Financial Condition Report 2020

Zurich Insurance Group

Zurich Insurance Group

Contents

Acronyms	**4**
Introduction	**5**
A. Business activities	**8**
A.1 Company structure and major subsidiaries	8
A.2 Information about the company's strategy, objectives and key business segments	9
A.3 Information about the company's external auditors as per Article 28 ISA	10
A.4 Significant unusual events	10
B. Performance	**11**
C. Corporate governance and risk management	**12**
C.1 Composition of the Board of Directors and Executive Committee	12
C.2 Corporate governance and risk management	12
D. Risk profile	**13**
E. Valuation	**14**
E.1 Overarching market-consistent valuation principle	14
E.2 Market-consistent balance sheet following SST principles	15
F. Capital management	**23**
F.1 Capital management objectives	23
F.2 Regulatory capital adequacy	23
G. Solvency	**24**
Appendix 1: Quantitative templates	**26**
Appendix 2: Report of the statutory auditor on the Group consolidated financial statements 2020	**32**

The information published in this report is consistent with the information published in the Annual Report 2020 of Zurich Insurance Group and the regulatory reporting of Zurich Insurance Group for the year 2020, including the regulatory reporting to the Swiss Financial Market Supervisory Authority FINMA (FINMA) on the Swiss Solvency Test, in accordance with Art. 25 ISA and Art. 53 ISO. While the financial statements and the information therein were subject to audit by the statutory auditor of Zurich Insurance Group Ltd, PricewaterhouseCoopers AG (see Appendix 2), there was no external audit or review of this report.

Please further note that while this report has been filed with FINMA, FINMA has not reviewed the report.

Overview

Business profile

Zurich Insurance Group (Zurich or the Group) 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.

Total revenues

USD 51.6bn[1]

Business operating profit

USD 4.2bn[2]

Total Group investments

USD 226.4bn[3]

System of governance and enterprise risk management

Good corporate governance enables Zurich to create sustainable value for its shareholders, customers, employees and other stakeholders.

Our enterprise risk management framework (ERM) supports achievement of Zurich's strategy and helps protect capital, liquidity, earnings and reputation.

Risk profile

The Group Swiss Solvency Test (SST) ratio decreased to 182% as of January 1, 2021 from 222%[4] as of January 1, 2020. The development of the SST ratio in 2020 reflects a deteriorating economic environment, in particular, lower interest rates and elevated financial market volatility.

Swiss Solvency Test ratio as of January 1, 2021

SST 182%

Financial condition

The Group maintained its strong rating level in 2020. As of December 31, 2020, the insurance financial strength rating 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 AM Best.

Shareholders' equity

USD 38.3bn

Standard and Poor's financial strength rating as of December 31, 2020

AA–/Positive[5]

1 Total revenues excluding net investment result on unit-linked investments.
2 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.
3 Market value of the investment portfolio (economic view).
4 Based on FINMA-allowed risk-free yield curves for SST.
5 S&P upgraded the Group rating on March 15, 2021, to AA / Stable.

Acronyms

AC	Audit Committee
AEC	Ordinance Against Excessive Compensation
AFR	available financial resources
AG	Aktiengesellschaft (stock company)
AGM	Annual General Meeting
APAC	Asia Pacific
APE	annual premium equivalent
BEL	best estimate liability
bn	billion
BOP	business operating profit
BRL	Brazilian real
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHF	Swiss franc
CIDO	Chief Information and Digital Officer
CIO	Chief Investment Officer
COO	Chief Operating Officer
CRO	Chief Risk Officer
DAC	deferred acquisition of costs
EMEA	Europe, Middle East & Africa
ERM	enterprise risk management
EUR	euro
ExCo	Executive Committee
FCR	Financial Condition Report
FGI	Farmers Group, Inc.
FINMA	Swiss Financial Market Supervisory Authority FINMA
FMIA	Financial Market Infrastructure Act
GBP	Great Britain pound
IFRS	International Financial Reporting Standards
ISA	Swiss Insurance Supervision Act
ISDA	International Swaps and Derivatives Association
ISO	Insurance Supervision Ordinance
LatAm	Latin America
Ltd	Limited
M&A	mergers & acquisitions
MCBS	market-consistent balance sheet
NBM	new business margin
NBV	new business value
PH div	policyholder dividends
P&C	property and casualty
PwC	PricewaterhouseCoopers AG
Q	quarter
SFCR	Solvency and Financial Condition Report
SIX	Swiss stock exchange
SST	Swiss Solvency Test
TRP	Total Risk Profiling™
UK	United Kingdom
UPR	unearned premium reserves
U.S.	United States
USD	United States dollar
Z-ECM	Zurich Economic Capital Model
ZIC	Zurich Insurance Company Ltd
ZIG	Zurich Insurance Group Ltd (holding company)

Introduction

How to read the report

Zurich Insurance Group's, consisting of Zurich Insurance Group Ltd and its subsidiaries (Zurich or the Group), financial condition report is prepared in compliance with Art. 26 ISA and FINMA's Circular 2016/2 'Disclosure – insurers'. The report focuses on the 2020 financial year, and should be read in conjunction with the Annual Report 2020 of the Group (available on www.zurich.com/en/investor-relations). Wherever applicable, this report makes reference to the Group's Annual Report for more information.

The report presents information following the structure given in FINMA's circular. It covers Zurich's business activities, performance, corporate governance and risk management, risk profile, valuation, capital management and solvency. Quantitative information supporting the presentation of the information refers to different frameworks applicable or mandatory to the Group:

- 'Business activities'-related and 'Performance' are presented based on International Financial Reporting Standards (IFRS).
- The 'Capital management' and the 'Risk profile' sections make reference to the Swiss Solvency Test (SST).
- 'Valuation' presents the market-consistent balance sheet (MCBS) of the Group following Swiss Solvency Test (SST) principles. The SST MCBS is compared with the IFRS balance sheet as of December 31, 2020.
- Finally, the 'Solvency' section shows the regulatory capital adequacy, supported by the results of the SST.

In accordance with the Group's Annual Report, the reference currency is the U.S. dollar. SST ratios are calculated as of January 1, following FINMA requirements.

FINMA mandates the disclosure of quantitative templates for insurance groups that are presented in Appendix 1.

1 Executive summary

Business activities

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. The holding company, Zurich Insurance Group Ltd (ZURN), is listed on the SIX Swiss Exchange and has a level I American Depositary Receipt (ZURVY) program, which is traded over-the-counter on OTCQX.

Company results

The Group's business operating profit (BOP) of USD 4.2 billion declined 20 percent from USD 5.3 billion despite a return to growth over the second half of the year. The decline was driven by the impact of COVID-19 and higher claims from natural catastrophes, which were only partially offset by underlying earnings growth and a strong performance from financial markets.

The Group's Property & Casualty (P&C) business saw a 28 percent decline in business operating profit (BOP) due to the impact of COVID-19 and higher catastrophe losses. Adjusting for these effects, the Property & Casualty business saw further underlying improvement. Gross written premiums grew 4 percent on a like-for-like basis driven by continued strong price increases in commercial insurance, while retail business remained broadly stable. Commercial insurance prices increased over the year, with all regions showing improvement. The combined ratio of 98.4 percent was 2 percentage points higher than in the prior year, driven by COVID-19 claims and higher catastrophes, while the underlying combined ratio improved by 2.6 percentage points.

The Group's life business BOP declined 4 percent due to falls in financial markets in the first half of the year and higher mortality claims linked to the COVID-19 outbreak. Adjusted for these effects, BOP increased 7 percent with all regions showing growth.

Farmers BOP declined 12 percent as a result of higher mortality related to COVID-19 at Farmers Life together with a 6 percent decline at Farmers Management Services as a result of the decline in gross written premiums at the Farmers Exchanges[1] due to COVID-19-related customer rebates.

Corporate governance and risk management

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.

1 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.

Introduction (continued)

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 Executive Committee (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 (LatAm), CEO Asia Pacific (APAC)), the CEO of Farmers Group, Inc. 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 Information and Digital Officer (Group CIDO). The Group CFO is also responsible for Group Reinsurance.

As of October 1, 2020, the Group Chief Operating Officer (Group COO) role was redefined to Group Chief Information and Digital Officer (Group CIDO) role. This role covers the planning, development and operation of the technology functions and online ecosystems including responsibility for all of Zurich's IT operations and services. Group-level Underwriting and Claims functions are transferred to the remit of the CEO Commercial Insurance, and Life Technical Functions to the remit of the CEO EMEA and Bank Distribution.

From January 1, 2021 the ExCo further includes the CEO of the Global Business Platforms, a new unit created to develop and deliver new digital propositions and services.

In 2020, the Group proved its resilience by remaining operationally robust and retaining a strong financial and solvency position. The Group was able to apply its risk management expertise and tools, such as dynamic scenario sensitivity analyses, to assess and pro-actively manage the potential impact of the unprecedented conditions experienced during the year. The Group identifies plausible scenarios and quantifies their potential impact on its businesses, solvency and financial performance, and implements and monitors the mitigating actions.

Risk profile

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.

Taking and managing risk is inherent to the insurance business; such risk-taking needs to be made in an informed and disciplined way and within a pre-determined risk appetite and tolerance. This is the primary objective of Zurich's approach to risk management. Our integrated risk management framework enables the achievement of the Group's strategy by supporting effective risk identification and assessment that help protect capital, liquidity, earnings, and reputation.

Starting 2020, the Zurich Insurance Group's solvency position has been disclosed on the basis of the Swiss Solvency Test (SST) ratio to be more aligned with reporting by the Group's Swiss and European peers. The Group's SST internal model has been fully approved by the Swiss Financial Supervisory Authority FINMA (FINMA). Zurich's goal is to maintain capital consistent with a 'AA' financial strength rating for the Group, which translates into an SST ratio target of 160 percent or above. The Group continues to apply the Zurich Economic Capital Model (Z-ECM) as an internal metric. Z-ECM provides a key input into the Group's planning process as an assessment of the Group's economic risk profile.

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 manner. To foster transparency about risk, the Board receives quarterly risk reports and risk updates. In 2020, additional dynamic reporting of COVID-19 risk scenarios took place.

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.

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. The Group is committed to strengthening the link between digitalization and sustainability for the Group and customers.

Introduction (continued)

Valuation for SST purposes

Under the SST, the market-consistent balance sheet (MCBS) represents a listing of all rights and obligations that are to be valued in accordance with economic principles in a market-consistent manner unless specified otherwise in the Insurance Supervision Ordinance (ISO).

A market-consistent valuation is based on, and does not contradict to, the most recent information that can be obtained from trading in liquid and transparent financial markets, and reflects the price at which independent, knowledgeable and willing business partners would normally purchase or sell the assets or transfer the liabilities in an arm's length transaction. The market-consistent value principles and valuation methods applied by the Group to determine the SST market-consistent balance sheet are detailed in sections E.1, E2.4 to E.2.5 of this report.

The SST net asset value, which represents the difference between the SST market-consistent value of the assets and liabilities, forms the basis for the calculation of the risk-bearing capital.

During 2020, the Group's SST risk-bearing capital increased by USD 3.6 billion to USD 51.9 billion[1] as of January 1, 2021, compared to USD 48.3 billion[2] as of January 1, 2020.

Capital management

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

As of December 31, 2020, International Financial Reporting Standards (IFRS) shareholders' equity of USD 38.3 billion and subordinated debt of USD 8.3 billion were part of the capital available in the Group's SST available financial resources (AFR). 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, and market-consistent valuation of external debt according to the methodology under SST.

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

The insurance financial strength ratings (IFSR) were unaffected by the impact of COVID-19 on earnings, balance sheet and capital. Moody's and AM Best affirmed Zurich Insurance Group's IFSR in 2020, while S&P upgraded the Group rating on March 15, 2021, to AA / Stable, based on its view of the Group's strong and resilient operating performance and strong capital adequacy.

Solvency

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

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

In 2020, Zurich applied for the use of the risk-free yield curves in line with paragraph 46 of FINMA's Circular 2017/3 ("SST") for the main currencies of USD, EUR, GBP and CHF. FINMA approved the use of these risk-free yield curves (FINMA-allowed interest rate curves for SST) instead of own risk-free yield curves starting from the end of Q1 2020. The ratio as of January 1, 2020 has been re-calculated resulting in an increase from 198% (as published as of January 1, 2020) to 222%. Please see section G. Solvency for further information on the effects of the change in yield curves on the Group's risk-bearing and target capital. Unless otherwise stated, the previous period information within this report makes reference to the figures as of January 1, 2020 (as published). Zurich continues to use risk-free yield curves in line with the Zurich's internal model for all other currencies.

The SST ratio as of January 1, 2021 stands at 182 percent (unaudited). It is filed with FINMA at the end of April 2021 and is subject to review by FINMA. Zurich met the regulatory solvency requirements in Switzerland throughout 2020.

2 Approval of the Financial Condition Report

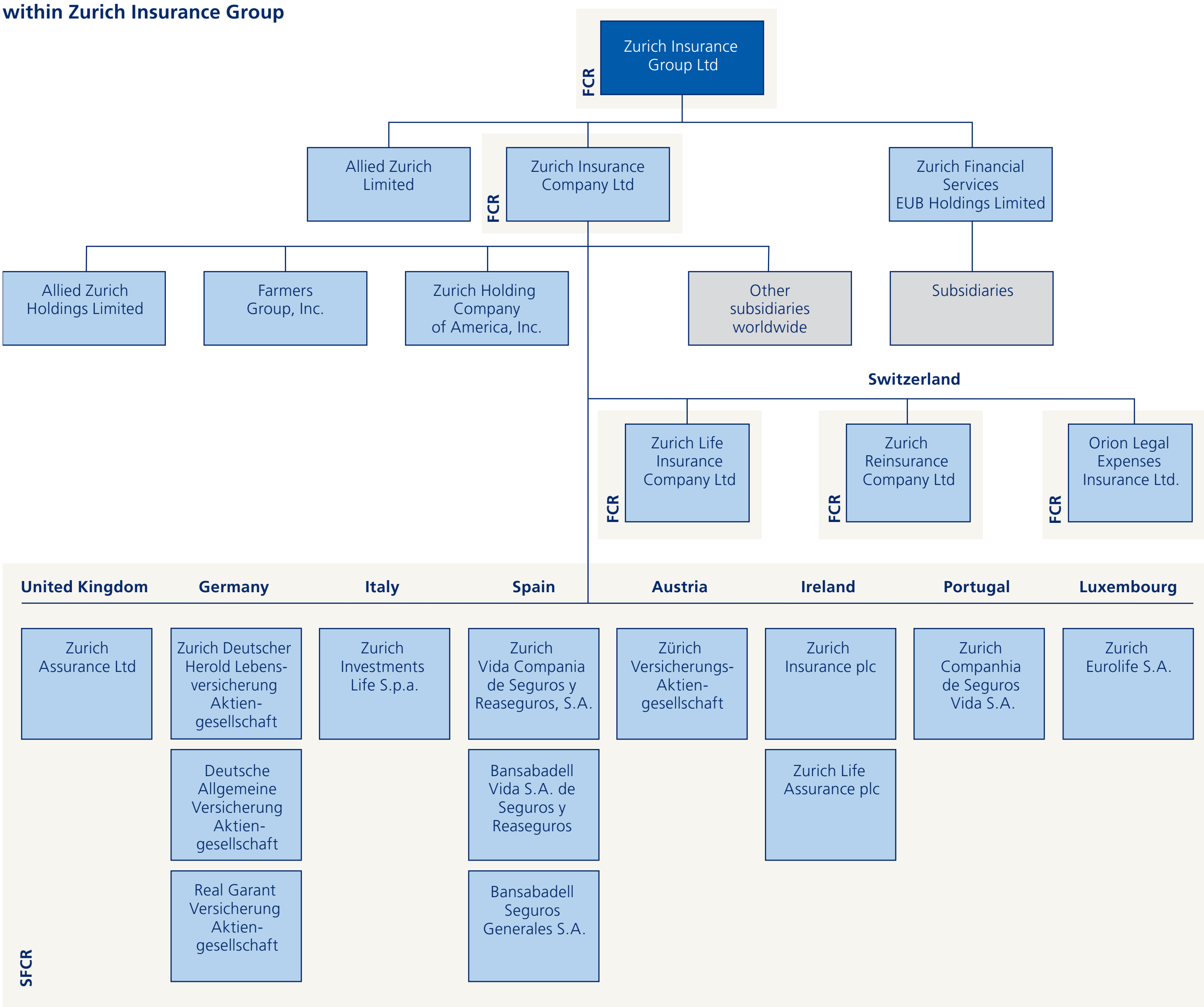
This Report was reviewed and signed-off by the Board of Directors of Zurich Insurance Group Ltd on April 7, 2021.

1 Based on final SST results
2 Based on FINMA-allowed interest rate curves for SST

A. Business activities

A.1 Company structure and major subsidiaries

Public reporting on solvency and financial condition within Zurich Insurance Group



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

Subsidiary Group of subsidiaries

Note: The purpose of the chart above is to provide a simplified overview of the Group's major subsidiaries (as of December 31, 2020), with special focus on the public reporting of their solvency and financial condition. Please note that this is a simplified representation showing entities that must publish such a report and therefore it may not comprehensively reflect the detailed legal ownership structure of the entities included in the overview. The ordering of the legal entities under each country is not indicative of ownership; these are independent legal entities.

A. Business activities (continued)

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 consists of Zurich Insurance Group Ltd (holding entity 'ZIG') and its subsidiaries. Zurich Insurance Company Ltd ('ZIC Ltd') is the principal operating insurance company of ZIG. ZIC Ltd and its subsidiaries are collectively referred to as 'Zurich Insurance Company Group' or 'ZIC Group.'

The subsidiaries of ZIC Ltd in scope of the public disclosure requirements under Swiss regulation are:

– Zurich Life Insurance Company Ltd
– Zurich Reinsurance Company Ltd
– Orion Legal Expenses Insurance Ltd.

The ZIC Ltd subsidiaries based in the European Union produce their own Solvency and Financial Condition Reports under Solvency II regulation. All reports are accessible through Zurich's website https://www.zurich.com/en/investor-relations/results-and-reports/other-statutory-filings.

For additional information on the **Group structure**, please see the Governance report in the Group's Annual Report 2020, on pages 47 and 48.

Also, a list of the **Significant subsidiaries of the** Group can be found in note 28 of the audited consolidated financial statements of the Group's Annual Report 2020, on pages 301–302.

Significant acquisition and divestment transactions operated in 2020 impacting the Group structure are detailed in note 5 of the audited consolidated financial statement in the Group's Annual report 2020, on pages 221–223.

For information about **Significant shareholders** within the meaning of Article 120 para 1 FMIA, please see Governance report section of the Group's Annual Report 2020 on page 81.

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

Zurich's business is focused on providing best-in-class insurance products and services to individuals, small businesses, mid-sized and large companies. Zurich's strategy:

– Focuses on customers by improving customer satisfaction and encouraging a transformation into a truly customer led company,
– Simplifies, by creating a more agile and responsive organization;
– Innovates, by providing better products, services and customer care.

Zurich's strategy to deliver long-term competitive advantage focuses on continuing to increase profitability and consolidating the Group's position as a leading global underwriter for P&C and life insurance. The Group will continue to expand customer relationships and simplify the business. At the operating level, Zurich will continue to reduce complexity and improve accountability. Zurich will enhance technical excellence and strengthen its go-to-market approach for commercial customers. It will also seek to enhance its offerings to individuals by monitoring and aiming to increase customer satisfaction and retention. The Farmers Exchanges[1] will continue to focus on improving customer satisfaction and retention rates.

For additional information on the **Group's strategy**, see pages 20–22 of the Group's Annual Report 2020.

For details on the **Activities of the various businesses** refer to note 27 of the audited consolidated financial statements in the Group's Annual Report 2020, on pages 286–300.

1 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.

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

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 1, 2020, PwC was re-elected by the shareholders of Zurich Insurance Group Ltd.

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. In 2018, in accordance with this 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 and selected Ernst & Young Ltd to replace PwC as of financial year 2021.

At the Annual General Meeting on April 7, 2021, the shareholders of Zurich Insurance Group Ltd elected Ernst & Young Ltd as external auditor for the financial year 2021.

For additional information on the Group's external auditors, refer to page 77 of the Group's Annual Report 2020.

A.4 Significant unusual events

For significant events during 2020 and thereafter until March 12, 2021, please refer to the Group's Annual Report 2020, as well as to the news releases available at https://www.zurich.com/en/media/news-releases.

Since the end of 2019, the COVID-19 pandemic has developed rapidly with far-reaching impacts across the insurance industry and the global economy overall. The global nature of the pandemic and the varying government actions taken to mitigate it make the potential losses (including the wide range of related coverage issues) inherently more difficult to model than traditional catastrophic losses or other loss events with a consequent increase in uncertainty around them. Management has considered the effect of COVID-19 to the extent possible in its estimates and assumptions. Specifically, insurance liabilities reflect management's best estimate of claims activity directly related to COVID-19 as well as premium returns and rebates to customers where appropriate.

The continuing nature of COVID-19 pandemic has the potential to impact the Group's future results both positively and negatively with the overall outcome dependent on factors such as the duration of lockdowns imposed by governments and levels of mortality. Following re-underwriting measures taken since the start of the pandemic, the Group's exposure to business interruption claims has been significantly reduced from the 2020 level. More broadly, continued rate increases within the Group's property and casualty business are expected to support growth and improve the underwriting performance, while persistent low yields may have an adverse impact on investment results.

B. Performance

Financial highlights

in USD millions, for the years ended December 31	2020	2019	Change[1]
Business operating profit	**4,241**	5,302	(20%)
Net income attributable to shareholders	**3,834**	4,147	(8%)
P&C business operating profit	**2,080**	2,878	(28%)
P&C gross written premiums and policy fees	**35,518**	34,184	4%
P&C combined ratio	**98.4%**	96.4%	(2.0 pts)
Life business operating profit	**1,423**	1,486	(4%)
Life gross written premiums, policy fees and insurance deposit	**27,616**	33,479	(18%)
Life new business annual premium equivalent (APE)[2]	**3,625**	4,331	(16%)
Life new business margin, after tax (as % of APE)[2]	**25.1%**	25.8%	(0.8 pts)
Life new business value, after tax[2]	**788**	976	(19%)
Farmers business operating profit	**1,501**	1,707	(12%)
Farmers Management Services management fees and other related revenues	**3,703**	3,780	(2%)
Farmers Management Services managed gross earned premium margin	**6.8%**	7.0%	(0.2 pts)
Farmers Life new business annual premium equivalent (APE)[2]	**75**	82	(9%)
Average Group investments[3]	**204,639**	190,237	8%
Net investment result on Group investments[3]	**6,950**	7,391	(6%)
Net investment return on Group investments[3,4]	**3.4%**	3.9%	(0.5 pts)
Total return on Group investments[3,4]	**6.4%**	8.2%	(1.9 pts)
Shareholders' equity	**38,278**	35,004	9%
Swiss Solvency Test ratio[5]	**182%**	222%	(40.0 pts)
Return on common shareholders' equity (ROE)[6]	**13.0%**	14.4%	(1.3 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)[6]	**11.0%**	14.2%	(3.3 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 Estimated Swiss Solvency Test (SST) ratio as of January 1, 2021, has been calculated based on the Group's Internal Model, which has been approved by the FINMA. The SST ratio as of January 1 has to be filed with FINMA by end of April each year and is subject to review by FINMA. FINMA approved the use of FINMA-allowed risk-free yield curves for SST for the main currencies starting end of Q1 2020. The ratio as of January 1, 2020 has been re-calculated on the same basis for disclosure purposes in order to allow better comparison.
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, 2020 was USD 4.2 billion, down 20 percent compared with the prior period, despite a return to growth over the second half of the year. The decline was driven by the impact of COVID-19 and higher claims from natural catastrophes, which were only partially offset by underlying earnings growth and a strong performance from financial markets.

Net income attributable to shareholders (NIAS) amounted to USD 3.8 billion and decreased 8 percent in the year 2020, with higher realized gains partially offsetting the decline in business operating profit.

Detailed financial results are disclosed in the Group's Annual Report 2020. In particular additional information on **Overall Performance**, are provided in the Financial review section in the Group's Annual Report 2020 on pages 186–191.

For information on **Investment performance**, please see Note 6 of the consolidated financial statements of the Group's Annual Report 2020 on pages 224–226.

C. Corporate governance and risk management

C.1 Composition of the Board of Directors and Executive Committee

Zurich's 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.

Information about the composition of the **Board of Directors** and **Executive Committee (ExCo)**, are disclosed in the Governance report section in the Group's Annual Report, on pages 52–57, 66–69. Changes to the composition of the ExCo in 2020 and since January 1, 2021 are disclosed on page 69.

C.2 Corporate governance and risk management

Zurich manages and takes risks in an informed and disciplined manner and within a pre-determined risk appetite and tolerance. All information in relation with the **Group Corporate governance** and **Risk management** is available in the Corporate governance report and Risk review of the Group's Annual Report 2020, and include notably the following information:

- The major **Risk management objectives** at Zurich Insurance Group are described in the Risk review in the Group's Annual Report 2020, on page 131.
- The Group **Risk management framework** is based on a governance process that sets forth clear responsibilities for taking, managing, monitoring and reporting risks, as further detailed in the Group's Annual Report 2020, on pages 131–132.
- The **Internal control system** implemented by the Group is considered 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 risks which could impact the achievement of business objectives. Key controls are assessed for their design and operating effectiveness; please see page 154 of the Group's Annual Report 2020.
- The **Group Compliance** function is a control function responsible for enabling the business to manage its compliance risks, being a trusted advisor, providing independent challenge, monitoring and assurance and assisting management to promote compliance culture and ethics. For additional information on Compliance and its operational controls, please see page 80 of the Group's Annual Report 2020.
- 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. For additional information on Group Audit, please see page 79 of the Group's Annual Report 2020.

D. Risk profile

Risk and capital are managed at the Zurich Insurance Group, regional, and business unit level according to Zurich Insurance Group's risk and capital management framework. The Group's risk appetite and tolerance reflects Zurich's willingness and capacity to take risks in pursuit of value creation and sets boundaries within which the businesses act. Zurich protects its capital, liquidity, earnings and reputation by monitoring that risks are taken within agreed risk appetite levels and tolerance limits. The Group regularly assesses and, to the extent possible, quantifies material risks to which it is exposed.

- Additional qualitative and quantitative information about the **Group Risk profile**, can be found in the Risk review in the Group's Annual Report 2020, for each of the following risk categories:
- Insurance risk, see as pages 139–145;
- Market risk, including investment credit risk, see pages 146–152;
- Other risks related to reinsurance assets and receivables, see pages 152–153;
- Operational risk, see page 154;
- Liquidity risk, see page 155;
- Strategic risk and risks to the Group's reputation, see page 156;
- Sustainability risk, see pages 156–157;
- Digital and resilience risk, see pages 157–158.

E. Valuation

E.1 Overarching market-consistent valuation principle

The following section presents the Group's market-consistent balance sheet (MCBS) which is essential in determining the Group's risk-bearing capital.

As an overarching principle, all assets and liabilities are valued in accordance with economic principles in a market-consistent manner including market-consistent discounting of insurance liabilities. A market-consistent valuation is based on, and does not contradict to, the most recent information that can be obtained from trading in liquid and transparent financial markets.

FINMA stipulates that the SST market-consistent balance sheet value of all insurance and non-insurance liabilities (with the exception of instruments eligible for risk-bearing capital) shall be determined under the assumption that the Group will fulfill its obligation in full; thus, own credit risk is not considered.

In summary, the following valuation methods apply:

MCBS valuation principles

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

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

For more information on fair value measurement, see notes, 6, 7 and 23 of the consolidated financial statements in the Group's Annual Report 2020, pages 224 to 226, 227 to 230, 271 to 278. The summary of accounting policies underlying IFRS valuations, as well as significant judgments and assumptions, are included in notes 3 and 4 of the consolidated financial statements in the Group's Annual Report 2020, pages 210 to 220.

E. Valuation (continued)

E.2 Market-consistent balance sheet following SST principles

FINMA has established the Swiss Solvency Test to assess risk quantitatively. SST calculations are based on a market- consistent valuation of balance sheet positions. The following tables show the main drivers for the differences in valuation between MCBS (used for SST purposes) and the IFRS values, where certain IFRS amounts have been reclassified in order to comply with FINMA requirements.

Asset valuation MCBS vs IFRS

In USD millions, as of December 31	2019 (SST)	**2020 (SST)**	Evolution 2019–2020 (SST)	**2020 (IFRS)**	Difference 2020 (IFRS – SST)
Market-consistent value of investments					
Real estate	13,261	14,749	1,488	14,749	–
Participations	39	43	4	43	–
Fixed-income securities	126,426	141,199	14,773	140,472	727
Loans	9,832	10,282	450	8,496	1,786
Mortgages	6,350	6,205	(145)	5,783	422
Equities	8,408	8,261	(147)	8,261	–
Other investments	31,680	32,594	914	32,593	1
Collective investment schemes	4,620	5,101	482	5,101	–
Alternative investments	8,937	10,891	1,954	10,890	1
Structured products	–	–	–	–	–
Other investments	18,123	16,602	(1,522)	16,602	–
Total Investments	**195,996**	**213,333**	**17,337**	**210,398**	**2,935**
Market-consistent value of other assets					
Financial investments from unit-linked life insurance	126,591	136,217	9,625	135,550	666
Receivables from derivative financial instruments	1,226	1,763	537	1,763	–
Deposits made under assumed reinsurance contracts	783	594	(189)	503	91
Cash and cash equivalents	7,915	11,106	3,192	11,106	–
Reinsurers' share of best estimate of provisions for insurance liabilities	21,227	23,753	2,526	25,523	(1,770)
Direct insurance: life insurance business (excluding unit linked life insurance)	6,175	5,928	(247)	7,113	(1,184)
Reinsurance: life insurance business (excluding unit linked life insurance)	381	366	(16)	371	(5)
Direct insurance: non-life insurance business	9,580	11,334	1,754	10,518	816
Direct insurance: health insurance business	–	–	–	–	–
Reinsurance: non-life insurance business	5,090	6,147	1,057	7,520	(1,373)
Reinsurance: health insurance business	–	–	–	–	–
Direct insurance: other business	–	–	–	–	–
Reinsurance: other business	1	1	–	1	–
Direct insurance: unit-linked life insurance business	–	(24)	(23)	–	(24)
Reinsurance: unit-linked life insurance business	–	–	–	–	–
Fixed assets	3,008	3,080	72	2,705	376
Deferred acquisition costs	–	–	–	20,004	(20,004)
Intangible assets	–	–	–	9,345	(9,345)
Receivables from insurance business	9,540	9,817	277	10,087	(270)
Other receivables	4,019	3,815	(204)	3,787	28
Other assets	1,285	1,097	(188)	4,029	(2,932)
Unpaid share capital	–	–	–	–	–
Accrued assets	3,297	3,365	68	4,693	(1,328)
Total other assets	**178,892**	**194,607**	**15,716**	**229,096**	**(34,488)**
Total market-consistent value of assets	**374,888**	**407,941**	**33,053**	**439,494**	**(31,553)**

E. Valuation (continued)

MCBS vs IFRS – best estimate liabilities and risk-bearing capital

In USD millions, as of December 31	2019 (SST)	**2020 (SST)**	Evolution 2019–2020 (SST)	**2020 (IFRS)**	Difference 2020 (IFRS – SST)
BEL: Best estimate liabilities (including unit linked life insurance)					
Best estimate of provisions for insurance liabilities	**(171,054)**	**(188,009)**	**(16,956)**	**(212,754)**	**24,745**
Direct insurance: life insurance business (excluding unit linked life insurance)	(101,913)	(112,081)	(10,169)	(127,650)	15,568
Reinsurance: life insurance business (excluding unit linked life insurance)	(2,045)	(2,109)	(64)	(2,135)	27
Direct insurance: non-life insurance business	(63,022)	(69,646)	(6,624)	(78,089)	8,443
Direct insurance: health insurance business	–	–	–	–	–
Reinsurance: non-life insurance business	(3,558)	(3,504)	55	(3,966)	462
Reinsurance: health insurance business	–	–	–	–	–
Direct insurance: other business	(508)	(663)	(155)	(908)	245
Reinsurance: other business	(7)	(7)	–	(7)	–
Best estimate of provisions for unit-linked life insurance liabilities	**(122,744)**	**(132,636)**	**(9,892)**	**(136,331)**	**3,695**
Direct insurance: unit-linked life insurance business	(122,744)	(132,636)	(9,892)	(136,331)	3,695
Reinsurance: unit-linked life insurance business	–	–	–	–	–
Market consistent value of other liabilities					
Non-technical provisions	(3,338)	(3,781)	(444)	(3,818)	37
Interest-bearing liabilities	(5,644)	(6,252)	(607)	(5,559)	(692)
Liabilities from derivative financial instruments	(365)	(481)	(115)	(481)	–
Deposits retained on ceded reinsurance	(911)	(826)	85	(910)	84
Liabilities from insurance business	(4,023)	(4,015)	8	(4,007)	(8)
Other liabilities	(11,601)	(12,043)	(442)	(14,217)	2,174
Accrued liabilities	(4,492)	(4,640)	(147)	(14,832)	10,192
Subordinated debts	(7,680)	(9,335)	(1,654)	(8,306)	(1,029)
Total BEL plus market-consistent value of other liabilities	(331,853)	(362,017)	(30,165)	(401,216)	39,198
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	**43,035**	**45,923**	**2,888**	**38,278**	**7,645**

E.2.1 Evolution of assets since 2019

Total Investments

The market value of Total Investments increased by USD 17.3 billion from USD 196.0 billion in 2019 to USD 213.3 billion in 2020. This is mostly driven by an increase of USD 14.8 billion in Fixed-income securities from USD 126.4 billion as of December 31, 2019 to USD 141.2 billion as of December 31, 2020 primarily resulting from favorable currency translation effect of USD 7.9 billion due to the strengthening of Swiss franc and EUR against the USD. Further, market valuation increased by USD 3.3 billion due to falling yields in Europe, notably in Germany of USD 1.5 billion, in Italy of USD 0.9 billion and in the UK of USD 0.4 billion. Net purchases contributed to a USD 3.3 billion increment mostly in Italy (USD 0.7 billion), in the UK (USD 1.1 billion) and in the U.S. (USD 0.7 billion).

Real estate increased by USD 1.5 billion from USD 13.3 billion as of December 31, 2019 to USD 14.7 billion as of December 31, 2020 mainly due to favorable currency movement and increases in fair value mostly in Germany (USD 0.5 billion) and in Switzerland (USD 0.9 billion).

Total other investments increased of USD 0.9 billion from USD 31.7 billion in 2019 to USD 32.6 billion in 2020 which mostly reflects a positive currency translation impact of USD 0.5 billion and positive market revaluation of USD 0.3 billion.

Loans increased by USD 0.5 billion from USD 9.8 billion as of December 31, 2019 to USD 10.3 billion as of December 31, 2020, resulting from favorable currency movements of USD 0.7 billion, partially offset by maturities in Germany of USD 0.2 billion.

E. Valuation (continued)

Total Other Assets

The market-consistent value of **total other assets** increased by USD 15.7 billion from USD 178.9 billion as of December 31, 2019 to USD 194.6 billion as of December 31, 2020.

Financial investments from unit-linked life insurance increased by USD 9.6 billion from USD 126.6 billion in December 31, 2019 to USD 136.2 billion in December 31, 2020, where USD 2.3 billion is due to currency translation effects. The rest of the increase is mainly driven by favorable equity performance and new business in Ireland and Isle of Man, good equity performance in Germany and new business in Italy.

Cash and cash equivalents increased by USD 3.2 billion from USD 7.9 billion as of December 31, 2019 to USD 11.1 billion as of December 31, 2020 and is driven by increase in operational cash.

The market value of **Reinsurers' share of best estimate of provisions** for insurance liabilities increased by USD 2.5 billion from USD 21.2 billion in 2019 to USD 23.8 billion in 2020 mostly driven by the Property & Casualty business.

- **Direct insurance: non-life insurance business** increased by USD 1.7 billion from USD 9.6 billion in 2019 to USD 11.3 billion in 2020 primarily driven by property catastrophe losses in the U.S., adverse development on large property and liability claims and adverse development in liability.
- **Reinsurance: non-life insurance business** increased by USD 1.0 billion from USD 5.1 billion in 2019 to USD 6.1 billion in 2020. This change in retrocessions is mainly driven by Commercial as a result of large losses and Group Reinsurance mostly due to COVID-19. Also, the depreciation of USD, in particular against CHF, contributed to the total increase.

Receivables from derivative financial instruments increased by USD 0.5 billion from USD 1.2 billion as of December 31, 2019 to USD 1.8 billion as of December 31, 2020, mainly driven by decreasing interest rates in Europe, and additions mostly in Germany of USD 0.2 billion.

E.2.2 Evolution of liabilities since 2019

Best estimate of provisions for insurance liabilities

The market-consistent value of **best estimate of provisions for insurance liabilities** increased by USD 26.8 billion from USD 293.8 billion in 2019 to USD 320.6 billion in 2020.

Direct insurance: life insurance business (excluding unit linked life insurance) increased by USD 10.2 billion from USD 101.9 billion as of December 31, 2019 to USD 112.1 billion as of December 31, 2020. The majority of the increase (USD 8.2 billion) is due to currency translation effects. The residual increase is due to new business growth, operating assumption updates in Japan, and policyholder share of gains coming from a reduction in credit spreads. These impacts are mostly offset by the model improvements in Germany.

Direct insurance: unit-linked life insurance business increased by USD 9.9 billion from USD 122.7 billion in 2019 to USD 132.6 billion in 2020, thereof USD 2.3 billion is due to currency translation effects. The increase is mainly driven by favorable market movements and new business in Ireland and Isle of Man, good fund performance in Germany and new business in Italy.

Direct insurance: non-life insurance business increased by USD 6.6 billion from USD 63.0 billion in 2019 to USD 69.6 billion in 2020. The increase was mostly due to economic factors, where lower discount rates caused an increase of USD 2.9 billion that impacted mainly the U.S., and the depreciation of the USD against other major currencies of USD 1.8 billion. The remaining increase of USD 1.9 billion is due to an increase in nominal reserves, to a large extent as a result of COVID-19, and adverse developments mainly in North America following catastrophe losses in property and adverse development in liability.

Total other liabilities

The market-consistent value of **other liabilities** increased by USD 3.3 billion from USD 38.1 billion as of December 31, 2019 to USD 41.4 billion as of December 31, 2020.

Subordinated debts increased by USD 1.7 billion from USD 7.7 billion as of December 31, 2019 to USD 9.3 billion as of December 31, 2020 mainly due to issuance of new debts of USD 1.2 billion eligible as capital for general corporate purposes.

The increase in **Interest-bearing liabilities** of USD 0.6 billion from USD 5.6 billion in 2019 to USD 6.3 billion in 2020 mostly driven by unfavorable currency movements of USD 0.5 billion.

E. Valuation (continued)

E.2.3 Changes in MCBS valuation methodology

In 2020, the Group amended its valuation methodology to apply the FINMA-allowed risk-free yield curves for SST. This change in methodology resulted in USD 0.7 billion increase in Group's risk-bearing capital, predominantly due to a positive impact on best estimate of life insurance liabilities of USD 1 billion partially offset by the negative impact of USD 0.3 billion on best estimate of non-life insurance liabilities. Please further refer to the table disclosed in section G. Solvency of this report.

E.2.4 Market-consistent value of assets

Market-consistent value of investments

Under IFRS, investments are measured at fair value, amortized cost or using the equity method. In addition, IFRS requires fair value disclosures for financial assets that are not measured at fair value. The MCBS value of investments reflects fair value determined in accordance with the overarching valuation principles outlined in section E.1.

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total IFRS value of investments		**210,398**
Fixed income securities	Bonds held-to-maturity measured at fair value in MCBS.	727
	Mortgage loans measured at fair value in MCBS.	422
Loans	Other loans measured at fair value in MCBS.	1,786
Total market-consistent value of Investments (SST)		**213,333**

Market-consistent value of financial investments from unit-linked life insurance

The investments for unit-linked insurance are measured at fair value under both IFRS and MCBS. Therefore, no measurement difference arises in MCBS.

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total IFRS value of financial investments from unit-linked life insurance		**135,550**
Financial investments from unit-linked life insurance	The reclassification to held for sale is not applicable in MCBS.	666
Total market-consistent value of financial investments from unit-linked life insurance (SST)		**136,217**

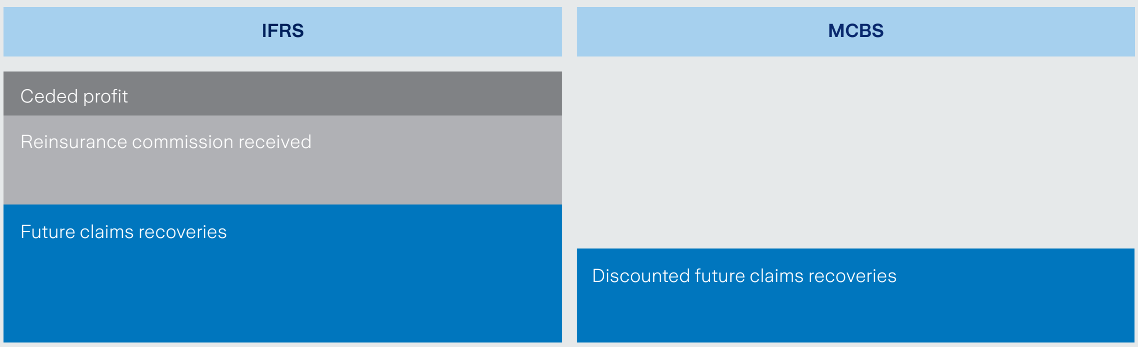
Market-consistent value of reinsurers' share of best estimate of provisions for insurance liabilities

Similar to IFRS, the calculation of the best estimate for reinsurance assets and insurance liabilities is performed on a gross basis in MCBS (i.e., no offsetting of assets with liabilities). However, the MCBS valuation is based on the actuarial discounted best estimate of future cash flows, taking into account the lifetime expected credit losses. The calculation of the expected credit loss allowance considers the rating of the reinsurance counterparty, the expected timing of future recoveries and the expected value of any collateral held.

Reinsurers' share of best estimate unearned premium reserve

Under IFRS, the reinsurers' share of unearned premium reserve (UPR) represents the portion of the ceded premiums related to the unexpired coverage period. Under MCBS, the ceded UPR shall only reflect a market-consistent value for future claims recoveries. The illustration below provides the breakdown of ceded UPR where ceded IFRS UPR reflects the premium paid (less commission received) for the remaining bound period and the adjustments performed to arrive at the MCBS value for ceded UPR.

Illustrative break-down of ceded Unearned Premium Reserve (UPR)



E. Valuation (continued)

Reinsurers' share of property and casualty loss reserves

Under IFRS, reinsurance assets for ceded loss reserves are already held at best estimate (i.e., sum of all expected future recoveries), but generally not discounted. To make these assets market-consistent, the future cash flows are discounted while taking into account the timing of these future cash flows and expected credit losses.

Reinsurers' share of life benefits

In order to determine the SST MCBS value of best estimate ceded reserves of life insurance and investment contracts, the following generally applies:

- The best estimate of future cash flows is based on the principles discussed in the 'best estimate of life investment and insurance liabilities' section;
- The SST MCBS value for ceded reserves only reflects the market-consistent value for future claims recoveries, i.e., only present value of future cash flows to be reimbursed by the reinsurer; and
- If the reinsurer's credit risk is not included in the best-estimate future cash flows, the expected credit loss allowance is considered.

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total Best estimate of Reinsurers' share of best estimate of insurance liabilities (IFRS)		**25,523**
Reinsurers' share of best estimate of insurance liabilities -unit-linked life insurance business	Valuation differences.	(3,501)
	The reclassification to held for sale is not applicable in MCBS.	1,731
Total Best estimate of Reinsurers' share of best estimate of insurance liabilities (SST)		**23,753**

Market-consistent value of other assets

Under IFRS, other assets include deferred acquisition costs (DAC), deferred tax assets, goodwill and other intangible assets, which are valued at zero in the MCBS. Real estate held for own use is measured at cost less depreciation and impairment, whereas the MCBS value reflects fair value. Right-of use assets are reported at IFRS carrying value (i.e., cost less depreciation and impairment) provided this is a reasonable proxy for fair value. Otherwise, if there is a major change in the market prices for comparable leases observed since inception, the MCBS value is determined considering current rental prices for comparable property and current interest rates for high-quality corporate bonds.

Cash and cash equivalents are presented at IFRS carrying value because such balances are current and solely held for the purpose of meeting short-term (operational) cash commitments.

Deposits made under assumed reinsurance contracts, receivables from insurance business and other receivables are valued at the IFRS carrying value, provided this is a reasonable proxy for fair value (i.e., the balances are subject to only insignificant risk of changes in value and settlement is expected to occur generally within three months and no more than twelve months). In this case, the IFRS carrying value is reported net of credit impairment allowance. Otherwise, the value is based on fair value (including credit risk) using the IFRS valuation principles.

Derivative financial instruments are measured at fair value under both IFRS and MCBS.

The reclassification of assets for USD 2.5 billion to the held for sale category under IFRS is not applicable in MCBS.

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total IFRS value of other assets (excluding Financial investments from unit-linked life insurance & Reinsurers' share of best estimate of provisions for insurance liabilities)		**68,022**
Other assets	Deferred acquisition costs: Value set to zero in MCBS.	(20,004)
	Deferred origination costs: Value set to zero in MCBS.	(426)
	Deferred tax assets: Value set to zero in MCBS.	(1,314)
	Goodwill and other intangible assets: Value set to zero in MCBS.	(9,345)
	Valuation differences of Deposits made under assumed reins. Contracts	91
	Reclassification to Other liabilities	(257)
	Property and equipment: Real estate held for own use is at fair value in MCBS.	376
	The reclassification to held for sale is not applicable in MCBS.	(2,506)
	Other	1
Total market-consistent value of other assets (SST) (excluding Financial investments from unit-linked life insurance & Reinsurers' share of best estimate of provisions for insurance liabilities)		**34,638**

E. Valuation (continued)

E.2.5 Market-consistent value of liabilities

Best estimate of insurance liabilities

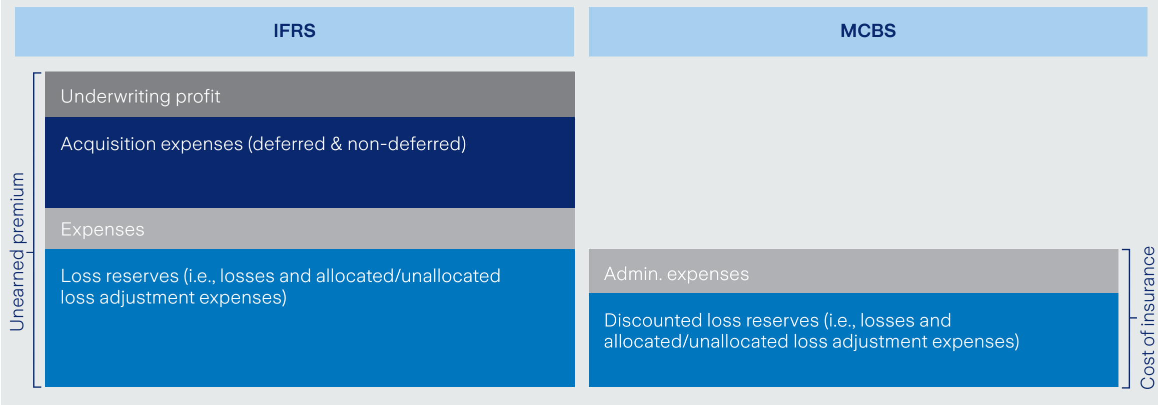
Best estimate of unearned premium reserves

Under IFRS, the unearned premium reserve (UPR) represents the portion of the premiums written related to the unexpired coverage period. The UPR typically relates to one year of premiums invoiced, which is also the case for multi-year contracts where only the first year is recognized and not the entire contractual future premium volume due in future periods. This reserve covers expected future losses, loss adjustment and policy administration expenses as well as underwriting profits for contracts in force. To arrive at the MCBS value for UPR, the following adjustments are made:

- Expected future losses (including loss adjustment expenses) are discounted;
- Underwriting profits are not included, as these do not represent future cash flows; and
- Future administration expenses only encompass the estimated costs to administer and maintain the insurance policy over the remaining coverage period. Consequently, any deferred or non-deferred acquisition-related costs (such as commissions, sales and distribution management, underwriting, risk engineering, and marketing costs) are excluded. Further, claims settlements costs are not included in administration expenses as such costs are typically part of future losses. Similarly, amortization of DAC and intangible assets is not included because DAC and intangible assets are set to zero in MCBS.

The illustration below provides the breakdown of the UPR where IFRS UPR reflects the unearned premium for the remaining bound period and the adjustments performed to arrive at the MCBS value for UPR:

Illustrative breakdown of Unearned Premium Reserve (UPR)



For multi-year contracts, the determination of the best estimate of UPR requires an additional adjustment to reflect the net present value of the future cash flows from the bound multi-year contracts. The adjustment is determined using all unearned premiums (invoiced and not invoiced) as a volume metric with the best estimate of cost of insurance discounted using a discount factor reflective of the expected cash flows over the duration of the underlying insurance contracts and the discounted future premium not yet invoiced (less attributable future acquisition expenses) included as an inflow.

Best estimate of loss reserves

Reserves for losses under IFRS represent estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Such reserves are not discounted, except reserves for claims with payment patterns that are fixed and reasonably determinable. Reserves are held at best estimate including recoverable for salvage and subrogation, supplemented by a provision for model and parameter uncertainty under IFRS.

In order to derive a market-consistent value, best estimate loss reserves are discounted using risk-free rates whereby the cash-flow pattern (i.e., timing of the estimated future cash flows) is adequately considered. In cases where the reserves are already presented on a discounted basis under IFRS (e.g., non-life annuities), the discounting is reversed and re-performed using the risk-free rates.

E. Valuation (continued)

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total Best estimate of non-Life insurance liabilities (IFRS)		**(82,055)**
Total Best estimate of non-Life insurance liabilities (IFRS)	Valuation differences.	10,636
	The reclassification to held for sale is not applicable in MCBS.	(1,731)
Total Best estimate of non-Life insurance liabilities (SST)		**(73,150)**

Best estimate of life investment and insurance liabilities

Generally, the SST MCBS value of all unit-linked and non-unit-linked investments, as well as life insurance liabilities, is based on a bottom-up best estimate projection of future cash flows excluding any expected non-guaranteed surpluses or discretionary benefits. Any options and guarantees provided to the policyholder are valued on a market-consistent basis. Specifically, cash flow projections are made over the estimated contract period for the in-force portfolio (i.e., current policyholder base at valuation date) subject to the contractual contract boundary and in line with the principles for best estimate:

– Economic assumptions: expected asset return, discount rate, and inflation rate, stochastic economic simulations;
– Non-economic assumptions: demographic assumptions (mortality, morbidity), persistency, expense assumptions and dynamic bonus rates/profit sharing rates (where legally or contractually obligated).

Cash flow projections may vary, depending on the product. Contractually guaranteed benefits to be paid to policyholders – whether on surrender, maturity, death, morbidity or disability – increase the best estimate of life investment and insurance liabilities, as do taxes paid on behalf of policyholders, maintenance expenses and future commissions. Projected future premiums, fees and charges expected to be received from policyholders for existing business reduce the best estimate of life investment and insurance liabilities.

Best estimate of life insurance liabilities can be negative, for example, in protection business where projected regular premiums may often exceed expected death benefits and expenses on a best-estimate basis. Because the own fulfilment value of an insurance or reinsurance obligation may be lower than the surrender values of the underlying contracts, no implicit or explicit surrender value floor is assumed for the market-consistent value.

Realistic assumptions about management's behavior are used, e.g., assuming management discretion when capital gains on invested assets are realized or changes in asset allocation are made. In cases where management actions, as considered in the scenario modelling, would be subject to regulatory approval (e.g., potential cancellation of policyholder dividends), the assumptions used when interpreting local supervisory guidance are verified by the local regulator or external audit.

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total Best estimate of life insurance liabilities (IFRS)		**(266,116)**
Life insurance liabilities	Valuation differences.	15,595
Direct insurance: unit-linked life insurance business	Valuation differences.	4,315
	The reclassification to held for sale is not applicable in MCBS.	(620)
Total Best estimate of life insurance liabilities (SST)		**(246,826)**

Best estimate of provisions for other business

The difference between IFRS and MCBS is explained by the liability reflecting the negative value of the insurance business acquired reported under IFRS which is valued at zero in the MCBS, similar to other intangible assets recognized as part of a business combination.

Market-consistent value of other liabilities

Interest-bearing liabilities are measured in the MCBS based on risk-free rates where the future cash flows are considered over the remaining period until the earliest contractual redemption date. In case where a quoted market price is available and used, the market price is adjusted to eliminate own credit spread. Accrued interests on interest bearing liabilities are reported as a separate position in the MCBS.

Subordinated debt instruments eligible as supplementary capital under SST are measured at market-consistent value using the IFRS valuation principles. In case where a quoted market price is available and used, the market price is not adjusted to eliminate own credit spread. The accrued interest is not reported separately and is included in the MCBS carrying value.

E. Valuation (continued)

Other liabilities include deferred front-end fees and deferred taxes (other than deferred tax on Swiss real estate transfers attributable to shareholders) that are valued at zero in the MCBS.

The market-consistent valuation of non-controlling interests is determined based on the MCBS of the underlying entities and presented separately as a liability position.

Non-technical provisions include liabilities for defined benefit pension plans measured using actuarial techniques under IFRS. Such liabilities are held at the IFRS carrying value in the MCBS.

Other non-technical provisions are held at best estimate under IFRS. To the extent such provisions are discounted, the market-consistent value is calculated by reversing the discounting effect and re-performing discounting using risk-free rates.

Lease liabilities are measured as the present value of future lease payments for the remaining lease term, discounted at risk-free rates without consideration of own credit risk.

Derivative financial instruments are measured at fair value under both IFRS and MCBS.

Obligation to repurchase securities, deposits retained on ceded reinsurance and liabilities from the insurance business are valued at IFRS carrying value as the balances are expected to be subject to only insignificant risk of changes in value and settled within a relatively short time frame (generally, within three months and under no circumstances exceeding twelve months). Otherwise, the MCBS value is based on fair value (excluding credit risk) using the IFRS principles.

The market-consistent value of other liabilities is generally determined using IFRS carrying value in accordance with the overarching valuation principles outlined in section E.1.

The reclassification of liabilities for USD 2.5 billion as held for sale under IFRS is not applicable in MCBS.

SST – IFRS valuation difference

in USD millions, as of December 31, 2020

Total IFRS value of other liabilities		**(52,130)**
Interest bearing liabilities	Valuation differences	(692)
Deposit liabilities from ceded reinsurance	Valuation differences	84
Subordinated liabilities	Valuation differences	(1,029)
Other Liabilities:	Non-controlling interest	(515)
	The reclassification to held for sale is not applicable in MCBS.	2,469
	Valuation differences	202
	Reclassification from Other assets	257
	Lease liabilities	(209)
Accrued liabilities	Deferred taxes (other than deferred tax on Swiss real estate transfers attributable to shareholders): Valued set to zero in MCBS.	4,641
	Deferred gains: Value set to zero in MCBS.	48
	Deferred front-end fees: Value set to zero in MCBS.	5,372
	Accrued interest	130
Other		(2)
Total maket-consistent value of other liabilities (SST)		**(41,372)**

F. Capital management

F.1 Capital management objectives

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.

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

For additional information regarding the **Capital structure**, please see Corporate governance report section in the Group's Annual Report 2020 on pages 88–89.

For more details on **Capital management framework** and **Capital management program**, see Risk review in the Group's Annual Report 2020 on page 134.

For more information regarding the **Insurance financial strength rating**, please see the Risk review in the Group's Annual Report 2020 on page 138.

For details on **Issuances and redemptions of debt**, see note 18 of the consolidated financial statements in the Group's Annual Report 2020, on pages 253–254. For details on the **Share repurchase program**, see note 19 of the consolidated financial statements in the Group's Annual Report 2020, on pages 255–257.

F.2 Regulatory capital adequacy

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

Regulatory 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 must be calculated as per January 1 and submitted to FINMA. Zurich filed with FINMA an SST ratio of 182 percent (unaudited) as of January 1, 2021.

In 2020, Zurich applied for the use of the risk-free yield curves in line with paragraph 46 of FINMA's Circular 2017/3 ("SST") for the main currencies of USD, EUR, GBP and CHF. FINMA approved the use of these risk-free yield curves starting from the end of Q1 2020. The SST ratio as of January 1, 2020, based on the FINMA-allowed risk-free yield curves, is 222 percent (unaudited).

Zurich met the regulatory solvency requirements in Switzerland throughout 2020.

G. Solvency

The Swiss Solvency Test (SST) is a principle-based, risk-sensitive supervision framework reflecting:

- A market-consistent view of the financial resources available to meet policyholder obligations – referred to as risk-bearing capital.
- A view of the impact of the potential risks inherent to the regulated business – referred to as target capital and defined as an expected shortfall at a 99-percent confidence level over a one-year time horizon.

The SST compares risk-bearing capital with target capital through calculation of a ratio (the 'SST ratio'). The solvency test indicates whether the level of risk-bearing capital is sufficient to reduce the probability of policyholder impairment to a level consistent with regulatory objectives.

The below table summarizes the effects of the change to FINMA-allowed risk-free yield curves on the Group's risk-bearing and target capital:

SST ratio and underlying components

in USD billions	January 1st, 2021	January 1st, 2020 restated	January 1st, 2020 as published
Target capital	31.1	24.6	27.0
Risk-bearing capital	51.9	48.3	47.6
Risk margin	5.8	5.1	6.0
Target capital less Risk margin	**25.3**	**19.5**	**21.0**
Risk-bearing capital less Risk margin	46.0	43.2	41.6
SST ratio	**182%**	**222%**	**198%**

Based on the approved SST internal model, the SST ratio as of January 1, 2021 stands at 182 percent, 40 percentage points lower compared to SST ratio as of January 1, 2020 restated at FINMA-allowed risk-free yield curves. Strong operational capital generation from the economic profit and business growth, net of experience variances, contributed 17 percentage points to the ZIG SST ratio. Negative impact of 4 percentage points is related to COVID-19 losses and excess catastrophes. Unfavorable market movements and risk parameters update during the year reduced the ratio by 45 percentage points, largely due to a low interest rate environment and elevated financial market volatility. Minor model changes and assumptions updates increased the ratio by 1 percentage point. Dividend accrual net of debt issuance and repayments reduced the ratio by a further 9 percentage points.

Solvency

in USD millions, for the years ended December 31	2019	Adjustments Previous year	2020
Derivation of risk-bearing capital			
Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	43,035		45,923
Deductions	(3,090)		(3,402)
Core capital	**39,945**		**42,522**
Supplementary capital	7,680		9,335
Risk-bearing capital	**47,625**		**51,857**
Derivation of target capital			
Underwriting risk	10,791		11,501
Market risk	12,270		13,749
Diversification effects	(3,928)		(4,284)
Credit risk[1]	6,967		10,353
Risk margin and other effects on target capital[2]	920		(172)
Target capital	**27,020**		**31,148**
SST ratio[3]	**198%**		**182%**

1 Credit risk includes investment credit risk, reinsurance and receivables.
2 Risk margin accounts for USD 5,849 million, other effects on target capital include diversification effects between credit risk and other risk types, and other risk models.
3 SST ratio is defined in the SST Circular 2017/3 as a ratio of risk-bearing capital less risk margin to target capital less risk margin.

G. Solvency (continued)

Target capital by risk type

in USD millions, for the years ended December 31	2019	Adjustments previous period	2020
Insurance risk derivation of target capital			
Premium and reserve risk (including UPR risk)	6,608		7,117
Nat Cat	3,944		4,527
Life insurance liabilities	3,959		3,893
Business risk	4,916		5,368
Diversification	(8,636)		(9,404)
Total	**10,791**		**11,501**
Market risk derivation of target capital			
Equity risk	3,947		4,985
Interest rate risk	7,281		5,225
Exchange rate risk	2,548		2,452
Credit spread risk	4,111		9,120
Other	11,833		16,503
Diversification	(13,675)		(18,278)
Total (including investment credit risk)	**16,045**		**20,006**
thereof	–		–
Market risk (excluding investment credit risk)	12,270		13,749
Investment credit risk	6,793		10,122
	–		
Credit risk derivation of target capital	–		
Investment credit risk	6,793		10,122
Reinsurance credit risk & receivables	852		980
Diversification	(678)		(749)
Total	**6,967**		**10,353**

Appendix 1: Quantitative templates

Income statement Group and segments (IFRS)

in USD millions, for the years ended December 31

	Total	
	2019	**2020**
Gross written premiums	48,056	48,221
Policy fees	2,469	2,334
Gross written premiums and policy fees	**50,525**	**50,555**
Less premiums ceded to reinsurers	(9,274)	(9,988)
Net written premiums and policy fees	**41,251**	**40,567**
Net change in reserves for unearned premiums	(949)	(623)
Net earned premiums and policy fees	**40,302**	**39,944**
Farmers management fees and other related revenues	3,780	3,703
Net investment result on Group investments	**7,391**	**6,950**
Net investment income on Group Investments	5,298	4,903
Net cap gains/losses & imp. on Group investments	2,093	2,047
Net investment result on unit-linked investments	19,485	7,389
Net gain/(loss) on divestments of businesses	(295)	57
Other income	1,129	957
Total revenues	**71,792**	**59,001**
Insurance benefits and losses, gross of reinsurance	33,620	35,899
Less ceded insurance benefits and losses	(6,051)	(8,158)
Insurance benefits and losses, net of reinsurance	27,570	27,741
PH div & particip. in profits, net	20,582	8,325
Underwriting and policy acqu. costs, net	8,529	8,555
Administrative and other operating expense	8,020	8,006
Interest expense on debt	401	399
Interest credited to policyholders and other interest	590	581
Total benefits, losses and expenses	**65,692**	**53,606**
Net income before income taxes	**6,100**	**5,395**
Income tax expense	(1,716)	(1,323)
– attributable to policyholders	(365)	(46)
– attributable to shareholders	(1,351)	(1,277)
Net income after taxes	4,384	4,071
Attributable to minority interests	237	238
Attributable to shareholders	4,147	3,834

Appendix 1: Quantitative templates (continued)

Property & Casualty		Life		Farmers		Group Functions and Operations		Non-Core Businesses/ Eliminations	
2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
34,184	35,518	13,038	11,980	731	659	–	(7)	103	71
–	–	2,113	1,973	326	337	–	–	30	24
34,184	**35,518**	**15,151**	**13,953**	**1,056**	**996**	**–**	**(7)**	**133**	**94**
(7,822)	(8,601)	(1,193)	(1,225)	(175)	(174)	–	–	(84)	13
26,362	**26,918**	**13,958**	**12,727**	**882**	**822**	**–**	**(7)**	**50**	**107**
(754)	(522)	(275)	(104)	59	(1)	–	2	21	2
25,608	**26,396**	**13,683**	**12,624**	**941**	**821**	**–**	**(5)**	**71**	**109**
–	–	–	–	3,780	3,703	–	–	–	–
2,887	**2,881**	**4,025**	**3,629**	**213**	**200**	**45**	**(9)**	**221**	**249**
1,961	1,740	2,915	2,753	204	189	196	163	22	58
927	1,140	1,110	876	9	11	(151)	(172)	199	191
–	–	18,706	6,794	194	163	–	–	584	433
(198)	–	(146)	56	–	–	49	1	–	–
668	573	518	513	123	89	218	133	(398)	(351)
28,966	**29,849**	**36,786**	**23,615**	**5,250**	**4,976**	**312**	**121**	**478**	**439**
21,471	24,562	11,129	10,287	662	650	–	(3)	358	403
(4,996)	(7,025)	(938)	(981)	(100)	(105)	–	–	(16)	(47)
16,475	17,536	10,190	9,306	562	545	–	(3)	342	356
12	15	19,769	7,691	204	173	–	–	597	446
5,939	6,288	2,417	2,112	152	145	2	4	19	5
2,936	2,860	2,134	2,112	2,526	2,558	422	462	2	14
32	10	17	16	–	–	604	495	(251)	(122)
271	278	303	297	111	108	150	121	(245)	(223)
25,666	**26,988**	**34,830**	**21,534**	**3,555**	**3,530**	**1,178**	**1,078**	**464**	**476**
3,300	**2,861**	**1,956**	**2,081**	**1,695**	**1,446**	**(866)**	**(957)**	**14**	**(37)**

Appendix 1: Quantitative templates (continued)

Income statement Group and major international markets (IFRS)

in USD millions, for the years ended December 31

	Total	
	2019	**2020**
Gross written premiums	48,056	48,221
Policy fees	2,469	2,334
Gross written premiums and policy fees	**50,525**	**50,555**
Less premiums ceded to reinsurers	(9,274)	(9,988)
Net written premiums and policy fees	**41,251**	**40,567**
Net change in reserves for unearned premiums	(949)	(623)
Net earned premiums and policy fees	**40,302**	**39,944**
Farmers management fees and other related revenues	3,780	3,703
Net investment result on Group investments	**7,391**	**6,950**
Net investment income on Group Investments	5,298	4,903
Net cap gains/losses & imp. on Group investments	2,093	2,047
Net investment result on unit-linked investments	19,485	7,389
Net gain/(loss) on divestments of businesses	(295)	57
Other income	1,129	957
Total revenues	**71,792**	**59,001**
Insurance benefits and losses, gross of reinsurance	33,620	35,899
Less ceded insurance benefits and losses	(6,051)	(8,158)
Insurance benefits and losses, net of reinsurance	27,570	27,741
PH div & particip. in profits, net	20,582	8,325
Underwriting and policy acqu. costs, net	8,529	8,555
Administrative and other operating expense	8,020	8,006
Interest expense on debt	401	399
Interest credited to policyholders and other interest	590	581
Total benefits, losses and expenses	**65,692**	**53,606**
Net income before income taxes	**6,100**	**5,395**
Income tax expense	(1,716)	(1,323)
– attributable to policyholders	(365)	(46)
– attributable to shareholders	(1,351)	(1,277)
Net income after taxes	4,384	4,071
Attributable to minority interests	237	238
Attributable to shareholders	4,147	3,834

Appendix 1: Quantitative templates (continued)

Europe, Middle East & Africa Property & Casualty		North America Property & Casualty		Europe, Middle East & Africa Life		Farmers		Other	
2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**
14,558	15,839	15,223	16,036	8,025	7,420	731	659	9,520	8,268
–	–	–	–	1,564	1,388	326	337	579	608
14,558	**15,839**	**15,223**	**16,036**	**9,589**	**8,808**	**1,056**	**996**	**10,099**	**8,876**
(2,739)	(3,109)	(5,551)	(5,970)	(650)	(659)	(175)	(174)	(158)	(76)
11,818	**12,730**	**9,672**	**10,066**	**8,939**	**8,149**	**882**	**822**	**9,941**	**8,800**
(327)	(387)	(116)	(250)	(40)	(16)	59	(1)	(525)	31
11,491	**12,343**	**9,556**	**9,816**	**8,899**	**8,133**	**941**	**821**	**9,416**	**8,831**
–	–	–	–	–	–	3,780	3,703	–	–
1,015	**899**	**1,535**	**1,641**	**3,325**	**2,988**	**213**	**200**	**1,303**	**1,221**
578	498	1,081	981	2,313	2,226	204	189	1,122	1,009
437	401	455	661	1,012	762	9	11	181	212
–	–	–	–	16,514	5,330	194	163	2,776	1,897
19	–	–	–	(103)	(59)	–	–	(211)	116
355	355	79	37	369	384	123	89	203	91
12,880	**13,598**	**11,171**	**11,495**	**29,003**	**16,777**	**5,250**	**4,976**	**13,488**	**12,155**
9,205	10,124	10,264	12,393	8,051	7,493	662	650	5,438	5,238
(1,767)	(1,826)	(3,709)	(5,632)	(480)	(501)	(100)	(105)	6	(94)
7,438	8,298	6,555	6,761	7,571	6,993	562	545	5,444	5,143
7	8	8	7	17,537	6,196	204	173	2,826	1,941
2,168	2,440	2,295	2,538	917	791	152	145	2,997	2,641
1,633	1,633	412	342	1,332	1,300	2,526	2,558	2,117	2,173
18	9	–	–	2	–	–	–	380	390
172	173	66	65	212	230	111	108	30	6
11,436	**12,561**	**9,336**	**9,712**	**27,571**	**15,510**	**3,555**	**3,530**	**13,794**	**12,293**
1,445	**1,037**	**1,835**	**1,783**	**1,433**	**1,266**	**1,695**	**1,446**	**(307)**	**(138)**

Appendix 1: Quantitative templates (continued)

Market-Consistent Balance Sheet

in USD millions, for the years ended December 31	2019	Adjustments previous period	2020
Market-consistent value of investments			
Real estate	13,261	–	14,749
Participations	39	–	43
Fixed-income securities	126,426	–	141,199
Loans	9,832	–	10,282
Mortgages	6,350	–	6,205
Equities	8,408	–	8,261
Other investments	31,680	–	32,594
Collective investment schemes	4,620	–	5,101
Alternative investments	8,937	–	10,891
Structured products	–	–	–
Other investments	18,123	–	16,602
Total Investments	**195,996**	**–**	**213,333**
Market-consistent value of other assets			
Financial investments from unit-linked life insurance	126,591	–	136,217
Receivables from derivative financial instruments	1,226	–	1,763
Deposits made under assumed reinsurance contracts	783	–	594
Cash and cash equivalents	7,915	–	11,106
Reinsurers' share of best estimate of provisions for insurance liabilities	21,227	–	23,753
Direct insurance: life insurance business (excluding unit linked life insurance)	6,175	–	5,928
Reinsurance: life insurance business (excluding unit linked life insurance)	381	–	366
Direct insurance: non-life insurance business	9,580	–	11,334
Direct insurance: health insurance business	–	–	–
Reinsurance: non-life insurance business	5,090	–	6,147
Reinsurance: health insurance business	–	–	–
Direct insurance: other business	–	–	–
Reinsurance: other business	1	–	1
Direct insurance: unit-linked life insurance business	–	–	(24)
Reinsurance: unit-linked life insurance business	–	–	–
Fixed assets	3,008	–	3,080
Deferred acquisition costs	–	–	–
Intangible assets	–	–	–
Receivables from insurance business	9,540	–	9,817
Other receivables	4,019	–	3,815
Other assets	1,285	–	1,097
Unpaid share capital	–	–	–
Accrued assets	3,297	–	3,365
Total other assets	**178,892**	**–**	**194,607**
Total market-consistent value of assets	374,888	–	407,941

Appendix 1: Quantitative templates (continued)

Market-Consistent Balance Sheet

in USD millions, for the years ended December 31	2019	Adjustments previous period	2020
BEL: Best estimate liabilities (including unit linked life insurance)			
Best estimate of provisions for insurance liabilities	**(171,054)**	**–**	**(188,009)**
Direct insurance: life insurance business (excluding unit linked life insurance)	(101,913)	–	(112,081)
Reinsurance: life insurance business (excluding unit linked life insurance)	(2,045)	–	(2,109)
Direct insurance: non-life insurance business	(63,022)	–	(69,646)
Direct insurance: health insurance business	–	–	–
Reinsurance: non-life insurance business	(3,558)	–	(3,504)
Reinsurance: health insurance business	–	–	–
Direct insurance: other business	(508)	–	(663)
Reinsurance: other business	(7)	–	(7)
Best estimate of provisions for unit-linked life insurance liabilities	**(122,744)**	**–**	**(132,636)**
Direct insurance: unit-linked life insurance business	(122,744)	–	(132,636)
Reinsurance: unit-linked life insurance business	–	–	–
Market consistent value of other liabilities			
Non-technical provisions	(3,338)	–	(3,781)
Interest-bearing liabilities	(5,644)	–	(6,252)
Liabilities from derivative financial instruments	(365)	–	(481)
Deposits retained on ceded reinsurance	(911)	–	(826)
Liabilities from insurance business	(4,023)	–	(4,015)
Other liabilities	(11,601)	–	(12,043)
Accrued liabilities	(4,492)	–	(4,640)
Subordinated debts	(7,680)	–	(9,335)
Total BEL plus market-consistent value of other liabilities	(331,853)	–	(362,017)
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	43,035	–	45,923

Appendix 2: Report of the statutory auditor on the Group consolidated financial statements 2020

The Financial Condition Report is not audited.

The consolidated financial statements of Zurich Insurance Group Ltd and its subsidiaries (the Group), which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements for the year ended December 31, 2020 are audited. Please refer to the report of the statutory auditor in the Group's Annual Report 2020, pages 306–311.

https://www.zurich.com/en/investor-relations/results-and-reports

Disclaimer and cautionary statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives of Zurich Insurance Group Ltd or the Zurich Insurance Group (the Group). Forward-looking statements include statements regarding the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding the Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Insurance Group Ltd or the Group to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of a global economic downturn, in the financial services industries in particular; (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; (viii) increased litigation activity and regulatory actions; and (ix) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of Zurich Insurance Group Ltd and its Group and on whether the targets will be achieved. Specifically in relation with the COVID-19 related statements, such statements were made on the basis of circumstances prevailing at a certain time and on the basis of specific terms and conditions (in particular applicable exclusions) of insurance policies as written and interpreted by the Group and may be subject to regulatory, legislative, governmental and litigation-related developments affecting the extent of potential losses covered by a member of the Group or potentially exposing the Group to additional losses if terms or conditions are retroactively amended by way of legislative or regulatory action. Zurich Insurance Group Ltd undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors. Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the three Exchanges and in that capacity provide certain non-claims services and ancillary services to the Farmers Exchanges. Neither Farmers Group, Inc., nor its parent companies, Zurich Insurance Company Ltd and Zurich Insurance Group Ltd, have any ownership interest in the Farmers Exchanges. Financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Reinsurance Company.

It should be noted that past performance is not a guide to future performance. Please also note that interim results are not necessarily indicative of full year results.

Persons requiring advice should consult an independent adviser.

This communication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

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

Zurich Insurance Group
Mythenquai 2
8002 Zurich
Switzerland
www.zurich.com