	5
Interest expense on debt	2	4	–	–
Business operating profit before non-controlling interests	1,089	1,056	(30)	31
Non-controlling interests	52	46	–	–
Business operating profit	**1,037**	**1,010**	**(30)**	**31**

Life includes approximately USD 1.4 billion and USD 2.3 billion of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2019 and 2018, respectively.

Consolidated financial statements (continued)

Asia Pacific		Latin America		Group Reinsurance		Eliminations		Total	
2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
87	103	3,624	2,339	–	–	–	–	18,328	18,694
1,892	1,249	3,009	2,831	28	20	(37)	(28)	13,038	12,662
163	130	46	43	–	–	–	–	2,113	2,093
2,055	1,379	3,056	2,874	28	20	(37)	(28)	15,151	14,754
1,756	1,199	2,562	2,473	19	12	–	–	13,683	13,514
179	152	392	390	–	–	(2)	(2)	2,915	3,035
59	(35)	32	18	–	–	–	–	906	338
238	117	424	407	–	–	(2)	(2)	3,821	3,373
99	104	36	22	–	–	–	–	1,413	1,501
126	(163)	1,256	990	–	–	–	–	17,293	(5,737)
225	(60)	1,292	1,012	–	–	–	–	18,706	(4,236)
23	25	85	64	–	–	(1)	(1)	518	582
2,242	1,281	4,363	3,956	19	12	(3)	(3)	36,728	13,234
1,004	522	1,259	1,137	5	2	–	–	10,190	9,702
268	(21)	1,288	1,006	–	–	–	–	19,769	(2,640)
32	(12)	–	–	–	–	–	–	365	(183)
279	220	1,092	1,037	8	2	(1)	(1)	2,417	2,252
457	337	248	174	1	–	–	–	2,015	1,871
26	35	26	20	–	–	–	–	303	282
(63)	(12)	(66)	10	–	–	–	–	(228)	(50)
2,003	1,070	3,847	3,385	13	4	(1)	(1)	34,831	11,234
239	**212**	**515**	**571**	**6**	**8**	**(2)**	**(2)**	**1,897**	**2,000**
8	3	7	3	–	–	–	–	39	17
11	12	14	12	–	–	–	–	80	133
16	13	–	–	–	–	(2)	(2)	17	15
202	183	494	556	6	8	–	–	1,761	1,834
(2)	(2)	225	237	–	–	–	–	275	281
204	**186**	**269**	**319**	**6**	**8**	**–**	**–**	**1,486**	**1,554**

Consolidated financial statements (continued)

Business operating profit by business

Table 27.3

in USD millions, for the years ended December 31

	Property & Casualty		Life	
	2019	2018	2019	2018
Revenues				
Direct written premiums	32,752	32,139	12,706	12,310
Assumed written premiums	1,432	1,366	332	352
Gross Written Premiums	34,184	33,505	13,038	12,662
Policy fees	–	–	2,113	2,093
Gross written premiums and policy fees	34,184	33,505	15,151	14,754
Less premiums ceded to reinsurers	(7,822)	(7,041)	(1,193)	(1,038)
Net written premiums and policy fees	26,362	26,465	13,958	13,717
Net change in reserves for unearned premiums	(754)	(34)	(275)	(202)
Net earned premiums and policy fees	25,608	26,431	13,683	13,514
Farmers management fees and other related revenues	–	–	–	–
Net investment income on Group investments	1,961	1,932	2,915	3,035
Net capital gains/(losses) and impairments on Group investments	211	(48)	906	338
Net investment result on Group investments	2,171	1,884	3,821	3,373
Net investment result on unit-linked investments	–	–	18,706	(4,236)
Other income	668	601	518	582
Total BOP revenues	28,447	28,916	36,728	13,234
of which: inter-business revenues	(601)	(141)	(195)	(141)
Benefits, losses and expenses				
Losses and loss adjustment expenses, net	16,477	17,293	–	–
Life insurance death and other benefits, net	(1)	(2)	10,190	9,702
Insurance benefits and losses, net	16,475	17,291	10,190	9,702
Policyholder dividends and participation in profits, net	12	19	19,769	(2,640)
Income tax expense/(benefit) attributable to policyholders	–	–	365	(183)
Underwriting and policy acquisition costs, net	5,939	6,136	2,417	2,252
Administrative and other operating expense (excl. depreciation/amortization)	2,571	2,992	2,015	1,871
Interest credited to policyholders and other interest	271	156	303	282
Restructuring costs and other items not included in BOP	(180)	(221)	(228)	(50)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	25,088	26,373	34,831	11,234
Business operating profit (before interest, depreciation and amortization)	**3,359**	**2,543**	**1,897**	**2,000**
Depreciation and impairments of property and equipment	214	101	39	17
Amortization and impairments of intangible assets	151	187	80	133
Interest expense on debt	32	55	17	15
Business operating profit before non-controlling interests	2,962	2,200	1,761	1,834
Non-controlling interests	84	115	275	281
Business operating profit	**2,878**	**2,085**	**1,486**	**1,554**

Life includes approximately USD 1.4 billion and USD 2.3 billion of gross written premiums and future life policyholder benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2019 and 2018, respectively.

Consolidated financial statements (continued)

Farmers		Group Functions and Operations		Non-Core Businesses		Eliminations		Total	
2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
593	580	–	–	58	42	–	–	46,109	45,071
138	194	–	5	62	64	(17)	(14)	1,947	1,967
731	774	–	5	119	106	(17)	(14)	48,056	47,038
326	321	–	–	30	34	–	–	2,469	2,447
1,056	1,095	–	5	150	140	(17)	(14)	50,525	49,485
(175)	(179)	–	–	(100)	(11)	17	14	(9,274)	(8,255)
882	916	–	5	50	129	–	–	41,251	41,230
59	(1)	–	–	21	12	–	–	(949)	(224)
941	915	–	5	71	141	–	–	40,302	41,007
3,780	3,204	–	–	–	–	–	–	3,780	3,204
204	213	196	198	197	222	(174)	(212)	5,298	5,387
3	(1)	–	–	128	(109)	–	–	1,248	181
207	211	196	198	325	113	(174)	(212)	6,546	5,568
194	(52)	–	–	584	(86)	–	–	19,485	(4,374)
123	95	218	194	51	34	(448)	(425)	1,129	1,080
5,245	4,373	414	397	1,031	201	(623)	(636)	71,242	46,484
(39)	(51)	(261)	(282)	473	(21)	623	636	–	–
143	129	–	1	47	(27)	–	–	16,666	17,397
419	434	–	–	295	116	–	–	10,903	10,250
562	563	–	1	342	89	–	–	27,570	27,646
204	(43)	–	–	597	(72)	–	–	20,582	(2,736)
–	–	–	–	–	–	–	–	365	(183)
152	167	2	–	20	10	–	–	8,529	8,565
2,333	1,800	383	342	70	75	(69)	7	7,303	7,086
111	95	150	135	37	44	(282)	(279)	590	433
(17)	(49)	(47)	(43)	(4)	(1)	–	–	(476)	(364)
3,345	2,533	488	435	1,061	144	(351)	(272)	64,462	40,448
1,900	**1,840**	**(74)**	**(38)**	**(31)**	**57**	**(272)**	**(365)**	**6,780**	**6,037**
69	45	10	9	–	–	–	–	331	173
125	152	30	30	–	–	–	–	386	501
–	–	604	676	21	20	(272)	(365)	401	402
1,707	1,643	(717)	(754)	(52)	37	–	–	5,661	4,961
–	–	(1)	(1)	–	–	–	–	359	395
1,707	**1,643**	**(716)**	**(753)**	**(52)**	**37**	**–**	**–**	**5,302**	**4,566**

Consolidated financial statements (continued)

Reconciliation of BOP to net income after income taxes

Table 27.4

in USD millions, for the years ended December 31

	Property & Casualty		Life	
	2019	2018	**2019**	2018
Business operating profit	**2,878**	**2,085**	**1,486**	**1,554**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	716	481	204	197
Net gains/(losses) on divestment of businesses[1]	(198)	(19)	(146)	(5)
Restructuring costs	(104)	(212)	(44)	(67)
Other adjustments[2]	(77)	(9)	(184)	18
Add back:				
Business operating profit attributable to non-controlling interests	84	115	275	281
Net income before shareholders' taxes	3,300	2,441	1,591	1,977
Income tax expense/(benefit) attributable to policyholders	–	–	365	(183)
Net income before income taxes	**3,300**	**2,441**	**1,956**	**1,794**
Income tax (expense)/benefit				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

[1] In 2019, Property & Casualty included losses of USD 217 million related to the sale of the Venezuelan operations offset by gains of USD 19 million related to the sale of ADAC Autoversicherung AG, Life included losses of USD 167 million for re-measurements of assets held for sale based on agreements to sell businesses in the UK and USD 43 million related to the sale of the Venezuelan operations offset by gains of USD 24 million related to the sale of the UK Life portfolio and gains of USD 39 million related to the sale of Bonnfinanz AG, Group Functions and Operations included gains of USD 44 million for re-measurements of assets held for sale based on agreements to sell businesses in the UK (see note 5). In 2018, Property & Casualty included losses of USD 19 million related to the sale of Endsleigh Limited companies (see note 5), Group Functions and Operations included provision release gains of USD 16 million related to the sale of insurance operations in Morocco, Middle East and South Africa and Non-Core Businesses included losses of USD 15 million related to a portfolio transfer in Singapore.

[2] Other adjustments in 2019 include charges related to the implementation of IFRS 17, business combination integration costs and monetary losses related to hyperinflation accounting in relation to the Group's operations in Argentina.

Consolidated financial statements (continued)

	Farmers		Group Functions and Operations		Non-Core Businesses		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	1,707	**1,643**	**(716)**	**(753)**	**(52)**	**37**	**5,302**	**4,566**
	5	28	(151)	(9)	70	24	845	720
	–	–	49	16	–	(15)	(295)	(24)
	(9)	(45)	–	(25)	(4)	(1)	(160)	(350)
	(8)	(4)	(47)	(18)	–	–	(316)	(14)
	–	–	(1)	(1)	–	–	359	395
	1,695	1,622	(866)	(790)	14	44	5,735	5,293
	–	–	–	–	–	–	365	(183)
	1,695	**1,622**	**(866)**	**(790)**	**14**	**44**	**6,100**	**5,110**
							(1,716)	(1,134)
							(365)	183
							(1,351)	(1,317)
							4,384	**3,977**
							237	261
							4,147	3,716

Consolidated financial statements (continued)

Assets and liabilities by business

Table 27.5

in USD millions, as of December 31

	Property & Casualty		Life	
	2019	2018	**2019**	2018
Assets				
Cash and cash equivalents	6,136	7,402	4,309	4,575
Total Group Investments	70,119	70,140	111,265	101,285
Equity securities	8,517	8,351	8,741	7,040
Debt securities	51,795	51,773	82,275	74,750
Investment property	5,048	4,884	7,838	7,309
Mortgage loans	1,055	1,236	4,322	4,743
Other loans	3,701	3,894	8,073	7,428
Investments in associates and joint ventures	2	2	16	14
Investments for unit-linked contracts	–	–	121,390	104,695
Total investments	70,119	70,140	232,655	205,980
Reinsurers’ share of liabilities for insurance contracts	14,859	14,454	2,714	1,803
Deposits made under assumed reinsurance contracts	191	172	65	57
Deferred policy acquisition costs	5,694	5,367	11,695	12,350
Deferred origination costs	–	–	400	419
Goodwill	1,531	1,492	1,197	271
Other intangible assets	1,729	1,587	2,133	2,466
Other assets[1]	16,226	15,619	7,002	29,389
Total assets (after cons. of investments in subsidiaries)	**116,485**	**116,233**	**262,170**	**257,312**
Liabilities				
Liabilities for investment contracts	–	–	61,366	51,042
Liabilities for insurance contracts, gross	77,643	78,041	168,114	152,787
Reserves for losses and loss adjustment expenses, gross	57,473	58,835	–	–
Reserves for unearned premiums, gross	17,523	16,620	–	1
Future life policyholder benefits, gross	30	32	72,151	69,420
Policyholder contract deposits and other funds, gross	15	30	21,498	18,284
Reserves for unit-linked insurance contracts, gross	–	–	72,863	64,168
Other insurance liabilities, gross	2,602	2,524	1,603	914
Senior debt	621	719	657	681
Subordinated debt	953	918	647	612
Other liabilities[1]	12,963	13,691	13,387	36,829
Total liabilities	**92,180**	**93,369**	**244,171**	**241,951**
Equity				
Shareholders’ equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	695	816	172	99

[1] In 2019, the Group reclassified USD 2 billion of assets to held for sale based on agreements signed to sell business in the UK (see note 5). In addition, assets held for sale include land and buildings formerly classified as investment property and held for own use amounting to USD 38 million. In 2018, the Group reclassified USD 24 billion of assets to held for sale based on agreements signed to sell business in the UK, Venezuela and Germany (see note 5). In addition, assets held for sale include land and buildings formerly classified as investment property and held for own use amounting to USD 29 million.

Consolidated financial statements (continued)

	Farmers		Group Functions and Operations		Non-Core Businesses		Eliminations		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	1,102	1,428	7,983	10,212	776	1,398	(12,426)	(16,366)	7,880	8,649
	5,488	5,348	9,311	9,747	5,834	6,172	(8,704)	(10,045)	193,312	182,647
	49	65	835	638	155	126	–	–	18,296	16,220
	3,821	3,462	5,467	6,030	4,562	4,841	(412)	(987)	147,507	139,870
	142	133	–	–	233	25	–	–	13,261	12,351
	559	577	–	–	–	–	–	–	5,935	6,556
	918	1,110	2,991	3,063	882	1,177	(8,291)	(9,058)	8,274	7,614
	–	–	17	16	3	3	–	–	39	36
	932	746	–	–	3,889	3,852	–	–	126,211	109,294
	6,420	6,094	9,311	9,747	9,723	10,024	(8,704)	(10,045)	319,523	291,940
	2,142	2,242	–	–	3,072	2,765	(34)	(67)	22,752	21,197
	229	400	–	–	258	254	(17)	–	726	883
	1,811	1,818	–	–	4	2	2	3	19,207	19,541
	–	–	–	–	–	–	–	–	400	419
	819	819	63	52	–	–	–	–	3,610	2,634
	388	402	83	88	–	–	–	–	4,333	4,542
	1,854	1,657	1,624	908	2,932	1,679	(3,383)	(3,716)	26,256	45,536
	14,765	**14,860**	**19,063**	**21,007**	**16,766**	**16,122**	**(24,562)**	**(30,190)**	**404,688**	**395,342**
	225	213	–	–	170	184	–	–	61,761	51,439
	7,364	7,311	3	27	11,075	11,139	(59)	(96)	264,140	249,208
	316	467	1	23	1,404	1,649	(30)	(61)	59,165	60,913
	20	79	–	2	10	14	(2)	(2)	17,551	16,714
	2,200	2,151	2	2	3,376	3,348	(2)	(4)	77,756	74,950
	3,867	3,882	–	–	2,101	2,071	–	–	27,480	24,266
	932	746	–	–	3,889	3,852	–	–	77,684	68,766
	29	(16)	–	–	296	206	(25)	(29)	4,505	3,599
	–	–	9,709	11,157	274	273	(6,113)	(7,593)	5,148	5,237
	–	–	7,726	7,579	–	–	(2,475)	(2,334)	6,852	6,775
	2,020	1,756	13,463	14,246	4,325	4,529	(15,919)	(20,169)	30,238	50,881
	9,610	**9,279**	**30,900**	**33,009**	**15,843**	**16,124**	**(24,565)**	**(30,191)**	**368,139**	**363,540**
									35,004	30,189
									1,545	1,613
									36,549	31,802
									404,688	**395,342**
	171	181	68	56	–	–	–	–	1,105	1,152

Consolidated financial statements (continued)

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

Table 27.6

in USD millions, for the years ended December 31	Commercial Insurance		Retail and Other Insurance	
	2019	2018	**2019**	2018
Gross written premiums and policy fees	16,279	15,450	19,419	19,443
Net earned premiums and policy fees	9,874	10,425	15,779	16,061
Insurance benefits and losses, net	7,157	8,071	9,034	9,185
Policyholder dividends and participation in profits, net	9	14	6	5
Total net technical expenses	2,584	2,776	5,725	5,872
Net underwriting result	124	(437)	1,015	1,000
Net investment income	1,231	1,180	719	739
Net capital gains/(losses) and impairments on investments	166	(37)	45	(11)
Net non-technical result (excl. items not included in BOP)	7	(92)	(51)	(51)
Business operating profit before non-controlling interests	1,528	614	1,727	1,677
Non-controlling interest	1	9	83	106
Business operating profit	**1,527**	**605**	**1,644**	**1,572**

[1] Commercial and Retail Insurance overview exclude Group Reinsurance.

Consolidated financial statements (continued)

Table 27.7

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

in USD millions

	Gross written premiums and policy fees from external customers						Property, equipment and intangible assets	
	Total		of which Commercial Insurance		of which Retail and Other Insurance			
	for the years ended December 31		for the years ended December 31		for the years ended December 31		as of December 31	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Europe								
Austria	593	597					55	40
France	303	302					1	1
Germany	2,531	2,787					643	117
Italy	1,485	1,501					49	30
Ireland	363	369					85	46
Portugal	337	312					16	15
Spain	1,272	1,188					288	300
Switzerland	2,971	2,905					708	507
United Kingdom	2,938	2,986					172	115
Rest of Europe	685	700					83	79
Middle East & Africa								
Middle East	115	97					–	–
Europe, Middle East & Africa	13,592	13,744	5,044	4,798	8,548	8,946	2,099	1,249
North America								
Bermuda	7	–					–	–
Canada	590	464					17	8
United States	14,183	13,846					1,162	716
North America	14,780	14,310	7,867	7,600	6,913	6,710	1,178	724
Asia Pacific								
Australia	1,015	933					786	748
Hong Kong	307	300					44	26
Japan	874	830					29	21
Malaysia	343	292					61	46
Rest of Asia Pacific	342	323					10	4
Asia Pacific	2,881	2,678	909	887	1,973	1,791	930	844
Latin America								
Argentina	570	615					207	187
Brazil	1,182	1,117					515	549
Chile	366	342					24	19
Mexico	628	605					170	148
Venezuela	2	11					–	–
Rest of Latin America	180	74					58	40
Latin America	2,927	2,765	941	770	1,985	1,995	974	942
Group Reinsurance								
Group Reinsurance	4	9	–	–	4	9	2	7
Total	**34,184**	**33,505**	**14,761**	**14,054**	**19,423**	**19,451**	**5,184**	**3,766**

Consolidated financial statements (continued)

Life – Revenues and non-current assets by region

Table 27.8

in USD millions	Gross written premiums and policy fees from external customers for the years ended December 31		Life insurance deposits for the years ended December 31		Property, equipment and intangible assets as of December 31	
	2019	2018	**2019**	2018	**2019**	2018
Europe, Middle East & Africa						
Austria	107	136	52	53	25	25
Germany	2,273	1,811	1,776	2,076	71	290
Italy	871	1,010	2,699	1,834	38	45
Ireland[1]	577	625	3,276	3,389	88	5
Spain	2,090	3,004	59	30	1,083	1,188
Switzerland	1,285	1,217	241	201	3	3
United Kingdom	1,642	1,690	3,971	6,782	136	132
Zurich International[2]	513	423	1,260	1,480	58	37
Rest of Europe, Middle East & Africa	206	167	505	179	4	5
Europe, Middle East & Africa	9,563	10,083	13,839	16,025	1,506	1,731
North America						
United States	461	407	778	227	–	1
North America	461	407	778	227	–	1
Asia Pacific						
Australia	1,179	515	11	25	1,182	194
Hong Kong	56	66	20	22	–	–
Indonesia	62	50	–	–	2	1
Japan	407	328	–	–	15	14
Malaysia	237	228	55	55	91	81
Rest of Asia Pacific[3]	114	191	–	–	–	–
Asia Pacific	2,055	1,379	87	103	1,290	291
Latin America						
Argentina	90	105	80	89	41	9
Brazil	1,437	1,398	3,246	2,130	329	354
Chile	1,075	965	168	81	344	360
Mexico	412	379	131	39	113	111
Uruguay	42	26	–	–	–	–
Latin America	3,056	2,874	3,624	2,339	827	834
Total	**15,135**	**14,742**	**18,328**	**18,694**	**3,624**	**2,857**

[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.
[3] Primarily relates to the quota share agreement with OnePath.

Consolidated financial statements (continued)

28. Interest in subsidiaries

Significant subsidiaries are defined as those subsidiaries which either individually or in aggregate, contribute significantly to gross written premiums, shareholder's equity, total assets or net income attributable to shareholders.

Significant subsidiaries – non-listed

Table 28.1

as of December 31, 2019	Registered office	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
Australia					
Cover-More Group Limited	Sydney	100	100	AUD	1,014.2
Zurich Australia Limited	Sydney	100	100	AUD	476.5
Zurich Australian Insurance Limited	Sydney	100	100	AUD	6.6
Zurich Financial Services Australia Limited	Sydney	100	100	AUD	2,674.9
OnePath Life Limited	Sydney	100	100	AUD	1,219.4
OnePath Life Australia Holdings Pty Limited	Sydney	100	100	AUD	2,470.7
Austria					
Zürich Versicherungs-Aktiengesellschaft	Vienna	99.98	99.98	EUR	12.0
Brazil					
Zurich Santander Brasil Seguros e Previdência S.A.[1]	Sao Paulo	51	51	BRL	2,509.2
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	100	100	BRL	2,476.0
Zurich Resseguradora Brasil S.A.	Sao Paulo	100	100	BRL	204.0
Chile					
Chilena Consolidada Seguros de Vida S.A.	Santiago	98.98	98.98	CLP	179,682.6
Zurich Santander Seguros de Vida Chile S.A.[1]	Santiago	51	51	CLP	24,252.9
Germany					
Deutscher Herold Aktiengesellschaft	Bonn	100	100	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	100	100	EUR	68.5
Ireland					
Zurich Life Assurance plc	Dublin	100	100	EUR	17.5
Zurich Holding Ireland Limited	Dublin	100	100	EUR	0.1
Zurich Insurance plc	Dublin	100	100	EUR	8.2
Italy					
Zurich Investments Life S.p.A.	Milan	100	100	EUR	199.0
Luxembourg					
REX-ZDHL S.C.S. SICAV-SIF	Leudelange	100	100	EUR	1,446.8
Malaysia					
Zurich Life Insurance Malaysia Berhad	Kuala Lumpur	100	100	MYR	579.0
Zurich Holdings Malaysia Berhad	Kuala Lumpur	100	100	MYR	515.4
Mexico					
Zurich Santander Seguros México, S.A.[1]	Mexico City	51	51	MXN	190.0

Consolidated financial statements (continued)

Significant subsidiaries – non-listed (continued)

Table 28.1

as of December 31, 2019	Registered office	Voting rights %	Ownership interest %	Nominal value of share capital (in local currency millions)	
Spain					
Bansabadell Pensiones, E.G.F.P, S.A.	Madrid	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Madrid	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros y Reaseguros	Madrid	50	50	EUR	43.9
Zurich Latin America Holding S.L. - Sociedad Unipersonal	Barcelona	100	100	EUR	43.0
Zurich Santander Holding (Spain), S.L.[1]	Boadilla del Monte	51	51	EUR	94.3
Zurich Santander Holding Dos (Spain), S.L.[1]	Madrid	51	51	EUR	40.0
Zurich Santander Insurance America, S.L.[1]	Madrid	51	51	EUR	177.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. - Sociedad Unipersonal	Madrid	100	100	EUR	56.4
Switzerland					
Zurich Finance Company AG	Zurich	100	100	CHF	0.2
Zurich Insurance Company Ltd	Zurich	100	100	CHF	825.0
Zurich Life Insurance Company Ltd	Zurich	100	100	CHF	60.0
Zürich Rückversicherungs-Gesellschaft AG	Zurich	100	100	CHF	11.7
United Kingdom					
Allied Zurich Holdings Limited	St. Hélier, Jersey	100	100	GBP	477.6
Zurich Assurance Ltd	Cheltenham, England	100	100	GBP	236.1
Zurich Employment Services Limited	Cheltenham, England	100	100	GBP	254.1
Zurich Financial Services (UKISA) Limited	Cheltenham, England	100	100	GBP	1,340.8
Zurich Holdings (UK) Limited	Fareham, England	100	100	GBP	200.8
Zurich International Life Limited	Douglas, Isle of Man	100	100	GBP	123.4
Zurich UK General Services Limited	Fareham, England	100	100	GBP	343.2

Consolidated financial statements (continued)

Significant subsidiaries – non-listed (continued)

Table 28.1

as of December 31, 2019

	Registered office	Voting rights %	Ownership interest %		Nominal value of share capital (in local currency millions)
United States of America					
Farmers Group, Inc.[2]	Carson City, NV	100	100	USD	0.001
Farmers Reinsurance Company[2]	Woodland Hills, CA	100	100	USD	58.8
Farmers New World Life Insurance Company[2]	Bellevue, WA	100	100	USD	6.6
Zurich American Company, LLC	Wilmington, DE	100	100	USD	0.00001
Zurich American Insurance Company	New York, NY	100	100	USD	5.0
Zurich American Life Insurance Company	Schaumburg, IL	100	100	USD	2.5
Zurich Holding Company of America, Inc.[3]	Wilmington, DE	100	100	USD	0.0
ZCM Matched Funding Corp.	George Town, Cayman Islands	100	100	USD	0.00001
Centre Group Holdings (U.S.) Limited	Wilmington, DE	100	100	USD	0.00001
ZCM (U.S.) Limited	Wilmington, DE	100	100	USD	0.00001
Zurich Capital Markets Inc.	Wilmington, DE	100	100	USD	0.00001
Zurich Structured Finance, Inc.	Wilmington, DE	100	100	USD	0.012

[1] Entities 100% owned by a ZIG subsidiary which is 51% owned by ZIG.
[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 risk review, which forms an integral part of the consolidated financial statements.

Table 28.2 shows the summarized financial information for each subsidiary that has non-controlling interests that are material to the Group.

Non-controlling interests

Table 28.2

in USD millions, as of December 31	Zurich Santander Insurance America, S.L. and its subsidiaries		Bansabadell insurance entities	
	2019	2018	**2019**	2018
Non-controlling interests percentage	49%	49%	50%	50%
Total Investments	15,395	13,284	11,023	10,706
Other assets	3,365	3,165	1,672	1,614
Insurance and investment contract liabilities[1]	16,285	14,093	11,046	10,699
Other liabilities	955	882	375	318
Net assets	**1,520**	**1,474**	**1,275**	**1,302**
Non-controlling interests in net assets	**745**	**722**	**637**	**651**
Total revenues	3,099	2,943	2,196	3,039
Net income after taxes	391	418	90	73
Other comprehensive income	7	(204)	15	(31)
Total comprehensive income	**398**	**214**	**105**	**42**
Non-controlling interests in total comprehensive income	**195**	**105**	**52**	**21**
Dividends paid to non-controlling interests	186	201	38	–

[1] Includes reserves for premium refunds, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees and liabilities for insurance contracts.

29. Events after the balance sheet date

No events after the balance sheet date.

Report of the statutory auditor

Report of the statutory auditor

to the General Meeting of Zurich Insurance Group Ltd, Zurich

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Zurich Insurance Group Ltd and its subsidiaries (the Group), which comprise the consolidated income statement and consolidated statement of comprehensive income for the year ended December 31, 2019, the consolidated balance sheet as of December 31, 2019, the consolidated statement of cash flows and consolidated statement of changes in equity for the year ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

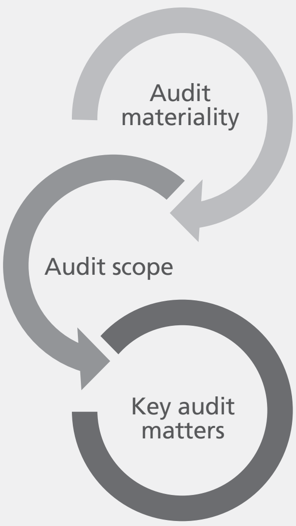
In our opinion, the accompanying consolidated financial statements (pages 179 to 289 and the audited sections of the risk review on pages 129 to 157) give a true and fair view of the consolidated financial position of the Group as at December 31, 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion
We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, 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.

Our audit approach

Overview



Overall Group audit materiality: USD 240 million

We concluded full scope audit work at 21 business units in 8 countries. The full scope audit work addressed 66% and 70% of the Group's gross written premiums and policy fees (GWP) and total assets, respectively. In addition, specific procedures were performed on a further 12 business units in 8 countries representing a further 8% and 10% of the Group's GWP and total assets, respectively.

The following key audit matters have been identified:

– Valuation of actuarially determined life insurance assets and liabilities
– Valuation of property and casualty reserves
– Recoverability of goodwill and attorney-in-fact contracts

Report of the statutory auditor (continued)

Audit materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group audit materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group audit materiality	USD 240 million
How we determined it	We have selected a combined 3 year average of net income before income taxes (NIBIT) and business operating profit (BOP) as appropriate benchmarks for measuring audit materiality. We applied a 5% rule of thumb which resulted in a selected overall audit materiality of USD 240 million.
Rationale for the materiality benchmark applied	We chose NIBIT as a benchmark because, in our view, it is the benchmark against which the Group's performance is most commonly measured, and is a generally accepted benchmark. We also consider BOP as a benchmark because, in our view, BOP is a key indicator for analysts and other external parties.

We agreed with the Audit Committee that we would report to them misstatements above USD 20 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the business units by us, as the Group engagement team, or by component auditors from PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those business units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements of the Group as a whole.

The Group's business units vary significantly in size and we identified 21 which, in our view, required an audit of their complete financial information, due to their size or risk characteristics. Audits of these business units were performed using materiality levels lower than the materiality level for the Group as a whole, ranging from USD 20 million to USD 150 million, and established by reference to the size of, and risks associated with, the business concerned. Specific audit procedures on certain balances and transactions were performed at a further 12 business units. Together the full scope audits and specific audit procedures accounted for 74% and 80% of Group GWP and total assets, respectively.

Our involvement included various site visits and component auditor working paper reviews across significant business units, together with discussions around audit approach and audit results arising from the work during regular conference calls with the component audit teams.

Report of the statutory auditor (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Valuation of actuarially determined life insurance assets and liabilities

Key audit matter

The Group's valuation of the actuarially determined life insurance assets (including deferred policy acquisition costs, deferred origination costs, and present value of future profits) and liabilities (reserves for insurance contracts and deferred front-end fees) is based on complex actuarial methodologies and models and involves comprehensive assumption setting processes with regards to future events. Actuarial assumptions selected by the Group with respect to interest rates, investment returns, mortality, morbidity, longevity, persistency, expenses, stock market volatility and future policyholder behavior and the underlying methodologies and assumptions used may result in material impacts on the valuation of actuarially determined life insurance assets and liabilities.

Specifically, the continued low interest rate environment, which results in reduced investment returns, influences policyholders' behaviors, thereby creating a risk of accelerated amortization of deferred policy acquisition costs and a strain on the sufficiency of reserves for traditional life insurance contracts.

Refer to Notes 4, 8 and 11 to the consolidated financial statements.

How our audit addressed the key audit matter

We assessed and tested the design and operating effectiveness of selected key controls over actuarial methodology, integrity of data used in the actuarial valuation, and the assumptions setting processes used by management related to the valuation of actuarially determined life insurance assets and liabilities.

In relation to the particular matters set out opposite, our substantive testing procedures included the following:

- Testing the completeness and accuracy of underlying data to source documentation.
- Involving our life insurance actuarial experts to independently test and challenge management's methodology and the assumptions used, with particular consideration of industry studies, the Group's experience and management's liability adequacy testing procedures. We focused on the changes to life actuarial methodology and assumptions during the year and assessed whether the methodologies are in compliance with recognized actuarial practices as well as regulatory and reporting requirements.
- Testing, on a sample basis, the calculation models applied to estimate the actuarially determined life insurance assets and liabilities.

Based on the work performed we determined that the methodologies, assumptions and underlying data used in the valuation of actuarially determined life insurance assets and liabilities are reasonable and in line with industry accepted practice.

Report of the statutory auditor (continued)

Valuation of property and casualty reserves

Key audit matter

The valuation of property and casualty loss reserves involves a high degree of subjectivity and complexity. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses at a given date. The Group uses a range of actuarial methodologies to estimate these provisions. Property and casualty loss reserves require significant judgment relating to factors and assumptions such as inflation, claims development patterns and regulatory changes.

Specifically, long-tail lines of business, which often have low frequency, high severity claims settlements, are generally more difficult to project and subject to greater uncertainties than those with short-tail, high frequency claims. Further, not all natural catastrophes can be modeled using actuarial methodologies, which increases the degree of judgment needed in estimating property and casualty loss reserves.

Refer to Notes 4 and 8 to the consolidated financial statements.

How our audit addressed the key audit matter

We assessed and tested the design and operating effectiveness of selected key controls over actuarial methodology, integrity of data used in the actuarial valuation, and the assumptions setting and governance processes used by management related to the valuation of property and casualty reserves.

In relation to the particular matters set out opposite, our substantive testing procedures included the following:

- Testing the completeness and accuracy of underlying claims data utilized by the Group's actuaries in estimating property and casualty loss reserves.
- Utilizing information technology audit techniques to analyse claims through claims data plausibility checks and recalculation of claims development patterns.
- Involving our actuarial experts to independently test management's property and casualty loss reserve studies and evaluate the reasonableness of the methodology and assumptions used against recognized actuarial practices and industry standards.
- Performing independent re-projections on selected product lines, particularly focusing on the largest and most uncertain property and casualty reserves. For these product lines our actuarial experts compared their re-projected reserves to those recorded by the Group, and assessed whether the recorded reserves were within a reasonable range.
- Performing sensitivity testing and evaluated the appropriateness of any significant adjustments made by management relating to property and casualty reserve estimates.

Based on the work performed we determined that the methodologies, assumptions and underlying data used in the valuation of property and casualty reserves are reasonable and in line with industry accepted practice.

Report of the statutory auditor (continued)

Recoverability of goodwill and attorney-in-fact contracts

Key audit matter

The Group's goodwill is allocated to cash generating units (CGUs) that are identified generally at a segment level. Acquisitions which closed in 2019 have added substantial amounts of goodwill. The valuation and recoverability of significant goodwill and attorney-in-fact contracts involves complex judgments and estimates, including projections of future income, terminal growth rate assumptions, and discount rates. These assumptions and estimates can have a material impact on the valuations and impairment decisions reflected in the consolidated financial statements of the Group.

Refer to Notes 3, 4 and 14 to the consolidated financial statements.

How our audit addressed the key audit matter

We assessed the design effectiveness of selected key controls over terminal growth rate assumptions, and discount rates related to the recoverability of goodwill and attorney-in-fact contracts. In relation to the particular matters set out opposite, our substantive testing procedures included the following:

- Corroborating the justification of the CGUs defined by management for goodwill allocation.
- Testing the Group's discounted cash flow model that supports the value-in-use calculations in order to assess the appropriateness of the methodology applied in the Group's annual impairment assessment.
- Testing the reasonableness of the assumptions used in the impairment assessment including projections of future income, terminal growth rate assumptions, discount rates and sensitivity analyses to determine the impact of those assumptions.
- Engaging our internal valuation experts to assist in the testing of key assumptions and inputs.

Based on the work performed we consider Management's impairment testing including the assumptions used to support the carrying value of goodwill and attorney-in-fact contracts as reasonable.

Report of the statutory auditor (continued)

Other information in the annual report
The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of Zurich Insurance Group Ltd, the audited sections of the risk review on pages 129 to 157, the Remuneration report of Zurich Insurance Group Ltd and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Alex Finn Audit expert Auditor in charge	Mark Humphreys Audit expert

Zurich, February 12, 2020

Holding company

Review of the year

Zurich Insurance Group Ltd's net income after taxes for the year was CHF 2,864 million compared with CHF 67 million in 2018. In 2019, the net income after taxes mainly reflects dividend income from its subsidiary Zurich Insurance Company Ltd (ZIC) in the amount of CHF 2,750 million. No dividend was paid by ZIC in 2018, but ZIC repaid CHF 2,700 million of the subordinated debt to its parent in 2018.

The Annual General Meeting on April 3, 2019, approved a dividend of CHF 19.00 less 35 percent Swiss withholding tax per share out of the available earnings.

Shareholders' equity increased by CHF 47 million to CHF 13,608 million as of December 31, 2019, from CHF 13,561 million as of December 31, 2018, as a result of the net income after taxes for the year, partially offset by the dividend paid in 2019. During 2018, Zurich Insurance Group Ltd repurchased 1,740,000 treasury shares via a public share buy-back program. At the Annual General Meeting of April 3, 2019, the shareholders approved the cancellation of these shares. The corresponding reduction of the share capital of Zurich Insurance Group Ltd from 151,348,027 to 149,608,027 fully paid registered shares with a nominal value of CHF 0.10 each through cancellation of the repurchased treasury shares was completed in June 2019.

The Board of Directors proposes to the Annual General Meeting, which is to be held on April 1, 2020, to distribute a dividend from available earnings for 2019 of CHF 20.00 less 35 percent Swiss withholding tax per share.

Contents

Holding company (continued)

Income statements

in CHF thousands, for the years ended December 31	Notes	**2019**	2018
Other operating income		44	29
Other operating expenses	4	(11,311)	(15,312)
Financial income	5	2,887,637	91,549
Dividend income		*2,753,243*	–
Interest income		*134,380*	*91,469*
Other financial income		*14*	*80*
Financial expenses		(31)	(38)
Direct taxes	6	(12,833)	(9,637)
Net income after taxes		**2,863,506**	**66,591**

Holding company (continued)

Balance sheets

Assets

in CHF thousands, as of December 31	Notes	2019	2018
Current assets			
Cash and cash equivalents		2,423	2,557
Receivables from subsidiaries		921	77
Receivables from third parties		31,375	34,222
Accrued income and prepaid expenses from subsidiaries		91,429	91,429
Total current assets		126,148	128,285
Non-current assets			
Subordinated loans to subsidiaries	7	2,132,405	2,132,405
Investments in subsidiaries	8	11,368,069	11,368,069
Total non-current assets		13,500,474	13,500,474
Total assets		**13,626,622**	**13,628,759**

Liabilities and shareholders' equity

in CHF thousands, as of December 31	Notes	2019	2018
Short-term liabilities			
Other liabilities to subsidiaries		16,258	65,028
Other liabilities to third parties		920	962
Other liabilities to shareholders		1,480	1,425
Accrued expenses and deferred income to third parties		15	47
Total short-term liabilities		18,673	67,462
Total liabilities		18,673	67,462
Shareholders' equity (before appropriation of available earnings)			
Share capital	10	14,961	15,135
Legal reserves:		802,696	1,019,984
Capital contribution reserve	*11*	*287,506*	*287,506*
General capital contribution reserve		*29,495*	*27,751*
Reserve for treasury shares (indirectly held via subsidiaries)	*12*	*258,011*	*259,755*
General legal reserve		*515,190*	*732,478*
General legal reserve		*341,140*	*341,140*
Reserve for treasury shares (indirectly held via subsidiaries)	*12*	*174,050*	*391,338*
Treasury shares (directly held by the Company)	10	–	(548,167)
Free reserve	13	344,643	344,643
Retained earnings:			
As of January 1		*12,729,702*	*15,529,736*
Dividends paid		*(2,816,854)*	*(2,475,287)*
Cancellation of treasury shares (directly held by the Company)	*10*	*(547,993)*	*–*
Net income after taxes		*2,863,506*	*66,591*
Allocation from/to reserve for treasury shares (indirectly held via subsidiaries)		*217,288*	*(391,338)*
Retained earnings, as of December 31		12,445,649	12,729,702
Total shareholders' equity (before appropriation of available earnings)		13,607,949	13,561,297
Total liabilities and shareholders' equity		**13,626,622**	**13,628,759**

Notes to the financial statements

1. General information

Zurich Insurance Group Ltd (the Company) is a corporation domiciled in Zurich, Switzerland, and its shares are listed on the SIX Swiss Exchange. It was incorporated on April 26, 2000, and is the holding company of the Zurich Insurance Group with the principal activity of holding subsidiary companies. The Company does not employ staff, as employees work in a joint capacity for Zurich Insurance Company Ltd (ZIC).

2. Basis of presentation

Zurich Insurance Group Ltd presents its financial statements in accordance with Swiss law.

All amounts in these financial statements including the notes are shown in Swiss franc thousands, rounded to the nearest thousand, unless otherwise specified.

3. Summary of significant accounting policies

a) Exchange rates

Unless otherwise stated, assets and liabilities expressed in currencies other than Swiss francs are translated at year end exchange rates. Revenues and expenses are translated using the exchange rate at the date of the transaction. Net unrealized exchange losses are recorded in the income statements and net unrealized exchange gains are deferred until realized.

b) Investments in subsidiaries

Investments in subsidiaries are equity interests, held on a long-term basis for the purpose of the holding company's business activities. Each investment in subsidiaries is valued individually and carried at its cost less adjustments for impairments.

c) Accrued income

Income is accrued for interest which is earned but not yet due for payment at the end of the reporting period.

d) Reserves for treasury shares (indirectly held via subsidiaries)

Reserves for treasury shares are accounted for at the acquisition costs of these shares held by the respective subsidiary.

e) Treasury shares (directly held by the Company)

All treasury shares held directly by the Company as of December 31, 2018, were cancelled upon approval by the Annual General Meeting of April 3, 2019, and completion of the share capital reduction process in June 2019. In 2018, treasury shares are carried at acquisition cost and presented as a deduction in shareholders' equity.

4. Other operating expenses

Other operating expenses include directors' fees of CHF 4.7 million and CHF 4.3 million for the years ended December 31, 2019, and December 31, 2018, respectively. Overhead expenses decreased by CHF 3.2 million to CHF 3.6 million in 2019. In addition, fees paid to the Swiss Financial Market Supervisory Authority of CHF 2.5 million and CHF 3.4 million are included for the years ended December 31, 2019, and December 31, 2018.

5. Financial income

Financial income for the year 2019 consists of dividend income of CHF 2,753 million mainly received from the Company's subsidiary ZIC and interest income of CHF 134.3 million (2018: CHF 91.4 million) on the subordinated loan with ZIC. This interest income is recognized when Zurich Insurance Company Ltd declares its intention to pay a dividend to the Company.

Holding company (continued)

6. Direct taxes
Direct taxes include income and capital taxes in Switzerland.

7. Subordinated loans to subsidiaries
Subordinated loans include a loan to Zurich Insurance Company Ltd of CHF 2,132 million as of December 31, 2019, and December 31, 2018, respectively. In April 2018, ZIC paid back CHF 2,700 million.

8. Investments in subsidiaries

Investments in subsidiaries

as of December 31	2019			2018		
	Carrying value[1]	Voting rights in %	Capital rights in %	Carrying value[1]	Voting rights in %	Capital rights in %
Zurich Insurance Company Ltd	11,088,466	100.00	100.00	11,088,466	100.00	100.00
Zurich Financial Services EUB Holdings Ltd	121,436	99.90	99.90	121,436	99.90	99.90
Farmers Group, Inc.	157,992	12.10	4.62	157,992	12.10	4.62
Allied Zurich Limited	175	100.00	100.00	175	100.00	100.00
Total	**11,368,069**			**11,368,069**		

[1] in CHF thousands.

In addition to the above mentioned directly held subsidiaries, the Company indirectly owns additional subsidiaries primarily through Zurich Insurance Company Ltd. Information regarding indirectly owned subsidiaries is included on pages 285 to 287 of this Annual Report.

9. Commitments and contingencies
Zurich Insurance Group Ltd has provided unlimited guarantees in support of entities belonging to the Zurich Capital Markets group of companies. The Company has also entered into support agreements and guarantees for the benefit of certain of its subsidiaries. They amounted to CHF 1,068 million as of December 31, 2019, and CHF 1,054 million as of December 31, 2018. The increase is mainly due to a positive foreign exchange effect, partially offset by an expired letter of comfort in the amount of USD 10 million (CHF 10 million) provided to an indirectly fully owned subsidiary. Furthermore, the Company has issued an unlimited guarantee in favor of the Institute of London Underwriters in relation to business transferred to Zurich Insurance plc from a Group company which no longer has insurance licenses.

Zurich Insurance Group Ltd is not aware of any event of default that would require it to satisfy any of these guarantees or to take action under a support agreement.

10. Share capital
a) Changes to the share capital

During 2018, Zurich Insurance Group Ltd had repurchased shares via a public share buy-back program for cancellation purposes. At the Annual General Meeting of April 3, 2019, the shareholders approved the cancellation of the 1,740,000 own shares of Zurich Insurance Group Ltd repurchased under the public share buy-back program. The corresponding reduction of the share capital of Zurich Insurance Group Ltd from 151,348,027 to 149,608,027 fully paid registered shares with a nominal value of CHF 0.10 each through cancellation of the repurchased own shares was completed in June 2019.

The authorized share capital (Art. 5bis 1 of the Articles of Association) is comprised of 45,000,000 shares. The contingent share capital for Financial Instruments (Art. 5ter 1a of the Articles of Association; term as defined in section b) below) is comprised of 30,000,000 shares and the contingent share capital for Group employees (Art. 5ter 2a of the Articles of Association) is comprised of 4,947,232 shares. During the year 2019, no shares were issued to Group employees out of the contingent capital. During the year 2018, a total of 8,176 shares were issued to Group employees out of the contingent capital.

Holding company (continued)

b) Authorized share capital (as specified in Article 5bis of the Articles of Association)

Until April 4, 2020, the Board of Zurich Insurance Group Ltd is authorized to increase the share capital of Zurich Insurance Group Ltd by an amount not exceeding CHF 4,500,000 by issuing up to 45,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising subscription rights, and the commencement of entitlement to dividends.

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

The Board is further authorized to restrict or exclude the subscription rights of shareholders and to allocate them to third parties, Zurich Insurance Group Ltd or one of its Group companies, up to a maximum of 15,000,000 shares, if the shares are to be used:

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

Up to April 4, 2020, the total of new shares issued from (i) authorized share capital where the subscription rights were restricted or excluded, and (ii) contingent share capital in connection with Financial Instruments where the advance subscription rights were restricted or excluded, may not exceed 30,000,000 new shares.

c) Contingent share capital (as specified in Article 5ter of the Articles of Association)

Financial Instruments

The share capital of Zurich Insurance Group Ltd may be increased by an amount not exceeding CHF 3,000,000 by issuing of up to 30,000,000 fully paid registered shares with a nominal value of CHF 0.10 each by the voluntary or mandatory exercise of conversion and/or option rights which are granted in connection with the issuance of Financial Instruments by Zurich Insurance Group Ltd or one of its Group companies or by mandatory conversion of Financial Instruments issued by the Zurich Insurance Group Ltd or one of its Group companies, that allow for contingent mandatory conversion into shares of Zurich Insurance Group Ltd, or by exercising option rights which are granted to the shareholders. The subscription rights are excluded. The then-current owners of the Financial Instruments shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

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

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

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

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

Holding company (continued)

Up to April 4, 2020, the total of new shares issued from (i) authorized share capital where the subscription rights were restricted or excluded, and (ii) contingent share capital in connection with Financial Instruments where the advance subscription rights were restricted or excluded, may not exceed 30,000,000 new shares.

Employee participation
On January 1, 2019, the contingent share capital, to be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 494,723.20 or 4,947,232 fully paid registered shares with a nominal value of CHF 0.10 each. On January 1, 2018, the contingent share capital, to be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 495,540.80 or 4,955,408 fully paid registered shares with a nominal value of CHF 0.10 each.

During 2019, no shares were issued to Group employees out of the contingent capital. During 2018, 8,176 shares were issued to Group employees from contingent share capital. As of December 31, 2019 and December 31, 2018, the remaining contingent share capital available for issuance to Group employees amounted to CHF 494,723.20 or 4,947,232 fully paid registered shares with a nominal value of CHF 0.10 each. Subscription rights as well as advance subscription rights of the shareholders are excluded. The issuance of new shares or respective option rights to employees is subject to one or more regulations to be issued by the Board and taking into account performance, functions, levels of responsibility and criteria of profitability. New shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

11. Capital contribution reserve

Capital contribution reserve

in CHF thousands	**2019**	2018
As of January 1	287,506	494,374
Transfer to free reserve (adjustment capital contribution reserve)	–	(19)
Dividend payment out of capital contribution reserve	–	(208,759)
Agio on share-based payment transactions	–	1,910
As of December 31	**287,506**	**287,506**

12. Reserves for treasury shares (indirectly held via subsidiaries)

These reserves correspond to the purchase value of all Zurich Insurance Group Ltd shares held by companies of the Zurich Insurance Group as shown in the table below.

Reserves for treasury shares (indirectly held via subsidiaries)

	Number of shares 2019	**Purchase value 2019[1]**	Number of shares 2018	Purchase value 2018[1]
As of January 1	2,342,432	651,093	1,156,567	282,088
Purchases during the year	272,874	106,310	1,634,015	502,359
Sales during the year	(1,065,592)	(325,342)	(448,150)	(133,354)
As of December 31	**1,549,714**	**432,061**	**2,342,432**	**651,093**
Thereof held in capital contribution reserve				
As of January 1	1,064,728	259,755	1,156,567	282,088
As of December 31	**1,057,654**	**258,011**	**1,064,728**	**259,755**
Thereof held in general legal reserve				
As of January 1	1,277,704	391,338	–	–
As of December 31	**492,060**	**174,050**	**1,277,704**	**391,338**
Average purchase price, in CHF		390		307
Average selling price, in CHF		210		319

[1] in CHF thousands

Holding company (continued)

13. Free reserve

Free reserve

in CHF thousands	2019	2018
As of January 1	344,643	344,624
Transfer from capital contribution reserve	–	19
As of December 31	**344,643**	**344,643**

14. Shareholders

According to information available as of December 31, 2019, Zurich Insurance Group Ltd is not aware of any person or institution, other than BlackRock, Inc., New York, (>5 percent of the shares) and The Capital Group Companies, Inc., Los Angeles, (>5 percent of the shares) which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd exceeding the relevant thresholds prescribed by law.

15. Remuneration of the Board of Directors and the Executive Committee

The information required by articles 14–16 of the Ordinance Against Excessive Compensation, which prevails over article 663bbis of the Swiss Code of Obligations, is disclosed and audited in the remuneration report on pages 92 to 101 of this Annual Report.

16. Shareholdings of the Board of Directors and the Executive Committee

The information on share and share option holdings of Directors and of the members of the Executive Committee (ExCo), who held office as of December 31, 2019, as required by article 663c paragraph 3 and article 959c paragraph 2 cif 11 of the Swiss Code of Obligations is included and audited in the remuneration report on pages 92 to 101 of this Annual Report.

17. Supplementary information

Cash and cash equivalents of CHF 2.4 million include restricted cash of CHF 0.3 million as of December 31, 2019, compared to cash and cash equivalents of CHF 2.6 million and thereof restricted cash of CHF 0.3 million in the previous year.

Holding company (continued)

Proposed appropriation of available earnings

as of December 31	2019	2018
Registered shares eligible for dividends[1]		
Eligible shares	149,608,027	151,348,027

[1] These figures are based on the share capital issued on December 31, 2019, and may change depending on the number of shares issued on April 6, 2020. Treasury shares are not entitled to dividends and will not be taken into account.

The Board of Directors proposes to the Annual General Meeting to be held on April 1, 2020, to appropriate the available earnings for 2019 as follows:

in CHF thousands	Available earnings
Available earnings	
As of January 1, 2019	*12,729,702*
Dividends paid	*(2,816,854)*
Cancellation of treasury shares (directly held by the Company)	*(547,993)*
Net income after taxes	*2,863,506*
Allocation from reserve for treasury shares (indirectly held via subsidiaries)	*217,288*
Available earnings, as of December 31, 2019	**12,445,649**

in CHF thousands	Available earnings
Appropriation of available earnings	
As of January 1, 2020	12,445,649
Dividend payment out of available earnings[1]	(2,992,161)
Balance carried forward[1]	**9,453,488**

[1] This figure is based on the share capital issued on December 31, 2019, and may change depending on the number of shares issued on April 6, 2020. Treasury shares are not entitled to dividends and will not be taken into account.

The Board of Directors proposes to the Annual General Meeting to be held on April 1, 2020, that the Company pay a dividend of CHF 20.00 per share, less 35 percent Swiss withholding tax, out of the available earnings for 2019 and to carry forward the remaining available earnings for 2019 in the amount of CHF 9,453 million as shown in the above table.

If this proposal is approved, a dividend of CHF 20.00 per share, less 35 percent Swiss withholding tax, will be paid from April 7, 2020.

Zurich, February 12, 2020

On behalf of the Board of Directors of Zurich Insurance Group Ltd

Michel M. Liès

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Report of the statutory auditor

Report of the statutory auditor

to the General Meeting of Zurich Insurance Group Ltd, Zurich

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Zurich Insurance Group Ltd (the Company), which comprise the income statement for the year ended December 31, 2019, balance sheet as of December 31, 2019, and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 297 to 303) as of December 31, 2019 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 Auditing Standards. 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 entity 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.

Our audit approach

Overview

Overall audit materiality: CHF 135 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

Recoverability of carrying value of investments in subsidiaries

Report of the statutory auditor (continued)

Audit Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall audit materiality	CHF 135 million
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is the relevant benchmark for a holding company with no own business activities, and it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 13.5 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report of the statutory auditor (continued)

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgement, 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.

Recoverability of carrying value of investments in subsidiaries

Key audit matter

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 CHF 11.4 billion, which makes up more than 83% of the Company's total assets.

Investments in subsidiaries are carried at cost less necessary impairments and valued on an individual basis.

Management assesses whether there are any impairments in the carrying value of the investments in subsidiaries. The determination whether an investment in subsidiary needs to be impaired includes assumptions about the profitability of the underlying business and growth, which involves management's judgment.

We refer to note 3, para b) ("Summary of significant accounting policies") and note 8 ("Investments in subsidiaries") to the financial statements 2019.

How our audit addressed the key audit matter

We obtained an understanding of management's process and controls, and assessed and tested the design and operating effectiveness of a selected key control over the recoverability of the carrying value of investments in subsidiaries.

In relation to the particular matters set out opposite, our testing procedures included the following:

- Assessed the appropriateness of the Company's impairment testing methodology.
- Tested the mathematical accuracy of management's calculations.
- Tested the reasonableness of the assumptions used in the impairment assessment including projections of future income, terminal growth rate assumptions and discount rates.
- Re-performed management's impairment test on the carrying value of each investment in subsidiary, and challenged the impairment decisions taken.

Based on the work performed we consider management's impairment testing including the assumptions used to support the carrying value of investments in subsidiaries as reasonable.

Report of the statutory auditor (continued)

Responsibilities of the Board of Directors 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 entity'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 entity or to cease operations, or has no realistic alternative but to do so.

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 Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further 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.

PricewaterhouseCoopers AG

Mark Humphreys
Audit expert
Auditor in charge

Ray Kunz
Audit expert

Zurich, February 12, 2020

Glossary

Group

Book value per share
is a measure that is calculated by dividing shareholders' equity by the number of shares issued less the number of treasury shares as of the period end.

Business operating profit (BOP)
is the Group's internal performance measure, on which the Group manages all of its business units. It indicates the underlying performance, after non-controlling interests, by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains/(losses) and impairments on investments (except for certain non-insurance operations included in Non-Core Businesses, investments in hedge funds as at fair value through profit or loss, certain securities held for specific economic hedging purposes and policyholders' share of investment results for the life businesses) and non-operational foreign exchange movements. Significant items arising from special circumstances, including restructuring charges, legal matters or large one-off regulatory projects outside the ordinary course of business, gains and losses on divestment of businesses, certain business combination integration costs and impairments of goodwill are also excluded from BOP. **Business operating profit before interest, depreciation and amortization (BOPBIDA)** excludes interest expense on debt, depreciation and impairments of property and equipment and amortization and impairments of intangible assets. BOPBIDA includes amortization of deferred policy acquisition costs, deferred origination costs and distribution agreements. Please refer to the 'consolidated financial statements, Note 27. Segment information, Table 27.4' for further information.

Business operating profit (after-tax) return on shareholders' equity (BOPAT ROE)
indicates the level of BOP relative to resources provided by shareholders. It is calculated as BOP, annualized on a linear basis and adjusted for taxes, divided by the average value of shareholders' equity, adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges, using the value at the beginning and end of each quarter within the period. The average shareholders' equity for each quarter is then added together and divided by the number of quarters. If the dividend is approved at the Annual General Meeting within the first ten working days in April, then the dividend is deducted from the second quarter opening shareholders' equity. Please refer to the 'supplementary information (unaudited)/ROE, EPS and BVPS' for further information.

Cash remittances
is the net extraction of capital from each of the business units (P&C, Life, Farmers and Non-Core Business) to Group Functions & Operations (GF&O) and after all central costs in GF&O. Cash remittances are typically extracted from subsidiaries by way of dividends, capital reductions, repayment of intragroup debt and reinsurance profits.

Investments
Total investments in the consolidated balance sheets include **Group investments** and investments for unit-linked contracts. Group investments are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Average invested assets include investment cash, but exclude cash collateral received for securities lending. The Group manages its diversified investment portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of the Group's Asset/Liability Management and Investment Committee. **Investments for unit-linked contracts** include investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked contracts. They are managed in accordance with the investment objectives of each unit-linked fund. The investment result for unit-linked products is passed to policyholders through a charge to policyholder dividends and participation in profits.

Like-for-like
is the change in the underlying metric over a period of time and after removing the impact of foreign exchange movements and the impact of acquisitions and disposals.

Net savings
are based on savings calculated on the total direct cash expenses of the Group including unallocated loss adjustment expenses (ULAE) after allowance for inflation and incremental investment.

Return on shareholders' equity (ROE)
is a measure that indicates the level of profit or loss relative to resources provided by shareholders. It is calculated as net income after taxes attributable to shareholders, annualized on a linear basis, divided by the average value of shareholders' equity, adjusted for net unrealized gains/(losses) on available-for-sale investments and cash flow hedges, using the value at the beginning and end of each quarter within the period. The average shareholders' equity for each quarter is then added together and divided by the number of quarters. If the dividend is approved at the Annual General Meeting within the first ten working days in April, then the dividend is deducted from the second quarter opening shareholders' equity. Please refer to the 'supplementary information (unaudited)/ROE, EPS and BVPS' for further information.

Zurich Economic Capital Model (Z-ECM)
is an internal economic capital model which defines the Z-ECM capital required to protect the Group's policyholders in order to meet all of their claims with a confidence level of 99.95 percent over a one-year time horizon. The Z-ECM ratio is defined as the ratio of the Group's available financial resources defined under the Z-ECM to the required capital under the Z-ECM model. Please refer to the 'Annual Report/risk review' for further information.

Glossary (continued)

Property & Casualty

The following Property & Casualty (P&C) measures are net of reinsurance.

Net underwriting result
is calculated as the difference between net earned premiums and policy fees and the sum of net insurance benefits and losses and net technical expenses. Please refer to the 'supplementary information (unaudited)/P&C by segment & customer units' for further information.

Total net technical expenses
includes underwriting and policy acquisition costs, as well as the technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, and other income. Please refer to the 'supplementary information (unaudited)/P&C by segment & customer units' for further information.

Combined ratio
is a performance measure that indicates the level of claims and net technical expenses during the period, relative to net earned premiums and policy fees. It is calculated as the sum of the loss ratio and the expense ratio. Please refer to the 'supplementary information (unaudited)/P&C by segment & customer units' for further information.

Loss ratio
is a performance measure that indicates the level of claims during the period relative to net earned premiums and policy fees. It is calculated as insurance benefits and losses net, which include paid claims, claims incurred but not reported (IBNR) and claims handling costs, divided by net earned premiums and policy fees. Please refer to the 'supplementary information (unaudited)/P&C by segment & customer units' for further information.

Expense ratio
is a performance measure that indicates the level of technical expenses during the period relative to net earned premiums and policy fees. It is calculated as the sum of net technical expenses and policyholder dividends and participation in profits, divided by net earned premiums and policy fees. Please refer to the 'Supplementary information (unaudited)/P&C by segment & customer units' for further information.

Net non-technical result
includes expenses or income not directly linked to insurance operating performance, such as gains/losses on foreign currency translation and interest expense on debt. It includes the impact of financial market volatility and other non-operational variables that distort the ongoing business performance. Please refer to the 'supplementary information (unaudited)/P&C by segment & customer units' for further information.

Life

Embedded value (EV) principles
is a methodology using a 'bottom-up' market consistent approach, which explicitly allows for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets. Options and guarantees are valued using market consistent models calibrated to observable market prices. Please refer to the 'embedded value report/embedded value methodology' for further information.

Insurance deposits
are deposits, similar to customer account balances, not recorded as revenues. However, the fees charged on insurance deposits are recorded as revenue within gross written premiums and policy fees. These deposits arise from investment contracts and insurance contracts that are accounted for under deposit accounting. They represent the pure savings part, which is invested.

New business annual premium equivalent (APE)
is a sales index that reflects the volume of life new business sales during the period. APE is calculated as the value of new annual premiums plus 10 percent of new single premiums sold in the period and is stated before the effect of non-controlling interests. **Present value of new business premiums (PVNBP)** is calculated as the present value of new business premiums discounted at the risk-free rate, before the effect of non-controlling interests.

New business margin (NBM)
is a measure that reflects the profitability of new business and is calculated as the new business value divided by APE after the effect of non-controlling interests.

New business value (NBV), after tax
is a measure that reflects the value added by new business written during the period, including allowances for frictional costs, time value of options and guarantees, and the cost of non-market risk, and is valued at the point of sale. It is calculated as the present value of the projected after-tax profit from life insurance contracts sold during the period using a valuation methodology consistent with the EV principles, after the effect of non-controlling interests.

Glossary (continued)

Farmers

Gross management result
is a performance measure of Farmers Management Services calculated as management fees and other related revenues minus management and other related expenses, including amortization and impairments of intangible assets. Please refer to the 'supplementary information (unaudited)/Farmers' for further information.

Managed gross earned premium margin
is a performance measure calculated as the gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which 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.

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Financial calendar

For more information see page 25 of this report
or website:
www.zurich.com/en/investor-relations/calendar

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; (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; and (viii) 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. Zurich Insurance Group Ltd undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

All references to 'Farmers Exchanges' mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors. Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the Farmers Exchanges and in that capacity provide certain non-claims services and ancillary services to the Farmers Exchanges. Neither Farmers Group, Inc., nor its parent companies, Zurich Insurance Company Ltd and Zurich Insurance Group Ltd, have any ownership interest in the Farmers Exchanges. Financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Reinsurance Company.

It should be noted that past performance is not a guide to future performance.
Please also note that interim results are not necessarily indicative of full year results.

Persons requiring advice should consult an independent advisor.

This communication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

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Imprint

The Annual Report is published in English and German, with the financial statements in English only. In the event of inconsistencies in the German translation, the English original version shall prevail.

Our reporting consists of the Annual Report, which is divided into the Group overview, the governance, the risk review and the financial review, and which contains the annual financial statements (Holding Company) and the consolidated financial statements. With regards to content, the management report as per the Articles of Association consists of the aforementioned reports excluding the remuneration report.

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