

Financial Report 2009



Zurich HelpPoint

Contents

Financial Highlights	2	Corporate Governance Report	24
Key Performance Indicators	3	Remuneration Report	50
Measuring our Performance	4		
At a Glance	6		
Message from the Chairman and CEO	8		
Market Review	10		
Summary Risk Review	12		
Our Strategy	14		
Board of Directors	18		
Group Executive Committee	20		

Delivering when it matters

Our customers know that we are there when they need us, around the world or around the corner, to help them manage their risks in an uncertain world. With 60,000 employees able to serve customers in more than 170 countries, help is on the way.

Our customers are at the heart of all we do. *Zurich HelpPoint* captures this customer focus, and our commitment to deliver when it matters.

Zurich HelpPoint

Financial Review	70	Consolidated Financial Statements	139
Risk Review	97	Report of the Statutory Auditor	264
		Significant Subsidiaries	266
		Embedded Value Report	270
		Holding Company	304
		Report of the Statutory Auditor	322
		Shareholder Information	326
		Financial Calendar	330
		Contact Information	330
		Glossary	331

Operational highlights

- Outstanding balance sheet strength reflected by economic capital adequacy ratio of 136%
- Strong operating performance across all core businesses
- Continued transformation of operating platforms to bolster the effectiveness and efficiency of our business
- Expense saving target of USD 400 million for 2009 achieved
- Benefits from initiatives in 2009 exceeded the after-tax operational improvement target under The Zurich Way initiatives of USD 900 million after tax
- Growth driven by expanding product range and distribution capabilities, both organically as well as through the ongoing successful integration of recent acquisitions in Europe, the U.S. and emerging markets

Financial Highlights (unaudited)

The following table presents the summarized consolidated results of the Group for the years ended December 31, 2009 and 2008, respectively. All amounts are shown in USD millions and rounded to the nearest million unless otherwise stated 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 amount rather than the rounded amount. This document should be read in conjunction with the Financial Report 2009 for the Zurich Financial Services Group and with its audited Consolidated Financial Statements as of December 31, 2009. Certain comparatives including segment disclosures have been restated for changes in presentation and for reclassifications as set out in notes 1 and 30 of the audited Consolidated Financial Statements to conform to the 2009 presentation. The reclassifications have no impact on previously reported business operating profit, net income or shareholders' equity.

in USD millions, for the years ended December 31, unless otherwise stated	2009	2008	Change ¹
Business operating profit	5,593	5,186	8%
Net income attributable to shareholders	3,215	3,039	6%
General Insurance gross written premiums and policy fees	34,157	37,151	(8%)
Global Life gross written premiums, policy fees and insurance deposits	26,029	21,873	19%
Farmers Management Services management fees and other related revenues	2,690	2,458	9%
Farmers Re gross written premiums and policy fees	6,615	3,381	96%
General Insurance business operating profit	3,463	3,535	(2%)
General Insurance combined ratio	96.8%	98.1%	1.3 pts
Global Life business operating profit	1,477	1,490	(1%)
Global Life new business annual premium equivalent (APE)	3,667	3,261	12%
Global Life new business margin, after tax (as % of APE)	21.3%	23.1%	(1.8 pts)
Global Life new business value, after tax	782	753	4%
Farmers business operating profit	1,554	1,356	15%
Farmers Management Services gross management result	1,291	1,142	13%
Farmers Management Services managed gross earned premium margin	7.2%	6.9%	0.3 pts
Group investments average invested assets ²	187,579	185,558	1%
Group investments result, net	6,082	5,805	5%
Group investments return (as % of average invested assets)	3.2%	3.1%	0.1 pts
Shareholders' equity	29,678	22,103	34%
Solvency I ratio	198%	160%	38 pts
Diluted earnings per share (in CHF)	24.21	23.35	4%
Book value per share (in CHF)	209.27	167.92	25%
Return on common shareholders' equity (ROE)	12.6%	12.1%	0.5 pts
Business Operating Profit (after tax) return on common shareholders' equity (BOPAT ROE)	17.2%	16.8%	0.4 pts

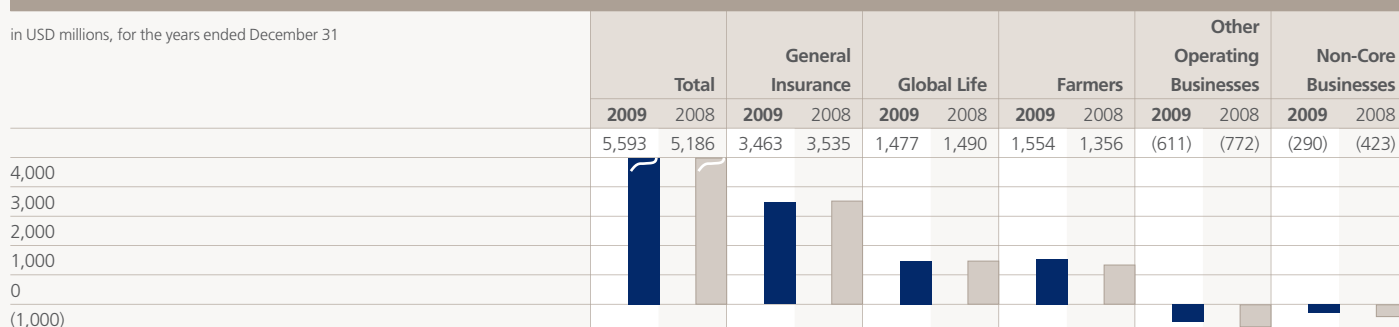
¹ Parentheses around numbers represent an adverse variance.

² Excluding average cash received as collateral for securities lending of USD 335 million and USD 1.0 billion in the years ended December 31, 2009 and 2008, respectively.

Key Performance Indicators

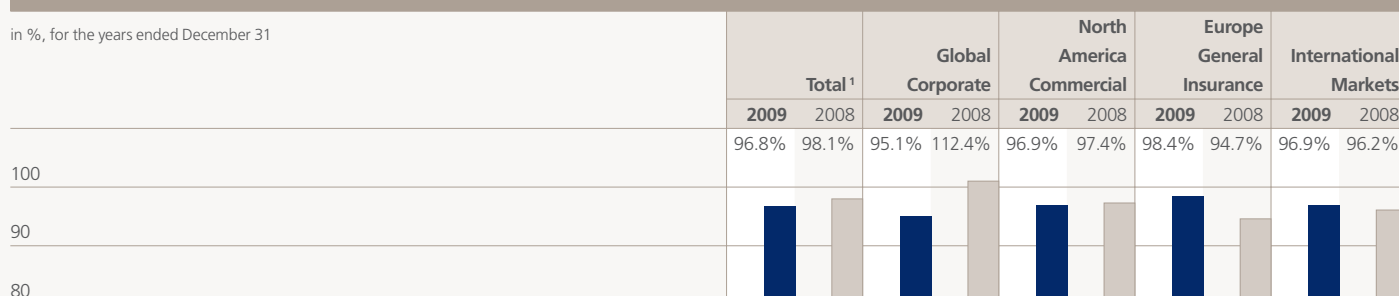
Business operating profit

in USD millions, for the years ended December 31



General Insurance – combined ratio

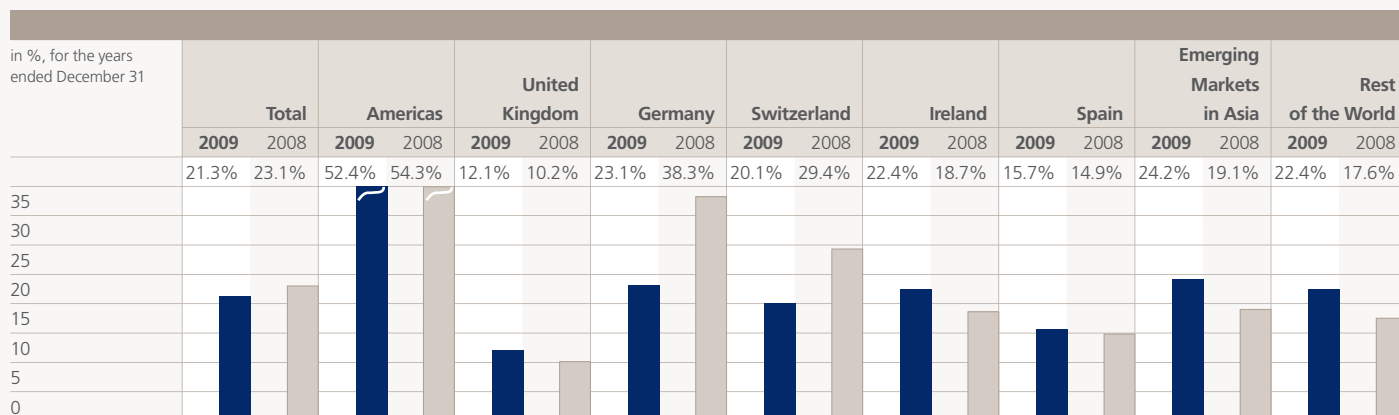
in %, for the years ended December 31



¹ Including 'GI Global Functions including Group Reinsurance'.

Global Life – new business margin, after tax (as % of APE)

in %, for the years ended December 31



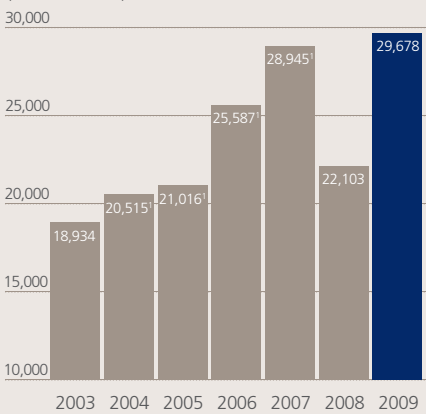
Measuring our Performance

Our strategy is built to maintain top-tier financial results under any market conditions. In 2009 we became one of the top five global insurers based on market capitalization¹.

Our performance in delivery is also demonstrated through the following indicators.

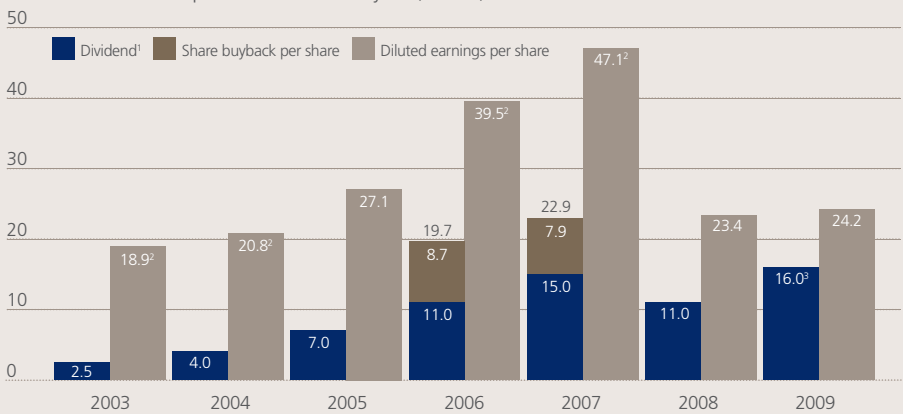
Creating shareholder value

Shareholders' equity (USD millions)



¹ Restated.

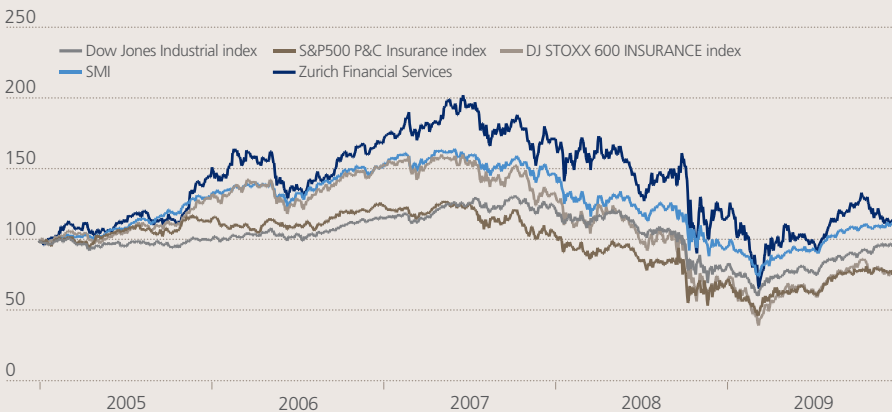
Proposed dividend of CHF 16³ per share for 2009 resulting in a payout ratio of 66% Dividends / EPS in respect of the business year (in CHF)¹



¹ Dividend includes gross dividend and payout of nominal value reduction per registered share.
² Restated.

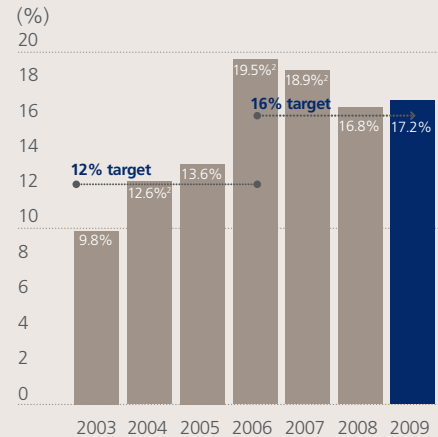
³ Proposed gross dividend by the Board of Directors to the Annual General Meeting 2010.

Zurich share performance (indexed) over 5 years



Source: Thomson Datastream

Business Operating Profit (after tax) ROE¹

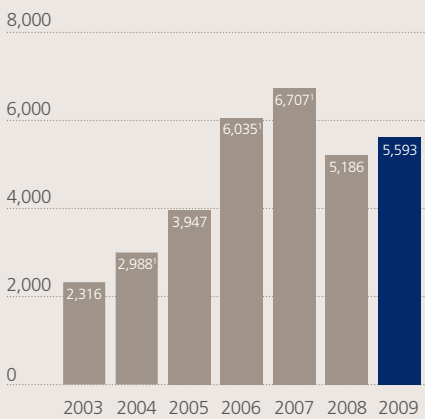


¹ Business Operating Profit (after tax) return on common shareholders' equity.
² Restated.

¹ as of December 31, 2009.

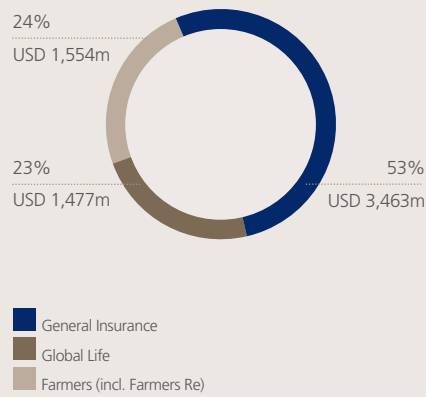
Profitable growth

Business Operating Profit
(USD millions)



¹ Restated.

2009 Business Operating Profit by Segment¹

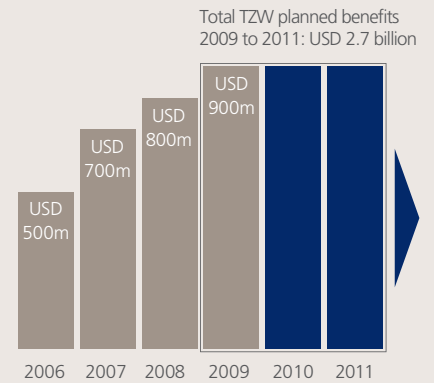


¹ Excluding Other Operating Businesses and Non-Core Businesses.

Operational transformation

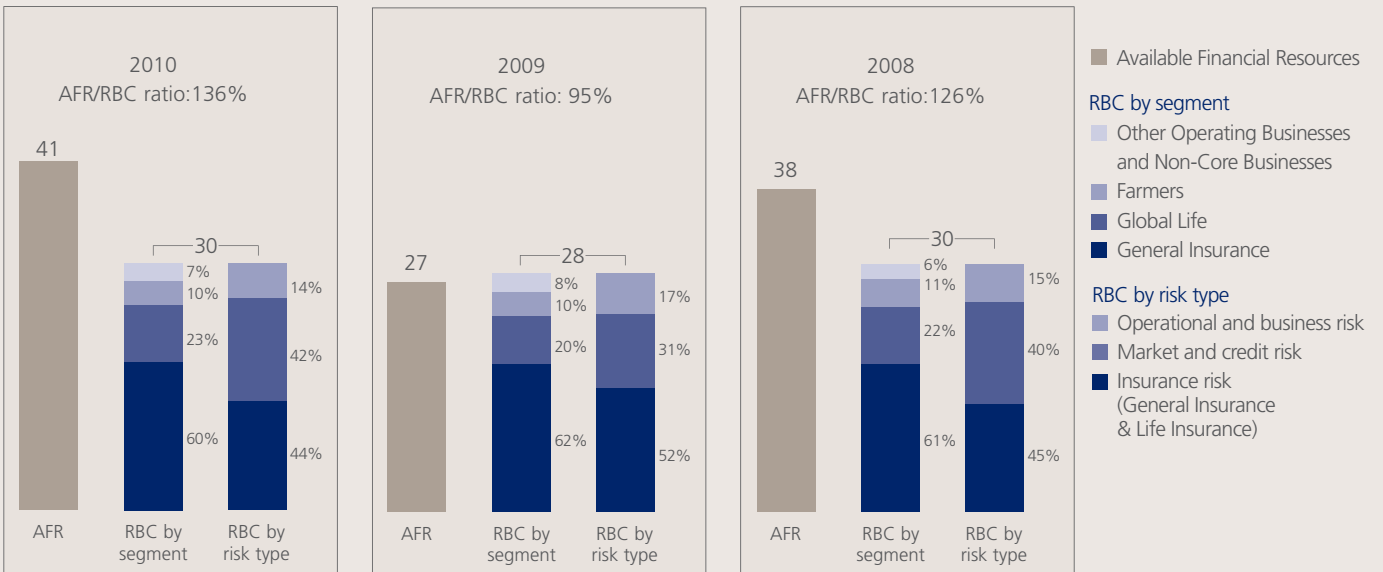
The Zurich Way

Target of USD 2.7 billion for 2009 to 2011



Maintaining financial strength

Analysis of Group's Available Financial Resources and Risk-Based Capital
(USD billions as of January 1)



At a Glance

We are an insurance-based financial services provider with a global network of subsidiaries and offices in North America and Europe as well as in Asia-Pacific, Latin America and other markets. Founded in 1872, our Group is headquartered in Zurich, Switzerland. We employ approximately 60,000 people serving customers in more than 170 countries.

What we offer

Our business is insurance. We divide our business into three segments: General Insurance, Global Life, and Farmers.

General Insurance is the biggest of our three segments. It provides property and casualty products and services for individual and commercial customers. Its business model is to provide a global platform – including proposition management, claims management, distribution management, underwriting and customer relationship services – for local business delivery.

Global Life is the next-biggest segment and a key growth engine for the Group. Global Life offers best-in-class life insurance, investments, savings, and pensions solutions to international and expatriate investors, corporate customers and private banks. Propositions are offered through three key distribution channels that benefit from a global reach: agents, IFA/Brokers and retail banks. Global Life is managed globally while remaining focused on local customer and distributor needs.

Farmers includes Farmers Re and Farmers Management Services, through which our Group manages the Farmers Exchanges, as well as Foremost, Bristol West and 21st Century products in the United States.

All segments are united by our common aspiration to become the leading insurance provider in our chosen markets.



For more information please visit www.zurich.com

General Insurance

Activities

Our General Insurance segment serves individuals, small and medium-sized businesses, commercial enterprises and major multinational corporations.

Gross written premiums and policy fees

USD 34,157 m

Business operating profit

USD 3,463 m

Market positions

- #1 largest employer liability insurer in the UK based on gross written premiums 2008
Source: Datamonitor
- #2 largest general insurer in Switzerland based on gross written premiums 2008
Source: FOPI
- #2 largest commercial auto insurer in the U.S. based on direct written premiums 2008
Source: Highline LLC (NAIC)

Global Life

Activities

Offers a broad range of life insurance, investments, savings and pension solutions to individuals and companies.

Gross written premiums, policy fees and insurance deposits

USD 26,029 m

Business operating profit

USD 1,477 m

Market positions

- #1 largest life insurer in Spain
based on gross written premiums 2009
Source: ICEA
- #1 in IHT (Inheritance Tax) whole of life protection in the UK
based on APE 2008
Source: ABI
- #1 in worldwide expatriate regular premium savings
based on APE 2008
Source: NBE Report/boal & Co

Farmers

Activities

Farmers includes Farmers Re and Farmers Management Services, through which our Group manages the Farmers Exchanges, as well as Foremost, Bristol West and 21st Century products in the United States.

Farmers Management Services management fees and other related revenues

USD 2,690 m

Business operating profit

USD 1,544 m

Market positions

- #3 largest personal lines direct auto carrier in the U.S. (including 21st Century, excluding direct affinity model carriers)
based on market share report 2008
Source: A.M. Best
- #3 largest personal lines homeowner carrier in the U.S.
based on market share report 2008
Source: A.M. Best
- #3 largest personal lines P&C insurer in the U.S.
based on market share report 2008
Source: A.M. Best

Message from the Chairman and CEO

Zurich's 2009 results reflect our continued ability to execute against a proven strategy rooted in operational excellence and financial discipline.



Dr. Manfred Gentz
Chairman of the Board of Directors

Martin Senn
Chief Executive Officer

Dear Shareholders, Customers and Employees

We are proud to present to you a strong set of 2009 operating results. Our business operating profit improved by 8 percent to USD 5.6 billion, and our net income increased by 6 percent to USD 3.2 billion. Furthermore, we ended 2009 with one of our strongest balance sheets ever, and a 17.2 percent business operating profit after tax return on equity that exceeds our target.

These results reflect our continued ability to execute against a proven strategy rooted in operational excellence and financial discipline. Given that strength, and with full confidence in the sustainability of the Zurich strategy, the Board will recommend at the Annual General Meeting a gross dividend of CHF 16.00 per share, which represents an exceptionally high payout of earnings to shareholders and an extraordinary increase over last year's CHF 11.00 gross dividend.

Operating performances were strong across all our core businesses. In General Insurance, profitability continued to be our primary focus, and through disciplined underwriting, portfolio management and successful rate actions we were able to achieve a business operating profit of USD 3.5 billion and improve our combined ratio to 96.8 percent. This, despite lower investment yields and lower volumes. Lower volumes were attributable to both the economic environment and the lost business we could not provide because it did not meet our rigorous underwriting standards. Issues of concern have emerged in the motor markets of certain European countries. To address them we have already taken significant rate actions, as well as other appropriate measures, and anticipate marked improvements in those businesses in the second half of 2010.

Global Life achieved outstanding results, growing at a rapid pace while maintaining strong profitability. Annual premium equivalents increased 19 percent in local currencies to USD 3.7 billion, reflecting successful growth strategies across many product lines and distribution

channels. In addition, the new business margin exceeded 21 percent, illustrating the value of the significant structural change we are making in our life business.

Similarly, Farmers continued to post greater profitability and strong growth. Business operating profit improved by a solid 10 percent, reflecting not just the ongoing successful integration of 21st Century but also continued expense management as well as higher profitability from Farmers Re following higher quota share arrangements.

And finally, total return on Group investments was 6.3 percent, including investment income, realized gains and losses and impairments, as well as changes in unrealized gains and losses reported in shareholders' equity. This result reflects our commitment to managing our investments in a disciplined way, and to continue relying on our proven methods for protecting our shareholders by managing our assets relative to liabilities on a risk-adjusted basis.

Together, these successes embody Zurich's commitments to its various stakeholders. From customers who expect us to be backed by reliable service and financial strength, to shareholders who expect sustainable value, to employees who expect challenging and fulfilling careers, Zurich aims to serve its role in society in a way that makes all our stakeholders proud. We hope you agree that we achieved that goal in 2009.

We close this message by recognizing the extraordinary accomplishments of our outgoing Chief Executive Officer, James J. Schiro, who retired at the end of the year. Under his leadership Zurich emerged from an extremely tenuous situation and is today recognized as one of the strongest global insurers. The disciplined approach he instilled and championed will continue to serve this company for many years to come. We will not forget the debt we owe him.

Thank you for your continued support.



Dr. Manfred Gentz
Chairman of the Board of Directors



Martin Senn
Chief Executive Officer

Market Review

Managing risk in a changing world

Amid ongoing economic uncertainty, we delivered sustained profitable growth in targeted business lines by keeping our focus on balance sheet strength and operational excellence.

While the urgency of crisis faded somewhat over 2009, the fog of uncertainty remained. At Zurich we advanced on our objectives undeterred, thanks to an unbroken focus on discipline, execution, and a whole-hearted embrace of our responsibility as an insurer.

Economic conditions tested insurers' mettle over 2009: demand for certain lines of property & casualty coverage remained weak due to the ongoing recession, while the low interest rate environment continued to challenge all lines of business. By and large, the insurers that made the most headway in 2009 were those that could successfully execute on core business practice: earning our customers' trust so that we could profitably underwrite their risks. This is the challenge against which we were proud to test our strategy and ourselves. By year-end we were grateful for the trust that our customers placed in us, heartened by the solid financial results they helped us deliver, and extremely pleased to achieve our long-standing goal of becoming one of the world's top five global insurers.

This is the vindication of years worth of effort and planning. Since 2003 we have been strengthening our ability to compete on the basis of disciplined underwriting and reserving, and on our ability to manage risks on both sides of the balance sheet in an integrated way. Throughout the Zurich organization we have been working tirelessly to create a One Zurich approach across all these areas, and at the same time shifting responsibility for our performance steadily away from the vagaries of the market, and into our own hands.

Today we have controls in place to understand the risk-return relationship in every aspect of our business – in every product we sell, in every asset we hold. Risk management, after all, is our business. No matter what market conditions prevail we are judged first on our ability to help our customers manage their risks. This is the same standard by which we judge ourselves internally, which explains why we are continuously reaffirming the harmony of our risk management practices with our actual and potential risk profile. These practices form the proof of our commitment to maintaining a platform of strength and stability for our customers, our shareholders, and the wider community of stakeholders.

Risk management today is a living feature of our culture, with offices around the world empowered to identify, measure, manage, report on and monitor the risks that could impact the achievement of our objectives. These efforts are coordinated on a global basis and interconnect seamlessly with all areas of our business. We make sure that our exposure to natural catastrophe risk, for example, is geographically balanced, and we work with reinsurers to limit exposure in any given year. And to those reinsurers in turn, as well as the banks and other organizations with whom we collaborate, we apply strict credit risk controls in coordination with a focus on broad market developments. We are resolute in avoiding investments in products whose risk profile we don't understand; this basic principle guides us with regard to potential mergers and acquisitions.

While these measures form the pillars of our strength and stability, we also strive to make sure that our customers enjoy the benefits as broadly as possible. With an eye on the horizon for potential sources of operational risk, we prepared our business for the possibility of pandemic on a global level. Simultaneously those efforts informed the webinar and other outreach efforts we made to let our customers know what they could do to manage their own exposure to this same risk. In response to the financial crisis and ongoing recession we have been engaging closely with policymakers to share our perspectives on regulatory reform, and have launched our own anti-fraud initiative to combat the generally observed increase in claims and non-claims fraud that tend to occur in recessionary periods. Such measures reflect an organizational commitment to deal proactively with a changing risk landscape; they also aim to protect our customers against any unnecessary increase in the cost of insurance.

The way ahead

Although we received precious little certainty in 2009, one lesson will surely endure: financial institutions must measure up to the scrutiny of their customers, and society, as never before. Trust and transparency will be the *sine qua non* for doing business in the post-crisis era. And while we make no assumptions about when that era may begin, we can state with confidence that our sound business practices and solid Zurich brand have positioned us for market leadership now and in the future.

Our sound business practices and solid Zurich brand have positioned us for market leadership now and in the future.

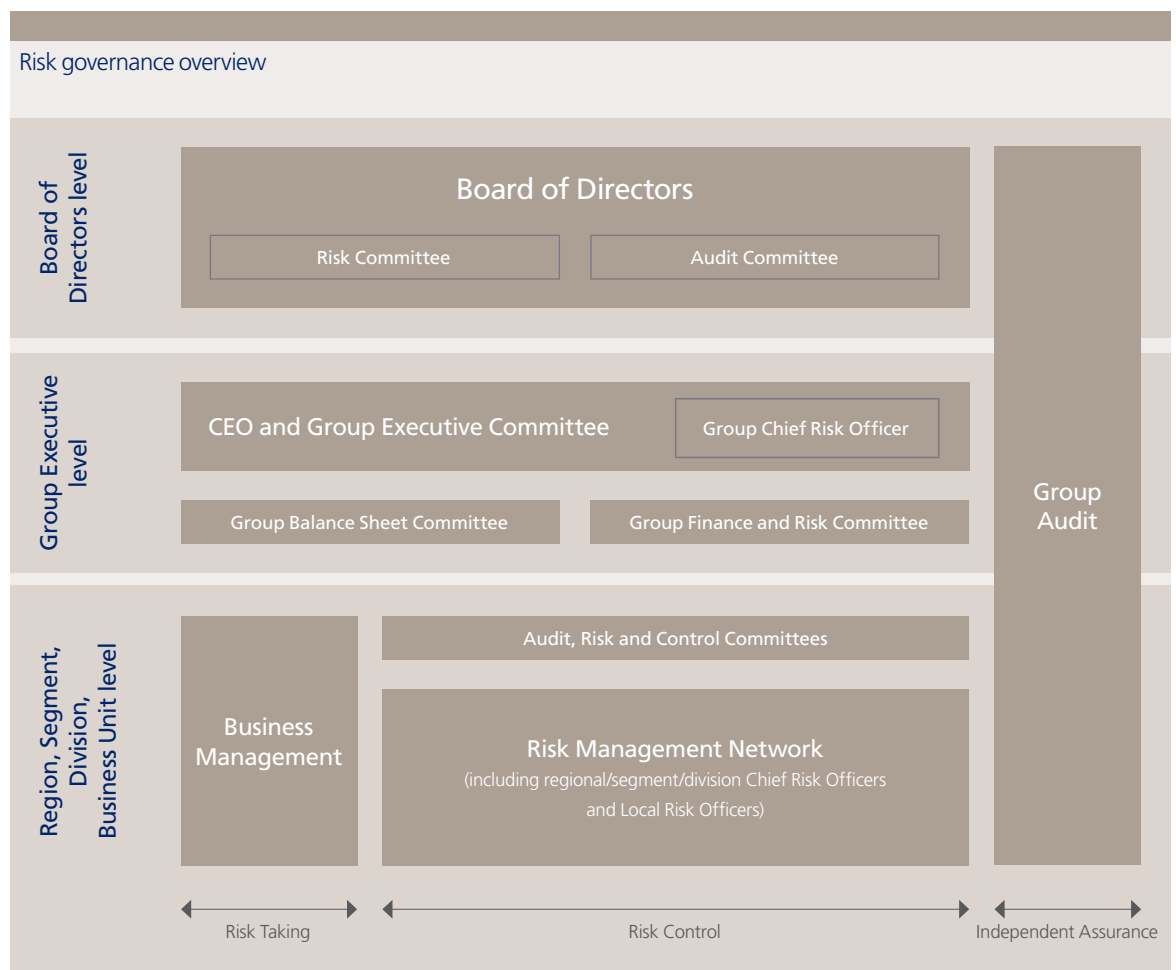
Going forward we are committed to becoming ever more transparent. Transparent in the profits we generate (see Financial Review, page 70), the risks we underwrite (see Insurance Risk, page 104), the management of our capital and investments (see Capital Management, page 130, and Investments, page 86), and in our management of the risks in our business (see Operational Risk, page 128). We are mindful as ever of the requirements of being a truly sustainable insurer, and aim to meet each of them on behalf of our customers, our shareholders, and society as a whole.

Summary Risk Review

Risk management is our business. We help our customers manage their risks, and are accountable for managing our own. In 2009 our robust, well-established risk management practices helped maintain a strong and stable foundation for the Group despite continued turmoil in our economic and operating environment.

Risk management at Zurich

All parts of the organization are engaged in identifying, measuring, managing, reporting on and monitoring the risks that could affect the achievement of our objectives. Guided by the rules and procedures codified in the Zurich Risk Policy, the overarching aim of risk management at Zurich is to enable sound decision-making based on a holistic understanding of the relationship between risk and performance across our organization.



Engagement with external parties is another key element of risk management, and one that helps keep our risk perspective fresh. These parties include rating agencies, industry groups, mixed public-private forums, and our dedicated advisory councils, which bring together topic specialists from around the world.

Risk management in review

The following is an unaudited summary of the major developments in Zurich's risk management procedures over 2009. For the complete and audited Risk Review, please turn to page 97.

The Zurich Risk Policy was strengthened in asset/liability management, life insurance, reinsurance, and operational risk, with additional important changes in the way we respond to threats to information security and manage the potential risks associated with post-merger integration. In 2009 we again paid close attention to looming sources of operational risk, enhancing the testing standard for business continuity management and launching a global anti-fraud initiative. Such measures are appropriate responses to a growing threat of pandemic, and the generally observed increase in claims and non-claims fraud in recessionary periods.

Our fundamental method of controlling insurance risk is through underwriting discipline, instilled on a Group-wide level through The Zurich Way. We supplement those practices by refining the models and procedures we use to manage natural catastrophe risk. As a global insurer we were able to balance our exposures geographically, and use a combination of per-event and annual-catastrophe covers (a form of reinsurance). This helps reduce the risks posed by both the frequency and the severity of natural catastrophes.

In line with our strategic asset allocation, we reduced our equity holdings in favor of fixed income securities. We continue to diligently apply processes to manage market risk, we test extreme scenarios and analyze market hotspots, and risk mitigation actions have been taken to manage the effects of market fluctuations on our asset/liability position and Risk-Based Capital. More generally, we maintain our overall commitment to investing only in risks we understand, a position that has served us well over the long term.

We are well-positioned to manage credit risk generally and to maintain that position going forward. We pay close attention to the credit quality of our counterparties, including banks and reinsurers, and continually assess possible concentration of credit risk. We also keep a close eye on market developments so that we can prepare for potential problems before they arise.

With regard to capital, our policy is to manage our capital position by allocating capital to businesses earning the highest risk-adjusted returns and pooling risks and capital as much as possible to operationalize our global risk diversification, subject to local and Group regulatory solvency requirements and ratings agency capital adequacy constraints. As of December 31 we had an excess of USD 12.7 billion in eligible equity or a Solvency I ratio of 198 percent. We also use an internal Risk-Based Capital (RBC) model, according to which available financial resources exceeded RBC by USD 11 billion.

Through these and many other ways we strive to stay ahead of potential problems, thereby protecting our foundation of stability and strength so that we can continue to help our customers.

Our Strategy

Building on firm foundations

With the right approach to people management, a customer-centric attitude, and ongoing operational transformation, we will drive profitable growth.

Our aim is to be the leading insurer in our chosen markets. To get there, we rely on the four cornerstones in the Zurich strategy: profitable growth, operational transformation, customer centricity and people management. Each has been validated repeatedly as a vital area of focus and confirmed against our broader aim of being a responsible and sustainable company. Each of these four cornerstones played a key role in the solid results of 2009.

Profitable growth

Zurich is locked on course to seek out and exploit opportunities for profitable growth. Such opportunities arise when we bring product, customer and distribution excellence to our target markets, through our existing businesses and through the acquisition of new ones. Putting the strengths of all our businesses together, we can achieve a growth outcome that is greater than the sum of our parts.

In 2009 we revealed the strength and scale of our ambition by acquiring direct auto insurer 21st Century in the United States. By coupling it with the Farmers organization, the Farmers Exchanges are now positioned to maintain their place as a leading multi-line, multi-channel personal lines insurer in the United States. One of the ways that this acquisition will allow them to do that is to exploit the cross-sell opportunities that naturally arise when they add 21st Century's roughly 1.2 million customers to the Farmers base.

Profitable growth is also achieved organically, as when we are successful in delivering on our proven strategies. At Global Life, we're achieving excellent results by sticking to our six-pillar strategy of meeting the needs of three global customer groups – private banking customers, international and expatriate customers, and corporate life & pensions customers – through three global distribution channels – agents, independent financial advisers and brokers, and banks. The approach is working: despite turbulent markets, Global Life increased new business APE by USD 406 million to USD 3.7 billion in 2009 and by 19 percent on a local currency basis.

Another way we achieve profitable growth organically is by leveraging Zurich's global scale and diverse range of propositions. General Insurance and Global Life are working together to offer retail banks a broad set of product offerings for their customers. The Zurich Risk Engineering network played its own role by exceeding its cross-selling target for the third consecutive year, with more than USD 40 million of business booked.

Throughout our organization we are sharing the best practices and propositions, so that the best we have to offer is available to as many of our customers as possible, no matter which of our markets they live in, thereby taking maximum advantage of our global strength.

Operational transformation

Through operational transformation we continue to build strength at our core – in such areas as risk management, investment management, underwriting and claims – while maintaining flexibility, dynamism and innovation in our chosen markets.

The initiatives bundled under The Zurich Way are a keystone of operational transformation, and they continue to deliver outstanding results, comfortably exceeding the USD 900 million after-tax operational improvement target set for 2009. But operational transformation includes much more than The Zurich Way. Operational transformation delivers efficiencies and creates global standards across all aspects of our business.

Notable successes from 2009 came from Global Life, from North America Commercial (NAC), and from the collaboration between Europe General Insurance (EGI) and Global Corporate in Europe.

At Global Life, the manufacture and servicing of propositions is being concentrated into eight regional hubs, then tailored at the local level to meet customer

needs precisely. Throughout our Group a range of similar measures is taking place to capture efficiencies on global, regional and even local levels.

Our North America Commercial division has led in implementing Zurich Lean, especially in underwriting. The Lean philosophy is key to eliminating waste, simplifying business processes and speeding up product and service delivery, and gives shape to the division's dedication to continuous improvement and operational excellence.

And in one of the single greatest achievements in operational transformation in 2009, EGI has combined with Global Corporate in Europe to create one single European Claims Organization. This new center for claims will not only ensure that our customers' claims experience meets one high Zurich standard, but will further the claims experience as one that instills loyalty, rather than depletes it.

Through our entire organization, and over the next five years, ongoing transformation activities are taking The Zurich Way to the next level of operational excellence. Altogether, these transformative efforts are the key to building a one Zurich global organization that is committed to delivering when it matters.

Customer centricity

Our customers are at the heart of all we do. This means we understand our personal, commercial and corporate customers' needs, and are entirely focused on meeting those needs. To this end we benchmark our performance using one consistent, Group-wide measure of customer satisfaction and loyalty, ensuring that customer centricity remains a source of competitive advantage.

In September, our entire organization took a break from the normal routine to connect with each other – through the intranet, videos, blogs and internal events – as well as with our customers directly. These activities were dedicated to honoring the customers who put their trust in us, and to learning how we might be able to serve them better going forward.

Our Strategy

All the while we kept up the momentum with all our other activities that are aimed at maintaining our engagement with customers and living the Zurich HelpPoint brand, with more than 100 new Zurich HelpPoint solutions in development since then.

Another way an insurer demonstrates customer centricity is by anticipating the risks our customers face, and by showing them how to avoid them. By this or any other measure, 2009 was a banner year for customer focus.

Farmers took a comprehensive approach to helping its customers deal with the threat of wildfires, an all-too familiar threat in the western U.S., where many Farmers customers live. Teaming with volunteers, firefighters and other public responders, Farmers produced and distributed 400,000 wildfire prevention information packs (with DVDs in English and Spanish) in Southern California. They also repeated the successful Firesafe program of 2008, spraying the houses of customers threatened by wildfire with a clean, safe fire retardant, free of charge.

With the tragic experience of 2007's floods still fresh in mind, our UK team set up a Web site to help people prepare for the possibility of their return in 2009 (www.fightingfloods.co.uk) and a twitter channel to respond to customers' questions. As the flooding in Cumbria came to pass, we set up temporary operations in the heart of the flooded community, with a dedicated Flood Claims Manager and industrial dryers at the ready to ensure a quick response. Similar measures were taken to help customers dealing with the enormously destructive floods that occurred in Turkey in September, when we took a similarly active approach to reaching out to our customers, using our Web site, text messaging service, call centers, and mobile Zurich HelpPoint service vehicles. By sharing our experiences in such events we deepen our reservoir of knowledge so that we can continually refine the practices we use to help our customers when risk events occur.

We also managed to anticipate risks and communicate mitigation strategies with commercial customers on such topics as pandemic flu, Directors & Officers liability, supply chain risk, and many more. Our customers are at the heart of all we do.

People management

We run a people business. The strong relationships we enjoy with our customers form its foundation. We depend on our customers' willingness to grant us their fiduciary trust, and we honor that trust by putting those relationships at the heart of all we do.

As illustrated throughout this report, we are dedicated to forging a deep understanding of our customers' needs, treating them like individuals, and making sure they feel comfortable talking with us and confident that we will listen.

We also depend on continued strong relations with the people who work alongside us in the market. Brokers, agents, financial advisors and other distribution partners are vital to our business. Only by maintaining strong relationships with them, and inspiring them with our customer focus, can we be sure that the connection to customers is open so that we can follow through on delivering the right solutions when it really matters. And since our business is growing, both organically and inorganically, we strive to reap the rewards of diversity, drawing from the range of perspectives and cultures represented throughout our Group. After all, synthesizing different views is the principal means by which we will expand and improve.

For all these reasons, we understand that investing in our people is an investment in our future. We are constantly striving to make sure that the processes and structures in place for empowering the roughly 60,000 employees of Zurich to meet our customers' needs are converging on one global, Zurich-wide standard.

Today we have global succession planning structures in place, a global approach to leadership development, global performance management, and global systems for professional development through our global learning management system. We invest in measuring employee motivation and engagement across the Group, and monitor our ability to retain our talented teams, especially high performers. To our customers, these systems underlie our ability to provide an experience that meets one high Zurich standard, no matter how they have come to us, and they link us to each other, forming inter-connections that allow us to exploit our global reach as efficiently as possible.

Perhaps the greatest evidence of the efficacy of these systems comes from our top office, to which we have welcomed our new CEO, Martin Senn. Like many of us who have committed to a career with Zurich, Mr. Senn has been promoted from within to take on greater responsibility for upholding the Zurich legacy, and making it even stronger. With Zurich's longstanding commitment to putting people first, we know that his is far from an isolated example.

Corporate responsibility

We are committed to continually validating all elements of our strategy against the broader aim of being a responsible and sustainable company. At Zurich, we believe being a responsible, sustainable company is an element of good management and a core component of how we do business. In our core business practices, our propositions and services, and in our engagements with the communities in which we live and work, we proactively address social, environmental and governance issues of rightful concern to our stakeholders. We recognize that our needs are inextricably linked and work hard to contribute to sustainable development and shape a better future for our Group, our people and society.

All our efforts are united by our code of conduct, the Zurich Basics. It is the backbone of what we do and sets the framework for how we deliver on our business goals. Our basic values of integrity, sustainability, customer centricity, excellence and teamwork guide our actions, and we expect all employees to live up to them in both letter and spirit.

When it comes to being a responsible company, it all starts with the behavior and attitude of every individual who works at Zurich. Each one of us has to play a part in addressing the relevant economic, environmental and social issues in our everyday business.

Our Corporate Responsibility Strategy Group, which is formed by functional and business leaders, oversees our corporate responsibility performance and activities at the Group level; implementation responsibilities and actions lie within the core business. In addition, several of Zurich's business units have established comprehensive corporate responsibility programs of their own. Close cooperation with our business units is integral to the implementation of the overall Group corporate responsibility strategy and to leverage the best practices being pioneered throughout our Group.

To monitor progress and continue to improve our corporate responsibility performance we use such measures as the Dow Jones Sustainability Indexes (DJSI) and the FTSE4Good Index Series, as well as stakeholder feedback through measures such as customer and employee surveys.

To deliver when it matters to all our stakeholders in a responsible, sustainable manner is at the core of how we do business and what Zurich stands for. To see concrete examples of what we have achieved in advancing on our goal of becoming an ever more responsible and sustainable company this year, from supporting local cultural activities to changing core business processes, please see the 2009 Business Review, or visit our Web site: www.zurich.com/corporateresponsibility.

Board of Directors

Committed to deliver

Relations between our Board and our Management are structured to support both groups in fulfilling their commitment to deliver. This structure establishes checks and balances and is designed to provide for institutional independence of the Board of Directors from the Chief Executive Officer (CEO) and the Group Executive Committee (GEC).





1 Manfred Gentz
Chairman of the Board,
Chairman of the Governance
and Nominations Committee,
Member of the Remuneration Committee

2 Philippe O. Pidoux
Vice Chairman of the Board,
Member of the Governance
and Nominations Committee,
Member of the Remuneration Committee

3 Susan Bies
Director,
Member of the Risk Committee

4 Victor L.L. Chu
Director,
Member of the Governance
and Nominations Committee

5 Thomas K. Escher
Director,
Member of the Remuneration Committee

6 Fred Kindle
Director,
Member of the Audit Committee

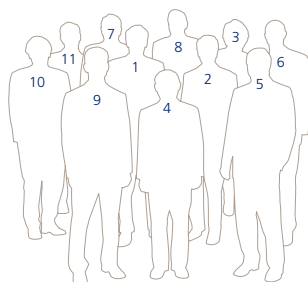
7 Armin Meyer
Director,
Member of the Risk Committee,
Member of the Governance
and Nominations Committee

8 Don Nicolaisen
Director,
Chairman of the Audit Committee,
Member of the Risk Committee

9 Vernon L. Sankey
Director,
Chairman of the Remuneration Committee

10 Tom de Swaan
Director,
Member of the Audit Committee,
Chairman of the Risk Committee

11 Rolf Watter
Director,
Member of the Audit Committee



Group Executive Committee

Committed to deliver

Our management lives the Zurich commitment to deliver day to day. With profound gratitude the GEC thanks outgoing CEO James J. Schiro for his years of outstanding service, and welcomes Martin Senn's appointment to the role.





1 James J. Schiro¹
Chief Executive Officer

2 John Amore
Chief Executive Officer
General Insurance

3 Annette Court
Chief Executive Officer
Europe General Insurance

4 Mario Greco
Chief Executive Officer
Global Life

5 Mike Foley
Chief Executive Officer
North America Commercial

6 Paul N. Hopkins
Chairman of the Board of Farmers Group, Inc.
and Chief Executive Officer Americas

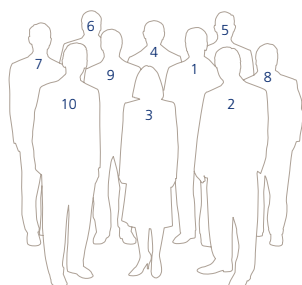
7 Axel P. Lehmann
Group Chief Risk Officer

8 Geoff Riddell
Chairman of Global Corporate
and Chief Executive Officer Asia-Pacific
and Middle East

9 Martin Senn²
Chief Investment Officer

10 Dieter Wemmer
Chief Financial Officer

¹ Retired as Chief Executive Officer on December 31, 2009
² As of January 1, 2010 Chief Executive Officer



Corporate Governance Report	24
Remuneration Report	50

Governance



Corporate Governance Report

Zurich Financial Services Ltd is committed to effective 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 provide for proper organization and conduct of the business within the Zurich Financial Services Group (the 'Group' or 'Zurich') and to define the powers and responsibilities of its corporate bodies and employees.

This report describes the Group's approach to corporate governance and illustrates the main elements of corporate governance within the Group. It includes the information required by the Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange (effective January 1, 2007, as amended on July 1, 2009). It also explains how, in 2009, the Group complied with the Swiss Code of Best Practice for Corporate Governance, issued in 2002 by *economiesuisse*, as amended in October 2007. Furthermore, the Group continues to publish a Risk management and internal control statement (see pages 48 to 49) in accordance with the UK Turnbull Guidance.

The principles of corporate governance and the standards described above have been incorporated and are reflected in a number of documents, in particular in the Articles of Incorporation, the Organizational Rules and the Charters and Rules of the Board Committees. The Board's Governance and Nominations Committee, which oversees the Group's governance, regularly measures that governance against best practice standards and ensures compliance with corporate governance requirements.

An effective structure is in place providing for cooperation between the Board of Directors, Management and internal control functions. This structure establishes checks and balances and is designed to provide for institutional independence of the Board of Directors from the Group Chief Executive Officer (CEO) and the Group Executive Committee (GEC), responsible for managing the Group on a day-to-day basis. The Board of Directors of Zurich Financial Services Ltd is composed entirely of independent non-executive members. The roles of Chairman of the Board of Directors and CEO are separated, thus providing for separation of powers between the functions and ensuring the autonomy of the Board.

This report basically follows the recommended structure outlined in the Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange. The chapter on compensation, shareholdings and loans of the Directors and the members of the GEC is dealt with in a separate report, the Remuneration report (see pages 50 to 67), which complements this Corporate governance report.

Group structure and shareholders

Operational Group structure

Zurich Financial Services Ltd, the Group's holding company, is a Swiss corporation organized in accordance with the laws of Switzerland¹.

The Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both lines of business and geography, which is mirrored in the areas of responsibilities assigned to the members of the GEC. The GEC is headed by the CEO and includes the Chief Financial Officer, the Chief Investment Officer and the Group Chief Risk Officer. In addition, the business segments General Insurance, Global Life and Farmers and the business divisions North America Commercial, Global Corporate and Europe General Insurance are represented in the GEC. For further information on the GEC please refer to pages 37 to 41.

This management structure leads to the reporting of the Group based on the following primary business segments:

- General Insurance serves the property-casualty insurance needs of a wide range of customers, from individuals to small and medium-sized businesses, commercial enterprises and major multinational corporations.

¹ Due to a change in the Swiss Code of Obligations Zurich Financial Services was renamed "Zurich Financial Services Ltd" effective April 2, 2009. Throughout this document the new name Zurich Financial Services Ltd is used consistently even if reference is made to facts that occurred prior to the renaming of the company.

- Global Life pursues a strategy with market-leading propositions in unit-linked and protection products through global distribution and proposition pillars to develop leadership positions in its chosen segments.
- Farmers provides through Farmers Group, Inc. and its subsidiaries (FGI) non-claims related management services to the Farmers Exchanges. FGI receives fee income for the provision of services to the Farmers Exchanges, which we manage but do not own, and to their customers. As from January 1, 2009, this segment also comprises the Farmers Re business which includes all reinsurance assumed from the Farmers Exchanges by the Group. The Farmers Exchanges are prominent writers of personal lines and small commercial lines business in the United States.
- Other Operating Businesses predominantly consist of the Group's Headquarter and Holding & Finance activities. In addition, certain alternative investment positions not allocated to core operating segments are carried in this segment.
- Non-Core Businesses include insurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. In addition, as from September 30, 2009, Non-Core Businesses also include the Group's banking activities that, following a strategic review, are no longer seen to support the core insurance business, but as a useful adjunct to it.

The Group's secondary format for segment information continued to be geographic in 2009 and was as follows: Americas, Europe & Africa, Asia-Pacific & Middle East and Central Region. As a result of realignment of the previous International Businesses region into a new regional structure, as of January 1, 2009, Southern Africa is part of an expanded Europe & Africa region, Latin America is part of an expanded Americas region and Asia-Pacific & Middle East forms a new stand-alone region.

For more detailed information on the Group's segments and its geographic structure please refer to note 30 to the Consolidated financial statements, starting on page 139. A detailed review of the respective business segment and division results during 2009 can be found in the Financial Review starting on page 68. Furthermore, an overview of the Group's business strengths and activities is contained in the Business Review, available on Zurich's Web site www.zurich.com (http://zdownload.zurich.com/main/reports/business_review_2009_en.pdf).

Zurich Financial Services Ltd is listed on the SIX Swiss Exchange. Certain Group companies have listed debt issues under the Euro Medium Term Note Programme and other financial instruments.

A list of the Group's significant subsidiaries including additional information on significant subsidiaries that are listed can be found in this Financial Report on pages 266 to 268. For further information on the share listing of Zurich Financial Services Ltd, please refer to the Shareholder information on pages 326 to 330.

Significant shareholders

According to the rules regarding disclosure of significant shareholdings in Swiss companies listed in Switzerland, disclosure has to be made if certain thresholds are reached or have fallen below, starting at 3 percent. Call options and other financial instruments are to be added to any position in shares, even if they allow for cash settlement only. Under this regime, 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 entry in the commercial register.

Zurich Financial Services Ltd is obliged to announce shareholdings by third parties in its shares upon a respective notification by the third party that a threshold has been crossed. During 2009 the Group received several notifications by third parties that they have either exceeded or fallen below the threshold of 3 percent with purchase or sale positions. The respective announcements can be found on Zurich's Web site www.zurich.com (<http://www.zurich.com/main/investors/ourshares/disclosureofshareholdings/introduction.htm>).

As of December 31, 2009, Zurich Financial Services Ltd is not aware of any person or institution, other than Barclays Plc and BlackRock, Inc., which, directly or indirectly, had an interest as beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Financial Services Ltd representing 3 percent or more of its issued shares.

Barclays Plc, 1 Churchill Place, London E14 5HP, United Kingdom, along with its subsidiaries, reported as per April 28, 2009, a purchase position of 3.02 percent. BlackRock, Inc., 40 East 52nd Street, New York, 10022, U.S.A., along with its subsidiaries, reported as per December 1, 2009, a purchase position of 3.39 percent.

Zurich Financial Services Ltd is also not aware of any person or institution which, as of December 31, 2009, directly or indirectly, alone or with others, exercised or was a party to any arrangements to exercise control over Zurich Financial Services Ltd.

Cross-shareholdings

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

Capital structure

Share capital

As of December 31, 2009, the ordinary share capital of Zurich Financial Services Ltd amounted to CHF 14,747,306.80 divided into 147,473,068 fully paid registered shares with a nominal value of CHF 0.10 each. The Board of Directors will propose to the shareholders at the Annual General Meeting on March 30, 2010 a regular dividend of CHF 16.00 per share before tax.

Authorized and contingent share capital

As of December 31, 2009, the Board of Directors of Zurich Financial Services Ltd is authorized to increase the share capital by CHF 520,000.00, representing 5,200,000 fully paid registered shares with a nominal value of CHF 0.10 each by no later than April 3, 2011. The contingent share capital of Zurich Financial Services Ltd may be increased by an amount not exceeding CHF 1,000,000.00 by issuing up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each by exercising conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services Ltd or one of its Group companies in national or international capital markets; and/or option rights which are granted to the shareholders. Moreover, there is an additional contingent share capital of CHF 264,383.10, representing 2,643,831 fully paid registered shares with a nominal value of CHF 0.10 each, which may be issued to employees of the Group. For further information on the capital structure and the authorized and contingent share capital, please refer to the Consolidated financial statements, note 23 on pages 219 to 222.

Changes of share capital during 2008

At the Annual General Meeting on April 3, 2008, shareholders approved a share capital reduction by CHF 343,250.00 from CHF 14,554,682.00 to CHF 14,211,432.00 by canceling 3,432,500 registered shares that were bought back by Zurich Financial Services Ltd under the share buy back program announced on February 15, 2007. The effective date of the capital reduction was June 27, 2008.

As of December 31, 2008, the authorized share capital amounted to CHF 600,000.00, representing 6,000,000 registered shares with a nominal value of CHF 0.10 each. During the year 2008, 8,300 shares were issued to employees out of contingent share capital. As a result, on December 31, 2008 the share capital amounted to CHF 14,212,262.00 (142,122,620 shares) and the contingent capital as specified in Article 5^{ter}(1a) of the Articles of Incorporation amounted to CHF 548,182.80 (5,481,828 shares) and the other contingent share capital as specified in Article 5^{ter} (2a) of the Articles of Incorporation amounted to CHF 319,427.90 (3,194,279 shares).

Changes of share capital during 2009

As of December 31, 2008, Zurich Financial Services Ltd had bought back 3,750,500 of its registered shares over a second trading line within its buy back program authorized by the Board of Directors on February 13, 2008. In March 2009, the Board of Directors decided not to propose the destruction of these shares to the Annual General Meeting of shareholders but to keep the shares as treasury shares for use in connection with the funding of potential acquisitions in the future or for employee share-based compensation. This rededication of the shares has been approved by the Swiss Takeover Board.

At the Annual General Meeting on April 2, 2009, the shareholders approved an increase in both authorized and contingent share capital to a new maximum of CHF 1,000,000.00 each, allowing for enhanced financial flexibility of the company for future capital management. On April 17, 2009, Zurich Financial Services Ltd placed 4,800,000 new shares issued under its authorized share capital and 1,914,096 rededicated treasury shares, bought back under the share buy back program authorized in 2008, with institutional investors via an Accelerated Bookbuild. This capital increase reduced the authorized capital to CHF 520,000.00. The proceeds from the capital increase executed on April 17, 2009 and the rededicated treasury shares were used in connection with the funding of the acquisition of 21st Century completed on July 1, 2009.

During the year 2009, 550,448 shares were issued to employees out of contingent share capital. As a result, on December 31, 2009 the share capital amounted to CHF 14,747,306.80 (147,473,068 shares) and the contingent share capital as specified in Article 5ter(1a) of the Articles of Incorporation amounted to CHF 1,000,000.00 (10,000,000 shares) and the other contingent share capital as specified in Article 5ter(2a) of the Articles of Incorporation amounted to CHF 264,383.10 (2,643,831 shares).

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, 2007	14,554,682.00	145,546,820	0.10
Capital reduction by canceling shares that have been bought back under the share buyback program announced on February 15, 2007	343,250.00	3,432,500	0.10
Newly issued shares from contingent capital	830.00	8,300	0.10
As of December 31, 2008	14,212,262.00	142,122,620	0.10
Newly issued shares from authorized capital	480,000.00	4,800,000	0.10
Newly issued shares from contingent capital	55,044.80	550,448	0.10
As of December 31, 2009	14,747,306.80	147,473,068	0.10

For information on changes of share capital during 2007, please see the Annual Report 2008 of Zurich Financial Services, Financial Report, pages 22 to 23, pages 136 to 137, and pages 274 to 277.

Shares and participation certificates

Zurich Financial Services Ltd's shares are registered shares with a nominal value of CHF 0.10 each. The shares are fully paid. Pursuant to Article 14 of the Articles of Incorporation, each share carries one vote at shareholders' meetings and entitles the registered holder to exercise all other membership rights in respect of that share, provided registration in the share register has been effected.

Some interests in shares are held by investors in the form of CREST Depository Interests (CDIs)¹ or American Depositary Receipts (ADRs)². As of December 31, 2009, investors held 215,267 CDIs (representing 215,267 Zurich Financial Services Ltd's shares) and 26,468,060 ADRs (representing 2,646,806 Zurich Financial Services Ltd's shares).

Profit sharing certificates

Zurich Financial Services Ltd has not issued profit sharing certificates.

¹ CREST is the system for the paperless settlement of trades in securities and the holding of uncertificated securities in the United Kingdom. CREST holds the shares in trust and issued dematerialized depository interests representing entitlements to Zurich Financial Services Ltd's shares known as CDIs. As CDI holders are not the legal owners of the shares represented by the CDIs, they are not able to directly enforce or exercise rights that a holder of shares can. CDI holders will, however, have a beneficial interest in the shares represented by the CDIs and be allowed as such to give instructions to CREST Depository on the exercise of certain non-economic rights attached to the shares. Each CDI represents one Zurich Financial Services Ltd's share.

² Zurich Financial Services Ltd has established an American Depositary Share, or ADS, level 1 program in the United States. Under the program, The Bank of New York Mellon issues the ADSs. Each ADS represents the right to receive one-tenth of one Zurich Financial Services Ltd's share. Each ADS also represents securities, cash or other property deposited with The Bank of New York Mellon but not distributed to ADS holders. ADSs are traded over the counter (OTC) and evidenced by American Depositary Receipts, or ADRs. ADS holders are not treated as shareholders of Zurich Financial Services Ltd and are not able to directly enforce or exercise shareholder rights. Only the Bank of New York Mellon as depository may exercise voting rights with respect to instructions received from beneficial owners of ADRs.

Limitations on transferability and nominee registrations

The Articles of Incorporation do not provide for any limitations on transferability except for formalities for the transfer of undocumented shares.

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 Financial Services Ltd's 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 shareholder with voting rights of more than 200,000 shares if the nominee undertakes to disclose the identity of each beneficial owner and to inform the beneficial owners about corporate actions, to consult as to the exercise of voting rights and pre-emptive rights, to transfer dividends and to act in the interests and in accordance with the instructions of the beneficial owner.

There are special provisions relating to the registration of, and exercise of rights attaching to shares by the Bank of New York Mellon in connection with the Zurich Financial Services Ltd's ADR program.

Convertible bonds and options

Zurich Financial Services Ltd had no public convertibles or options outstanding as of December 31, 2009. For information on employee share option plans, please refer to the Consolidated financial statements, note 25 on pages 228 to 231.

Board of Directors

Members of the Board of Directors, as of December 31, 2009

Name	Nationality	Age	Position held	Year of initial appointment	Expiration of current term of office
Manfred Gentz	German	67	Chairman of the Board Chairman of the Governance and Nominations Committee Member of the Remuneration Committee	2005	2011
Philippe Pidoux	Swiss	66	Vice Chairman of the Board Member of the Governance and Nominations Committee Member of the Remuneration Committee	1997 ¹	2010
Susan Bies	American	62	Director Member of the Risk Committee	2008	2010
Victor Chu	British	52	Director Member of the Governance and Nominations Committee	2008	2010
Thomas Escher	Swiss	60	Director Member of the Remuneration Committee	2004	2012
Fred Kindle	Swiss	50	Director Member of the Audit Committee	2006	2011
Armin Meyer	Swiss	60	Director Member of the Governance and Nominations Committee Member of the Risk Committee	2001	2010
Don Nicolaisen	American	65	Director Chairman of the Audit Committee Member of the Risk Committee	2006	2012
Vernon Sankey	British	60	Director Chairman of the Remuneration Committee	1998 ¹	2012
Tom de Swaan	Dutch	63	Director Chairman of the Risk Committee Member of the Audit Committee	2006	2011
Rolf Watter	Swiss	51	Director Member of the Audit Committee	2002	2010

¹ Mr Pidoux has served on the board of Zurich Insurance Company Ltd since 1997. In 1998, after the merger between B.A.T. Financial Services and Zurich Insurance Company (the "Merger"), he assumed office as member of one or more boards of the then Group holding structure consisting of Zurich Group Holding (then called Zurich Financial Services), Allied Zurich p.l.c. and Zurich Allied AG. The Group structure was reorganized in October 2000 ("Unification"). Mr Sankey was also a member of several boards of the Group holding structure that was established with the Merger. Since Unification both have served on the Board of Zurich Financial Services Ltd.

All of the current Directors have served on the Board throughout the entire year 2009. All Directors of Zurich Financial Services Ltd are also members of the board of directors of Zurich Insurance Company Ltd. Mr. Gentz also serves as chairman of that board. In addition, Mr. de Swaan is a member of the board of directors of Zurich Insurance plc; he also chairs the audit committee of that board. Mr. Nicolaisen and Mrs. Bies have been appointed members of the board of directors of Zurich Holding Company of America (ZHCA) on October 19, 2009 and are also members of the respective audit committee. With the exception of Mrs. Bies, Mr. Nicolaisen and Mr. de Swaan, the Directors have no further board memberships within the Group.

Fritz Gerber is the Honorary Chairman of Zurich Financial Services Ltd. He was chairman of Zurich Insurance Company between 1977 and 1995 and its chief executive officer between 1977 and 1991. In recognition of his leadership and services to that company, 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 Director's fees.

Biographies

Manfred Gentz studied law at the universities of Berlin and Lausanne and graduated with a doctorate in law from the Berlin Free University. In 1970 he joined Daimler-Benz AG where he held various positions. In 1983, he was appointed member of the board of management of Daimler-Benz AG, responsible at first for human resources. From 1990 to 1995 he was chief executive officer of Daimler-Benz Interservices (debis) in Berlin and subsequently became chief financial officer of Daimler-Benz AG in 1995. In December 1998, Mr. Gentz was appointed to the board of management of DaimlerChrysler AG, where he was in charge of Finance and Controlling until December 2004. From 1987 to 1995 he served on the board of supervisors of Agrippina Versicherung AG and from 1996 to 2005 he was a member of the board of supervisors of Zürich Beteiligungs-Aktiengesellschaft (Deutschland). From 1985 to 2005 Mr. Gentz was on the board of supervisors of Hannoversche Lebensversicherung AG (from 1990 as its vice chairman). From May 2005 until March 2006, he was chairman of the supervisory board of Eurohypo AG. He served as a member of the board of supervisors of adidas AG from 2004 until May 2009 and of DWS Investment GmbH from December 1995 until April 2009. In addition Mr. Gentz was appointed a member of the board of supervisors of the German Stock Exchange (Deutsche Börse AG) in May 2003 and as its chairman in December 2008. He also serves as member of the executive board of ICC (International Chamber of Commerce), Germany, and as its chairman. In addition he is active in a number of scientific and cultural institutions, among others, he chairs the curatorship of the Technische Universität Berlin.

Philippe Olivier Pidoux graduated from the University of Lausanne, Switzerland, with a doctorate in law and also holds a master's degree in comparative jurisprudence from the University of Texas. He is a partner in the law firm BMP Associés in Lausanne, Switzerland. Mr. Pidoux was a member of the Government of the Canton of Vaud from 1986 until 1994 and a member of the Swiss Parliament between 1983 and 1999. From 1991 until 2003, he was a member of the board and as of 1999 vice chairman of the Swiss National Bank. In addition, from 1994 to April 2009 he was chairman of Publigroupe AG.

Susan Bies graduated with a BS degree from the State University College at Buffalo, New York, and with a MA degree from Northwestern University, Evanston, Illinois, where she later gained a PhD. She began her career in 1970 as regional and banking structure economist with the Federal Reserve Bank of St. Louis, Missouri, and two years later became assistant professor of economics at Wayne State University, Detroit, Michigan. In 1977 she moved to Rhodes College, Memphis, Tennessee in a similar role, and in 1979 joined First Tennessee National Corporation in Memphis, where she remained until 2001. During the early years, her areas of responsibility included tactical planning and corporate development. In 1984 she became chief financial officer and chairman of the asset/liability committee. In 1995, she became executive vice president of risk management, and auditor and chairman of the executive risk management committee, as well as continuing her duties with the asset/liability committee. From 2001 until 2007, she was a member of the Board of Governors of the Federal Reserve System. Between 1996 and 2001, Mrs. Bies was a member of the Emerging Issues Task Force of the Financial Accounting Standards Board. From 2007 to 2008 she was a member of the Securities and Exchange Commission's advisory committee on improving financial reporting, and chairman of its substantive complexity sub-committee. In June 2009, Mrs. Bies became a member of the board of directors of The Bank of America Corporation.

Victor L.L. Chu graduated with a LL.B from the University College London in 1979. He is admitted to practice law in England and Hong Kong. Since 1982 he has practiced in the field of corporate, commercial and securities laws, with special emphasis on China and regional investment transactions. From 1995 to 2000, Mr. Chu was deputy secretary-general of the International Bar Association. Since 1988 he has served as chairman of First Eastern Investment Group, a leading direct investment firm focusing on China. He is also chairman of First Eastern Investment Bank Limited and FE Securities Limited. Over the past 20 years he has served at various times as director and council member of the Hong Kong Stock Exchange, a member of the Hong Kong Takeovers and Mergers Panel, a member of the Hong Kong Securities and Futures Commission's advisory committee and a part-time member of the Hong Kong Government's Central Policy Unit. He is currently a foundation board member of the World Economic Forum and co-chairs the Forum's International Business Council. He is also chairman of the International Chamber of Commerce's Commission on Financial Services and Insurance and vice chairman of Asia House in London. Mr. Chu is a trustee of the London-based International Business Leaders Forum and the WWF in Hong Kong. He also serves as a member of the dean's council of the Kennedy School at Harvard and a member of the Mayor of London's International Business Advisory Council. Mr. Chu's other civic associations include service on the advisory bodies of the International Crisis Group, Chatham House, the Beijing Music Festival Foundation and the Atlantic Council of the USA.

Thomas Konrad Escher graduated in electrical engineering and in business administration from the Swiss Federal Institute of Technology (ETH) and joined IBM in 1974. In subsequent years, his career led him through various managerial line functions with responsibilities for markets and client relationships overseas, in different European countries and in Switzerland. In 1996, Mr. Escher joined Swiss Bank Corporation and was – as a member of the executive board – CEO for the major market region in Switzerland and for the information technology organization. Since the merger of Swiss Bank Corporation and Union Bank of Switzerland to form UBS AG in 1998, he headed the IT business area of the wealth management and business banking division through mid-2005 as a member of the group managing board. As of July 1, 2005, Mr. Escher assumed the function of vice chairman in the Business Group Global Wealth Management & Business Banking of UBS AG. In addition, Mr. Escher is a member of the board of the Greater Zurich Area Foundation. This organization engages in the active marketing of the City of Zurich and its relevant environment as domicile to foreign business.

Fred Kindle graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a master's degree in engineering. He worked as a marketing project manager with Hilti AG in Liechtenstein from 1984 until 1986, and then enrolled at Northwestern University, Evanston, Illinois, in the United States, where he earned an MBA. From 1988 until 1992 he was a consultant with McKinsey & Company in New York and Zurich. He then joined Sulzer Chemtech AG in Switzerland as the head of the Mass Transfer Department and in 1996 became the head of the Product Division. In 1999 he was appointed CEO of Sulzer Industries, one of the two operating groups of Sulzer AG. Two years later he became CEO of Sulzer AG, where he also served as board member. After joining ABB Ltd. in 2004, Mr. Kindle was appointed CEO of ABB Group in January 2005, a position he held until February 2008. He then became a partner of Clayton, Dubilier & Rice, a private equity firm based in New York and London. In his function as a partner of that firm Mr. Kindle serves as a chairman of Exova Ltd., Scotland, and as a director of Rexel SA, France. He is also on the board of VZ Holding Ltd., Zurich and Stadler Rail AG, Bussnang.

Armin Meyer graduated with a PhD in electrical engineering from the Swiss Federal Institute of Technology (ETH) and joined BBC Brown Boveri Ltd. in 1976 as a development engineer. In 1980, he became head of research and development for industrial motors, and in 1984, he took over as head of the international business unit for electrical power generators. In 1988, Mr. Meyer became president of ABB Drives Ltd. and in 1992, president of ABB Power Generation Ltd. From 1995 until 2000, he was executive vice president of ABB Ltd. and a member of that group's executive committee. In 1997, he became a member of the board of directors of Ciba Specialty Chemicals at the time of its spin-off from Novartis. He became chairman of the board of Ciba Specialty Chemicals in autumn 2000 and served in that role until April 2009. From January 1, 2001 until December 31, 2007, in addition, he acted as chief executive officer. Mr. Meyer is a member of the executive committee and the foundation board of the international Institute for Management Development, IMD, in Lausanne, Switzerland. From 2001 to 2008, he was a member of the European Chemical Industry Council (Cefic) in Brussels, Belgium.

Don Nicolaisen graduated from the University of Wisconsin-Whitewater with a BBA degree and joined Price Waterhouse (which subsequently became PricewaterhouseCoopers), where he was admitted to partnership in 1978. He served in various capacities, including as auditor and as chairman of PricewaterhouseCoopers' financial services practice. He led that company's national office for accounting and Securities and Exchange Commission services from 1988 to 1994 and served on both the U.S. and global boards from 1994 to 2001. From September 2003 to November 2005, he was chief accountant of the U.S. Securities and Exchange Commission and was principal adviser to the Commission on accounting and auditing matters. He is a member of the board of directors of Verizon Communications Inc., Morgan Stanley and MGIC Investment Corporation. In addition, he is on the board of advisors for the University of Southern California Leventhal School of Accounting.

Vernon Louis Sankey graduated with a MA degree from Oriel College, Oxford and joined Reckitt and Colman in the UK in 1971, subsequently working in France, Denmark, the UK and the U.S. He was appointed to the board of directors in 1989 and was chief executive officer of that company from 1991 to 1999. From 2000 until September 2007 he was chairman of Photo-Me International plc. From 2001 until June 2007 he was a director of Cofra AG, Switzerland, and from 2004 until July 2007 of Taylor Woodrow plc. Between 2005 and 2008 he served as a director of Vividas Group plc. As of January 1, 2006, he has been a member of the supervisory board of Atos Origin SA, Paris, and since October, 2006 of Firmenich SA, Geneva, where he became chairman in October 2008. He was chairman of Thomson Travel Group plc until August 2000, of Gala Group Holdings plc until February 2003 and of The Really Effective Development

Company Ltd until March 2006. He also was a director of Pearson plc until April 2006 and is a former board member of the UK's Food Standards Agency. In addition to his board roles, he is also an advisor to a number of other companies.

Tom de Swaan graduated from the University of Amsterdam with a master's degree in economics. He joined De Nederlandsche Bank N.V. in 1972, and from 1986 until 1998 was a member of the governing board. In January 1999, he became a member of the managing board and chief financial officer of ABN AMRO Bank. He retired from ABN AMRO on May 1, 2006, but continued as an advisor to the managing board until June 2007. Mr. de Swaan is a non-executive member of the board of GlaxoSmithKline Plc and chairman of its audit committee. He is a member of the supervisory board of Royal DSM, a Netherlands-based chemical group. Since May 3, 2007, he is also the vice chairman of the supervisory board of Royal Ahold, a global retail chain, and since May 10, 2008, he is chairman of the supervisory board of Van Lanschot NV, the holding company of F. van Lanschot Bankiers, an independent Dutch bank. From 1987 to 1988, he was chairman of the Amsterdam Financial Center, and from 1995 to 1997 chairman of the banking supervisory sub-committee of the European Monetary Institute. He was also a member of the Basel Committee on Banking Supervision from 1991 to 1996, its chairman from 1997 to 1998, and a non-executive director on the board of the UK's Financial Services Authority from January 2001 until the end of 2006. Mr. de Swaan is also a director of a number of non-profit organizations. Among others he is treasurer of the board of the Royal Concertgebouw Orchestra, the Netherlands Cancer Institute and the International Franz Liszt Piano Competition. Moreover, he chairs the advisory board of the Rotterdam School of Management.

Rolf Urs Watter graduated from the University of Zurich with a doctorate in law and holds a master of laws degree from Georgetown University in the U.S. He is admitted to the bar of the Canton of Zurich. Since 1994 he has been a partner in the law firm Bär & Karrer in Zurich and was a member of its executive board from 2000 and an executive director upon the incorporation of Bär & Karrer AG in 2007 until September 2009. He is a non-executive director of Nobel Biocare Holding AG (since 2007), of Syngenta AG (since 2000), UBS Alternative Portfolio AG (since 2000) and A.W. Faber-Castell (Holding) AG (since 1997). He formerly was a non-executive chairman of Cablecom Holding AG (2004-2008) and non-executive director of Centerpulse AG (2002-2003), of Forbo Holding AG (1999-2005) and of Feldschlösschen Getränke AG (2001-2004). He is a part-time professor at the Law School of the University of Zurich. In addition, he is a member of the SIX Admission Board and of its Disclosure Commission of Experts. He also serves as chairman of two charity institutions.

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

Elections and terms of office

The Articles of Incorporation require that the Board shall consist of not fewer than seven and not more than 13 members. The ordinary term of office is three years. On the expiration of their terms of office, Directors may be re-elected immediately. The Articles of Incorporation require elections to be organized in such a way as to ensure that no more than four Directors complete their term of office at any one general shareholders' meeting. The election of a member of the Board is effected on an individual basis. Directors are elected by a majority of the votes cast. Zurich Financial Services Ltd's Organizational Rules provide that no individual of 70 years of age or older shall be nominated or stay in office as a Director, although exceptions may be made under special circumstances.

At the Annual General Meeting to be held on March 30, 2010, the terms of office of Mrs. Bies and Messrs. Pidoux, Chu, Meyer and Watter will expire. Mrs. Bies and Messrs. Meyer, Chu and Watter have been proposed for re-election by the Board for a term of three years. Mr. Pidoux will not stand for re-election for the Board of Directors.

Josef Ackermann has been nominated as additional member of the Board of Directors of Zurich Financial Services Ltd for a term of two years.

Josef Ackermann, 62, Swiss, studied economics and social sciences at the University of St. Gallen, and in 1977 – after obtaining his doctorate – he joined Schweizerische Kreditanstalt (SKA). In 1990, he was appointed to the executive board of SKA, becoming its president in 1993. In 1996, Mr. Ackermann joined the management board of Deutsche Bank, where he was responsible for the investment banking division. In 2002, he became spokesman of the management board and chairman of the group executive committee. On February 1, 2006, he was appointed chairman of the management Board. Mr. Ackermann is a member of the supervisory board of Siemens AG, Germany, of Royal Dutch Shell plc, Holland, and of Belenos Clean Power Holding Ltd, Biel. He is a member of the International Advisory Council of Zurich Financial Services Group, and he also plays an active role in, among other things, the Initiative Finanzstandort Deutschland (member of the Initiators' Group), the Institute of International Finance (chairman of the board), the World Economic Forum (vice chairman of the foundation board), the St. Gallen Foundation for International Studies (chairman) and the Metropolitan Opera New York (advisory director). Since 2007, Mr. Ackermann has been a visiting professor in finance at the London School of Economics. In 2008, he was named honorary professor at Frankfurt's Johann Wolfgang Goethe University and was appointed to the honorary senate of the Lindau Meetings of Nobel Laureates. Furthermore, he is an honorary fellow of the London Business School and holds an honorary doctorate from the Democritus University of Thrace in Greece.

Internal organizational structure

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

The Board consists entirely of Directors who are non-executive, independent from the Management, and who have never held an executive position in the Group. The Governance and Nominations Committee annually reviews the independence of the Board members and reports its findings to the Board for final determination. Board members are also subject to rules and regulations to avoid conflicts of interest and the use of inside information. A self-assessment of the full Board is carried out once a year. In 2009, the Board's self-assessment was carried out with the support of an external consultant who conducted personal interviews with each Board and GEC member. A detailed report was produced for and considered by the Board.

Given the separation of roles of the Chairman and the CEO and the fact that the Board of Directors is wholly non-executive, there is no requirement for a lead director to be appointed under the Swiss Code of Best Practice.

The CEO attends the Board meetings ex officio. By invitation, Board meetings are attended by the members of the GEC on a regular basis. Other executives attend these meetings from time to time. The majority of Board meetings includes private sessions of the Board, without the participation of Management.

The Board elects from its members the Chairman and the Vice Chairman, and appoints the Secretary.

The Board is required to meet at least six times each year; during 2009 it held eleven meetings (of which two were partly attended by phone and two were held over two days). On the occasion of one meeting the Board conducted a separate visit to the Farmers University, the development centre for agents and employees in the U.S. One meeting was fully dedicated to the discussion of strategic topics. Six meetings lasted between four and eight hours per day, and the remaining five meetings took about two hours in average. In addition, the Board unanimously approved two circular resolutions.

In 2009, average attendance at Board meetings was 94 percent. The members of the Board spend additional time participating in Board Committee meetings and preparing for meetings in order to discharge their duties.

The Board may appoint committees for specific areas from among its members and establish terms of reference and rules with respect to delegated authority and reporting to the Board. The committees assist the Board in performing its duties. To the extent that the committees are not authorized to take resolutions, they discuss and propose matters to the Board for taking the appropriate actions and passing resolutions before such matters are brought to the Board. The Board has the following standing committees, which regularly report to the Board and submit proposals for resolutions to the Board. On average, committee meetings lasted between one and three hours.

The **Governance and Nominations Committee** is composed of four Board members. It oversees the Group's governance and measures it against best practice with a view to ensure that the rights of the shareholders are fully protected. It also develops and proposes to the Board corporate governance guidelines and reviews them from time to time. The Governance and Nominations Committee is further entrusted with succession planning with respect to the Board, the CEO and the members of the GEC and Group Management Board (GMB). In this regard, 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, as well as the appointment of the Chairman, the Vice Chairman, the CEO and the other members of the GEC and GMB. The Committee reviews the system for management development and supervises progress made in respect of succession planning. Final decisions for nominations and appointments are made by the Board, subject to shareholder approval, where so required. During 2009 the Governance and Nominations Committee met five times (of which one was a joint meeting with the Remuneration Committee) and particularly addressed the nomination and ongoing qualifications of the members of the Board of Directors and the succession planning for members of senior management. On average attendance at meetings of the Governance and Nominations Committee was 85 percent.

The **Remuneration Committee** comprises four members of the Board. The Remuneration Committee evaluates and proposes to the Board the principles for remuneration for the Group and the Board. It also proposes the Directors' remuneration to the Board for approval. Based on the remuneration principles, it negotiates the terms and conditions of employment of the CEO and reviews those of the members of the GEC – as negotiated by the CEO – before submitting them to the Board for approval. The Remuneration Committee approves the employment arrangements for additional members of the GMB as negotiated by the CEO and liaises with him on other important employment, salary and benefit matters. It also reviews the performance relating to the senior management's short-term and long-term incentive plans. To assist in the review of the compensation structures and practices, the Remuneration Committee has retained its own independent advisor, Hewitt Associates. The Remuneration Committee met five times (once together with the Governance and Nominations Committee) in 2009, with attendance of 100 percent. Details of the Group's remuneration principles are given in the Remuneration report on pages 50 to 67.

The **Audit Committee** has four members, all of whom meet the relevant requirements with respect to independence and qualification. The Audit Committee charter provides 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 Financial Services 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. The Audit Committee met seven times in 2009. Average attendance at meetings was 93 percent.

The Audit Committee serves as a focal point for communication and oversight regarding financial accounting and reporting, internal control, actuarial, and compliance among the Management. It is responsible for reviewing the Group's auditing process (including establishing the basic principles relating to and making proposals with respect to the audit of Zurich Financial Services Ltd and the Group) and reviews the internal control systems. The external auditors, the internal auditors and appropriate members of the GEC, the GMB and other executives attend its meetings in order to, among other things, discuss the auditors' reports, to review and assess the auditing concept and the examination process and to assess the activities of internal and external auditors. For more information on the supervision and control over the external audit process, please see pages 45 to 46. The Audit Committee, at least annually, reviews the standards of internal control, including the activities, plans, organization and the quality of internal audit and Group Compliance.

The Audit Committee also reviews the annual, half-year and quarterly financial results of the Group before submission to the Board. Private sessions with external auditors and internal audit are scheduled at most of the Audit Committee meetings to enable discussions without Management present.

Statements regarding internal control and the procedures in place regarding internal control according to the UK Turnbull Guidance are given on pages 48 to 49.

The **Risk Committee** has four members. In 2009, it met six times; attendance on average was 92 percent. The Risk Committee oversees the Group's risk management, in particular the Group's risk tolerance, including agreed limits that the Board regards as acceptable for Zurich to bear, 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. It further oversees the Group-wide risk governance framework, including risk management and control, risk policies and their implementation as well as the risk strategy, and the monitoring of operational risks. The Risk Committee also reviews the methodologies for risk measurement and the Group's adherence to its risk limits and reviews the performance of the Risk Management function. It further reviews, with business management and the Group risk management function, the Group's general policies and procedures, and satisfies itself that effective systems of risk management are established and maintained. The Risk Committee receives periodic reports from Group Risk Management and assesses whether significant issues of a risk management and control nature are being appropriately addressed by Management in a timely manner. For further information on risk governance please refer to the Risk Review on pages 101 to 103.

To facilitate an on-going exchange of information between the Risk Committee and the Audit Committee, the Chairman of the Audit Committee is a member of the Risk Committee and the Chairman of the Risk Committee is a member of the Audit Committee. The Chairman of the Board regularly participates in Audit and Risk Committee meetings as a guest.

Areas of responsibility of the Board and Management

In addition to determining the overall strategy of the Group and the supervision of senior management, the Board addresses key matters in the area of strategy, finance, structure and organization and business development. The Board approves the Group strategic plan and the annual financial plans developed by Management and reviews and approves the annual, half-year and quarterly financial statements of Zurich Financial Services Ltd and the Group. It establishes guidelines for overall business policies and capital allocation and approves major changes in the Group's business activities, including major lending and borrowing transactions and major business developments, such as acquisitions or disposals of businesses or assets, investments or new businesses, mergers, joint ventures and cooperations. The Board also considers other matters of strategic importance to the Group.

Subject to the powers reserved to the Board as set out above, the Board has delegated the management of the Group to the CEO. The CEO and, under his leadership, the GEC are responsible for the development and execution of the strategic and financial plans approved by the Board. The CEO has specific powers and duties relating to strategic, financial and other matters as well as to the structure and organization of the Group and manages, supervises and coordinates the activities of the members of the GEC. The CEO ensures that appropriate management tools for the Group are developed and implemented and represents the overall interests of the Group against third parties. The CEO holds delegated authority to approve certain acquisitions and divestments of businesses and assets, investments and the establishment of new businesses, mergers, joint ventures or cooperations.

Information and control instruments vis-à-vis the Group Executive Committee and Group Management Board

The Board supervises Management and monitors its performance through reporting and controlling processes. Regular reporting by the CEO and other executives to the Board comprises appropriate information and updates, including key data for the core businesses, financial information, existing and upcoming risks and updates on developments in important markets and with regard to major competitors as well as other significant events. The Chairman of the Board regularly meets with the CEO. He also meets from time to time with all other GEC members and executives outside regular Board meetings. The other members of the Board do so as well, they meet especially with the Chief Financial Officer and the Group Chief Risk Officer.

The Group has an information and financial reporting system in place. The annual plan for the Group, which includes a summary of financial and operational metrics, is reviewed by the GEC in detail and approved by the Board. Monthly plan updates are prepared to compare actual performance to the plan. Full-year forecasts are revised if necessary to reflect changes in sensitivities and risks that may impact the results of the Group. Action is taken, where appropriate, when variances arise. This information is reviewed by the GEC on a monthly basis and by the Board on a quarterly basis.

Furthermore, the Group has adopted and implemented a coordinated, formalized and consistent approach to risk management and control. Information concerning the Group's risk management processes is included in the Risk Review starting on page 97.

The process and the results of this approach are further described on page 48 under the Risk management and internal control statement.

The internal audit function and the external auditors as well as the compliance function also assist the Board in exercising its controlling and supervisory duties. Information on major areas of activities of these functions is set out on pages 45 to 47.

Management Board

Group Executive Committee

To the extent not reserved to the Board, management is delegated to the CEO. The CEO, and under his supervision the GEC, are responsible for dealing with strategic, financial and business policy issues of Group-wide relevance, including consolidated performance, capital allocation and mergers and acquisitions.

The GEC is headed by the CEO. As of December 31, 2009 members of the GEC included the Chief Financial Officer, the Chief Investment Officer and the Group Chief Risk Officer. To reflect both lines of business and geography, the heads of General Insurance, Global Life, Farmers, North America Commercial, Global Corporate, Europe General Insurance, Asia-Pacific & Middle East and Americas were represented in the GEC.

For key areas specific cross-functional committees have been established to facilitate the coordination and alignment of recommendations to the CEO for approval on specific subject matters.

A standing committee of the GEC is the Group Balance Sheet Committee (GBSC), chaired by the CEO. This committee acts as a cross-functional body whose main function is to control the activities that materially affect the balance sheets of the Group or its subsidiaries. The GBSC is charged with setting the annual capital and balance sheet plans for the Group based on the Group strategy or financial plan, as well as recommending specific transactions or unplanned business changes to the Group's balance sheet. The GBSC has oversight of all main levers of the balance sheet. It assesses the Group's capital adequacy, reinsurance, level of return, risk tolerance and desired growth. The GBSC reviews and recommends the Group's overall risk tolerance levels. A further GEC committee is the Group Finance and Risk Committee (GFRC), chaired by the Chief Financial Officer. The GFRC acts as a cross-functional body for financial and risk management matters in the context of the strategy and the overall business activity of the Group. It oversees financial implications of business decisions and the effective management of the Group's overall risk profile, including risks related to insurance, financial market and asset/liability, credit and operational risks as well as their interactions and provides recommendations for future courses of action with respect to potential M&A transactions and topics relating to finance and risk management.

More technical committees include the Asset/Liability Management Investment Committee, chaired by the Chief Investment Officer, the Group Reinsurance Committee, chaired by the Head of Group Reinsurance, the Global Underwriting Committee, chaired by the Global Chief Underwriting Officer and the Group Pension Committee, chaired by the CEO Global Life.

In addition, to enhance its understanding and assessment of the challenges and risks Zurich may face, the Group increasingly seeks external expertise and perspective. As of the end of 2009, the Group had four panels of leading academics, business and industry experts to provide feedback and insight. They 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. In particular, the International Advisory Council is mandated to provide an external perspective and expertise to the CEO and to members of the GEC and GMB on the Group's growth and public policy strategies. The Investment Management Advisory Council offers feedback on Zurich's investment results and strategy and on achieving superior risk-adjusted returns relative to the liabilities for the Group's invested assets. The Natural Catastrophe Advisory Council provides insight into the patterns of occurrence, predictability and destructiveness of catastrophes, and feedback about Zurich's approach to such catastrophes in order to help improve the effectiveness of its underwriting and reinsurance purchasing. The Group's Climate Change Advisory Council provides insight and advice on issues associated with climate change.

Members
of the GEC, as of
December 31, 2009

Name	Nationality	Age	Position held
James J. Schiro	American	63	Chief Executive Officer
John Amore	American	61	Chief Executive Officer General Insurance
Annette Court	British	47	Chief Executive Officer Europe General Insurance
Mike Foley	American	47	Chief Executive Officer North America Commercial
Mario Greco	Italian	50	Chief Executive Officer Global Life
Paul Hopkins	American	53	Chairman of the Board of Farmers Group, Inc. & Chief Executive Officer Americas
Axel Lehmann	Swiss	50	Group Chief Risk Officer
Geoff Riddell	British	53	Chairman of Global Corporate & Chief Executive Officer Asia-Pacific & Middle East
Martin Senn	Swiss	52	Chief Investment Officer
Dieter Wemmer	German	52	Chief Financial Officer

All current members of the GEC served throughout the year 2009.

Paul van de Geijn retired from the GEC on December 31, 2008. As from January 1, 2009, Paul Hopkins became Chairman of the Board of Farmers Group, Inc. and CEO Americas and Geoff Riddell assumed the new positions of Chairman of Global Corporate and CEO Asia-Pacific and Middle East.

Patrick O'Sullivan retired from the GEC and his position as Chief Growth Officer on April 30, 2009. After Mr. O'Sullivan's retirement the responsibility for driving profitable growth was transitioned back into the businesses. As from May 1, 2009, the Growth Council's coordination and priority setting function is assumed by the Group Management Board and our core operating segments established a formal growth infrastructure with designated growth leaders.

For information on contractual termination benefits, please see page 45.

Biographies

James J. Schiro graduated from St. John's University, New York, with a bachelor's degree in business administration. He holds an honorary Doctor of Commercial Science degree from the same university. He joined Price Waterhouse in 1967 and held various management positions before becoming chairman and senior partner of the U.S. firm in 1994. After the merger of Price Waterhouse and Coopers & Lybrand in 1998, he became global chief executive officer of PricewaterhouseCoopers. He joined Zurich in March 2002 as Chief Operating Officer – Group Finance and was appointed Chief Executive Officer of the Group two months later. He is a member of the board of directors of PepsiCo. and the supervisory board of Royal Philips Electronics. He also serves on various not for profit boards and is a trustee for St. John's University in New York, the Institute of Advanced Study in Princeton, New Jersey, vice chairman of the American Friends of the Lucerne Festival and sits on the advisory board of the Tsinghua School of Economics and Management in Beijing, China.

John J. Amore graduated with a degree in management from Embry-Riddle Aeronautical University, Daytona Beach (U.S.), and with an MBA in finance from New York University. Before joining Zurich in 1992, he was vice chairman of the Commerce and Industry Insurance Company, a member company of American International Group (AIG). He later became Chief Executive Officer of the Zurich U.S. Specialties business unit and was appointed Chief Executive Officer of Zurich U.S. in December 2000. In July 2001 he became a member of the GEC and was appointed CEO of Zurich North America Corporate business division. He held this position until end of August 2004. In April 2004 he was appointed CEO of the General Insurance business segment, and since September 2004 he has been concentrating on this global leadership role. Mr. Amore served as chairman of the American Insurance Association and was a member of its board from 2001 until March 2008. He serves as director on the board of overseers for the School of Risk Management, Insurance and Actuarial Science at St. John's University in New York. He is an elected partner for the Partnership for New York City, an organization dedicated to maintaining the city's position as a global center of commerce and innovation and serves on the U.S. Chamber of Commerce's board of directors.

Annette Court graduated from Oxford with an honors degree in engineering science. She joined IBM UK Ltd. in 1983, working in various positions in systems engineering and client management in the banking and insurance sectors. In 1994, she joined Direct Line Group as central planning manager, and three years later became managing director of motor insurance. She was appointed managing director of Direct Line Insurance in 2000 and chief executive officer of Direct Line Group the following year, responsible for all retail, partnerships and international businesses. In 2003, Ms. Court became chief executive officer of Royal Bank of Scotland Insurance following the acquisition and successful integration of Churchill Group with Direct Line Group. She joined Zurich on January 15, 2007 and assumed the function of CEO of Europe General Insurance and member of the GEC as of March 1, 2007. She is a member of the board of the Association of British Insurers.

Mike Foley graduated in math and economics from Fairfield University, Connecticut. He joined the financial management training program of Armtek Corporation, Connecticut, in 1984, and later gained an MBA in marketing/finance from the J.L. Kellogg Graduate School of Management at Northwestern University in Evanston, Illinois. In 1989 he joined the Deepath Group investment banking firm in Lake Forest, Illinois, as an associate and became vice president responsible for managing the portfolio of equity investments in various acquired businesses. In 1993 he joined Electrocal, Inc in Connecticut as president, and three years later moved to McKinsey & Company in Chicago, where he became a principal and later led its North American property/casualty insurance practice. He joined Zurich in 2006 as Chief Operating Officer of its North America Commercial business division, and in January 2008 was appointed CEO of that division and a member of the Group Executive Committee.

Mario Greco earned an undergraduate degree in Economics from the University of Rome and completed a Master in International Economics and Monetary Theory at Rochester University, New York (USA). Mr. Greco started his professional career in management consulting, working with McKinsey & Company's Milan office from 1986 until 1994, becoming a partner in 1992 and a partner leader in the insurance segment. In 1995, he joined RAS (Allianz Group) in Milan as head of Claims Division. He became general manager in charge of the insurance business the following year, and in 1998 was appointed managing director. In 2000, he became the company's chief executive officer, remaining in the position for four years. He was appointed head of Allianz's Life Sustainability business in Munich in 2004, and later that year he was appointed to 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 the chief

executive officer of EurizonVita, formerly named Aip, as part of a project to build up the Group's insurance and asset management businesses. In October 2005, he was appointed chief executive officer of EFG, the company holding the Sanpaolo IMI Group's investments in EurizonVita and Banca Fideuram, and Eurizon Capital. He joined Zurich on October 1, 2007 as the designated CEO Global Life and became a member of the GEC. He is also a member of the board of directors of Editoriale l'Espresso Group, Indesit, Saras and Bocconi University, Milan.

Paul N. Hopkins holds a Bachelor of Science degree in business from the Eastern Illinois University and completed the Advanced Executive Education program of the Wharton Business School. He joined the Farmers organization in 1978 as an agent and subsequently became a Farmers employee, where he held positions of increasing responsibility in the sales and marketing area. In 1992 he transferred to the Los Angeles Regional Office as Assistant Vice President, Regional Operations. He became Vice President Agencies in 1995, and Senior Vice President Agencies two years later. In 1998, he was made Senior Vice President and Chief Marketing Officer, a position he held until January 1, 2000, when he was appointed Senior Vice President of State Operations. His next assignment, as Senior Vice President of Strategic Alliances, became effective in April 2001. In August 2002 he was promoted to Executive Vice President, Market Management, and two years later became President of Farmers Group, Inc. Mr. Hopkins was appointed a member of Zurich's Group Management Board in December 2004. From April 2005 until December 2008, he was chief executive officer of Farmers Group, Inc. and a member of Zurich's Group Executive Committee. In 2006, Mr. Hopkins was named chairman of the board of ZFUS Services, LLC, Zurich's North American shared services platform. As of January 1, 2009 he was appointed CEO Americas and chairman of the board of Farmers Group, Inc. Mr. Hopkins further serves as a member of the board of trustees for the American Institute for Chartered Property Casualty Underwriters, as well as a member of the board of the Insurance Information Institute.

Axel P. Lehmann graduated with an MBA and PhD from the University of St. Gallen in Switzerland. After several U.S. research studies, he wrote a post-doctorate certification at the University of St. Gallen and subsequently completed the Wharton Advanced Management Program. He was a lecturer at several universities and institutes and became vice president of the Institute of Insurance Economics at the University of St. Gallen and the European Center, responsible for Consulting and Management Development. He was head of Corporate Planning and Corporate Controlling for Swiss Life before he joined Zurich in 1996 and held various executive management and corporate development positions within Zurich Switzerland. He became a member of the Group Management Board responsible for Group-wide Business Development functions in November 2000. In September 2001, he was appointed Chief Executive Officer for Northern, Central and Eastern Europe and subsequently Chief Executive Officer of the Zurich Group, Germany. In March 2002, he became CEO of the Continental Europe business division and a member of the GEC. In 2004, he was in charge of the consolidation of the United Kingdom and Ireland division with the Continental Europe division and assumed responsibility as CEO for the creation of the integrated Europe General Insurance business division. In September 2004, he became CEO of Zurich North America Commercial in Schaumburg/Chicago. In January 2008 he assumed his current role as Group Chief Risk Officer, with additional responsibility for Group IT. Mr. Lehmann is an honorary professor for business administration and service management and chairman of the board of the Institute of Insurance Economics at the University of St. Gallen in Switzerland. He is also a member of the board of directors of UBS and vice chairman of the Chief Risk Officer Forum (CRO Forum).

Geoffrey (Geoff) Riddell holds a MA degree in natural sciences (chemistry) from Oxford University (The Queen's College) and later qualified as a chartered accountant. He started his career with Price Waterhouse in 1978 and four years later moved to AIG, where he held various roles, including country manager for Hong Kong, Belgium and France. While in Hong Kong, he was responsible for setting up the first foreign general insurance company in China. Mr. Riddell joined Zurich in May 2000, initially as managing director of Zurich Commercial in the UK, and then became managing director of the UK Corporate and Government businesses. In November 2002 he was appointed CEO of General Insurance in the UK, Ireland and Southern Africa. Mr. Riddell assumed the position of Chief Executive Officer (CEO) of Global Corporate in April 2004, and was promoted to be a member of the Group Executive Committee in October 2004. On January 1, 2009 he took on the roles of CEO of Asia-Pacific & Middle East (APME), responsible for both Life and General Insurance in the APME region and as Chairman of Global Corporate. Mr. Riddell is a former member of the General Insurance Council of the Association of British Insurers and for three years chaired its liability committee. From 1990 to 1995, he was a member of the Hong Kong Federation of Insurers Council. He became a director of Pool Re in February 2005 and of the Forum for Global Health Protection in 2007. He is a member of the Confederation of British Industry's Chairmen's Committee and chairs the CBI Financial Services Council. Until late 2009 he was a member of the Foundation Board of IMD in Lausanne, the City EU Advisory Committee and the Lord Mayor of London's Advisory Committee.

Martin Senn received his commercial and banking diploma from the Business School in Basel, Switzerland and graduated from the International Executive Program at INSEAD in Fontainebleau and the Advanced Management Program at Harvard Business School. He is a trained banker and worked at the former Swiss Bank Corporation from 1976 to 1994 where his international career steps included treasurer in Hong Kong and regional treasurer for Asia and the Pacific region in Singapore before ultimately managing the company's Tokyo office. In 1994 he joined Credit Suisse where his executive roles included that of treasurer for the Head Office and Europe, chairman and turnaround manager of Credit Suisse Group Japan with a mandate to restructure and reposition all legal entities of the Group in Japan. In 2001, he became a member of the Credit Suisse Banking executive board and was appointed head of its Trading and Investment Services Division. From 2003 until 2006 he served as a member of the corporate executive board and as chief investment officer of the Swiss Life Group. Mr. Senn joined Zurich on April 1, 2006 as Chief Investment Officer and became a member of the Group Executive Committee as per the same date. He is a member of the governing board of Avenir Suisse and treasurer of the Zurich Association of Economics. In addition he serves as Honorary Consul of the Republic of Korea in Zurich. He previously was a member of the board of directors of various banks and financial services institutions. Mr. Senn was appointed Chief Executive Officer of the Group in August 2009, effective January 1, 2010.

Dieter Wemmer holds a PhD and a master's degree in mathematics from the University of Cologne. From 1983 until 1986, he worked in pure mathematics at the universities of Cologne and Oxford. In 1986, he joined Zurich Re (Cologne), at that time a reinsurance subsidiary of Zurich's German operation Agrippina, as a pricing actuary for life reinsurance. He became Head of Life Reinsurance and Chief Actuary five years later. From 1992 until 1996, Mr. Wemmer held various positions with Agrippina, joining the management board in 1995 responsible for Controlling/Planning, Communication and Real Estate management. He was seconded to Zurich's Corporate Center in 1996 as project manager for the implementation of International Accounting Standards (IAS) and US Generally Accepted Accounting Principles (US GAAP). One year later, he became Head of Financial Controlling. From 1999 until May 2003, he was Head of Mergers and Acquisitions, with additional responsibility for capital management and General and Life Actuarial from 2002. He became Chief Operating Officer of the Europe General Insurance business division in May 2003. In November 2004, he was appointed CEO Europe General Insurance and became a member of the Group Executive Committee. Since March 2007, he has assumed his current role as Chief Financial Officer of Zurich Financial Services Group. Mr. Wemmer is a member of the board of *economiesuisse*. In October 2009 he has been elected chairman of the European Insurance CFO Forum.

Changes to the GEC after January 1, 2010

On August 5, 2009, the Board of Directors appointed Martin Senn to the role of the Chief Executive Officer effective from January 1, 2010, following the retirement of James J. Schiro on December 31, 2009. Mr. Senn will continue to be responsible for the Investment Management function at the GEC level until a new Chief Investment Officer has been appointed.

Group Management Board

Members of the GEC are also part of the Group Management Board (GMB), which includes the heads of certain business units and Group functions. The GMB primarily focuses on communication, capability building and development of the Group, represents the businesses and functions and serves to foster horizontal collaboration throughout the Group.

Additional members
of the GMB, as of
December 31, 2009

Name	Nationality	Age	Position held
Inga Beale	British	46	Global Chief Underwriting Officer, Head of Organizational Transformation, and Internal Consulting (iCon)
Peter Goerke	Swiss	47	Group Head of Human Resources
Markus Hongler	Swiss	52	Chief Executive Officer Zurich Insurance plc. and Chief Executive Officer Western Europe
Richard Kearns	American	59	Chief Administrative Officer
Michael Paravicini	Swiss	48	Chief Information Technology Officer
Yannick Hausmann	Swiss	42	Group General Counsel
Mario Vitale	American	54	Chief Executive Officer Global Corporate
Robert Woudstra	American	64	Chief Executive Officer Farmers Group, Inc.

As of January 1, 2009, Markus Hongler assumed the function of CEO of Zurich Insurance plc, Mario Vitale became CEO Global Corporate and Robert Woudstra was appointed CEO Farmers Group, Inc. and became member of the Group Management Board. Inga Beale assumed the new position of Global Chief Underwriting Officer as from June 1, 2009. Besides her new role, she remains Head of Organizational Transformation, and oversees the Internal Consulting function. Reto Schiltknecht left the organization during 2009 and Yannick Hausmann was appointed to replace him as Group General Counsel.

Management contracts

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

Shareholders' participation rights

Voting rights restrictions and representation

Each share entered into the share register provides for one vote. There are no voting right restrictions.

A shareholder with voting rights can attend shareholders' meetings of Zurich Financial Services Ltd in person. He or she may also authorize, in writing, another shareholder with voting rights or any person permitted under the Articles of Incorporation and a more detailed directive of the Board to represent him or her at the shareholders' meeting. Based on the Articles of Incorporation, minors or wards may be represented by their legal representatives, married persons by their spouses and a legal entity may be represented by a person authorized to bind it by his or her signature, even if such persons are not shareholders. Furthermore, authority of representation may be given to the Independent Representative of Shareholders, to a statutory representative or to representatives of bank accounts who do not need to be shareholders themselves. Zurich Financial Services Ltd may under certain circumstances authorize the beneficial owners of the shares that are held by professional persons as nominees (such as a trust company, bank, professional asset manager, clearing organization, investment fund or other entity recognized by Zurich Financial Services Ltd) to attend the shareholders' meetings and exercise votes as proxy of the relevant nominee. For further details, see page 28.

Zurich Financial Services Ltd used electronic voting for all the resolutions taken at last year's Annual General Meeting. In accordance with Swiss practice, Zurich Financial Services Ltd informs all shareholders at the beginning of the general meeting of the aggregate number of proxy votes received.

Statutory quorums

Pursuant to the Articles of Incorporation, the general meeting constitutes a quorum irrespective of the number of shareholders present and shares represented. Resolutions and elections generally require the approval of a simple majority of the votes cast, excluding abstentions, blank and invalid votes, unless respective provisions in the Articles of Incorporation (of which there are none) or mandatory legal provisions stipulate otherwise. Article 704 of the Swiss Code of Obligations provides for a two-thirds majority of votes cast representing an absolute majority of nominal values of shares represented for certain important matters, such as the change of the company purpose and domicile, the dissolution of the company, and matters relating to capital increases. In the event of the votes being equally divided, the decision rests with the Chairman.

Convocation of the general meeting of shareholders

General meetings of shareholders are convened by the Board of Directors 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 and in several newspapers.

Agenda

The Board of Directors is responsible for developing the agenda and sending it to the 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 proposals be included on the agenda.

Registrations in the share register

With a view to ensure an orderly process, shortly before the shareholders' meeting the Board determines the record date at which a shareholder needs to be registered in the share register in order to exercise his or her participation rights by attending the shareholders' meeting. Such record date is published, together with the invitation to the shareholders' meeting, in the Swiss Official Gazette of Commerce and in several newspapers.

Information policy

Zurich Financial Services Ltd has approximately 116,000 shareholders registered in its share register, ranging from private individuals to large institutional investors. Each registered shareholder receives an invitation to the Annual General Meeting together with the Letter to Shareholders that provides an overview of the Group's activities during the year and outlines its financial performance. The more comprehensive Business Review and Financial Report are available

on Zurich's Web site www.zurich.com (<http://www.zurich.com/main/investors/resultsandreports/financialreports/introduction.htm>). Similar documents regarding half-year and quarterly results reportings are also available for all shareholders on Zurich's Web site. Shareholders may opt to receive printed versions of one or all of the aforementioned documents.

Zurich Financial Services Ltd maintains a regular dialogue with investors through its Investor Relations department and responds to questions and issues raised by institutional and private individual shareholders. In addition, Zurich Financial Services Ltd organizes investor days for institutional investors to provide comprehensive information on its businesses and strategic direction. Such presentations can be followed via webcast or conference call. The investor days in 2009 focused on Zurich's three main business segments: Farmers (Strategy Update), held in London on May 20, 2009, General Insurance (Strategy Update) and Global Life (Strategy Execution Update), both events held in Zurich on May 27, 2009. Further investor days are planned for 2010 on topics of interest to the investment market. A wide range of information on the Group and its businesses, including the aforementioned results reporting documents and the full documentation distributed at the investor days, is also available on the Investor Relations section of Zurich's Web site, www.zurich.com (<http://www.zurich.com/main/investors/introduction.htm>).

Zurich Financial Services Ltd will hold its Annual General Meeting on March 30, 2010. As part of the agenda, the Chairman, the Chief Executive Officer and the Chief Financial Officer will present a review of the business of the Group for the year 2009. The meeting will be conducted in the Hallenstadion in Zurich-Oerlikon. An invitation setting out the agenda for this meeting and an explanation of the proposed resolutions will be issued to shareholders by Zurich Financial Services Ltd at least 20 days before the meeting.

For addresses and further upcoming important dates, please refer to the Shareholder information starting on page 326 (Financial calendar on page 330).

Employees

The Group is committed to provide equal opportunities when recruiting and promoting people, whereby ability, experience, skills, knowledge and diversity are the guiding principles. The Group actively encourages employee involvement in its activities via print and online publications, team briefings and regular meetings with employees' representatives. For further information on the Group's People Management activities, please refer to the Business Review on page 34, also available on Zurich's Web site [www.zurich.com](http://zdownload.zurich.com/main/reports/business_review_2009_en.pdf) (http://zdownload.zurich.com/main/reports/business_review_2009_en.pdf).

The Group is party to a voluntary agreement within the scope of the European Works Council Directive. In some countries, the Group has established broad-based employee share compensation and incentive plans to encourage employees to become shareholders in the Group.

Changes of control and defense measures

Duty to make an offer

The Articles of Incorporation of Zurich Financial Services Ltd do not provide for an opting out or opting up in the meaning of Articles 22 and 32 of the Federal Act on Stock Exchanges and Securities Trading. Therefore, mandatory offers have to be submitted when a shareholder or a group of shareholders acting in concert exceed 33 ¹/₃ percent of the issued and outstanding share capital.

Clauses on changes of control

Employment agreements have been entered into with the members of the GEC, setting out the terms and conditions on which they are employed. With regard to termination benefits, the longest period of severance for members of the GEC is two years, including the notice period, and no additional severance 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 CEO, as applicable) has the right to have the existing share obligations rolled over 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 an automatic right to the vesting of share obligations. No other benefits are provided to the members of the Group's senior management in case of a change of control.

For the members of the Board of Directors no benefits are provided in case of a change of control.

External Auditors

Duration of the mandate and term of office of the lead auditor

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

PwC assumes all auditing functions, which are required by law and by the Articles of Incorporation of Zurich Financial Services Ltd. They are elected by the shareholders of Zurich Financial Services Ltd on an annual basis. At the Annual General Meeting of shareholders on April 2, 2009, PwC was re-elected by the shareholders of Zurich Financial Services Ltd. The Board of Directors proposes that PwC be re-elected at the upcoming Annual General Meeting as external auditors for the business year 2010. PwC fulfils all necessary requirements under the new 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 under this Act.

PwC and its predecessor organizations, Coopers & Lybrand and Schweizerische Treuhandgesellschaft AG, have served as external auditors of Zurich Financial Services Ltd and its predecessor organizations since May 11, 1983. As in 2000, the Group conducted in 2007 a tender process, inviting all major auditing firms to submit their work programs and tender offers for 2008 and subsequent years. After a thorough review, the Group came to the conclusion that PwC's work program and offer prevailed.

Patrick Shoumlin of PricewaterhouseCoopers AG is the lead auditor, responsible since January 1, 2008. The Group requires rotation every five years for the lead auditor.

OBT AG has been elected as a special auditor to perform special audits for increases in share capital required under Articles 652f, 653f and 653i of the Swiss Code of Obligations. At the Annual General Meeting of shareholders on April 3, 2008, OBT was re-elected by the shareholders for a three-year term. OBT AG originally assumed this mandate in October 2000.

Auditing fees

Total auditing fees (including expenses and value added taxes) charged by PwC in the year 2009 amounted to USD 32.9 million (USD 34.4 million in 2008).

Additional fees

Total fees (including expenses and value added taxes) in the year 2009 for additional services (e.g., tax services or special audits required by local law or regulatory bodies) performed by PwC and parties associated with them for Zurich Financial Services Ltd or one of the Group's companies amounted to USD 4.2 million (USD 2.8 million in 2008).

Supervision and control over the external audit process

The Audit Committee regularly meets with the external auditors, at least four times a year. During 2009, the Audit Committee met with the external auditors seven times. The external auditors regularly have private sessions with the Audit Committee, without Management present. Based on written reports, the Audit Committee discusses with the external auditors 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 Financial Services Ltd and the Group.

The Audit Committee oversees the work of the external auditor. 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 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 cooperation received by the external auditors during their audit examination. It elicits the comments of management regarding the performance and responsiveness of the external auditors to the needs of Zurich Financial Services Ltd and the Group. 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 to the Board the external auditors for election by shareholders and is responsible for approving the audit fees. A proposal for fees for audit services is submitted by PwC to and validated by Management, before it is submitted to the Audit Committee for approval. Such a 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 forth the rules for providing such services and related matters. Allowable non-audit services may include tax advice and services, comfort and consent letters, certifications and attestations, 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 their independence or objectivity as external auditors. All allowable non-audit services need pre-approval from the Audit Committee (Chairman), the Group Chief Financial Officer or the local CFO, depending on the level of expected fee. They further require, among other things, an engagement letter specifying the services to be provided and making reference to the external auditors' obligation to comply with this policy.

Group Audit

The internal audit function of the Group ("Group Audit") is tasked with providing independent and objective assurance to the Board, the Audit Committee, the CEO and Management. It does this by developing an annual audit plan, using a risk-based methodology, which is updated quarterly to reflect changes in risk and priority. The plan is based on the full spectrum of business risks. Group Audit executes the plan by bringing a systematic and disciplined approach to evaluate, comment upon and improve risk management, control and governance processes. It assesses the suitability, reliability and functioning of the business organization with regard to technical and personnel matters and reviews the efficiency and effectiveness of the Group's control systems. In addition, the internal audit function reviews the financial reporting processes and compliance with the Group's business regulations. Key issues raised by Group Audit are communicated to the responsible management function, the CEO and the Audit Committee using a suite of reporting tools.

The Audit Committee and the CEO are regularly informed of important findings, including ineffective opinions, mitigation actions and attention provided by Management. Group Audit has unrestricted access to all accounts, records and documents and must be provided with all data and information needed in order to fulfil its duties. Group Audit works in close cooperation 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, organization and quality as well as its mutual cooperation with the external auditors. In 2007, the Group commissioned an independent party to perform a review of Group Audit's effectiveness. The results confirmed Group Audit's practices meet or exceed the professional requirements of the Institute of Internal Audit (IIA), and in a high proportion of cases are consistent with global internal audit leading practices. Notwithstanding this positive result, Group Audit is continuing to constantly challenge its operation to further increase its effectiveness, efficiency and value contribution. As an example of this, from 2010, Group Audit will further align its organizational structure to mirror the functional structure of the business.

The Audit Committee annually approves the Group Audit Plan and quarterly reviews reports from the function on its activities as well as significant risk, control and governance issues. The head of Group Audit reports to both the Chairman of the Audit Committee and the CEO and regularly meets with the Chairman of the Board. Group Audit has no operational responsibilities over the areas it reviews and all staff within Group Audit globally report to the head of Group Audit.

The Group has adopted an integrated assurance strategy in its overall assessment of the risk and control environment. Through an increased focus on information exchange and coordination, the effectiveness and efficiency of assurance delivery, chiefly between the Group's risk, compliance and internal audit functions, and external audit, has been improved.

Compliance

The Group's core values are founded on the principle that it acts lawfully and seeks to do what is right. Sound compliance in everything the company helps to protect Zurich's reputation and supports the achievement of the Group's ambitious goals.

The compliance function provides policies and guidance, business advice and training, and further coordinates with Group Audit and the business quality assurance groups to ensure proper internal oversight of business and governance functions. This includes ongoing reviews of laws, regulations and other requirements at all levels of the organization. The compliance team supports Zurich's management in maintaining and promoting a culture of compliance and ethics consistent with Zurich Basics, our company's code of conduct. This robust compliance framework relies on an ongoing global compliance risk assessment and on a solid monitoring regime. The results of this assessment underpin the compliance function's strategic planning which is conducted in consultation with business partners. Subsequently, the compliance plan is ratified by Management.

Through a comprehensive program, the compliance function implements, embeds and enforces internal policies and guidance. As part of it, our compliance officers are active in the on-boarding of new employees and in the integration of newly acquired companies. To help employees understand their responsibilities under Zurich Basics and internal policies, all employees receive regular ethical and compliance training. In addition, the compliance function spearheads internal awareness campaigns on ethical and regulatory conduct. Each year Zurich managers confirm their understanding and compliance with Zurich Basics and internal policies. Zurich encourages its employees to speak up and report improper conduct. Zurich does not tolerate retaliation against any employee who reports such concerns in good faith.

The Group's compliance function, with compliance professionals around the world, is overseen by the Group Compliance Officer who reports to the Group General Counsel and regularly to the Board Audit Committee.

Risk management and internal control statement

The Board is responsible for overseeing the Group's risk management and internal control system, which Management is responsible for implementing. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material financial misstatement or loss. There are two committees at the Board level that have primary risk management and internal control oversight responsibilities:

- the Risk Committee – with oversight over risk management and
- the Audit Committee – with oversight over internal control matters.

At the Management level Management committees are established to continuously review risk management and internal control matters. The Management committees consist of such business and functional members to ensure independence of the business in review. The results of such reviews performed by these Management committees are reported to the Board committees, as appropriate.

The Group has adopted a coordinated and formalized approach to risk management and internal control. The Group's core risk management and internal control systems and policies are generally established at the Group level with subsequent Group-wide implementation. The principal focus of the approach is on major risks that might impact the achievement of the Group's business objectives and on the activities to control and monitor these risks and to contribute to control effectiveness. At the business unit operating level, the responsibility for implementing and monitoring the effectiveness of the risk and internal control system rests with the business CEO and senior management. A risk-aware and control-conscious environment is fostered in the Group and reinforced by communication and training.

Effectively managing risks is a core strength. Management is responsible for the identification, evaluation and control of significant risks. The Group manages risks throughout the organization, under direction of the senior management. Zurich has Group-wide risk management policies, common methods and tools for assessing and modeling risks. The Group risk assessment processes are aligned with the Group planning process and are reviewed by the Group Executive Committee and the Board Risk Committee. Significant risks, the results of the assessment and modeling processes and the relevant actions arising are reported regularly to the Risk Committee of the Board. Periodic local risk assessments are conducted using Zurich's Total Risk Profiling™ tool and business units are required, at least quarterly, to report key risks and implement action plans to mitigate them. Additional details are provided in the Risk Review in the Financial Report.

The internal control system focuses on key financial, operational and compliance controls. The system encompasses the policies, processes and activities that contribute to the reliability of financial reporting, the effectiveness and efficiency of operations and the compliance with laws and regulations. In 2009, continuing progress was made to further develop and improve the Group's control system while maintaining the focus on the effectiveness of the overall internal control environment.

The Group's annual business plan includes risk management considerations, as well as strategic and business direction, financial information and key indicators. During the year, the Board and Group Management receive regular reports summarizing financial condition, financial and operating performance, as compared to plan, and key risk exposures.

Processes and controls in the organization are subject to risk-based reviews by Management, the Group's internal audit function ("Group Audit") and Group Risk Management. Management reviews include the effective implementation of policies and procedures including claims, investment, underwriting, actuarial, treasury, accounting and reporting, as well as effectiveness of control for significant locations and information technology systems. The Board, the Audit and Risk Committees receive regular and, as needed, special reports from the Group Chief Risk Officer, Group General Counsel, Head of Group Compliance, Chief Financial Officer and Group Controller, Head of Group Audit and financial and business senior management on the adequacy of the control structure in place. In addition, the external auditors regularly report their conclusions, observations and recommendations arising from their independent audit process. The reports relate to matters such as a) significant changes in risks, the business and the external environment;

b) management's monitoring and control systems; c) significant control issues, if any; and d) the effectiveness of the Group's external reporting process.

The Risk Committee has reviewed the Group's risk tolerance and overseen Zurich's enterprise-wide risk governance framework and the Audit Committee has reviewed the effectiveness of the system of internal control operated by the Group related to the calendar year 2009 up to the date of this Annual Report and have reported to the Board accordingly. The Board is satisfied that the reviews were conducted in accordance with the UK Turnbull Guidance (as revised in October 2005). The assessment included the consideration of the effectiveness of the Group's ongoing process for identifying, evaluating, controlling and managing the risks of the business, including the scope and frequency of reports on both risk and control that were received and reviewed during the year by the Risk and Audit Committees and the Board, the important internal control matters discussed and associated actions taken by Management. Issues identified by this process have been communicated to the Board and are being addressed by the Group.

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 financial statements.

Remuneration Report

This Remuneration Report provides all the information that is outlined in chapter five of the Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange and the Swiss Code of Best Practice, as amended with effect from July 1, 2009 and October 15, 2007, respectively. Included is also all the information required by articles 663b^{bis} and 663c paragraph 3 of the Swiss Code of Obligations. The structure of the Remuneration report is in alignment with the requirements of the Swiss Code of Obligations and the above mentioned SIX Directive and the Swiss Code of Best Practice. The first part of the report describes the general principles and the governance framework, and the second part provides details of each of the remuneration elements.

Because the members of the Board of Directors of Zurich Financial Services Ltd are all independent non-executives, the information has been presented with the complete remuneration details of the Board of Directors contained in one section and that of the Group Executive Committee shown in a separate section.

All information required by articles 663b^{bis} and 663c paragraph 3 of the Swiss Code of Obligations is also included in the notes to the financial statements of Zurich Financial Services Ltd holding company.

All other information which is to be disclosed according to the SIX Directive is included in the Corporate governance report preceding this Remuneration report.

Remuneration principles

Directors

Recognizing that Zurich is a global insurance-based financial services organization, the level of Directors' fees has been established to ensure the Group's ability to attract and retain high caliber individuals.

The fees paid to members of the Board of Directors of Zurich Financial Services Ltd comprise a fixed cash element and an award in Zurich Financial Services Ltd shares. The shares awarded are sales-restricted for three years.

The fees paid to Directors (including the portion allocated as shares) are not subject to the achievement of any specific performance conditions.

Group Executive Committee and all other employees

For the members of the Group Executive Committee and all other employees throughout the Group, a number of key elements have been implemented to provide a well balanced and effectively managed compensation program. These elements include a group-wide compensation philosophy, robust short and long term incentive compensation plans, effective governance and strong links to the business planning and the risk policies of the Group.

The Swiss banking and insurance regulator FINMA published its Circular on remuneration in November 2009. Zurich is currently assessing in detail whether any changes will have to be made to the current remuneration system for 2011. First impressions indicate that the current system is largely in line with the principles outlined in the Circular and the additional remuneration disclosures will be prepared for inclusion in the 2010 Remuneration report.

The key components of the compensation philosophy are described below.

Zurich is committed to providing competitive total compensation opportunities that attract, retain, motivate and reward employees to deliver outstanding performance as viewed by customers and shareholders. The compensation philosophy is an integral part of the overall offering to employees. Zurich has a clearly defined performance management process which supports the achievement of the overall business strategy and operating plans and links individual pay with business and personal performance. This is delivered through the compensation framework overseen by the Group Executive Committee, the Remuneration Committee of the Board and the Board of Directors itself.

Guiding principles of the compensation philosophy

The guiding principles are as follows:

- Promote a high performance culture by differentiating total compensation based on the relative performance of businesses and individuals.
- Link variable compensation awards to relevant performance factors which can include the performance of the Group, business areas, e.g., segments, divisions, functions, units, and individual achievements.
- Clearly define the expected performance through a structured system of performance management and use this as the basis for compensation decisions.
- Provide employees with benefits based on local market practices.

Total compensation

Total compensation is influenced by a number of factors such as scope and complexity of the role, business performance and affordability, individual performance, internal equity, and legal requirements. Target opportunities are benchmarked to median levels in clearly defined markets and take into account internal equity considerations. The compensation mix between base salary and variable pay is also aligned with local market practices and internal relativities. Zurich is transparent in the communication of how the reward structure is defined and the processes used for decision making. Total compensation includes the following elements:

Element		Type	Description
Base salary		Fixed Cash	Fixed remuneration, determined by scope and complexity of the role Generally paid within an 80–120% range of relevant market median
Variable pay	Short-term incentives (STIP – 1 year)	Performance Cash	For executives, senior managers and a broader group of employees, paid annually Performance measured against business results and accomplishment of strategic objectives Awards driven by both business and individual performance
	Long-term incentives (LTIP – 3 years)	Performance Shares	For a defined group of executives and senior managers with annual vesting Vesting determined from three year performance measurement based on TSR and ROE achievements
Performance Options		Half of vested share awards are sales-restricted for three years Options granted to only the most senior population	
Employee Benefits		Fixed	Employee benefits provided in line with local market practices Pension plans de-risked in line with Group guidelines Benefits positioned towards median

Base salary

Base salary is the fixed pay for the role performed determined by the scope and complexity of the role and is reviewed annually. Overall base salary structures are positioned to manage salaries around the relevant market medians. At an individual level, base salary is generally paid within an 80 percent – 120 percent range of the appropriate market median. Key factors are the individual's overall experience and performance.

Variable pay

Incentive plans are designed to provide a range of award opportunities linked to levels of performance. Business and individual performance may result in superior awards above target for superior performance, and reduced or no awards for performance below expectations. Variable pay opportunities are provided, in markets where this is the norm, to motivate employees to achieve key short and long-term business goals to increase shareholder value. Variable pay opportunities may include both short-term and long-term incentives:

- Short-term (1 year) incentives are performance-driven based on relevant factors which can include the performance of the Group and the business areas as well as individual performance achievements. Key performance measures are determined annually and focus on business priorities. They typically include profitability measures, such as Group net income after tax (NIAT) and business operating profit (BOP).
- Long-term (3 years) incentives are for a defined group of executives and senior managers, whose specific roles focus on the performance drivers of long-term shareholder value. The instruments used are primarily performance share and performance-based share options. The performance share and share option grants only vest if certain performance conditions are met. One third of the target grant is assessed for vesting in each of the three years following the grant date based on the Group's performance achievements in terms of the Group's return on common shareholders' equity (ROE) and the position of the Group's total shareholder return (TSR) compared with an international peer group of 28 insurance companies that are included in the Dow Jones Titan Insurance Index. Based on the actual ROE and TSR achievements, the vesting percentage can vary between 0 percent and 175 percent of the target grants. For the grants made in 2009, 2008 and 2007, these are assessed for vesting on the basis of considering the ROE and TSR performance over the three calendar years prior to vesting. Previous grants are assessed on the basis of performance during the calendar year prior to vesting. Further details on the plans are set out in the section covering the actual remuneration of Group Executive Committee members.

The Group's variable pay plans are reviewed annually both as to their content and participants. The plans can be terminated, modified, changed or revised at any time.

Employee benefits

The Group provides employee benefits which are designed by reference to local market practice. Employees are normally required to contribute to the cost of these benefits, and the overall benefits offering is based on the relevant market median.

Remuneration governance

The Board of Directors defines the remuneration principles based on proposals of the Remuneration Committee. Based on these remuneration principles the Remuneration Committee is responsible for proposing to the Board on an annual basis the remuneration payable to the Directors, to the Chief Executive Officer (CEO) and to the other members of the Group Executive Committee. For the other members of the Group Executive Committee, these recommendations are based on proposals made by the CEO. The remuneration is approved by the Board of Directors. In the meetings of the Remuneration Committee and the Board of Directors where decisions are made on the compensation of the Chairman, the Chairman is not present. In making decisions on the compensation of the CEO, the CEO is not present. Where decisions are made on the compensation of other members of the GEC, those members are also not present at the meetings. The Remuneration Committee does not include members with interlinked company mandates. See page 34 in the Corporate Governance Report for further details of its responsibilities and for an overview on the authorities within the area of remuneration the following table.

The Governance Framework can be summarized as follows:

Subject	Recommendation from	Final Approval from
Remuneration Principles for all employees including senior executives	Remuneration Committee based on proposals by the CEO	Board of Directors
Remuneration payable to Directors (including Chairman and Vice Chairman)	Remuneration Committee	Board of Directors
Remuneration of CEO	Remuneration Committee	Board of Directors
Remuneration of Members of GEC (excluding CEO)	Remuneration Committee based on proposals by CEO	Board of Directors
STIP Funding Pools	Remuneration Committee based on proposals by CEO	Board of Directors
Vesting levels under the LTIP	Remuneration Committee based on proposals by CEO	Board of Directors

To assist decision making on both Board and Group Executive Committee remuneration, benchmarking studies are carried out regularly. To assess market practices and market compensation levels, the compensation structures and practices of the companies in the Dow Jones Titan Insurance Index are analyzed. This Index comprises the largest insurance companies based in both Europe and in the United States. This analysis is supplemented by additional benchmarking studies as appropriate, e.g. by looking at practices within the large Swiss Market Index (SMI) companies in Switzerland or at similar companies in other countries.

The results of the benchmarking studies are taken into account in setting fee levels for Directors and compensation structures for members of the Group Executive Committee. In analyzing the results, factors considered are the market practices in the various countries and the internal relativities between positions. Overall positioning of the compensation structures is towards the median levels.

To align the interests of the Board of Directors and the Group Management Board with those of shareholders, members build their ownership position in the Company through their fee payments, their participation in long term compensation plans and through market purchases. Members have a period of 5 years to meet their ownership requirement and the Remuneration Committee monitors the compliance with these guidelines on an annual basis. To help build the ownership positions, all shares awarded to the Board of Directors as part of their annual fee and one half of all performance shares that vest for members of the Group Management Board have a three-year sales restriction.

In reviewing compensation structures and practices on a regular basis, the Remuneration Committee receives independent advice from the executive compensation practice at Hewitt Associates Ltd. This adviser was appointed by the Committee and is accountable to it. Hewitt Associates is a large, international human resources firm and, as such, other practices within Hewitt undertake work with the Group from time to time. The Committee does not consider the independence and integrity of the advice it receives from Hewitt to be compromised by these separate assignments. For their activities, management is supported by a variety of firms operating in the field of international executive compensation.

At the Annual General Meeting to be held on March 30, 2010, Zurich will provide shareholders with an opportunity to express their views on the remuneration system through an advisory vote. As the ultimate decision on remuneration is within the powers of the Board of Directors, such a vote is non-binding in nature.

Remuneration and shareholdings of the members of the Board of Directors and the Group Executive Committee

As of December 31, 2009, all of the Directors of Zurich Financial Services Ltd are non-executives, independent of management. The remuneration for Directors and for members of the Group Executive Committee, as well as their shareholdings, is therefore disclosed separately.

Directors

Directors' fees

All Directors receive a fee, which is paid partly in cash and allocated partly in three-year sales-restricted Zurich Financial Services Ltd shares, for their memberships of the Boards of Zurich Financial Services Ltd and Zurich Insurance Company Ltd. The shares are provided as part of the overall fee which is not subject to the achievement of any defined performance targets. There were no changes in the fee structure in 2009 compared with 2008.

Except for the Chairman and Vice Chairman, Directors are remunerated with an annual basic fee of USD 205,000. One-third of this annual basic fee, i.e. USD 68,500, is allocated to sales-restricted Zurich Financial Services Ltd shares. The fee is pro-rated for members leaving or joining during the year. Committee members receive an additional cash fee of USD 40,000 for all Committees on which they serve, irrespective of the number. In addition, the chair of each Committee receives an annual fee of USD 20,000 and the chair of the Audit Committee receives an additional USD 10,000. Directors who reside in the United States receive an additional fee of USD 10,000 per annum. The Committees on which the members serve is set out in the Corporate governance report on page 29. In addition to the above, where a Director is also a member of a subsidiary board of Zurich Financial Services Group, the Director is entitled to an additional fee of USD 40,000 per annum plus USD 10,000 per annum if he or she also chairs the audit committee of such board.

The current annual basic fee for the Vice Chairman is USD 330,000, of which an amount of USD 68,500 is allocated to sales-restricted Zurich Financial Services Ltd shares. The annual basic fee for the Chairman of the Board of Zurich Financial Services Ltd and Zurich Insurance Company Ltd during 2009 was USD 700,000 and one-third of the total amount, i.e. USD 233,500 is allocated to sales-restricted Zurich Financial Services Ltd shares. Neither the Chairman nor the Vice Chairman receive any additional fees for their Committee work.

Based on this structure, the total aggregate fees allocated to the Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd for the year ended December 31, 2009, amounted to USD 3,395,000. This included USD 2,476,500 in cash and a value at the grant date of USD 918,500 in three-year sales-restricted shares. The share price at the grant date was CHF 197.10. The corresponding amount for 2008 was USD 3,291,875, which comprised of USD 2,408,767 in cash and a value at the grant date of USD 883,108 in three-year sales-restricted shares. The share price at the grant date in 2008 was CHF 284.00.

The Directors' fees are not pensionable.

The following tables set out the fees paid to the Directors in 2009 and 2008:

Directors' fees 2009	in USD							2009 ¹	
	Basic Fee	Committee Fee ²	Chair Fee ³	U.S. Residence Fee ⁴ /Other	Total Fees	Of which paid in Cash ⁵	Of which allocated in Shares ^{6,7}		
M. Gentz, Chairman ⁸	700,000	–	–	–	700,000	466,500	233,500		
Ph. Pidoux, Vice Chairman ⁸	330,000	–	–	–	330,000	261,500	68,500		
S. Bies, Member	205,000	40,000	–	20,000 ⁹	265,000	196,500	68,500		
V. Chu, Member	205,000	40,000	–	–	245,000	176,500	68,500		
Th. Escher, Member	205,000	40,000	–	–	245,000	176,500	68,500		
F. Kindle, Member	205,000	40,000	–	–	245,000	176,500	68,500		
A. Meyer, Member	205,000	40,000	–	–	245,000	176,500	68,500		
D. Nicolaisen, Member	205,000	40,000	30,000	20,000 ⁹	295,000	226,500	68,500		
V.L. Sankey, Member	205,000	40,000	20,000	–	265,000	196,500	68,500		
T. de Swaan, Member	205,000	40,000	20,000	50,000 ⁹	315,000	246,500	68,500		
R. Watter, Member	205,000	40,000	–	–	245,000	176,500	68,500		
Total in USD¹⁰	2,875,000	360,000	70,000	90,000	3,395,000	2,476,500	918,500		

Directors' fees 2008	in USD							2008 ¹	
	Basic Fee	Committee Fee ²	Chair Fee ³	U.S. Residence Fee ⁴ /Other	Total Fees	Of which paid in Cash ⁵	Of which allocated in Shares ^{6,11}		
M. Gentz, Chairman ⁸	700,000	–	–	–	700,000	466,500	233,500		
Ph. Pidoux, Vice Chairman ⁸	330,000	–	–	–	330,000	261,500	68,500		
S. Bies, Member ¹²	152,041	29,667	–	7,417	189,125	138,321	50,804		
V. Chu, Member ¹²	152,041	29,667	–	–	181,708	130,904	50,804		
Th. Escher, Member	205,000	40,000	–	–	245,000	176,500	68,500		
F. Kindle, Member	205,000	40,000	–	–	245,000	176,500	68,500		
A. Meyer, Member	205,000	40,000	–	–	245,000	176,500	68,500		
D. Nicolaisen, Member ¹³	205,000	40,000	27,417	10,000	282,417	213,917	68,500		
V.L. Sankey, Member	205,000	40,000	20,000	–	265,000	196,500	68,500		
G. Schulmeyer, Member ¹²	52,960	10,333	7,749	2,583	73,625	73,625	–		
T. de Swaan, Member ¹⁴	205,000	40,000	14,833	30,167 ¹⁵	290,000	221,500	68,500		
R. Watter, Member	205,000	40,000	–	–	245,000	176,500	68,500		
Total in USD¹⁰	2,822,042	349,667	69,999	50,167	3,291,875	2,408,767	883,108		

¹ The remuneration shown in the tables does not include any business-related expenses incurred in the performance of the Board members' services.

² Committee members receive a cash fee of USD 40,000 for all Committees on which they serve, irrespective of the number. The Committees on which the Board members serve are set out in the Corporate Governance Report on page 29.

³ Committee chairs receive an annual fee of USD 20,000 and the chair of the Audit Committee receives an additional USD 10,000. The Committees on which the Board members serve and the chairs are set out in the Corporate Governance Report on page 29.

⁴ Directors who reside in the United States receive a fee of USD 10,000 per annum.

⁵ The cash fees are defined in U.S. dollars, but paid in the actual currencies where the Board members reside, based on the relevant exchange rate at the dates of the payment.

⁶ The shares allocated to the Directors are sales-restricted for three years.

⁷ As of June 30, 2009, Mr Gentz was allocated 1,296 shares and the other Board members were allocated 380 shares based on a full year's membership. The share price (CHF 197.10) and the exchange rate (USD/CHF 1.0942) as of June 15, 2009, were 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. The amounts shown in the table above reflect the fixed amount in U.S. dollars of the portion of the fee to be allocated in shares.

⁸ Neither the Chairman nor the Vice Chairman receive any additional fees for their Committee work.

⁹ In addition to the fees received as Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd, Mrs Bies, Mr Nicolaisen and Mr de Swaan earned fees for their board memberships of the following Zurich Financial Services Group companies:

- Mrs Bies, Mr Nicolaisen a pro rata fee of USD 10,000 for their membership of the board of Zurich Holding Company of America (ZHCA) from October 19, 2009 (based on an annual fee of USD 40,000). The amounts shown in the table also include a U.S. Residence Fee of USD 10,000.
- Mr de Swaan earned an annual fee of USD 40,000 for his membership of the board of Zurich Insurance plc and an annual fee of USD 10,000 for being Chair of the audit committee of Zurich Insurance plc in Ireland.

¹⁰ In line with applicable laws, Zurich paid the company-related portion of contributions to social security systems, which amounted to USD 80,670 in 2009. The corresponding contributions amounted to USD 69,305 in 2008. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above.

¹¹ As of June 30, 2008, Mr Gentz was allocated 861 shares and the other Board members were allocated 252 shares based on a full year's membership. The share price (CHF 284.00) and the exchange rate (USD/CHF 1.0476) as of June 15, 2008, were 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. The amounts shown in the table above reflects the fixed amount in U.S. dollars of the portion of the fee to be allocated in shares.

¹² The following Board membership changes occurred in 2008:

- Mrs Bies and Mr Chu joined the Board on April 3, 2008 and received pro rata fees in cash and shares for their Board work from that date.
- Mr Schulmeyer retired from the Board on April 3, 2008 and received a pro rata fee in cash for his Board work up to that date.

¹³ Mr Nicolaisen became Chairman of the Audit Committee on April 3, 2008 following the retirement of Mr Schulmeyer. He received a pro rata fee for being Chair. Prior to that he was Chairman of the Risk Committee.

¹⁴ Mr de Swaan became Chairman of the Risk Committee on April 3, 2008. He received a pro rata fee for being Chair.

¹⁵ In addition to the fees he received as a Director of Zurich Financial Services Ltd and Zurich Insurance Company Ltd, Mr de Swaan earned a pro rata fee of USD 28,111 for his membership of the board of Zurich Insurance plc from April 17, 2008 (based on an annual fee of USD 40,000). He additionally also earned a pro rata fee of USD 2,056 for being Chair of the audit committee of Zurich Insurance plc from October 16, 2008 (based on an annual fee of USD 10,000).

Termination arrangements for members of the Board of Directors who gave up their functions

No Director gave up his or her function during 2009. At the Annual General Meeting in 2008, Gerhard Schulmeyer retired from the Boards. No termination payments were paid to him.

Compensation for former Directors

No benefits (or waiver of claims) have been provided to former members of the Boards during the year 2009, nor were any provided during the year 2008.

Share plans for Directors

The members of the Board of Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd do not participate in any of the share-based incentive plans established for executive management. However, as mentioned above, part of the fees of the Directors of Zurich Financial Services Ltd are allocated to three-year sales-restricted shares. As mentioned above, the shares provided to Directors are part of the overall fee and are not subject to the achievement of any defined performance targets.

Shareholdings of Directors

The shareholdings of the Directors, who held office at the end of the year, in the shares of Zurich Financial Services Ltd are shown below. All interests shown are beneficial, including sales-restricted shares allocated to the members as part of their fee and shares held by related parties to the Directors.

Directors' shareholdings	Number of Zurich Financial Services Ltd shares ¹ , as of December 31	Ownership of shares	
		2009	2008
M. Gentz, Chairman		4,274	2,978
Ph. Pidoux, Vice Chairman		2,850	2,470
S. Bies, Member		567	187
V. Chu, Member		567	187
Th. Escher, Member		5,850	5,470
F. Kindle, Member		10,850	10,470
A. Meyer, Member		2,174	1,794
D. Nicolaisen, Member		850	470
V.L. Sankey, Member		2,020	1,640
T. de Swaan, Member		850	470
R. Watter, Member		3,818	3,438
Total		34,670	29,574

¹ None of the Directors together with related parties to them held more than 0.5% of the voting rights as of December 31, 2009 or 2008, respectively.

Share options held by Directors

The members of the Boards of Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd do not participate in any share option plan for executive management. Hence, no share options have been allotted in the year under review or in earlier years. None of the Directors, nor any related parties to them, held any share options or conversion rights over Zurich Financial Services Ltd shares as of December 31, 2009 or as of December 31, 2008.

Additional honoraria and remuneration for Directors

None of the Directors received any other compensation or benefits-in-kind from the Group or from any of the Group's companies other than that set out above.

Personal loans for Directors

Unrelated to his Board membership and on terms and conditions available to other customers, Mr. Watter had a collateralized policy loan in the amount of CHF 2.5 million outstanding as of December 31, 2009 and 2008. The annual interest rate charged on the loan is 4 percent. Other than the loan for Mr. Watter, none of the Directors had outstanding loans, advances or credits as of December 31, 2008 or 2009.

Personal loans for former Directors

As of December 31, 2009, and 2008, respectively, no former Director had outstanding loans, advances or credits.

Related parties to the Directors or to former members of the Board

No benefits (or waiver of claims) have been provided to related parties of the Directors or related parties of former members of the Boards during the year 2009 and 2008, respectively. Neither had any related party of the Directors or of former members of the Boards outstanding loans, advances or credits as of December 31, 2009 and 2008.

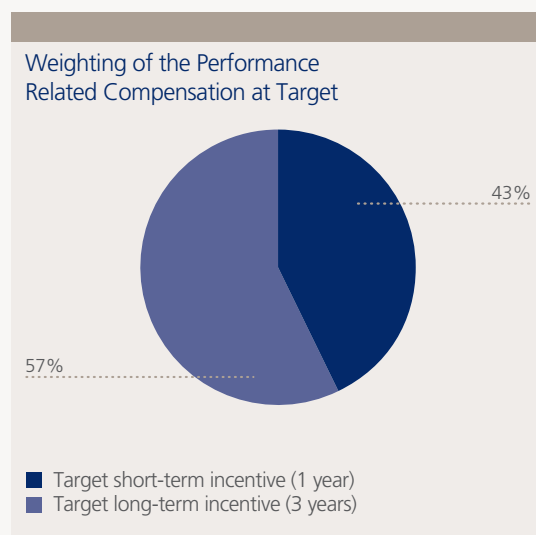
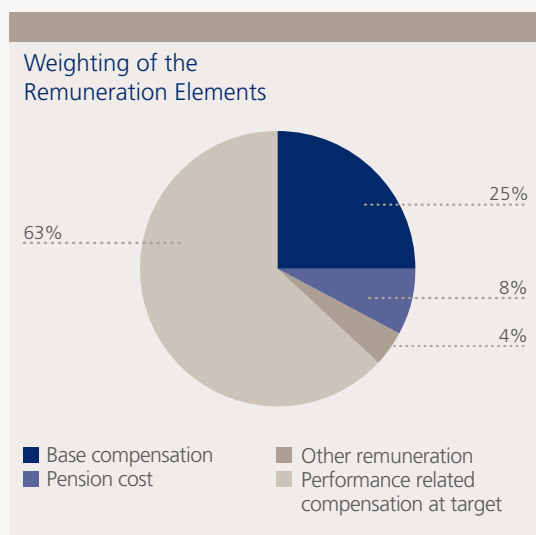
Group Executive Committee

Remuneration of the Group Executive Committee

The total remuneration of the members of the Group Executive Committee for 2009 comprised the value of cash compensation (including short-term cash incentive), pensions, other remuneration and the target equity grants made under the Group's Long-Term Incentive Plan in 2009.

The compensation structure and the mix of the individual compensation elements for Group Executive Committee members are determined by taking into account market practices and internal relativities.

The distribution of the total remuneration in 2009 between the individual compensation elements is set out in the following charts. This is on the basis of the target values for the performance related compensation.



As can be seen from the above charts, there is a significant emphasis on performance related compensation through both the Short-Term Incentive Plan and Long-Term Incentive Plan. The distribution of the target values between short-term (one year) and long-term incentives (three years) shows an emphasis towards long-term incentives.

The individual compensation elements are described in more detail below (the amounts for the highest paid executive are included):

Value of total remuneration

The total value of the various compensation elements earned by the members of the Group Executive Committee in 2009 was USD 47.8 million. This compares with an equivalent figure of USD 53.9 million earned in 2008 calculated on the same basis. The decrease in the value of total remuneration from 2008 to 2009 is largely explained by the reduction in the number of Group Executive Committee members over the period.

The total value for 2009 comprises the following elements (the comparative figures for 2008 are shown in the table on total remuneration for all GEC members):

Base compensation and annual cash incentives paid for 2009

The total amount of base compensation and annual cash incentive awards earned under the Short-Term Incentive Plan for 2009 was USD 26.1 million. This comprised USD 11.1 million in base compensation and USD 15.0 million in annual cash incentive awards, which reflect the amounts to be paid in 2010 for 2009 performance. The annual cash incentive awards are determined individually and are performance based. Overall funding for the incentives is based on overall profit performance in 2009 and funds are allocated to individuals based on a combination of factors, including the results of the business that the Group Executive Committee member is responsible for, the accomplishment of growth initiatives and their individual contribution to the accomplishment of strategic objectives during the year. For members of the Group Executive Committee the target levels under the Short-Term Incentive Plan for 2009 were set at 100 percent of the base compensation, except for the Chief Executive Officer where the target was set at 150 percent of the base compensation. The maximum award for all GEC members (including the CEO) is 200 percent of the target level.

Value of pension benefits accruing during 2009

Members of the Group Executive Committee participate in the pension plan arrangements of the business units in which 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 Group Executive Committee members participate in such plans and, over time, all future Group Executive Committee members will participate in such plans. The other Group Executive Committee members continue to participate in defined benefit plans that provide retirement benefits based on final pensionable earnings and the number of years of service. The normal retirement ages vary from 60 to 65. The total value of pension benefits accruing to members of the Group Executive Committee during 2009, calculated on the basis of the Service Costs for the company as assessed under IAS 19 accounting principles, was USD 3.6 million. Service Costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year.

Value of other remuneration paid in 2009

Members of the Group Executive Committee received other remuneration in 2009 in relation to employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under each member's employment contract. The total value of the other remuneration elements in 2009 was USD 2.1 million. Benefits-in-kind have been valued using market rates.

Equity grants made to the Group Executive Committee under the Long-Term Incentive Plan in 2009

Remuneration components for Group Executive Committee members under the Long-Term Incentive Plan comprise an annual grant of performance shares and performance options. In extraordinary circumstances, restricted share grants may also be made. For members of the Group Executive Committee, the overall value of the target annual grants in 2009 was 125 percent of the base compensation. For the Chief Executive Officer the overall of the target annual grant value was set at 300 percent of the base compensation.

The target grants for the year are made on the third working day in April of that year. Thus, the target grants in 2009 were made on April 3, 2009. The target performance share and share option grants only vest if certain performance conditions are met. One-third of the target grant made in 2009 is assessed for vesting in each of the three years 2010, 2011 and 2012 based on the Group's performance achievements in terms of the Group's return on common shareholders' equity (ROE) and the position of Group's total shareholder return (TSR) compared with an international peer group of 28 insurance companies that are included in the Dow Jones Titan Insurance Index. Based on the actual ROE and TSR achievements, the vesting percentage can vary between 0 percent and 175 percent of the target grants. For the grants made since 2007, these are assessed for vesting on the basis of considering the TSR and ROE performance over the three calendar years prior to vesting. Grants made prior to 2007 are assessed on the basis of performance during the calendar year prior to vesting.

The level of vesting will be determined on the basis of the following matrix:

Long-Term Incentive Plan vesting matrix	in %		Level of vesting for Share and Share Option Targets			
Zurich's three year relative TSR, based on 28 companies making up the Dow Jones Global Insurance Sector Titan Index		Top Quartile (Position: 1 to 7)	100%	125%	150%	175%
		Second Quartile (Position: 8 to 14)	75%	100%	125%	150%
			9%	12%	15%	18%
			Three year annual average of the Group's return on common shareholders' equity (ROE)			

The vesting percentages are determined through interpolating the figures in the above matrix. As an example, with the relative TSR in the top quartile and an average ROE of 14 percent the vesting percentage would be 142 percent of the target grant.

If the actual performance is below the minimum levels, there will be no vesting and the awards will be lost. However, if the Group's ROE achievements are above the minimum level and the relative TSR is below the second quartile, the Board, based on a recommendation of the Remuneration Committee, will determine whether, due to exceptional circumstances, a partial vesting of the shares and/or options is appropriate. The Board, based on a recommendation of the Remuneration Committee, can further increase or decrease the calculated vesting level for specific members to reflect individual circumstances.

The following equity grants were made in 2009:

Performance share grants

The total number of target performance share grants made to members of the Group Executive Committee during 2009 was 46,001. This compares with an equivalent figure of 29,491 made for 2008. The value of the target performance share grants made on April 3, 2009 to members of the Group Executive Committee in 2009 was USD 8.0 million at the date of grant based on the assumption of 100 percent vesting and a share price of CHF 198.10 on the day prior to the grant.

The number of share awards that vested in 2009 to members of the Group Executive Committee serving in 2009 from the performance share grants made in 2006, 2007 and 2008 was 44,740. This represented a basic vesting level of 170 percent of target for the 2007 and 2008 grants and 126 percent of target for the 2006 grant given the actual ROE and TSR performance achievements. One-half of the shares that vest under the plan are sales-restricted for three years from the date of vesting.

Restricted share grants

Restricted share grants supplement the regular long-term incentive grants and are used in extraordinary circumstances mainly for new hires to compensate for the loss of their equity rights with their previous employer. This restricted share grants vest typically over three to five years following the date of grant and will be forfeited if the holder of such share grants voluntarily leaves the company before the vesting date and the employment relationship terminates.

No restricted share grants were made to members of the Group Executive Committee during 2009 and 2008.

Share option grants

The total number of target share option grants made to members of the Group Executive Committee during 2009 was 146,867. This compares with an equivalent figure of 148,154 for 2008. The value of the target share option grants made on April 3, 2009 was USD 8.0 million at the date of grant, based on the assumption of 100 percent vesting and the Black-Scholes valuation of the options at the date of grant.

The number of share option awards that vested in 2009 to members of the Group Executive Committee serving in 2009 from the share option grants made in 2006, 2007 and 2008 was 210,569. This represented a basic vesting level of 170 percent of target for the 2007 and 2008 grants and 126 percent of target for the 2006 grant given the actual ROE and TSR performance achievements.

Summary of total remuneration for the Group Executive Committee

By reference to the above figures, the total remuneration of the Group Executive Committee members, comprising cash compensation, pensions, the value of other remuneration and the value of target equity grants for 2009 was USD 47.8 million, divided as follows:

		2009 ²	2008 ³
All GEC members ¹ (incl. the highest paid)	in USD million, for the years ended December 31		
	Base compensation	11.1	13.4
	Cash incentive awards earned for the year	15.0	13.5
	Service Costs for pension benefits ⁴	3.6	4.5
	Value of other remuneration ⁵	2.1	2.9
	Value of target performance share and restricted share grants ⁶	8.0	9.8
	Value of target performance option grants ⁶	8.0	9.8
	Total⁷	47.8	53.9

¹ The remuneration shown in the table does not include any business related expenses incurred in the performance of the members' services.

² On the basis of 11 GEC members, of whom 10 served for the full year 2009.

³ On the basis of 12 GEC members, all of whom served during the full year 2008.

⁴ The amounts reflect the total value of pension benefits accruing to members of the GEC during 2009 and 2008, respectively, 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 takes the amount of the company contribution paid during the year. Service Costs do not include the interest cost on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.

⁵ Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under employment contracts. Benefits-in-kind have been valued using market rates.

⁶ The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100% of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in Note 25 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 198.10 for 2009 and CHF 336.50 for 2008) and the valuation of the restricted share grants based on the share price on the date of the grants.

⁷ 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 USD 1.9 million in 2009 and to USD 3.4 million in 2008. Since the contributions are based on full earnings, whereas benefits are capped, there is not a direct correlation between the costs paid to the social security system and the benefits received by the executives.

Based on these figures, the value of the total remuneration for all members comprises 35 percent (prior year 39 percent) in fixed compensation elements (comprising base compensation, service costs for pension benefits and other remuneration) and 65 percent (prior year 61 percent) in performance related components (comprising the cash incentive awards under the Short-Term Incentive Plan together with the value of the target performance share grants, restricted share grants and share option grants).

Highest total remuneration for Group Executive Committee members

The highest paid remuneration for the Group Executive Committee members was USD 11.85 million for Mr. James J. Schiro, the Group's Chief Executive Officer. This amount reflects his 2009 base salary, the cash incentive earned for 2009, the value of pension benefits, other remuneration and the value of the target performance shares and share options granted in 2009.

The following table specifies the total remuneration paid to the highest paid Group Executive Committee member:

Highest paid executive James J. Schiro, Chief Executive Officer ¹	in USD million, for the years ended December 31		
		2009	2008
	Base compensation	1.50	1.50
	Cash incentive awards earned for the year	4.05	2.25
	Service Costs for pension benefits ²	0.95	0.80
	Value of other remuneration ³	0.85	0.50
	Value of target performance share and restricted share grants ⁴	2.25	2.25
	Value of target performance option grants ⁴	2.25	2.25
	Total	11.85	9.55

¹ The remuneration shown in the table does not include any business related expenses incurred in the performance of the CEO's services.

² The amounts reflect the total value of pension benefits, 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 takes the amount of the company contribution paid during the year. Service Costs do not include the interest cost on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.

³ Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under the employment contract. Benefits-in-kind have been valued using market rates.

⁴ The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100% of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in Note 25 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 198.10 for 2009 and CHF 336.50 for 2008) and the valuation of the restricted share grants based on the share price on the date of the grants.

Termination arrangements for members of the Group Executive Committee who gave up their functions during the year

One of the Group Executive Committee members retired at the end of 2008. During 2009 one member retired at the end of April 2009 and another member retired at the end of the year. No termination payments were made.

Compensation for former Group Executive Committee members

No benefits (or waiver of claims) have been provided to former members of the Group Executive Committee during the year 2009, nor during the year 2008.

Summary of total outstanding share commitments for Group Executive Committee members under the Group's Long-Term Incentive Plans

Share grants

Performance share grants

The total number of target performance share grants outstanding as of December 31, 2009 under the Group's Long-Term Incentive Plan was 70,166 (59,583 as of December 31, 2008). A summary of the outstanding grants as of December 31, 2009 is set out in the table below:

Summary of outstanding share grants	Performance period	Target	Allocated price	Future years
		performance share grants	in CHF	of vesting
	2009–2011	44,681	198.10	2010–2012
	2008–2010	16,496	336.50	2010–2011
	2007–2009	8,989	355.75	2010

Within the context of the Group's Long-Term Incentive Plan, these performance share grants are considered for vesting in one-third instalments during the three years after the grant. The actual level of vesting is determined in accordance with the remuneration principles set out above on pages 50 to 53 and the Long-Term Incentive Plan Vesting Matrix as described on page 60.

Restricted share grants

In addition to the above performance share grants, there were 4,377 restricted shares outstanding for members of the Group Executive Committee as of December 31, 2009 (10,495 restricted shares were outstanding at the end of 2008). These restricted shares vest during 2010 and will be forfeited if the holders of such shares leave voluntarily before the vesting date and the employment relationship terminates.

Share option grants

Under the share option program for senior management, the Group can issue share options to individuals within prescribed rules. The first share option grant was made in 1999 and regular annual grants have been made since then. Prior to 2003, option grants were typically made on the basis of a seven-year option term, a three-year vesting period and an exercise price set at a 10 percent premium to the market rate during the month prior to the grant date. Under the rules of the plan, other parameters are allowed for option grants made under the share option program. In connection with the re-design of the Long-Term Incentive Program in 2003, the exercise price for the options granted since then has been set at the market price on the day prior to the date of grant. The performance based option grants are considered for vesting in one-third instalments during the three years after the grant. The actual level of vesting is determined under the performance in accordance with the remuneration principles set out above on pages 50 to 53 and the Long-Term Incentive Plan Vesting Matrix as described on page 60. Option grants are currently made each year on the third working day in April.

Under the share option program, the total number of shares under option for the Group Executive Committee members as of December 31, 2009, and 2008, respectively, is set out in the tables below.

Summary of outstanding options, 2009

as of December 31, 2009					
Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2009	–	143,228	143,228	198.10	2016
2008	73,834	82,861	156,695	336.50	2015
2007	156,288	41,061	197,349	355.75	2014
2006	164,221	–	164,221	308.00	2013
2005	160,291	–	160,291	206.40	2012
2004	61,247	–	61,247	213.25	2011
2003	–	–	–	120.50	2010
2001	9,142	–	9,142	322.30	2012
Total	625,023	267,150	892,173		

Summary of outstanding options, 2008

as of December 31, 2008					
Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2008	–	148,154	148,154	336.50	2015
2007	98,356	99,300	197,656	355.75	2014
2006	141,737	38,181	179,918	308.00	2013
2005	197,632	–	197,632	206.40	2012
2004	82,620	–	82,620	213.25	2011
2003	14,347	–	14,347	120.50	2010
2002	39,129	–	39,129	331.10	2009
2001	9,142	–	9,142	322.30	2012
Total	582,963	285,635	868,598		

All options mentioned above entitle the holder to subscribe for one share of Zurich Financial Services Ltd at the exercise price stated.

Share and share option holdings of the Group Executive Committee

The following table sets out the actual share and share option holdings of the Group Executive Committee members as of December 31, 2009 and December 31, 2008. In addition to any shares acquired in the market, the numbers include vested shares, whether sales-restricted or not, and vested share options received under the Group's Long-Term Incentive Plan. However, the table does not include the share interests of the members of the Group Executive Committee through their participation in the currently unvested performance shares, unvested restricted shares or unvested performance share options.

All interests are beneficial and include shares or share options held by related parties to the Group Executive Committee members. One vested option gives the right to one share with normal voting and dividend rights.

Share and vested share option holdings of the GEC members	Number of vested shares and vested share options ¹ , as of December 31	2009		2008	
		Ownership of shares	Ownership of vested options over shares ²	Ownership of shares	Ownership of vested options over shares ²
J.J. Schiro, Chief Executive Officer ³	97,426	286,165	85,726	230,415	
J. Amore, Chief Executive Officer General Insurance	19,264	82,522	19,606	76,096	
A. Court, Chief Executive Officer Europe General Insurance	6,722	16,515	3,062	5,696	
M. Foley, Chief Executive Officer North America Commercial	6,696	11,696	4,107	3,857	
M. Greco, Chief Executive Officer Global Life	2,403	5,076	492	–	
P. Hopkins, Chairman of the Board of Farmers Group, Inc. & Chief Executive Officer Americas	5,932	33,662	6,678	21,184	
A. Lehmann, Group Chief Risk Officer	15,174	56,257	13,066	49,871	
P. O'Sullivan ⁴	n.a.	n.a.	15,848	54,315	
G. Riddell, Chairman of Global Corporate & Chief Executive Officer Asia-Pacific and Middle East	16,918	52,533	12,410	44,846	
M. Senn, Chief Investment Officer	11,662	31,729	6,780	16,019	
P. van de Geijn ⁵	n.a.	n.a.	10,952	44,034	
D. Wemmer, Chief Financial Officer	12,612	48,868	9,267	36,630	
	194,809	625,023	187,994	582,963	

¹ None of the GEC members together with parties related to them held more than 0.5% of the voting rights as at December 31, 2009 or 2008, either directly or through share options.

² The distribution of the vested options according to the grants identified in the tables "Summary of outstanding options" is shown in the table below.

³ Includes an amount of 3,800 shares as of December 31, 2009 and 2008, for Mr Schiro, which are held by family run charitable foundations.

⁴ Retired from the GEC on April 30, 2009

⁵ Retired from the GEC on December 31, 2008

The following tables show how the totals of the vested share options owned by the Group Executive Committee members are distributed according to the grants identified in the tables "Summary of outstanding options" as of December 31, 2009 and 2008, respectively.

Distribution of vested share options 2009	Number of vested share options as of December 31, 2009	Year of grant						Total
		2008	2007	2006	2005	2004	2003	
J.J. Schiro	22,730	56,980	83,690	98,567	24,198	–	–	286,165
J. Amore	6,440	15,865	17,893	17,269	15,913	–	9,142	82,522
A. Court	5,585	10,930	–	–	–	–	–	16,515
M. Foley	4,293	7,403	–	–	–	–	–	11,696
M. Greco	5,076	–	–	–	–	–	–	5,076
P. Hopkins	4,830	11,899	13,420	10	3,503	–	–	33,662
A. Lehmann	6,344	11,899	13,420	15,962	8,632	–	–	56,257
G. Riddell	5,319	13,014	12,194	15,633	6,373	–	–	52,533
M. Senn	6,344	13,583	11,802	–	–	–	–	31,729
D. Wemmer	6,873	14,715	11,802	12,850	2,628	–	–	48,868
Total	73,834	156,288	164,221	160,291	61,247	–	9,142	625,023

Distribution of vested share options 2008	Number of vested share options as of December 31, 2008	Year of grant						Total
		2007	2006	2005	2004	2003	2002	
J.J. Schiro	30,166	61,857	98,567	24,198	–	15,627	–	230,415
J. Amore	8,268	13,002	17,269	15,913	–	12,502	9,142	76,096
A. Court	5,696	–	–	–	–	–	–	5,696
M. Foley	3,857	–	–	–	–	–	–	3,857
M. Greco	–	–	–	–	–	–	–	–
P. Hopkins	6,201	9,752	10	3,503	–	1,718	–	21,184
A. Lehmann	6,201	9,752	15,962	8,632	5,363	3,961	–	49,871
P. O'Sullivan ¹	8,815	11,311	19,955	11,647	–	2,587	–	54,315
G. Riddell	6,782	8,861	15,633	6,373	5,694	1,503	–	44,846
M. Senn	7,342	8,677	–	–	–	–	–	16,019
P. van de Geijn ²	7,074	9,848	17,386	9,726	–	–	–	44,034
D. Wemmer	7,954	8,677	12,850	2,628	3,290	1,231	–	36,630
Total	98,356	141,737	197,632	82,620	14,347	39,129	9,142	582,963

¹ Retired from the GEC on April 30, 2009

² Retired from the GEC on December 31, 2008

Trading Plans

To facilitate the sale of shares and the exercise of options for the members of the Group Executive Committee, the Board has approved the implementation of trading plans effective as of 2008. These plans allow members to sell shares and/or exercise share options under a pre-defined transaction program. Trading plans can only be established at a time when the Group Executive Committee member does not possess unpublished price-sensitive information with regard to the Group. Further, the first transaction under a trading plan can only occur three months following the date it is established. The terms and conditions of the transactions have to be defined and they cannot be changed. All trading plans of Group Executive Committee members require the approval of the Chairman of the Board. Once established, transactions take place on a monthly basis including during close periods. All transactions made under a trading plan are reported to the SIX Swiss Exchange according to the rules on disclosure of management transactions and recorded as such as being carried out as part of a trading plan.

Additional honoraria and remuneration for members of the Group Executive Committee

None of the members of the Group Executive Committee received any compensation from the Group or from any of the Group's companies in 2009 and 2008 other than as set out above.

Personal loans for members of the Group Executive Committee

As of December 31, 2009, the total of loans, advances or credits outstanding for Group Executive Committee members was CHF 1,073,000 (prior year CHF 1,082,000). These loans represent mortgage loans in Swiss francs, the terms of which are similar to those available to all employees in Switzerland. Mortgage loans are issued with a reduced interest rate of up to one percentage point less than the prevailing market interest rates on mortgage balances, up to a maximum of CHF 1,500,000. As at December 31, 2009, and 2008 respectively, the highest mortgage loan was held by Mr. Lehmann (Group Chief Risk Officer), in the amount of CHF 773,000 (CHF 782,000 in 2008) which had an overall interest rate of 2.1 percent (2.6 percent in 2008).

Personal loans for former members of the Group Executive Committee

Former members of the Group Executive Committee are eligible to continue their mortgage loans following retirement on similar terms as when they were employed, in line with the terms available to employees in Switzerland as stated above. In this respect, one former member, Mr. Eckert, held an outstanding mortgage loan of CHF 2,500,000 as at December 31, 2009 (CHF 3,000,000 as at December 31, 2008) with a reduced interest rate of 2.0 percent (2.5 percent in 2008) applying on the first CHF 1,000,000 (CHF 1,500,000 in 2008). Apart from this, no former members of the Group Executive Committee had any outstanding loans, advances or credits as of December 31, 2009 and 2008, respectively.

Related parties of Group Executive Committee members or of former members of the Group Executive Committee

No benefits (or waiver of claims) have been provided to related parties of GEC members or related parties of former members of the GEC during the year 2009 and 2008. Neither had any related party of GEC members or of former members of the GEC outstanding loans, advances or credits as of December 31, 2009 and 2008.



Group Performance Review



Financial Review	70
Risk Review	97

Financial Review

The information contained within the Financial Review is unaudited. This document should be read in conjunction with the Financial Report 2009 for the Zurich Financial Services Group and with its audited Consolidated Financial Statements as of December 31, 2009. Comparatives are for the year ended December 31, 2008 unless otherwise stated. All amounts, unless otherwise specified, are shown in U.S. dollars and 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. Certain comparatives including segment disclosures have been restated for changes in presentation and for reclassifications as set out in notes 1 and 30 of the audited Consolidated Financial Statements to conform to the 2009 presentation. The reclassifications had no impact on previously reported business operating profit, net income or shareholders' equity.

Financial highlights

in USD millions, for the years ended December 31, unless otherwise stated	2009	2008	Change ¹
Business operating profit	5,593	5,186	8%
Net income attributable to shareholders	3,215	3,039	6%
General Insurance gross written premiums and policy fees	34,157	37,151	(8%)
Global Life gross written premiums, policy fees and insurance deposits	26,029	21,873	19%
Farmers Management Services management fees and other related revenues	2,690	2,458	9%
Farmers Re gross written premiums and policy fees	6,615	3,381	96%
General Insurance business operating profit	3,463	3,535	(2%)
General Insurance combined ratio	96.8%	98.1%	1.3 pts
Global Life business operating profit	1,477	1,490	(1%)
Global Life new business annual premium equivalent (APE)	3,667	3,261	12%
Global Life new business margin, after tax (as % of APE)	21.3%	23.1%	(1.8 pts)
Global Life new business value, after tax	782	753	4%
Farmers business operating profit	1,554	1,356	15%
Farmers Management Services gross management result	1,291	1,142	13%
Farmers Management Services managed gross earned premium margin	7.2%	6.9%	0.3 pts
Group investments average invested assets ²	187,579	185,558	1%
Group investments result, net	6,082	5,805	5%
Group investments return (as % of average invested assets)	3.2%	3.1%	0.1 pts
Shareholders' equity	29,678	22,103	34%
Solvency I ratio	198%	160%	38 pts
Diluted earnings per share (in CHF)	24.21	23.35	4%
Book value per share (in CHF)	209.27	167.92	25%
Return on common shareholders' equity (ROE)	12.6%	12.1%	0.5 pts
Business Operating Profit (after tax) return on common shareholders' equity (BOPAT ROE)	17.2%	16.8%	0.4 pts

¹ Parentheses around numbers represent an adverse variance.

² Excluding average cash received as collateral for securities lending of USD 335 million and USD 1.0 billion in the years ended December 31, 2009 and 2008, respectively.

Performance
overview for the
year ended
December 31, 2009

Zurich Financial Services Ltd and its subsidiaries (the Group) delivered a strong set of financial results for the year ended December 31, 2009 as well as for the discrete fourth quarter 2009 which were a testament to a continued and disciplined execution of the Group's stated strategic objectives. While growth was achieved in targeted areas, particularly in the Global Life and Farmers businesses, the focus on margins was maintained, which paid off in particular in a robust operational performance from the General Insurance business. In parallel, as a result of disciplined asset/liability and risk management philosophies, capital and solvency positions increased substantially compared with December 31, 2008. The combination of sustained profitability, underscored by a business operating profit (after tax) return on common shareholders' equity of 17.2 percent for the year ended December 31, 2009, and a strong balance sheet, allowed for a dividend proposal of CHF 16.00 gross, which demonstrates the Group's commitment to shareholder value creation.

Business operating profit increased by USD 406 million or 8 percent to USD 5.6 billion in U.S. dollar terms and 10 percent on a local currency basis, with all core operating segments improving their performance on a local currency basis.

- **General Insurance** business operating profit decreased by USD 72 million or 2 percent to USD 3.5 billion in U.S. dollar terms but increased by 1 percent on a local currency basis. The overall result was driven by an improved underwriting result primarily due to the Group's disciplined approach to pricing insurance risks and lower levels of natural catastrophe losses. This improvement was partially offset by lower profitability in personal lines business in Europe and lower run-off contributions from reserves established in prior years. The overall improvement in the underwriting result compensated for lower investment result.
- **Global Life** business operating profit remained almost flat decreasing by USD 13 million or 1 percent to USD 1.5 billion in U.S. dollar terms, but increased by USD 77 million or 5 percent on a local currency basis. 2009 experienced a higher level of one-off benefits compared with 2008, which drove the overall improvement in local currency. The underlying performance of the businesses remained strong as the continued roll-out of the industrial business model, with its combined focus on distribution and product pillars as well as expense discipline through shared product manufacturing and other operational platforms, enabled us to achieve robust volumes and margin levels.
- **Farmers** business operating profit increased by USD 198 million or 15 percent to USD 1.6 billion. **Farmers Management Services** business operating profit increased by USD 124 million or 10 percent to USD 1.3 billion. This increase was primarily driven by the 21st Century acquisition, which has been integrated into Farmers in line with original targets and contributed USD 81 million, and also by disciplined expense management. **Farmers Re** business operating profit increased by USD 74 million, or 48 percent compared with the prior year, to USD 228 million as investment income accumulated as a result of the increased participation in the All Lines quota share reinsurance treaty.

Other Operating Businesses business operating loss improved by USD 160 million to a loss of USD 611 million primarily arising from gains on repurchases of subordinated debt executed against advantageous market conditions.

Non-Core Businesses, comprising the Group's run-off businesses and the Group's banking activities which are no longer seen to support the core insurance business but are viewed as a useful adjunct to it, reported a business operating profit of USD 143 million for the discrete fourth quarter 2009, resulting in an overall loss for the full year 2009 of USD 290 million compared with a loss of USD 423 million in 2008. The loss for the full year primarily resulted from an increase in certain life insurance reserves predominantly addressing policyholders' behavior and from increased loan loss provisions in the banking operations.

Total Group business volumes comprising gross written premiums, policy fees, insurance deposits and Farmers Management Services management fees increased by USD 4.6 billion or 7.1 percent in U.S. dollar terms and by USD 8.2 billion or 12.6 percent on a local currency basis, underscoring the Group's ability to grow selectively in line with its strategic objectives. The business volumes in the main operating segments developed as follows:

- **General Insurance** gross written premiums and policy fees decreased by 8 percent to USD 34.2 billion in U.S. dollar terms and by 4 percent on a local currency basis. Average rate increases of 3.3 percentage points were achieved through disciplined underwriting focusing on margin enhancement. This was particularly evident in the Global Corporate and North America Commercial businesses. International Markets achieved an increase in local currency as a result of organic growth, mainly in markets where economic growth continued, but also as a result of acquisitions. These positive developments on rates and volumes did not fully compensate for the effects of underwriting actions on new business and renewals, and for the effects of a difficult economic environment, where decreases in customers' insurable exposures were experienced, particularly in the construction and automotive industries in North America.
- **Global Life** gross written premiums, policy fees and insurance deposits increased by 19 percent to USD 26 billion in U.S. dollar terms and by 28 percent on a local currency basis. The new business annual premium equivalent (APE) increased by 12 percent in U.S. dollar terms and by 19 percent on a local currency basis. This growth supported net policyholder inflows of USD 5.4 billion compared with net policyholder outflows of USD 2.2 billion in 2008. This resulted in total assets under management of USD 215 billion as of December 31, 2009 compared with USD 180 billion as of December 31, 2008. The growth was primarily driven by the Bank Distribution pillar with continued strong performance in Spain, the Corporate Life & Pensions pillar in the UK and Ireland, and the Private Banking Client Solutions pillar with strong sales in both, the UK and the newly established hub in Luxembourg.
- **Farmers Management Services** management fees and other related revenues increased by 9 percent to USD 2.7 billion driven by an 8 percent increase in gross earned premiums in the Farmers Exchanges, which the Group manages but does not own. 21st Century contributed USD 214 million to revenues while Small Business Solutions generated an increase in revenue of USD 31 million compared with the prior year. Since September 2008, **Farmers Re** increased its participation in the All Lines quota share reinsurance treaty with the Farmers Exchanges in various steps from 5 percent to 37.5 percent for the second half of 2009, which resulted in an increase in assumed written premiums of USD 3.2 billion to USD 6.6 billion compared with 2008. Effective December 31, 2009 the participation was reduced to 35 percent.

As a result of the strong operating performance and lower levels of net capital losses on investments due to recovering capital markets, **net income attributable to shareholders** increased by USD 176 million to USD 3.2 billion for the full year, with net income attributable to shareholders for the discrete fourth quarter of 2009 increasing for the fifth consecutive quarter since the third quarter 2008. This strong result was achieved despite charges of USD 265 million in 2009 from losses on hedges used to protect the economic solvency position included in net capital gains/(losses) on investments and impairments. The **shareholders' effective tax rate** was 21.9 percent for the year ended December 31, 2009 compared with 19.0 percent for the year ended December 31, 2008. The 2008 full year shareholders' effective tax rate was positively affected by one-off items, mainly the use of previously unrecognized net operating losses.

Compared with 2008, **ROE** increased by 0.5 percentage points to 12.6 percent while **BOPAT ROE** increased by 0.4 percentage points to 17.2 percent. **Diluted earnings per share** increased by 4 percent to CHF 24.21 for the year ended December 31, 2009, compared with CHF 23.35 for the year 2008.

General Insurance

in USD millions, for the years ended December 31	2009	2008	Change
Gross written premiums and policy fees	34,157	37,151	(8%)
Net earned premiums and policy fees	29,071	30,922	(6%)
Insurance benefits and losses, net of reinsurance	(20,622)	(22,441)	8%
Net underwriting result	930	594	57%
Net investment income	3,070	3,711	(17%)
Net non-technical result (excl. items not included in BOP)	(651)	(657)	1%
Business operating profit	3,463	3,535	(2%)
Loss ratio	70.9%	72.6%	1.6 pts
Expense ratio	25.9%	25.5%	(0.4 pts)
Combined ratio	96.8%	98.1%	1.3 pts

in USD millions, for the years ended December 31	Business operating profit		Combined ratio	
	2009	2008	2009	2008
Global Corporate	787	47	95.1%	112.4%
North America Commercial	1,243	1,238	96.9%	97.4%
Europe General Insurance	1,120	1,864	98.4%	94.7%
International Markets	169	201	96.9%	96.2%
GI Global Functions including Group Reinsurance	144	186	nm	nm
Total	3,463	3,535	96.8%	98.1%

General Insurance delivered a much improved underwriting result in 2009, as a result of the focus on maintaining pricing and expense discipline. This substantially offset the lower non-technical result, which was primarily attributable to lower investment income, as well as the challenges posed by the economic and competitive market environment. Rate increases were achieved, particularly in the Global Corporate and commercial businesses and the Group managed expenses commensurately with reduced volumes of business. Determination to maintain pricing discipline, together with the difficult market environment which negatively impacted the level of customers' insurable exposures, resulted in lower overall business volumes and retention levels. The benefit of the absence of major insured natural catastrophes during the year was largely offset by exceptional adverse market conditions in some of the Group's European personal lines businesses. The economic environment, however also affected the investment result as yields reduced. Strong expense management and underwriting discipline with a focus on maintaining margins have resulted in a 1 percent increase in business operating profit compared with the prior year in local currency terms. In U.S. dollar terms, **business operating profit** decreased slightly by USD 72 million, or 2 percent, to USD 3.5 billion.

Gross written premiums and policy fees, decreased by 8 percent or by USD 3.0 billion to USD 34.2 billion in U.S. dollar terms and by 4 percent on a local currency basis. Average rate increases of 3.3 percentage points were achieved in line with the Group's technical pricing models. As a consequence, retention and new business levels were adversely affected. The reduction measured in local currency was primarily driven by North America Commercial where certain segments of the business were heavily affected by the economic environment which led to reduced customers' insurable exposures. Global Corporate, in particular, was affected by the lower levels of insurance protection required by customers, which have been partially compensated for by rate increases. Europe General Insurance has also been impacted by the challenging market conditions resulting in lower premium volumes in local currency terms. International Markets increased by 3 percent in local currency terms through both organic growth and acquisitions. Despite the economic environment, the Group gained market share in certain targeted segments, positioning itself well for the future.

The **net underwriting result** increased by USD 336 million to USD 930 million with the combined ratio of 96.8 percent improving by 1.3 percentage points compared with 2008. Overall the loss ratio improved 1.6 percentage points mainly due to improvements in the attritional loss ratio reflecting realized rate increases and the impact of the Group's risk selection strategy which have begun to flow into the result, as well as the absence of major insured natural catastrophes. This improvement was offset by a higher attritional loss experience in our European personal motor business, mainly in Italy and the UK, as well as lower levels of favorable development of reserves established in prior years and higher levels of large loss experience. The lower levels of favorable development of reserves established in prior years included a charge for UK asbestos which has affected Global Corporate and Europe General Insurance. The expense ratio increased as a result of higher commissions due to a change in business mix and the Group's approach to broker remuneration. Strict expense management and the benefits of cost savings programs mostly maintained the technical expenses in line with premium volume decrease despite continued strategic investments in profitable growth opportunities and operational transformation.

Global Corporate

in USD millions, for the years ended December 31	2009	2008	Change
Gross written premiums and policy fees	7,602	7,888	(4%)
Net underwriting result	231	(602)	nm
Business operating profit	787	47	nm
Loss ratio	74.7%	92.2%	17.5 pts
Expense ratio	20.4%	20.2%	(0.2 pts)
Combined ratio	95.1%	112.4%	17.3 pts

Following a very difficult year in 2008, various profit improvement actions were taken such as improved pricing and expense management, as well as a stronger focus on building long-term customer partnerships. These actions, along with a favorable natural catastrophe experience, substantially improved the net underwriting result, leading to an overall increase in **business operating profit** of USD 740 million to USD 787 million. The improvement in the underwriting result was partially offset by higher non-technical expenses, as a result of one-off benefits in 2008, and lower investment income in 2009 due to declining yields.

Gross written premiums and policy fees decreased by USD 286 million or 4 percent to USD 7.6 billion in U.S. dollar terms and by 1 percent on a local currency basis. The Group's focus continues to be on underwriting and pricing discipline, and as a result average rate increases of 5.3 percent were achieved on business written in 2009, following a number of years of declining rates. As the market for corporate customers remains competitive, loss of business where customers do not accept the terms required to meet the technical price continued to be experienced. However, despite the challenging conditions, significant growth in a number of targeted areas has been achieved, with particularly strong performances in European financial lines and in Asia-Pacific, while the recently launched Middle East business has also made a positive contribution.

The **net underwriting result**, which improved by USD 833 million to a profit of USD 231 million, reflects a 17.3 percentage point improvement in the combined ratio. This is driven entirely by improved loss experience, with the loss ratio decreasing by 17.5 percentage points to 74.7 percent compared with prior year. This includes a significant improvement in the attritional loss ratio as a result of the actions taken to increase rates, improve risk selection, and accept lapses of business not meeting our pricing hurdles. The loss ratio trend is also favorably impacted by significantly lower levels of natural catastrophe losses compared with 2008 as well as favorable development on reserves established in prior years. The expense ratio was 0.2 percentage points higher compared with the prior year, which reflects slightly higher commissions driven by business mix. Other technical expenses remained broadly flat relative to net earned premiums which reflects the Group's expense discipline, compensating for strategic investments such as expansion into the Middle East.

North America Commercial

in USD millions, for the years ended December 31	2009	2008	Change
Gross written premiums and policy fees	9,864	11,215	(12%)
Net underwriting result	257	243	6%
Business operating profit	1,243	1,238	–
Loss ratio	68.5%	70.3%	1.7 pts
Expense ratio	28.4%	27.1%	(1.3 pts)
Combined ratio	96.9%	97.4%	0.5 pts

Margin enhancement as a result of disciplined underwriting was the primary contributor to a flat **business operating profit** of USD 1.2 billion, despite falling business volumes. The benefit realized from favorable natural catastrophe experience was fully offset by the impact of significantly reduced premiums due to lower economic activity, higher large loss experience and lower investment income due to declining yields.

Gross written premiums and policy fees decreased by USD 1.4 billion or 12 percent to USD 9.9 billion. Underwriting and pricing discipline was maintained, based on differentiated rating actions, resulting in 2.4 percent average rate increases on business written in 2009. Businesses in the construction and automotive industries suffered most from the economic environment. However, the Group was able to realize growth in its Global and National Strategic Broker relationships. The environmental business has also grown as well as certain segments in the specialties business unit and target customer segments in middle markets. Although the environment generally led to significantly lower customers' insurable exposures in chosen segments, targeted customer retention remained at comparatively high levels, and as such, the customer base was maintained.

The **net underwriting result** increased by USD 14 million to USD 257 million driven by more benign catastrophe experience compared with the prior year. The loss ratio developed favorably by 1.7 percentage points compared with the prior year. The decrease was attributable to lower catastrophe losses partially offset by lower levels of positive development from reserves established in prior years and by higher levels of large losses. The expense ratio increased by 1.3 percentage points, driven by higher commissions due to changes in the approach to broker remuneration in a competitive market environment and changes in business mix. Other technical expenses were managed largely in line with the drop in net earned premiums through the focused execution of a number of savings initiatives.

Europe General Insurance

in USD millions, for the years ended December 31	2009	2008	Change
Gross written premiums and policy fees	14,556	15,946	(9%)
Net underwriting result	222	788	(72%)
Business operating profit	1,120	1,864	(40%)
Loss ratio	73.6%	69.9%	(3.7 pts)
Expense ratio	24.8%	24.7%	–
Combined ratio	98.4%	94.7%	(3.7 pts)

Most of Europe General Insurance businesses maintained strong levels of business performance, the result of which was significantly offset by weak personal lines motor results, mainly in Italy and the UK. These areas were and continue to be addressed with decisive underwriting and claims management actions. In addition, investment income decreased due to lower yields and a lower asset base, mainly as a result of the repatriation of capital to the Group following the transfer of the UK general insurance business to the Group's single EU carrier based in Ireland. As a result, **business operating profit** decreased by USD 744 million or 40 percent to USD 1.1 billion in U.S. dollar terms and by 36 percent on a local currency basis.

Gross written premiums and policy fees decreased by USD 1.4 billion or 9 percent to USD 14.6 billion in U.S. dollar terms, and by only 1 percent on a local currency basis. Overall rates were successfully increased on average by 2.8 percent on business written in 2009. In personal lines businesses operating in mature markets, continued focus on pricing discipline impacted the ability to grow volumes given the intense competition. The UK personal motor business has led the market with rate increases but as a consequence had to accept a significant reduction in volume. Commercial lines business remained flat in local currency, mainly based on rate increases, despite the challenging economic environment.

The **net underwriting result** decreased by USD 567 million or 72 percent to USD 222 million both in U.S. dollar terms and on a local currency basis. This decrease is reflected in a 3.7 percentage point increase in the combined ratio to 98.4 percent due to the motor personal lines underwriting results in Italy and the UK which reflect the difficult local market environments. In the UK, the loss ratio deteriorated driven by an overall increase in personal injury claims, as well as the so-called credit hire practices, which drive up replacement vehicle costs. These developments are responded to through rate increases and through a dedicated claims management strategy. In Italy, mitigating actions against deteriorating loss experience in the personal motor business were continued. These mitigating actions included increased rates and improvement actions on underperforming distributors. Outside these two European markets, personal lines businesses performed well. However, the competitive market environment puts pressure on volume and generally strong margins. The commercial lines business underwriting profit increased mainly as a result of favorable large and natural catastrophe loss experience. The overall net expense ratio was largely flat as disciplined expense management and focus on margin enhancement compensated for strategic investments and higher commission levels.

International Markets

in USD millions, for the years ended December 31	2009	2008	Change
Gross written premiums and policy fees	2,695	2,753	(2%)
Net underwriting result	64	76	(15%)
Business operating profit	169	201	(16%)
Loss ratio	61.5%	60.2%	(1.3 pts)
Expense ratio	35.3%	36.0%	0.6 pts
Combined ratio	96.9%	96.2%	(0.7 pts)

Business operating profit decreased by USD 31 million or 16 percent to USD 169 million and decreased by 13 percent on a local currency basis. The decrease in local currency was attributable to a lower underwriting result as well as a decrease in investment income due to lower yields mainly in Australia.

Gross written premiums and policy fees decreased by USD 58 million or 2 percent to 2.7 billion in U.S. dollar terms while increasing by 3 percent on a local currency basis. Local currency growth was achieved in Latin America where premiums increased by 17 percent compared with the prior year. The growth in Latin America was primarily a result of the acquisition in Brazil in the fourth quarter of 2008 together with organic growth in Argentina and Venezuela. In Asia-Pacific underlying growth was offset by the transfer of premiums in Asia and Australia to Global Corporate, excluding the impact of these transfers, premiums in Asia-Pacific increased by 7 percent.

The **net underwriting result** decreased by USD 12 million to USD 64 million reflected in a 0.7 percentage point increase in the combined ratio to 96.9 percent. This was mainly attributable to a higher loss ratio of 1.3 percentage points due to higher large losses impacting both Asia-Pacific and Latin American regions. The Australian bush fires in early 2009 also contributed to the higher loss ratio. The expense ratio decreased by 0.6 percentage points to 35.3 percent mainly due to expense reduction initiatives in Asia-Pacific, partially offset by increases in Latin America attributable to the acquisition in Brazil.

Global Life

in USD millions, for the years ended December 31	2009	2008	Change
Insurance deposits	13,589	11,079	23%
Gross written premiums and policy fees	12,440	10,794	15%
Net investment income on Group investments	4,081	4,518	(10%)
Insurance benefits and losses, net of reinsurance	(10,594)	(9,229)	(15%)
Underwriting and policy acquisition costs, net of reinsurance	(1,116)	(1,887)	41%
Administrative and other operating expenses	(2,237)	(2,404)	7%
<i>of which:</i>			
Amortization and impairments of intangible assets	(346)	(224)	(55%)
Depreciation and impairments of property and equipment	(34)	(42)	19%
Business operating profit	1,477	1,490	(1%)
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts	180,145	154,700	16%
Assets under management ¹	214,512	180,416	19%
Embedded value – highlights			
New business annual premium equivalent (APE)	3,667	3,261	12%
Present value of new business premiums (PVNBP)	29,515	25,883	14%
New business margin, after tax (as % of APE)	21.3%	23.1%	(1.8 pts)
New business margin, after tax (as % of PVNBP)	2.6%	2.9%	(0.3 pts)
New business value, after tax	782	753	4%

¹ Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties, for which we earn fees.

in USD millions, for the years ended December 31	New business annual premium equivalent (APE)		New business value, after tax		New business margin, after tax (as % of APE)		Business operating profit	
	2009	2008	2009	2008	2009	2008	2009	2008
Americas	259	223	136	121	52.4%	54.3%	458	290
<i>of which:</i>								
United States	97	101	100	91	102.5%	90.4%	398	240
Latin America	161	122	36	30	22.1%	24.6%	60	51
United Kingdom	785	878	95	90	12.1%	10.2%	261	429
Germany	622	690	144	265	23.1%	38.3%	324	332
Switzerland	118	123	24	36	20.1%	29.4%	237	190
Ireland	310	327	69	61	22.4%	18.7%	37	77
Spain	709	294	111	44	15.7%	14.9%	13	39
Emerging Markets in Asia	528	526	128	100	24.2%	19.1%	64	21
<i>of which:</i>								
ZIS	453	449	112	91	24.7%	20.3%	62	29
Hong Kong	75	77	16	17	21.4%	21.6%	14	2
Rest of the World	336	200	75	35	22.4%	17.6%	84	111
Total	3,667	3,261	782	753	21.3%	23.1%	1,477	1,490

The Global Life segment continues to execute on its strategy delivering strong results with profitable growth in a difficult market environment and performing well on all key metrics. The growth was driven through the distribution and proposition pillars as well as a strong focus on in-force management resulting in net policyholder inflows compared with net policyholder outflows in 2008. Progress was made on developing the industrial business model benefiting our unit costs and a notable increase in cross-border sales. The new business value not only increased in each successive quarter of 2009, but accelerated over the course of the year underpinned by efficiency gains and focused efforts to shift the new business mix towards protection products.

New business annual premium equivalent (APE) increased by USD 406 million or 12 percent in U.S. dollar terms, to USD 3.7 billion and by 19 percent in local currency basis. Growth in Spain of USD 414 million included underlying growth of USD 45 million or 76 percent on a local currency basis and a contribution of USD 369 million from the businesses acquired in the third quarter of 2008. In the UK, APE decreased by 11 percent in U.S. dollar terms but increased by 6 percent on a local currency basis, driven by higher long-term savings sales and successful sales through our major banking partners. In the Americas, APE increased by 16 percent in U.S. dollar terms and by 21 percent on a local currency basis, driven by growth in Latin America from Corporate Life & Pensions sales, and our success in gaining participation in the reformed social security system in Chile. In Germany, APE decreased by 10 percent in U.S. dollar terms and by 5 percent on a local currency basis, as 2008 included a benefit from the final step-up of premiums in state subsidized pension contracts that increased unit-linked sales. APE in Emerging Markets in Asia were flat in U.S. dollar terms but decreased 4 percent on a local currency basis as a result of reduced sales in Hong Kong and in the International/Expats business of Zurich International Solutions (ZIS) due to market conditions. In Ireland, where the market declined over 28 percent, APE decreased by 5 percent in U.S. dollar terms but remained flat on a local currency basis as a result of strong growth in Corporate Life & Pensions business offsetting lower IFA/Brokers sales. APE in the Rest of the World increased by 69 percent in U.S. dollar terms and by 79 percent on a local currency basis driven by the early success of the newly formed Private Banking Client Solutions hub in Luxembourg and, in Italy by successful Bank Distribution activities as well as by strong IFA/ Brokers sales through the Finanza e Futuro distribution channel acquired in 2008.

New business value, after tax, increased by USD 29 million or 4 percent in U.S. dollar terms, to USD 782 million and by 9 percent on a local currency basis, benefiting from increased new business value in both individual and corporate protection products. By country, the new business value improved from increased volumes in Spain and Luxembourg, improved margins in the UK, higher sales volumes in Latin America, and the benefit of lower interest rates for protection products in the U.S. and Australia. This improvement was partially offset by Germany and Switzerland with negative impacts from lower interest rates on savings products and lower sales due to the market conditions earlier in the year. Overall the new business margin after tax decreased by 1.8 percentage points to 21.3 percent compared with the prior year, primarily reflecting the impact of lower interest rates impacting Germany new business margins.

Business operating profit decreased by USD 13 million or 1 percent in U.S. dollar terms to USD 1.5 billion, but an increase of 5 percent on a local currency basis. In the U.S., business operating profit included net one-off benefits of USD 159 million largely due to updated mortality assumptions. The underlying result of the Americas businesses overall remained strong. Improved investment results drove the increase in business operating profit in Switzerland. Changes to actuarial assumptions benefited Hong Kong, contributing to the improved underlying result in Emerging Markets in Asia. In the UK, USD 48 million of the reduction of USD 168 million in business operating profit reported in U.S. dollars resulted from currency translation effects. The UK underlying performance in local currency was impacted by financial market effects, and in 2008 one-time benefits and favorable claims experience, partially offset in 2009 by reduced amortization of deferred acquisition costs and intangible assets as a result of assumption changes. In Germany, the result was in line with prior year on a local currency basis and in Ireland, the result decreased due to investments in the European Hub operating infrastructure. In Italy, included in the Rest of the World, and in Spain, the business operating profit before interest, depreciation and amortization improved significantly, with costs of financing and amortization of intangible assets from recent acquisitions adversely impacting the overall business operating profit.

Insurance deposits increased by USD 2.5 billion or 23 percent in U.S. dollar terms to USD 13.6 billion and by 35 percent on a local currency basis, primarily driven by the businesses acquired in Spain in the third quarter of 2008 and by the newly formed private banking client solutions business in Luxembourg.

Gross written premiums and policy fees increased by USD 1.6 billion or 15 percent in U.S. dollar terms to USD 12.4 billion and by 22 percent on a local currency basis. The increase on a local currency basis was due to the businesses acquired in Spain in the third quarter of 2008 and growth in Americas, partially offset by decreases in Germany and Switzerland due to lower single premium business in 2009.

Net reserves increased USD 25.4 billion or by 16 percent in U.S. dollar terms to USD 180.1 billion and by 10 percent in local currency, compared with December 31, 2008. On a local currency basis, the increase was primarily driven by financial market recovery flowing through to unit-linked insurance and investment contracts, as well as growth in traditional reserves. **Assets under management** increased by 19 percent in U.S. dollar terms and by 12 percent on a local currency basis, compared with December 31, 2008. Assets under management benefited from policyholder net inflows of USD 5.4 billion for the full year 2009 driven by new business as well as focused efforts on in-force management.

APE by distribution and proposition pillar and product

in USD millions, for the years ended December 31	Unit-linked ¹		Protection		Other ²		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Bank Distribution	538	432	67	57	494	257	1,099	746
IFA/Brokers	480	517	144	146	300	279	924	942
Agents	164	236	124	128	215	174	503	537
Corporate Life & Pensions	–	–	190	105	413	310	603	414
International/Expats	255	323	3	–	–	–	258	323
Private Banking Client Solutions	182	1	–	–	3	–	186	1
Direct and Central Initiatives	8	–	19	6	67	292	94	298
Total	1,627	1,509	548	441	1,492	1,311	3,667	3,261

¹ Unit-linked includes insurance and investment contracts.

² Other includes primarily group and individual savings products.

Bank Distribution increased by USD 353 million or by 47 percent in U.S. dollar terms, to USD 1.1 billion and by 55 percent on a local currency basis. The new businesses acquired in Spain contributed USD 369 million through successful development of the business post acquisition including protection and savings campaigns. The UK business grew from the sale of newly introduced investment products.

IFA/Brokers distribution reduced by USD 18 million or by 2 percent in U.S. dollar terms, to USD 924 million while increasing 11 percent on a local currency basis. Strong pension sales in the UK and successful sales campaigns by the Finanza e Futuro distribution channel in Italy acquired in 2008 were partially offset by lower sales of unit-linked pension products in Germany resulting from the market conditions earlier in the year.

Agents distribution reduced by USD 34 million or by 6 percent in U.S. dollar terms, to USD 503 million and by 3 percent on a local currency basis. Sales in many countries proved resilient to the financial crisis mainly as a result of several customer and distributor focused programs. Growth continues in Latin America, Germany, Switzerland and Italy. These positive developments were offset by a decline in unit-linked sales in our Hong Kong domestic business driven by the reduced customer confidence as a result of the financial market environment, particularly in the first half of 2009.

Corporate Life & Pensions distribution increased by USD 189 million or by 46 percent in U.S. dollar terms, to USD 603 million and by 60 percent on a local currency basis. The pillar experienced growth in both protection and pension business with the main contributions arising from ZIS, the UK and Latin America.

International/Expats pillar decreased by USD 65 million or 20 percent in U.S. dollar terms, to USD 258 million and by 28 percent on a local currency basis. The lower sales, predominantly of investment products, reflected reduced consumer confidence caused by the market conditions earlier in the year.

Private Banking Client Solutions achieved sales of USD 186 million through a convincing start for the newly formed operational Private Banking Client Solutions hub in Luxembourg with a first product launch into Italy and by placing several tranches of an investment bond through a bank partner in the UK.

Direct and Central Initiatives decreased by USD 203 million or 68 percent in U.S. dollar terms, to USD 94 million and by 64 percent on a local currency basis, mainly attributable to the effect of a major customer offer initiative in the UK in June 2008.

Farmers

Farmers business operating profit was USD 1.6 billion compared with USD 1.4 billion for the year ended December 31, 2008. Farmers Management Services contributed USD 1.3 billion compared with USD 1.2 billion in the prior year and Farmers Re contributed USD 228 million compared with USD 154 million in the prior year.

Farmers has moved aggressively to restructure and integrate the acquired 21st Century businesses which consequently added a substantial contribution to the Farmers Management Services and Farmers Exchanges, which the Group manages but does not own, results for the year 2009.

Farmers Management Services

in USD millions, for the years ended December 31	2009	2008	Change
Management fees and other related revenues	2,690	2,458	9%
Management and other related expenses	(1,399)	(1,317)	(6%)
Gross management result	1,291	1,142	13%
Other net income	35	60	(43%)
Business operating profit	1,326	1,202	10%
Managed gross earned premium margin	7.2%	6.9%	0.3 pts

Business operating profit increased by USD 124 million or 10 percent to USD 1.3 billion. This increase was driven by USD 81 million from 21st Century, which was acquired in July 2009, as well as disciplined expense management and an improvement of USD 10 million from Small Business Solutions, for which the rights to renew policies were acquired by the Farmers Exchanges, from Zurich North America in June 2008.

Management fees and other related revenues increased by 9 percent to USD 2.7 billion driven by an 8 percent increase in gross earned premiums in the Farmers Exchanges. 21st Century contributed USD 214 million of the increase in revenues while Small Business Solutions generated an increase in revenue of USD 31 million compared with the prior year.

Management and other related expenses increased by 6 percent, or USD 81 million. The additional business from 21st Century and Small Business Solutions resulted in an increase of USD 133 million which was offset by a decrease of USD 52 million compared with 2008 reflecting the continued strict expense discipline and the benefits of ongoing operational transformation.

As a result of these changes and underlying improvements, the **gross management result** increased by USD 151 million, or 13 percent, while the **managed gross earned premium margin** improved by 0.3 percentage points to 7.2 percent from 6.9 percent.

Farmers Re

in USD millions, for the years ended December 31	2009	2008	Change
Gross written premiums and policy fees	6,615	3,381	96%
Net underwriting result	58	59	(3%)
Business operating profit	228	154	48%
Loss ratio	68.2%	68.2%	–
Expense ratio	30.8%	29.3%	(1.5 pts)
Combined ratio	99.0%	97.5%	(1.5 pts)

Business operating profit increased by USD 74 million, or 48 percent, to USD 228 million. The All Lines quota share reinsurance treaty with the Farmers Exchanges was increased in various steps from 5 percent to 37.5 percent for the second half of 2009 in connection with the acquisition of 21st Century. Effective December 31, 2009, the participation was reduced to 35 percent. As a result of these changes, overall **gross written premiums and policy fees** increased by USD 3.2 billion to USD 6.6 billion compared with the prior year. The **net underwriting result** remained flat as the impact from increased cessions at a stable loss ratio was offset by an increase in the ceding commission on the All Lines quota share reinsurance treaty, as a result of changes to the underlying business mix in the Farmers Exchanges, which caused the increase of 1.5 percentage points in the expense ratio.

Farmers Exchanges

in USD millions, for the years ended December 31	2009	2008	Change
Gross written premiums	17,620	16,710	5%
Gross earned premiums	17,885	16,541	8%

Gross earned premiums in the Farmers Exchanges, which the Group manages but does not own, increased by USD 1.3 billion, of which USD 1.2 billion related to 21st Century and USD 217 million related to Small Business Solutions, acquired from Zurich North America in June 2008.

Other Operating Businesses

in USD millions, for the years ended December 31	2009	2008	Change
Business operating profit:			
Holding and financing	(438)	(656)	33%
Headquarters	(141)	(90)	(57%)
Alternative investments	(32)	(25)	(26%)
Total business operating profit	(611)	(772)	21%

Holding and financing business operating loss improved by USD 219 million to a loss of USD 438 million. This was primarily driven by gains of USD 210 million resulting from the repurchases of subordinated debt and a favorable impact from movements in foreign currencies. **Headquarters** reported a business operating loss of USD 141 million compared with USD 90 million in the prior year due largely to lower revenues from reduced charges to our operating businesses.

Non-Core Businesses

in USD millions, for the years ended December 31	2009	2008	Change
Business operating profit:			
Centre	160	(106)	nm
Banking activities	(182)	53	nm
Centrally managed businesses	(279)	(496)	44%
Other run-off	10	126	(92%)
Total business operating profit	(290)	(423)	31%

Centre business operating result improved by USD 266 million to a profit of USD 160 million, driven by positive impacts from interest rate and credit spread developments on an insurance portfolio where both assets and liabilities are carried at fair value. **Banking activities** decreased by USD 235 million to a loss of USD 182 million predominantly driven by an increase in loan loss provisions compared with the prior year, primarily reflecting adverse developments in the Irish property market. **Centrally managed businesses**, which comprise portfolios that the Group manages with the intention to achieve a profitable run-off over time, decreased its loss by USD 218 million to a loss of USD 279 million, primarily due to the effect of the recovering capital markets on both investments and policyholders' liabilities. The overall loss for the year 2009 resulted primarily from an increase of certain life insurance reserves addressing policyholders' behavior. **Other run-off** experienced one-off benefits in 2008 which were not repeated in 2009.

Investment position and performance

Breakdown of investments

in USD millions, as of December 31	Group investments		Unit-linked investments	
	2009	2008	2009	2008
Cash and cash equivalents	11,631	12,428	5,840	4,460
Equity securities:	12,450	14,303	78,311	60,154
Common stocks, including equity unit trusts	8,839	8,957	69,004	51,276
Unit trusts (debt securities, real estate and short-term investments)	2,477	3,930	9,307	8,879
Common stock portfolios backing participating with-profit policyholder contracts	673	630	–	–
Trading equity portfolios in capital markets and banking activities	461	786	–	–
Debt securities	136,344	118,287	10,194	9,510
Real estate held for investment	7,789	7,524	3,897	4,077
Mortgage loans	12,736	12,820	–	–
Policyholders' collateral and other loans	15,077	13,988	924	2
Equity method accounted investments	232	220	–	–
Total	196,258	179,570	99,167	78,203

Group investments have increased by 9 percent or USD 16.7 billion to USD 196 billion since December 31, 2008. In local currency terms, Group investments increased by 5 percent, driven by positive revaluations on debt and equity securities reflecting positive market developments and investments of new cash flows. The quality of the Group's investment portfolio remains high. Investment grade securities comprise 98.4 percent of our debt securities. The Group's investment policy remains conservative and it continues to selectively reduce those risks for which it is believed that no appropriate compensation is received or which incur high regulatory capital costs.

Unit-linked investments increased by USD 21.0 billion or 27 percent in U.S. dollar terms to USD 99.2 billion since December 31, 2008. In local currency terms, unit-linked investments increased by 18 percent, primarily as a result of higher equity valuations following the recovery of markets overall in 2009 compared with the position at the end of 2008 but particularly since the low point in the market in April 2009. This increase is mirrored in higher unit-linked insurance and investment contract liabilities.

Performance of Group investments	in USD millions, for the years ended December 31	2009	2008	Change
		Net investment income	7,505	8,698
Net capital gains/(losses) on investments and impairments	(1,423)	(2,893)	51%	
<i>of which: net capital gains/(losses) on investments and impairments attributable to shareholders</i>	<i>(1,375)</i>	<i>(2,110)</i>	<i>35%</i>	
Net investment result	6,082	5,805	5%	
Net investment return on Group investments	3.2%	3.1%	0.1 pts	
Movements in net unrealized gains/(losses) on investments included in total equity	5,674	(3,902)	nm	
Total investment result, net of investment expenses¹	11,756	1,903	nm	
Average Group investments ²	187,579	185,558	1%	
Total return on Group investments	6.3%	1.0%	5.2 pts	

¹ After deducting investment expenses of USD 243 million and USD 261 million for the years ended December 31, 2009 and 2008, respectively.

² Excluding average cash received as collateral for securities lending of USD 335 million and USD 1.0 billion for the years ended December 31, 2009 and 2008, respectively.

Total return, net of investment expenses, on average Group investments was positive 6.3 percent, largely from the improvements in the value of debt securities. Debt securities, which are invested to match the Group's insurance liability profiles, returned positive 7.1 percent. Equity securities returned positive 12.6 percent. Other investments, mainly real estate and mortgages, returned a positive 2.7 percent.

Total **net investment income** decreased by USD 1.2 billion, or 14 percent in U.S. dollar terms to USD 7.5 billion. Translating local currency income at stronger average U.S. dollar rates in 2009, contributed USD 376 million of this decrease. Net investment income yield was 4.0 percent, a decrease of 69 basis points compared with the prior year. This decrease was driven by cash balances yielding lower rates and lower income from equity securities.

Total **net capital losses on investments and impairments** were USD 1.4 billion, comprising net realized losses of USD 91 million, impairments of USD 1.4 billion and net positive revaluations of USD 62 million. The impairments arose mainly from USD 590 million attributable to equity securities, USD 573 million attributable to debt securities and USD 233 million attributable to mortgages and other investments. Net positive revaluations on securities booked as fair value through profit and loss added gains of USD 60 million, driven by gains on equity securities of USD 476 million, on real estate of USD 130 million and on debt securities of USD 5 million, which were mostly offset by losses from derivatives of USD 543 million.

Net unrealized gains have improved by USD 5.7 billion since December 31, 2008, due to a USD 1.6 billion decrease in net unrealized losses on equity securities as a result of the improvement in major global equity markets, as well as a USD 4.1 billion decrease in net unrealized losses on debt securities primarily as a result of narrowing credit spreads.

Performance of
unit-linked
investments

in USD millions, for the years ended December 31		2009	2008	Change
Net investment income		1,638	3,185	(49%)
Net capital (losses)/gains on investments and impairments		10,837	(24,916)	nm
Net investment result, net of investment expenses ¹		12,475	(21,731)	nm
Average investments		88,685	100,148	(11%)
Total return on unit-linked investments²		14.1%	(21.7%)	35.8 pts

¹ After deducting investment expenses of USD 426 million and USD 581 million for the for the years ended December 31, 2009 and 2008, respectively.

² Total return is not annualized.

Total return on unit-linked investments improved by 35.8 percentage points to a positive return of 14.1 percent compared with a negative return of 21.7 percent in the prior year. **Net investment income** on unit-linked investments declined by 49 percent compared with 2008. Net capital gains of USD 10.8 billion increased significantly compared with 2008 as a result of improved capital markets.

Insurance and investment contract liabilities

Reserves for losses and loss adjustment expenses

in USD millions	Total Group		of which General Insurance	
	2009	2008	2009	2008
As of January 1				
Gross reserves for losses and loss adjustment expenses	65,218	67,890	61,396	63,383
Reinsurers' share	(12,232)	(13,179)	(10,867)	(11,448)
Net reserves for losses and loss adjustment expenses	52,986	54,712	50,530	51,935
Net losses and loss adjustment expenses incurred	24,639	24,145	20,590	22,388
Current year	25,698	25,416	21,663	23,696
Prior years	(1,059)	(1,271)	(1,074)	(1,308)
Total net losses and loss adjustment expenses paid	(23,689)	(22,150)	(20,235)	(20,333)
Acquisitions/(divestments)	104	77	(158)	129
Foreign currency translation effects	1,863	(3,797)	1,787	(3,589)
As of December 31				
Net reserves for losses and loss adjustment expenses	55,903	52,986	52,514	50,530
Reinsurers' share	(12,182)	(12,232)	(10,962)	(10,867)
Gross reserves for losses and loss adjustment expenses	68,086	65,218	63,476	61,396

As of December 31, 2009, the Group's net reserves for loss and loss adjustment expenses increased by USD 2.9 billion to USD 55.9 billion compared with December 31, 2008. Of this increase, USD 1.9 billion was due to the effects of foreign currency translation. The remaining increase included the effects from the increased participation in the All Lines quota share reinsurance treaty with the Farmers Exchanges.

The increase in the total net reserves during the year included USD 1.1 billion favorable development emerging from reserves established in prior years, after allowing for asbestos charges in the third quarter of 2009 of USD 539 million. This favorable development is primarily attributable to the General Insurance business and breaks down into many individual movements by Business Division, country, line of business, and accident year. In the Global Corporate segment, favorable development of USD 257 million was approximately equally shared between North America and the rest of the world. North America Commercial favorable development of USD 146 million arose mostly from program and surety business. Europe General Insurance favorable development of USD 487 million arose from several European countries besides Italy where the Group experienced negative development of USD 100 million. The remaining favorable development came from Group Reinsurance, International Markets, and the assumed business from Farmers Re; this was somewhat offset by adverse development at Centre.

Development of
cumulative net
loss ratio

	2001	2002	2003	2004	2005	2006	2007	2008	2009
In the year	81.4%	70.6%	67.1%	68.3%	73.3%	69.6%	72.7%	74.6%	72.3%
One year later	85.7%	72.0%	66.1%	64.2%	68.1%	66.2%	71.7%	74.1%	
Two years later	85.8%	72.3%	65.4%	63.5%	66.6%	64.8%	70.6%		
Three years later	87.4%	74.5%	65.5%	63.7%	65.0%	63.3%			
Four years later	88.5%	74.7%	65.7%	62.9%	63.8%				
Five years later	90.2%	73.4%	65.0%	62.2%					
Six years later	90.2%	74.3%	64.6%						
Seven years later	90.3%	74.1%							
Eight years later	90.6%								

This table represents the loss ratio development for individual accident years for the Group, with General Insurance segment being the primary driver. Individual accident years are affected by the level of large catastrophe losses which had the following impact on the loss ratios: the 2004 and 2005 hurricanes impacted the loss ratios by 2.8 and 4.6 percentage points, the winter storm Kyrill and the UK floods in 2007 impacted the loss ratio by 2.5 percentage points, and in 2008 the impact of hurricanes Gustav and Ike was 1.8 percentage points. The development of 2003 and subsequent years demonstrates the Group's philosophy of taking a prudent initial view on reserving with the expectation of achieving a favorable development over time.

Reserves for life insurance contracts and liabilities for investment contracts

The majority of the Group's reserves for life insurance contracts and liabilities for investment contracts are attributable to Global Life. Life insurance reserves in other segments relate predominantly to companies that are in run-off or are centrally managed, and are included only in this first table.

Group reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts	in USD millions		
	Global Life	Other segments	Total Group
Net reserves as of January 1, 2009	154,700	17,278	171,978
Movements in net reserves	25,445	(181)	25,264
Net reserves as of December 31, 2009	180,145	17,096	197,242

The following provides further detail on the development and composition of reserves and liabilities in our **Global Life** business.

Global Life – Development of reserves and liabilities	in USD millions					
	Unit-linked insurance and investment contracts ¹		Other life insurance liabilities ²		Total reserves and liabilities	
	2009	2008	2009	2008	2009	2008
As of January 1						
Gross reserves	71,299	109,072	85,393	91,678	156,692	200,750
Reinsurers' share ³	–	–	(1,992)	(9,551)	(1,992)	(9,551)
Net reserves	71,299	109,072	83,401	82,127	154,700	191,199
Premiums and claims ⁴	2,968	(1,485)	(2,796)	(3,469)	172	(4,954)
Interest and bonuses credited to policyholders	11,403	(18,615)	3,330	1,927	14,734	(16,689)
Change in assumptions	–	–	(59)	(202)	(59)	(202)
Acquisitions/(Divestments)	587	1,623	(495)	6,466	91	8,089
Decreases recorded in shareholders' equity	28	9	909	177	937	187
Foreign currency translation effects	6,556	(19,305)	3,014	(3,625)	9,570	(22,931)
As of December 31						
Net reserves	92,841	71,299	87,304	83,401	180,145	154,700
Reinsurers' share	–	–	(2,148)	(1,992)	(2,148)	(1,992)
Gross reserves	92,841	71,299	89,452	85,393	182,293	156,692

¹ Includes reserves for unit-linked contracts, the net amounts of which were USD 46.5 billion and USD 35.1 billion, and liabilities for investment contracts, the net amounts of which were USD 46.4 billion and USD 36.2 billion as of December 31, 2009 and 2008, respectively.

² Includes reserves for future life policyholders' benefits, the net amounts of which were USD 72.7 billion and USD 70.9 billion and policyholders' contract deposits and other funds, the net amounts of which were USD 14.6 billion and USD 12.5 billion as of December 31, 2009 and 2008, respectively.

³ As of January 1, 2008, reinsurers' share of reserves for insurance contracts included USD 7.1 billion related to the reinsurance of a UK annuity portfolio. Subsequent to the approval from the UK High Court on June 30, 2008, the underlying contracts were transferred to the reinsurer, resulting in a reduction of gross reserves for insurance contracts and the related reinsurers' share.

⁴ Premiums and claims include all balance sheet policyholder cash flows, fund deductions and profit and loss experience.

Total reserves and liabilities for insurance and investment contracts, net of reinsurance, increased by USD 25.4 billion or 16 percent in U.S. dollar terms compared with December 31, 2008 and by 10 percent in local currency. The increase in local currency was primarily driven by the interest and bonuses credited to policyholders for unit-linked insurance and investment contracts as well as traditional reserves. The improvement in net premiums and claims in 2009 compared with the prior year was primarily driven by the change from net policyholder outflows to net policyholder inflows in the unit-linked businesses in the UK, Spain, Germany and Luxembourg.

Global Life –
Reserves and
liabilities, net
of reinsurance,
by region

in USD millions, for the years ended December 31

	Unit-linked insurance and investment contracts		Other life insurance liabilities		Total reserves and liabilities	
	2009	2008	2009	2008	2009	2008
Americas	1,233	926	6,730	6,258	7,964	7,184
<i>of which:</i>						
<i>United States</i>	789	685	5,002	4,944	5,791	5,629
<i>Latin America</i>	444	241	1,729	1,314	2,173	1,555
United Kingdom	51,968	42,655	4,394	4,033	56,363	46,688
Germany	9,467	6,387	42,645	40,879	52,111	47,266
Switzerland	1,842	1,676	15,678	15,044	17,520	16,720
Ireland	8,484	5,985	1,337	1,418	9,821	7,403
Spain	4,411	2,669	9,670	8,775	14,080	11,444
Emerging Markets in Asia	7,486	4,981	1,115	1,501	8,601	6,482
<i>of which:</i>						
<i>ZIS</i>	7,121	4,749	252	696	7,373	5,446
<i>Hong Kong</i>	365	232	852	805	1,218	1,036
Rest of the world	7,951	6,021	5,735	5,490	13,686	11,511
Eliminations	–	–	(2)	3	(2)	3
Total	92,841	71,299	87,304	83,401	180,145	154,700

Unit-linked insurance and investment contracts, net of reinsurance, increased by 30 percent, and by 20 percent in local currency terms, compared with December 31, 2008. The increase in local currency was mainly driven by the overall positive performance of the unit-linked funds in 2009 that benefited from the improvement in financial markets during the year, the new Private Banking Client Solutions hub in Luxembourg and by net positive policyholder cash flows.

Other life insurance liabilities, net of reinsurance, increased by 5 percent or by 2 percent in local currency terms, compared with December 31, 2008. The growth arose from higher interest and bonuses credited to policyholders for traditional products.

Indebtedness

in USD millions, as of December 31	2009					2009	2008	Change
	Repurchase agreements	Collateralized loans	Capital markets and banking	Senior debt ¹	Subordinated debt			
Operational debt	3,976	1,102	814	1,047	–	6,940	6,188	12.2%
Financial debt	–	–	25	5,230	5,167	10,422	9,633	8.2%
Total operational and financial debt	3,976	1,102	839	6,277	5,167	17,362	15,821	9.7%

¹ Of which USD 750 million currently classified as operational debt are under review for such qualification by Standard & Poor's.

Operational debt increased by USD 752 million or 12 percent in U.S. dollar terms. The increase arose primarily from the requirements of the Group's banking activities and an increase in obligations to repurchase securities. The change in the operational debt of banking activities was effected through the issuance, in September 2009, of USD 750 million of senior debt, through the Euro Medium Term Notes Programme (EMTN Programme), which was loaned directly to the Group's banking activities, which then repaid USD 450 million of existing operational debt.

Financial debt increased by USD 789 million or 8 percent in U.S. dollar terms. Approximately USD 200 million were due to foreign exchange fluctuations and the remainder was the result of several factors: the Group raised, in addition to the USD 750 million raised and then loaned to banking activities, a further USD 2.8 billion of which USD 2.0 billion was senior debt and USD 806 million was subordinated debt. This was partially offset by a USD 2.2 billion debt reduction, of which USD 1.4 billion was realized through the repayment of financial debt held by capital markets and banking activities and USD 871 million through the repurchase of subordinated debt instruments. The repurchase generated gains of USD 210 million, which are included in the result of Other Operating Businesses.

Details of the debt issuances and repurchases are set out in note 22 of the audited Consolidated Financial Statements.

Capitalization

in USD millions	Shareholders' equity	Non-controlling interests	Total equity
As of December 31, 2008	22,103	1,678	23,781
Proceeds from issuance of share capital	929	–	929
Proceeds from treasury share transactions	367	–	367
Dividends	(1,408)	(17)	(1,426)
Share-based payment transactions	59	–	59
Total comprehensive income	7,628	85	7,714
Net income after taxes	3,215	21	3,236
Net other recognized income and expenses	4,413	64	4,478
Net changes in capitalization and minority interests	–	54	54
As of December 31, 2009	29,678	1,800	31,478

Total equity increased by USD 7.7 billion or 32 percent to USD 31.5 billion compared with USD 23.8 billion as of December 31, 2008. The main drivers were net income after taxes for the year ended December 31, 2009 of USD 3.2 billion as well as net other recognized income of USD 4.5 billion. Net other recognized income before non-controlling interests consisted primarily of net unrealized gains on investments of USD 3.3 billion, largely as a result of narrowing credit spreads and falling yields on debt securities, and favorable currency translation adjustments of USD 1.0 billion.

The Group received proceeds of USD 1.3 billion through capital transactions. USD 1.2 billion of this arose from the placement of shares with institutional investors through the accelerated book building transaction announced on April 17, 2009, to support the capital requirements for the increase in the All Lines quota share reinsurance treaty with the Farmers Exchanges. The remainder of USD 145 million related to other treasury share transactions.

The Annual General Meeting approved a gross dividend of CHF 11.00 per share on April 2, 2009. This gross dividend was recognized through shareholders' equity during the second quarter of 2009.

The Board of Zurich Financial Services Ltd will propose for approval at the Annual General Meeting on March 30, 2010 a gross dividend of CHF 16.00.

Cash flows

Summary of cash flows	in USD millions, for the years ended December 31	2009	2008
		Net cash provided by operating activities	(2,470)
Net cash used in investing activities	(581)	(1,443)	
Net cash from (used in) financing activities	2,448	(2,551)	
Foreign currency translation effects on cash and cash equivalents	870	(1,896)	
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	267	1,460	
Cash and cash equivalents as of January 1 ¹	16,711	15,251	
Cash and cash equivalents as of December 31 ¹	16,978	16,711	
Change in cash received as collateral for securities lending	316	(1,700)	
Cash and cash equivalents as of January 1 ²	16,888	17,128	
Cash and cash equivalents as of December 31²	17,471	16,888	

¹ Excluding cash received as collateral for securities lending.

² Including cash received as collateral for securities lending.

Net cash provided by operating activities, which includes cash movements in and out of and within total investments as well as movements of debt attributable to our capital markets and banking activities, was a negative USD 2.5 billion for the year ended December 31, 2009. Net cash used in investing activities was USD 581 million, primarily related to the purchase of the management services business retained by the Group as a result of the 21st Century acquisition (see note 5 of the audited Consolidated Financial Statements). Net cash from financing activities of USD 2.4 billion was the net result of debt issuances and debt repurchases of USD 2.6 billion, proceeds from capital transactions of USD 1.3 billion and the payment of dividends of USD 1.4 billion (see Capitalization section).

Currency translation impact

The Group operates worldwide in multiple currencies and seeks to match foreign exchange exposures on an economic basis.

Differences arise when functional currencies are translated into the presentation currency (U.S. dollar). The table below shows the effect of foreign currency rates on the translation of selected line items.

Selected Group income statement line items

variance over the prior period, for the year ended December 31, 2009	in USD millions	in %
Gross written premiums and policy fees	(2,212)	(4%)
Insurance benefits and losses, gross of reinsurance	1,680	4%
Net income attributable to shareholders	(14)	–
Business operating profit	(147)	(3%)

The income statements are translated at average exchange rates. Throughout 2009, the U.S. dollar has on average been stronger against the Swiss franc and the euro and significantly against the British pound compared with 2008. The result has been a reduction in U.S. dollar terms in gross written premium which was partially compensated by a favorable impact on insurance benefits and losses.

Selected Group balance sheet line items

variance over December 31, 2008, as of December 31, 2009	in USD millions	in %
Total investments	13,507	5%
Reserves for insurance contracts, gross	9,034	4%
Cumulative translation adjustment in shareholders' equity	944	3%

The balance sheets are translated at end-of-period rates. The U.S. dollar has weakened against the euro and Swiss franc and especially against the British pound as of December 31, 2009 compared with December 31, 2008, resulting in an increase in U.S. dollar terms in most balance sheet line items.

Risk Review

Risk management is our business. We help our customers manage their risks, and are accountable for managing our own. In 2009 our robust, well-established risk management practices helped maintain a strong and stable foundation for the Group despite continued turmoil in our economic and operating environment.

The Risk Review is an integral part of the Consolidated Financial Statements (except for Economic Capital Adequacy on pages 134–135).

Contents

Mission and objectives of risk management	98
Risk management framework	98
External perspectives	100
Risk governance and risk management organization	101
Risk types	103
Strategic risk	104
Insurance risk	104
Market risk	111
Credit risk	118
Liquidity risk	125
Operational risk	128
Risks to our reputation	129
Capital management	130

Mission and objectives of risk management

The mission of Zurich's Enterprise Risk Management is to promptly identify, measure, manage, report and monitor risks that affect the achievement of our strategic, operational and financial objectives. This includes adjusting the risk profile in line with the Group's stated risk tolerance to respond to new threats and opportunities in order to optimize returns.

Our major Enterprise Risk Management objectives are to:

- Protect the capital base by monitoring that risks are not taken beyond the Group's risk tolerance
- Enhance value creation and contribute to an optimal risk-return profile by providing the basis for an efficient capital deployment
- Support the Group's decision-making processes by providing consistent, reliable and timely risk information
- Protect our reputation and brand by promoting a sound culture of risk awareness and disciplined and informed risk taking

Risk management framework

In order to achieve our mission and objectives, the Group relies on its risk management framework.



At the heart of the risk management framework is a robust governance process with clear responsibilities for taking, managing, monitoring and reporting risks. We articulate the roles and responsibilities for risk management throughout the organization, from the Board of Directors and the Chief Executive Officer to our businesses and functional areas, thus embedding risk management in the business (see Risk Governance and Risk Management Organization on page 101).

To support the governance process, the Group relies on documented policies and guidelines. The Zurich Risk Policy is the Group's main risk governance document; it specifies risk limits and authorities, reporting requirements, procedures to approve any exceptions and procedures for referring risk issues to senior management and the Board of Directors. Limits are specified per risk type, reflecting the Group's willingness and ability to take risk, considering earning stability, economic capital adequacy, financial flexibility and liquidity, franchise value and reputation, the Group's strategic

direction and operational plan, and a reasonable balance between risk and return, aligned with economic and financial objectives. We regularly enhance the Zurich Risk Policy to reflect new insights and changes in our environment and to reflect changes to the Group's risk tolerance. In 2009, the Zurich Risk Policy was updated and strengthened for various areas, including asset/liability management, life insurance, reinsurance and operational risks. Related procedures and risk controls were strengthened or clarified for these areas and others, including post-merger integration and information security.

One of the key elements of the Group's risk management framework is to foster risk transparency by establishing risk reporting standards throughout the Group. We regularly report on our risk profile, current risk issues, adherence to our risk policies and improvement actions both at a local and on a Group level. The Group has solid procedures in place for the timely referral of risk issues to senior management and the Board of Directors.

Various governance and control functions coordinate to help ensure that objectives are being achieved, risks are identified and appropriately managed and internal controls are in place and operating effectively. This coordination is referred to as "integrated assurance."

Risk management is not only embedded in our business but is also aligned with the Group's strategic and operational planning process. We assess risks systematically and from a strategic perspective through our proprietary Total Risk Profiling™ (TRP) process, which allows us to identify and then evaluate the probability of a risk scenario occurring, as well as the severity of the consequences should it occur. We then develop, implement and monitor appropriate improvement actions. The TRP process is integral to how we deal with change, and is particularly suited for evaluating strategic risks as well as risks to our reputation. At Group level this process is performed annually, reviewed regularly and closely tied to the planning process.

In addition to this qualitative approach the Group regularly measures and quantifies material risks to which it is exposed. Our Risk-Based Capital model provides a key input into the Group's strategic planning process as it allows an assessment as to whether the Group's risk profile is in line with the Group's risk tolerance. In particular, our Risk-Based Capital model forms the basis for optimizing the Group's risk-return profile by providing consistent risk measurement across the Group.

An important element of our sound risk culture is a well-balanced and effectively managed compensation program. This includes a Group-wide compensation philosophy, robust short-and long-term incentive compensation plans, strong governance and links to the business planning and risk policies of the Group. By defining the remuneration principles, the Board establishes the structure and design of the compensation arrangements so that they do not encourage risk taking that could jeopardize the financial position of the Group. For more information on our remuneration system, refer to the Remuneration Report (unaudited).

Through these processes, responsibilities and policies, we embed a culture of disciplined risk taking across the Group. We continue to consciously take risks for which we expect an adequate return. This approach requires sound judgment and an acceptance that certain risks can and will materialize in the future.

External perspectives

Various external stakeholders, among them regulators, rating agencies, investors and accounting bodies, are placing increasing emphasis on the importance of sound risk management in our industry.

New and emerging regulatory regimes, such as the Swiss Solvency Test and Solvency II in the European Union, emphasize a risk-based and economic approach, based on comprehensive quantitative and qualitative assessments and reports.

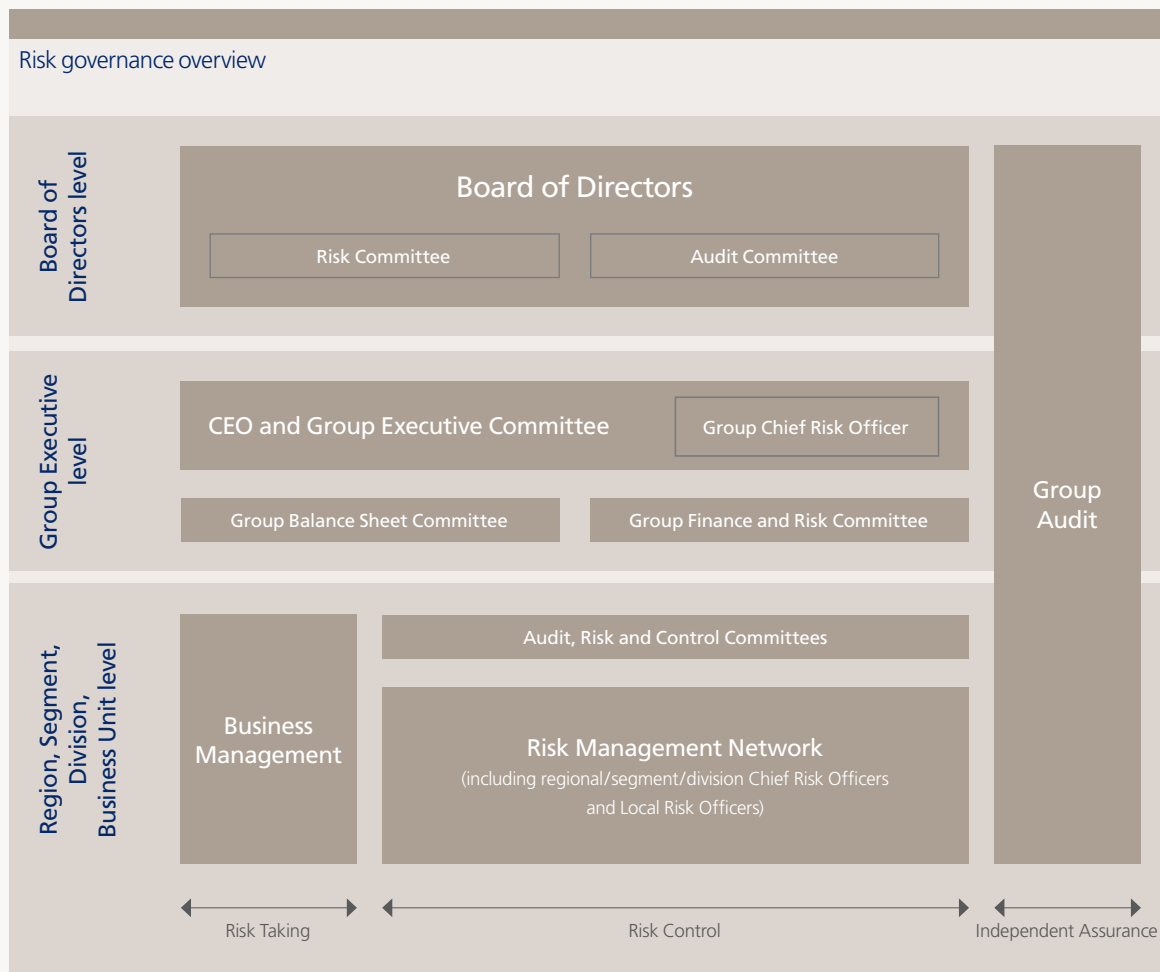
Rating agencies are increasingly interested in risk management as a factor in evaluating companies. Standard & Poor's, a rating agency with a separate rating for Enterprise Risk Management, confirmed our Group's Enterprise Risk Management rating as "strong" in 2009. Reinsurance risk, credit risk and asset/liability management and market risk controls were upgraded from "strong" to "excellent." Reserving risk, catastrophe risk and operational risk controls were upgraded from "adequate" to "strong." Strategic and emerging risk management remain "strong." After this latest review, Zurich is now rated either "strong" or "excellent" in all of Standard & Poor's dimensions for Enterprise Risk Management.

We also seek external expertise from our International Advisory Council, Natural Catastrophe Advisory Council and Climate Change Advisory Council to better understand and assess our risks, particularly regarding areas of complex change. For discussion of these councils, refer to the Corporate Governance Report (unaudited). In addition, the Investment Management Advisory Council provides feedback to Investment Management on achieving superior risk-adjusted returns versus liabilities for the Group's invested assets.

We are also involved in a number of international industry organizations engaged in advancing the regulatory dialogue pertaining to insurance and financial services. In 2009, Zurich senior executives contributed to the drafting of key papers issued by the CRO Forum (an organization composed of the chief risk officers of major European insurance companies and financial conglomerates that focuses on developing and promoting industry best practices in risk management). Zurich contributed to the drafting of the paper "Insurance Risk Management Response to the Financial Crisis" (April 2009), in addition to papers on internal model admissibility and operational risk management. In 2010, Zurich's Chief Risk Officer serves as vice chair of the CRO Forum. In addition, at the end of 2009, Zurich's Chief Financial Officer assumed the chair of the CFO Forum (an organization composed of the chief financial officers of major European insurance companies and financial conglomerates particularly active in contributing to the development of new accounting and regulatory standards). Zurich is also a contributing partner to the annual report on global risks, a collaborative effort under the auspices of the World Economic Forum (WEF) and produced in conjunction with the WEF Global Risk Network.

Risk governance and risk management organization

The section below gives an overview of the Group's risk governance and risk management organization.



The overview above highlights only key elements of the governance framework that specifically relate to risk management.

Board of Directors level

The Board of Directors of Zurich Financial Services Ltd has ultimate oversight responsibility for the Group's risk management. It establishes the guidelines for the Group's risk management framework and key principles, particularly as articulated in the Zurich Risk Policy, and decides on changes to such guidelines and key principles, as well as transactions reaching specified thresholds.

The Risk Committee of the Board serves as a focal point for oversight regarding the Group's risk management, in particular the Group's risk tolerance, including agreed limits that the Board regards as acceptable for Zurich to bear, the aggregation of these limits across the Group, the measurement of adherence to risk limits, and the Group's risk tolerance in relation to anticipated capital levels. The Risk Committee further oversees the Group-wide risk governance framework, including risk management and control, risk policies and their implementation, as well as risk strategy and the monitoring of operational risks. The Risk Committee also reviews the methodologies for risk measurement and the Group's adherence to its risk limits. The Risk Committee further reviews, with business management and the Group Risk Management function, the Group's general policies and procedures and satisfies itself that effective systems of risk management are established and maintained. It receives periodic reports from Group Risk Management and assesses

whether significant issues of a risk management and control nature are being appropriately addressed by management in a timely manner. The Risk Committee assesses the independence and objectivity of the Group Risk Management function, approves its terms of reference, reviews the activities, plans, organization and quality of the function, and reviews key risk management principles and procedures.

To facilitate information exchange between the Audit Committee of the Board and the Risk Committee of the Board, the chairperson of the Audit Committee is a member of the Risk Committee and vice-versa. The Risk Committee met six times in 2009.

Group Executive level

The Chief Executive Officer (CEO), together with the Group Executive Committee (GEC), oversees the Group's performance with regard to risk management and control, strategic, financial and business policy issues of Group-wide relevance. This includes monitoring adherence to and further development of the Group's risk management policies and procedures. The Group Finance and Risk Committee and the Group Balance Sheet Committee regularly review and make recommendations on the Group's risk profile and significant risk-related issues.

The Group Chief Risk Officer is a member of the GEC and reports directly to the CEO and the Risk Committee of the Board. He is a member of each of the management committees listed below, in order to provide a common and integrated approach to risk management, to allow for appropriate quantification and, where necessary, mitigation of risks identified in these committees.

At a Group level the management committees dealing with risks are:

- Group Balance Sheet Committee (GBSC) – acts as a cross-functional body whose main function is to control the activities that materially affect the balance sheets of the Group and its subsidiaries. The GBSC is charged with setting the annual capital and balance sheet plans for the Group based on the Group's strategy and its financial plans, as well as recommending specific transactions or unplanned business changes to the Group's balance sheet. The GBSC has oversight of all main levers of the balance sheet. It assesses the Group's capital adequacy, reinsurance, level of return, and desired growth. The GBSC reviews and recommends the Group's overall risk tolerance. It is chaired by the CEO.
- Group Finance and Risk Committee (GFRC) – acts as a cross-functional body for financial and risk management matters in the context of the strategy and the overall business activity of the Group. The GFRC oversees financial implications of business decisions and the effective management of the Group's overall risk profile, including risks related to insurance, financial markets and asset/liability, credit and operational risks as well as their interactions. The GFRC proposes remedial actions based on regular briefings from Group Risk Management on the risk profile of the Group. It reviews and formulates recommendations for future course of action with respect to potential merger and acquisition (M&A) transactions, changes to the Zurich Risk Policy, internal insurance programs for the Group, material changes to the Group's Risk-Based Capital methodology and the overall risk tolerance. The GFRC is chaired by the Group Chief Financial Officer, while the Group Chief Risk Officer acts as deputy.

The management committees rely on output provided by technical committees, including:

- Asset/Liability Management and Investment Committee (ALMIC) – deals with the Group's asset/liability exposure and investment strategies and is chaired by the Group Chief Investment Officer.
- Global Underwriting Committee (GUC) – acts as a focal point for underwriting policy and related risk controls for General Insurance and is chaired by the Global Chief Underwriting Officer.
- Group Reinsurance Committee (GRC) – oversees the purchase of reinsurance on a global basis. This committee also oversees the Group's natural catastrophe exposure and is chaired by the Global Head of Group Reinsurance.

Representatives of Group Risk Management are members of all these technical committees.

Group Risk Management organization

The Group Chief Risk Officer leads the Group Risk Management function, which develops methods and processes for identifying, measuring, managing, reporting and monitoring risks throughout the Group. Group Risk Management proposes changes to the risk management framework and the Group's risk policies; it makes recommendations on the Group's risk tolerance and assesses the risk profile. The Group Chief Risk Officer is responsible for the oversight of risks across the Group; he regularly reports risk matters to the Chief Executive Officer, senior management committees and the Risk Committee of the Board.

The Group Risk Management organization consists of central functions at Corporate Center and a decentralized risk management network at regional, segment, business division, business unit and functional levels.

At Corporate Center there are two centers of expertise: risk analytics and risk operations. The risk analytics department quantitatively assesses insurance, financial market and asset/liability, credit and operational risks and is the Group's center of excellence for risk quantification and modeling. The risk operations department comprises operational risk management, the Internal Control Framework, IT risk management, Business Continuity Management and Disaster Recovery. It serves as the link between the risk management network (regions, segments, business divisions, business units and functions) and risk management at Corporate Center.

The decentralized risk management network consists of the Chief Risk Officers (CROs) of the Group's regions, segments and business divisions, and the Local Risk Officers (LROs) of the business units and functions and their staff. While their primary focus is on operational and business-related risks, they are responsible for providing a holistic view of risk for their area. The CROs and LROs are part of the respective business' management teams. While the LROs have a matrix reporting line to the regional, segment or business division CROs, the latter have a matrix reporting line to the Group Chief Risk Officer. The CROs of the Group's major regions, segments and business divisions are members of the Group CRO's executive leadership team.

In addition to the risk management network, the Group has a set of audit, risk and control committees that encompass the major business reporting areas and business units. Each committee has terms of reference tailored to its specific business area and local requirements. In particular, the committees are responsible for providing oversight of activities, organization and quality of the risk management and control functions. This includes monitoring adherence to policies and periodic risk reporting. Risk reporting to regional management and audit committees is coordinated in the context of Zurich's integrated assurance approach with other assurance, governance and control, technical and business functions to provide a holistic view of risks.

Risk types

In order to enable a consistent, systematic and disciplined approach to risk management, we categorize our main risks as follows:

- Strategic – the unintended risk that can result as a by-product of planning or executing a strategy
- Insurance – risk associated with the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities
- Market – risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets
- Credit – risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations
- Liquidity – risk that the Group does not have sufficient liquidity to meet its obligations when they fall due, or would have to incur excessive costs to do so
- Operational – risk associated with the people, processes and systems of the Group and external events
- Reputation – risk that an act or omission by the Group or any of its employees could result in damage to the Group's reputation or loss of trust among our stakeholders

Strategic risk

Strategic risk corresponds to the unintended risk that can result as a by-product of planning or executing the strategy. A strategy is a long term plan of action designed to allow the Group to achieve its goals and aspirations. Strategic risks can arise from:

- Inadequate assessment of strategic plans
- Improper implementation of strategic plans
- Unexpected changes to assumptions underlying strategic plans

Risk considerations are a key element in the strategic decision-making process. The Group assesses the implications of strategic decisions on Risk Based Return Measures (RBRM) and Risk-Based Capital in order to optimize the risk-return profile and to take advantage of economically profitable growth opportunities as they arise.

The Group works on reducing the unintended risks of strategic business decisions through our risk assessment processes and tools, including the Total Risk Profiling™ process. The Group Executive Committee regularly assesses key strategic risk scenarios for the Group as a whole, including scenarios for emerging risks and their strategic implications.

We specifically evaluate the risks of M&A transactions both from a quantitative and a qualitative perspective. We conduct risk assessments of M&A transactions to evaluate risks specifically related to the integration of acquired businesses. In 2009, we strengthened our risk controls related to post-merger integration. The Group has, for example, specifically assessed the capital and risk implications associated with the 21st Century acquisition and has reacted accordingly by selling ordinary shares and issuing capital notes from the EMTN program at the acquisition; integration of the acquired business into the Group's framework for managing risk continues.

In 2009, the Group specifically assessed the risk implications of the strategic decision to outsource management of data centers and information technology infrastructure to a third party. Mitigating actions were planned and implemented as appropriate.

Insurance risk

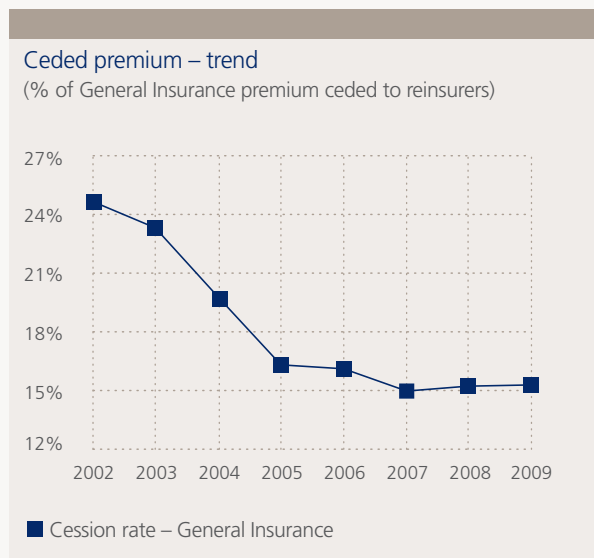
Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. The exposure is transferred to the Group through the underwriting process. We actively seek to write those risks we understand and that provide a reasonable opportunity to earn an acceptable profit. As we assume certain customer risks, we aim to manage that transfer of risk, and minimize unintended underwriting risks, through such means as:

- Establishing limits for underwriting authority
- Requiring specific approvals for transactions involving new products or where established limits of size and complexity may be exceeded
- Using a variety of reserving and modeling methods to address the various insurance risks inherent in our insurance business
- Ceding insurance risk through proportional, non-proportional and specific risk reinsurance treaties. The Group centrally manages reinsurance treaties.

Reinsurance for General Insurance and Life Insurance

Our objectives for purchasing reinsurance are to provide market-leading capacity for our customers while protecting the balance sheet and optimizing the Group's capital efficiency. We follow a centralized purchasing strategy for both General Insurance and Life Insurance, and bundle programs where appropriate to benefit from diversification and economies of scale. We continue to use traditional reinsurance markets and other alternatives, such as catastrophe bonds, to protect Zurich against extreme single events and increased frequency of events. We are able to use our global reach in particular for catastrophe protection, where we have in place a combination of per event and annual aggregate covers, which protects our business both per event and by region, and also for multiple events across regions. This helps to reduce the risks posed by the frequency of catastrophes, as well as their severity.

Due to our strong balance sheet, we are able to structure and align our reinsurance programs to achieve an optimum risk/reward ratio. We are able to manage our risks so that we can retain a significant and stable portion of premium, as shown in the illustration below for General Insurance.



General Insurance risk

General Insurance risk includes the reasonable possibility of significant loss due to uncertainty in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. The following provides an overview of the Group's main lines of business:

- Motor includes automobile physical damage, loss of the insured vehicle and automobile third party liability insurance.
- Property includes fire risks (for example fire, explosion and business interruption), natural perils (for example earthquake, windstorm and flood), engineering lines (for example boiler explosion, machinery breakdown and construction) and marine (cargo and hull).
- Liability includes general/public and product liability, excess and umbrella liability, professional liability including medical malpractice, directors and officers liability and errors and omissions liability.
- Special lines include credit and surety, crime and fidelity, accident and health, and crop.
- Worker injury includes workers compensation and employers liability.

The Group's underwriting strategy is to take advantage of the diversification of general insurance risks across industries and geographic regions in which the Group operates. The Group seeks to optimize shareholder value by achieving its mid-term return on equity goals. Doing so necessitates a prudent, stable underwriting philosophy that aims to take advantage of our competitive strengths while avoiding risks with disruptive volatility. At the core of the Group's underwriting is a robust governance process. Our four major processes for underwriting governance – underwriting strategy, authorities, referrals and reviews – are implemented at Group and local levels.

A fundamental component of managing our risks is underwriting discipline. We set limits on underwriting capacity, and cascade authority to individuals based on their specific expertise. Through The Zurich Way, we set appropriate pricing guidelines with a focus on consistent technical pricing across the organization. As part of these guidelines the Group requires the setting of a technical price according to common standards. The technical price is set in a way that allows producing a return on Risk-Based Capital in line with the Group's target. The ratio of actual premium to technical price is a key performance metric, which is monitored continuously. Technical reviews confirm whether underwriters perform within authorities and adhere to our underwriting philosophies and policies. Our global line of business networks share best practices across the globe, providing additional guidance and governance. We have governance procedures to review and approve potential new products to evaluate whether the risks are well understood and justified by the potential rewards.

The Group faces the risk that actual losses emerging on claims provisions may be higher than anticipated. Because of this uncertainty, General Insurance reserves are regularly measured, reviewed and monitored. The total loss and loss adjustment expense reserves are calculated based on work performed locally by qualified and experienced actuaries. To arrive at their reserve estimates, the actuaries take into consideration, among other things, the latest available facts, historical trends and patterns of loss payments, exposure growth, court decisions, economic conditions and public attitudes that may affect the ultimate cost of settlement. In most instances these analyses are made throughout the year according to locally developed and agreed timetables. Analyses are performed by product line, type and extent of coverage and year of occurrence. The Group total loss and loss adjustment expense reserves are the consolidation of the locally calculated reserves which are then discussed and approved by Corporate Center actuaries and Group management. As with any projection there is an inherent uncertainty in the estimation of claim reserves due to the fact that the ultimate liability for claims will be impacted by trends as yet unknown including future changes in the likelihood of claimants bringing suit, the size of court awards, and the attitudes of claimants toward settlement of their claims.

The Group closely monitors potential new emerging risk exposures. Zurich has an Emerging Risk Group, with cross-functional expertise to identify, assess and recommend actions for such risks on a Group level. Emerging risks are phenomena whose full nature and effects are not yet known. They may affect the financial results of our underwriting operations now, or in the future. Examples of such risks are the possible consequences of nanotechnology, electromagnetic fields, and genetically modified organisms. In addition, the Group is engaged in the report on global risks with the World Economic Forum, where risks are considered from a broad macro-economic perspective. Zurich is also a standing member, and in 2010 chairs, the Emerging Risk Initiative of the CRO Forum.

In addition to the specific risks insured, each line of business could expose the Group 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 senior management. The most important peril regions and risks are European windstorm, California earthquake, U.S. and Caribbean windstorm and UK river flood, as well as potential terrorism exposures.

The table below shows the Group's concentration of risk within the General Insurance business by region and line of business based on direct written premiums before reinsurance. The Group's exposure to general insurance risks varies significantly by geographic region and may change over time. Premiums ceded to reinsurers (including retrocessions) amounted to USD 5,222 million and USD 5,646 million for the years ended December 31, 2009 and 2008, respectively. Reinsurance programs such as catastrophe covers are managed on a global basis, and therefore, net premium after reinsurance is monitored on an aggregated basis.

Table 1.a

General Insurance – Direct written premiums and policy fees by line of business and by region	in USD millions, for the year ended December 31, 2009					
	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,473	2,799	3,566	1,489	2,158	11,485
Europe & Africa	7,382	5,463	2,514	2,186	516	18,062
International Markets ¹	1,035	875	313	669	78	2,970
Total	9,890	9,137	6,393	4,345	2,752	32,516

¹ Including intercompany eliminations

Table 1.b

General Insurance – Direct written premiums and policy fees by line of business and by region	in USD millions, for the year ended December 31, 2008					
	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,690	3,291	4,289	1,445	2,342	13,056
Europe & Africa	8,187	5,771	2,701	2,308	655	19,622
International Markets ¹	1,046	826	311	422	74	2,679
Total	10,923	9,888	7,301	4,174	3,071	35,357

¹ Including intercompany eliminations

Sensitivities analysis for General Insurance risk

The following table shows 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. Such an increase could arise from either higher frequency of the occurrence of the insured events or from an increase in the severity of resulting claims or from a combination of frequency and severity. 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 presentation of the sensitivity analysis in the table below, each additional percentage point increase in the loss ratio would lead to a linear impact on net income before tax and net assets applying the assumptions as for this table. In addition, the Group monitors insurance risk by evaluating extreme scenarios, taking into account non-linear effects of reinsurance contracts.

Table 2.a

Insurance risk sensitivity for the General Insurance business	in USD millions, for the year ended December 31, 2009			
	Global Corporate	North America Commercial	Europe General Insurance	International Markets
+1% in net loss ratio				
Net income before tax	(47)	(83)	(139)	(21)
Net assets	(37)	(65)	(109)	(16)

Table 2.b

Insurance risk sensitivity for the General Insurance business	in USD millions, for the year ended December 31, 2008			
	Global Corporate	North America Commercial	Europe General Insurance	International Markets
+1% in net loss ratio				
Net income before tax	(48)	(93)	(148)	(20)
Net assets	(39)	(75)	(120)	(16)

Modeling natural catastrophes

Understanding the potential effects of natural catastrophes is a critical component of our risk management for General Insurance. While specific catastrophes are unpredictable, modeling helps to determine potential losses should catastrophes occur. We use a combination of third party and in-house models to manage our underwriting and accumulations in modeled areas so that we stay within intended exposure limits and to guide the levels of reinsurance we buy.

We model at the local and Group level to assess and aggregate our exposures. We centrally oversee our modeling for consistency in approach and from a global perspective on our accumulations. We have technical centers embedded within the business which help to improve the overall quality of our data. We model potential losses from our property policies located in the most hazard-prone areas and adjust for non-property related losses. These assessments principally address climate-induced perils such as windstorms, river floods, tornadoes, and hail, and geo-risk perils such as earthquakes. We constantly seek to improve our modeling, fill in gaps in models with additional assessments and increase the granularity of our data collection in order to increase the accuracy and utility of our information.

The models cover the major peril regions where we face potential exposure and therefore we now make incremental additions; in 2009, we added another climate-induced peril region (Mexico wind). Also, we continued our effort to extend our assessments by evaluating potential correlations between property and other lines of business such as engineering or marine for our major peril regions.

Peril regions assessed for 2009



Risks from man-made catastrophes

Man-made catastrophes include such risks as industrial accidents and all types of terrorism attacks. Zurich's experience in monitoring potential exposures from natural catastrophes is also applicable to threats posed by man-made catastrophes, particularly terrorism. Due to the high degree of uncertainty about what events might actually occur, our accumulation monitoring and analyses contain a number of assumptions about the potential characteristics of such threats.

We review and aggregate workers' injury and property exposures to identify areas of significant concentration. We also assess other lines of business, such as liability and auto, although the potential exposure is not as significant. The resulting data allows our underwriters to evaluate how insuring a particular customer's risk might affect Zurich's overall exposure. In North America, we use a vendor-provided catastrophe model to evaluate our potential exposures in every major U.S. city. We undertake more detailed and frequent analytics for cities in which we have greater exposure. In 2009, we continued to use a multi-disciplinary team to examine the vendor tool and make adjustments based on our own experience, expertise and view of the potential risks.

For other areas, our analysis has shown that our exposures are significantly lower, due in large part to government provided pools. We periodically monitor accumulation limits for those areas.

Life Insurance risk

The risks associated with life insurance include:

- Mortality risk is the risk that actual policyholder death experience on life insurance policies is higher than expected.
- Longevity risk is the risk that annuitants live longer than expected.
- Morbidity risk is the risk that policyholder health-related claims are higher than expected.
- Policyholder behavior risk is the risk that policyholder's behavior in discontinuing and reducing contributions or withdrawing benefits prior to the maturity of the contract is worse than expected. Poor persistency rates may lead to fewer policies remaining on the books to defray future fixed expenses and reduce the future positive cash flows from the business written potentially impacting our ability to recover deferred acquisition expenses.
- Expense risk is the risk that expenses incurred in acquiring and administering policies are higher than expected.
- Market risk is the risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets, which are managed as part of market risk.
- Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations, which are managed as part of credit risk.

A more diversified portfolio of risks is less likely to be affected across the board by a change in any subset of the risks. As a result, the offsetting effects of Life and General Insurance, as well as between unit-linked and traditional business, reduce some of the risk associated with Life Insurance business.

We have formal local product development committees and a Group-level product approval committee, under the leadership of the Global Life Chief Risk Officer, for potential new Life products that could significantly increase or change the nature of our risks. Such reviews allow us to manage new risks inherent in our new business propositions. We regularly review the continued suitability and the potential risks of existing products. Global Life has a financial management committee that further refines the identification, monitoring and mitigation of risks to the balance sheets of the Life entities.

Our use of market-consistent embedded value reporting principles allows us to further understand and report on the risk profile of our Life products and how risks would change in differing market conditions. Embedded value is the measure that markets use to value life businesses; we are using a market-consistent approach, which is considered industry best practice. For more information, refer to the Embedded Value Report.

The following table shows the Group's concentration of risk within the Life business by region and line of business based on reserves for Life Insurance on a net basis. The Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time.

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	
	2009	2008	2009	2008	2009	2008
	Global Life					
Americas	854	557	6,730	6,258	7,584	6,815
United Kingdom	28,126	23,097	4,394	4,033	32,520	27,130
Germany	8,690	5,774	42,645	40,879	51,334	46,653
Switzerland	590	491	15,678	15,044	16,268	15,536
Ireland	131	80	1,337	1,418	1,469	1,498
Spain	4,411	2,669	9,670	8,775	14,080	11,444
Emerging Markets in Asia	1,960	826	1,115	1,501	3,075	2,327
Rest of the world	1,707	1,576	5,735	5,490	7,442	7,066
Eliminations	–	–	(2)	3	(2)	3
Subtotal	46,468	35,069	87,304	83,401	133,772	118,470
Other segments	11,736	12,228	5,610	5,301	17,346	17,529
Total	58,204	47,297	92,914	88,702	151,118	135,999

From a risk-management perspective, unit-linked products have been designed in order to reduce much of the market and credit risk associated with traditional business for the Group. The risks inherent in these products are largely passed on to the policyholder, although a portion of our management fees are linked to the value of funds under management and hence are at risk if the fund values decrease. Unit-linked products carry mortality risk and market risk to the extent that there are guarantees in the product design. 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 explicit mortality and morbidity charges.

Other life insurance liabilities include traditional life insurance products, which include protection products and life annuity products. Protection products carry mortality, longevity and morbidity risk as well as market and credit risk. The most significant factors that could increase the frequency of mortality claims are epidemics, such as strains of influenza, or lifestyle changes such as eating, drinking and exercise habits, resulting in earlier or more claims than expected. Morbidity claims experience would not only be affected by the factors mentioned above, but because disability is defined in terms of the ability to perform an occupation, it could also be affected by economic conditions. In order to reduce cross-subsidies in the pricing basis, premiums are differentiated for example by product, age, gender and smoker status. The policy terms and conditions and the disclosure requirements contained in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that may result in severe financial loss.

In the life annuity business, the most significant insurance risk is continued medical advances and improvement in social conditions that lead to increases in longevity. Annuitant mortality assumptions include allowance for future mortality improvements.

In addition to the specific risks listed above, the Group is exposed to policyholder behavior and expense risks. Policyholder behavior risk is mitigated by product designs that match revenue and expenses associated with the contract as closely as possible. Expense risk is mitigated by careful control of expenses and by regular expense analyses and allocation exercises.

Other segments includes certain life insurance contracts, which contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees. These arise primarily in the subsidiary Kemper Investors Life Insurance Company (KILICO) which in the past wrote variable annuity contracts that provide policyholders with certain guarantees related to minimum death and income benefits. After 2001, KILICO no longer issued new policies with such features. New Life products developed with guaranteed financial benefits are subject to review and approval by the Group-level product approval committee.

Refer to note 8 of the Consolidated Financial Statements for additional information on reserves for insurance contracts, and KILICO liabilities.

Sensitivities analysis for life insurance risk

The Group reports sensitivities of Life Insurance business on Embedded Value and New Business Value to changes in economic and operating risk factors. The operating factors include discontinuance rates, expenses, mortality and morbidity. The embedded value methodology adopted by the Group is based on a "bottom up" market-consistent approach to allow explicitly for market risks. Refer to the Embedded Value Report for more information on the sensitivities of Life Insurance business to economic and operating risk factors.

Market risk

Market risk is the risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets. Fluctuating risk drivers resulting in market risk include:

- Equity market prices
- Real estate market prices
- Interest rates and credit spreads
- Currency exchange rates

The Group manages the market risk of assets relative to liabilities on an economic total balance sheet basis. It strives to maximize the economic risk adjusted excess return of assets relative to the liability benchmark taking into account the Group's risk tolerance as well as local regulatory constraints.

The Group has policies and limits to manage market risk. We align our strategic asset allocation to our risk-taking capacity. We centralize management of certain asset classes to control aggregation of risk, and provide a consistent approach to constructing portfolios and selecting external asset managers. We also diversify portfolios, investments and asset managers. We regularly measure and manage market risk exposure. We have established limits on our concentration in investments by single issuers and certain asset classes as well as deviations of asset interest rate sensitivities from liability interest rate sensitivities, and we limit investments that are illiquid. The Group's Balance Sheet Committee reviews and recommends the Group's capital allocation to market risk, while the Asset/Liability Management and Investment Committee reviews and monitors the Group's strategic asset allocation and its tactical boundaries and monitors the Group's asset/liability exposure. The Group oversees the activities of local Asset/Liability Management and Investment committees and regularly assesses market risks both at a Group and at a local business level. Risk assessment includes quantification of the contributions to financial market risk from major risk drivers. 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 aggregated positions with risk limits.

In 2009, we strengthened our market and credit risk models to reflect the turbulence of the financial crisis. In line with its strategic asset allocation, the Group reduced its equity holdings in favor of fixed income securities. We continue to diligently apply processes to manage market risk scenarios to test and analyze market hotspots, and risk mitigation actions have been taken to manage fluctuations affecting asset/liability management and Risk-Based Capital.

The Group uses derivative financial instruments to limit market risks arising from changes in currency exchange rates, interest rates, equity prices and credit quality of our assets and liabilities and our 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. The latter include cross-currency interest rate swaps in fair value hedges and cross-currency swaps in cash flow hedges of our borrowings, in order to mitigate our exposure to foreign currency and interest rate risk. In compliance with Swiss insurance regulation, the Group's policy prohibits speculative trading in derivatives, meaning a pattern of 'in and out' activity without reference to an underlying position. Derivatives are complex financial transactions; therefore, 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 of open positions and annual reviews of derivative programs by Group Risk Management.

For more information on the Group's investment result, including impairments and the treatment of selected financial instruments, refer to note 6 of the Consolidated Financial Statements. For more information on derivative financial instruments and hedge accounting, refer to note 7 of the Consolidated Financial Statements.

Risk from equity securities and real estate

The Group is exposed to various risks resulting from price fluctuations on equity securities, real estate and capital markets. Risks arising from equity securities and real estate could affect the Group's liquidity, reported income, surplus and regulatory capital position. The exposure to equity risk includes, but is not limited to, common stocks, including equity unit trusts; common stock portfolios backing participating with-profit policyholder contracts, and equities held for employee benefit plans. The exposure to real estate risk includes direct holdings in real estate, listed real estate company shares and funds, as well as real estate debt securities such as commercial and residential mortgages, commercial and residential mortgage-backed securities and mezzanine debt. 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 both with respect to earnings and with respect to economic capital. On the one hand they impact the amount of fee income earned when the fee income level is dependent on valuation of the asset base. On the other hand, the value of in-force business for unit-linked business can be negatively impacted by adverse movements in equity and real estate markets.

The Group manages its risks from equity securities and real estate as part of the overall investment risk management process, and applies limits as expressed in our policies and guidelines. Specifically, we have established limits for holdings in equities, real estate and alternative investments.

For additional information on equity securities and real estate held for investment, refer to note 6 of the Consolidated Financial Statements.

Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Group is exposed to interest rate risk including from debt securities, reserves for insurance contracts, liabilities for investment contracts, employee benefit plans and loans and receivables. Changes in interest rates affect the Group's held-to-maturity floating rate debt securities and unhedged floating rate borrowings through fluctuations in interest income and interest expense. Changes in interest rates affect the Group's held-for-trading debt securities and fair value hedged borrowings through periodic recognition of changes in their fair values through the income statement. Changes in interest rates affect the Group's available-for-sale debt securities through periodic recognition of changes in their fair values through shareholders' equity. We also manage the 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.

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 in so far as they impact the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

Analysis of market risk sensitivities

Basis of presentation – General Insurance and rest of the business

The tables in the following section show the estimated economic market risk sensitivities of Group investments, including real estate for own use, liabilities, including insurance and financial liabilities, and the net impact for General Insurance and the rest of the business. Positive values represent an increase of the balance, whereas values in parentheses represent a decrease of the balance. Increases in the value of liabilities and decreases in the value of assets represent an economic risk for the Group. The net impact is the difference between the impact on Group investments and liabilities. The net impact represents the economic risk the Group faces related to changes in market risk factors, which is in line with management's monitoring of the Group's investment and liabilities base. As mentioned above, we have established limits on holdings in real assets and deviations of asset interest rate sensitivities from liability interest rate sensitivities, which limit the economic impact of interest rate, equity and real estate risk.

The basis of the presentation below is an economic valuation represented by the fair value for Group investments, IFRS insurance liabilities discounted at market rates to reflect the present value of insurance liability cash flows and other liabilities, for example own debt. Own debt does not include subordinated debt, which we consider available to protect policyholders in a worst-case situation. For 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 fully reflected in the model. The sensitivities are shown before tax. They do not include impact of Group-internal transactions.

The following tables on sensitivities for the rest of the businesses include Farmers, Other Operating Businesses and Non-Core Businesses. Where Non-Core Businesses includes business with Life characteristics, the analysis is based on market-consistent embedded value market risk sensitivities. Refer to the Embedded Value Report for more details on the market risk sensitivities specifications.

Limitations of the analysis:

- The sensitivity analysis does not take into account actions that might be taken to mitigate losses, as we use an active strategy to manage these risks. This strategy may involve changing the asset allocation, for example through selling and buying assets.
- The 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 (credit spread risk).
- The equity market scenarios assume a concurrent movement of all stock markets.
- The sensitivities are reasonably possible as of the balance sheet date, but do not indicate a probability of such events occurring in the future. They do not necessarily represent our 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.

Basis of presentation – Global Life

The tables in the following section show the estimated economic sensitivity of the Embedded Value of the Global Life business to financial market movements. In modeling these exposures, where appropriate, allowance has been made for dynamic actions that would be taken by management or by policyholders. For contracts with financial options and guarantees, such as some participating business, movements in financial markets can change the nature and value of these benefits. The dynamics of these liabilities are captured so that this exposure is quantified, monitored, managed and where appropriate, mitigated.

Limitations of the analysis:

- The sensitivities show the effects of a change in certain risk factors, while other assumptions remain unchanged, except where they are directly affected by the revised conditions.
- The market risk scenarios assume a concurrent movement of all stock markets and an unrelated parallel shift of all interest rates in different currencies.
- In 2008, the scenario of a 10 percent stock market decline included a 10 percent fall in property market values. In 2009, the scenarios of a 10 percent stock market decline and a 10 percent fall in property market are calculated on a stand-alone basis. For 2009, the total impact is estimated as the simple sum of both scenarios.
- The assumptions on policyholder behavior, such as lapses, included in the sensitivity analysis for Global Life may be different from actual behavior. Therefore, the actual impact may deviate from the analysis.

Refer to the Embedded Value Report for more information.

Analysis of economic sensitivities for interest rate risk

The tables below show the estimated impacts of a one percentage point increase/decrease in yield curves of the major currencies U.S. dollar (USD), Euro (EUR), British pound (GBP), Swiss franc (CHF) and 'other currencies' after consideration of hedges in place, as of December 31, 2009 and 2008, respectively. The impact is shown in USD.

Table 4.a

in USD millions, as of December 31, 2009

Economic interest rate sensitivities for the Group's General Insurance business

	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(1,153)	(588)	(275)	(264)	(143)	(2,424)
Liabilities	(918)	(380)	(286)	(303)	(73)	(1,960)
Net impact	(235)	(209)	11	39	(70)	(464)
100 basis points decrease in the interest rate yield curves						
Group investments	1,045	622	293	241	140	2,340
Liabilities	962	401	300	328	70	2,061
Net Impact	82	221	(8)	(86)	70	279

Table 4.b

in USD millions, as of December 31, 2008

Economic interest rate sensitivities for the Group's General Insurance business

	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(885)	(567)	(182)	(278)	(124)	(2,038)
Liabilities	(1,011)	(341)	(233)	(237)	(69)	(1,890)
Net impact	125	(227)	50	(42)	(55)	(148)
100 basis points decrease in the interest rate yield curves						
Group investments	802	603	189	277	125	1,996
Liabilities	1,027	365	237	256	69	1,954
Net impact	(225)	238	(48)	21	56	42

Table 5.a		in USD millions, as of December 31, 2009					
		USD	EUR	GBP	CHF	Other currencies	Total
Economic interest rate sensitivities for the Group's Global Life business	100 basis points increase in the interest rate yield curves						
	Total impact on Embedded Value	(242)	(234)	18	3	(69)	(525)
	100 basis points decrease in the interest rate yield curves						
	Total impact on Embedded Value	235	(675)	(55)	(40)	56	(479)

Table 5.b		in USD millions, as of December 31, 2008					
		USD	EUR	GBP	CHF	Other currencies	Total
Economic interest rate sensitivities for the Group's Global Life business	100 basis points increase in the interest rate yield curves						
	Total impact on Embedded Value	(109)	76	(15)	139	(60)	31
	100 basis points decrease in the interest rate yield curves						
	Total impact on Embedded Value	(43)	(1,056)	(6)	(179)	51	(1,233)

Table 6.a		in USD millions, as of December 31, 2009					
		USD	EUR	GBP	CHF	Other currencies	Total
Economic interest rate sensitivities for the rest of the businesses	100 basis points increase in the interest rate yield curves						
	Group investments	(802)	84	(254)	11	(3)	(964)
	Liabilities	(634)	(153)	(35)	(43)	–	(864)
	Net impact	(169)	237	(219)	54	(3)	(100)
100 basis points decrease in the interest rate yield curves	Group investments	884	(97)	291	(1)	2	1,079
	Liabilities	765	160	44	30	–	1,000
	Net impact	119	(257)	247	(32)	2	79

Economic interest rate sensitivities for the rest of the businesses

Table 6.b						
in USD millions, as of December 31, 2008						
	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(582)	26	(211)	(1)	(47)	(815)
Liabilities	(831)	(93)	(70)	(60)	(1)	(1,055)
Net impact	249	119	(141)	59	(46)	240
100 basis points decrease in the interest rate yield curves						
Group investments	641	48	256	1	51	997
Liabilities	959	99	86	59	1	1,204
Net impact	(318)	(51)	169	(59)	50	(208)

Analysis of economic sensitivities for equity risk

The table below shows the estimated impacts from a 10 percent decline in stock markets, after consideration of hedges in place, as of December 31, 2009 and 2008, respectively. For Global Life, the analysis also includes the impact from a 10 percent decline in property market values.

Economic equity price sensitivities for the General Insurance business

Table 7		
in USD millions, as of December 31		
	2009	2008
10% decline in stock markets		
Group investments	(362)	(437)
Liabilities	na	na
Net impact	(362)	(437)

Economic equity price sensitivities for the Global Life business

Table 8		
in USD millions, as of December 31		
	2009	2008
10% decline in stock and property market values		
Impact of a decline in stock market values	(233)	na
Impact of a decline in property market values	(240)	na
Total impact on Embedded Value	(473)	(630)

Economic equity price sensitivities for the rest of the businesses

Table 9		
in USD millions, as of December 31		
	2009	2008
10% decline in stock markets		
Group investments	(145)	(332)
Liabilities	139	61
Net impact	(284)	(393)

Currency risk

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 arising from changes in the exchange rates of various currencies. The Group's presentation currency is the U.S. dollar (USD), but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in the Euro, Swiss franc, British pound, as well as USD.

As the Group has chosen USD as its presentation currency, differences arise when functional currencies are translated into the presentation currency.

Using constant exchange rates from one year to the next, the Group's 2009 net income attributable to shareholders would have been higher by USD 14 million (applying 2008 exchange rates to the 2009 result). In 2008 the result would have been lower by USD 26 million (applying 2007 exchange rates to the 2008 results).

Table 10			
in USD millions, for the years ended December 31			
		2009	2008
Net income after tax before non-controlling interests, by major functional currencies	USD	2,056	290
	EUR	580	1,285
	GBP	47	822
	CHF	274	287
	others	279	432
	Total	3,236	3,116

The table above shows the net income after tax (NIAT) before non-controlling interests, by major functional currencies. The table, therefore, gives an indication of the Group's exposure to changes in currency exchange rates with respect to their impact on the Group's NIAT expressed in USD.

On local balance sheets there is the risk that a currency mismatch may lead to fluctuations in a balance sheet's net asset value, either through income or directly through equity. The Group manages this risk by matching foreign currency positions on local balance sheets within prescribed limits. The Group does not take speculative positions on foreign currency market movements. Currency risk is centrally managed, with hedging coordinated by Group Treasury. As a result, the monetary currency risk exposure on local balance sheets is considered immaterial.

Refer to notes 1 and 3 of the Consolidated Financial Statements for additional information on foreign currency translation and transactions.

Credit risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. The Group's exposure to credit risk is derived from the following main areas:

- Debt securities
- Reinsurance assets
- Mortgage loans and mortgage loans given as collateral
- Other loans
- Receivables
- Derivatives

The Group manages individual exposures as well as concentrations of credit risk. Our objective in managing credit risk exposures is to maintain them within parameters that reflect our strategic objectives and the Group's risk tolerance. Sources of credit risk are assessed and monitored, and the Group has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Group uses the ratings assigned by external rating agencies, qualified third parties, such as asset managers, and internal rating assessments. When there is a difference among external rating agencies, we apply the lowest of the external ratings, and we assess the external ratings for inconsistencies and consider other indicators of downward rating pressure, applying an internal rating when necessary. The Group maintains counterparty credit risk databases, recording external and internal sources of credit intelligence.

In 2009, further differentiation occurred between stronger and weaker credits, with fairly stable investment-grade default rates, while speculative-grades reached levels last seen in the 1991 recession. Zurich's portfolio maintained its high average credit quality throughout 2009 and is well positioned to continue this.

The Group regularly tests and analyzes credit risk scenarios. Beginning at the end of 2008 and continuing in 2009, the Group expanded the number and the specificity of scenarios tested, and prepared possible contingency measures, which might become necessary should the credit risk environment worsen. From the expanded set of scenarios, the Group has selected and standardized those most relevant to the Group to continue to test and regularly report about to senior management. The Group can adjust the scenarios if market conditions warrant.

Credit risk concentration

The Group regularly monitors and limits credit exposures by individual counterparty and related counterparties by the aggregated exposure across the various types of credit risk for that counterparty. The Group's exposure to counterparties' parent companies and subsidiaries across sources of credit risk is aggregated to include reinsurance assets, investments, certain insurance products and derivatives. Best estimates, based on statistical data and own assessment, are used to assign loss-given-default percentages and loss dependency factors reflecting, for example, double default events. The aggregated exposure information is compared with the Group's limits. The limits vary based on the underlying rating category of the counterparty. There was no material exposure in excess of the limits at December 31, 2009. The Group Chief Risk Officer routinely reports the largest exposures by rating category to the Risk Committee of the Board.

The maximum exposure to credit risk consists mainly of on-balance sheet exposures. Off-balance sheet exposures are primarily related to collateral (e.g. letters of credit) used to protect the underlying credit exposures on the balance sheet. We also have off-balance sheet exposures related to undrawn loan commitments of Zurich Bank of USD 310 million and USD 561 million as of December 31, 2009 and 2008, respectively. Refer to note 26 of the Consolidated Financial Statements for undrawn loan commitments.

Credit risk related to debt securities

The Group is exposed to credit risk from third party counterparties where the Group holds securities issued by those entities. The table below shows the credit risk exposure on debt securities, by issuer credit rating.

Table 11
as of December 31

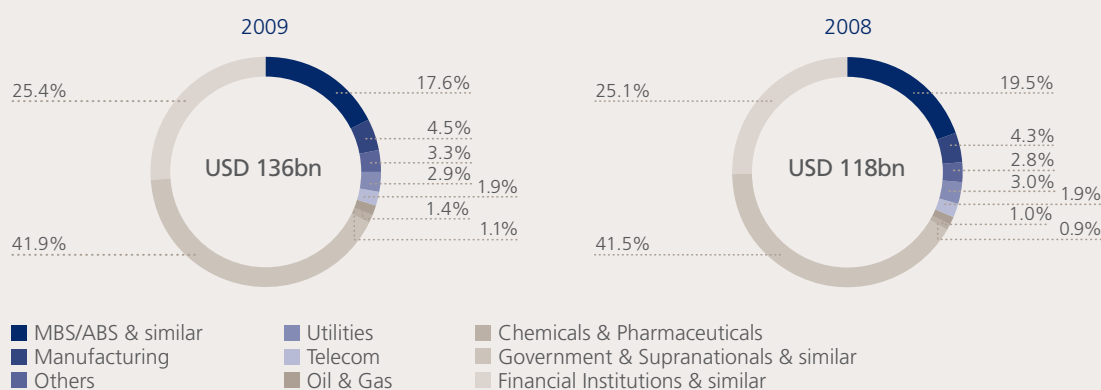
Rating	2009		2008	
	USD millions	% of total	USD millions	% of total
AAA	71,031	52.1%	70,000	59.2%
AA	17,766	13.0%	13,229	11.2%
A	36,090	26.5%	27,316	23.1%
BBB	9,263	6.8%	6,752	5.7%
BB and below	1,906	1.4%	573	0.5%
Unrated	288	0.2%	417	0.4%
Total	136,344	100.0%	118,287	100.0%

The risk-weighted average issuer credit rating of the Group's debt securities portfolio is AA- (2008: AA). Applying the previously published linear average, the average rating would be AA, one notch lower than the AA+ reported in 2008. In order to better reflect inherent credit risks, we moved in 2009 from a linear to a risk-weighted scale, estimating the average credit quality of the debt securities portfolio calibrated to historical default statistics.

As of December 31, 2009 the largest concentration in the Group's debt securities portfolio is in government and supranational debt securities at 41.9 percent. A total of USD 43,260 million or 54.6 percent of the non-government and non-supranational debt securities are secured. As of December 31, 2008, 41.5 percent of the Group's debt portfolio was invested in governments and supranationals and a total of USD 38,187 million or 55.2 percent of the non-government and non-supranational debt securities were secured.

Debt securities – credit risk concentration by industry

(%, as of December 31)



As of December 31, 2009, investment grade securities comprise 98.4 percent of the Group's debt securities, and 52.1 percent are rated AAA. These percentages are within the limits in the Group's risk policy. As of December 31, 2008, investment grade securities comprised 99.2 percent of our debt securities, and 59.2 percent were rated AAA. The Group's investment policy prohibits speculative grade investments, unless specifically authorized and under exceptional circumstances. The Group identifies and implements appropriate corrective action on investments expected to be downgraded to below investment grade.

Credit risk related to reinsurance assets

As part of our overall risk management strategy, the Group cedes insurance risk through proportional, non-proportional and specific risk reinsurance treaties. While these cessions mitigate insurance risk, the recoverables from reinsurers and receivables arising from ceded reinsurance expose the Group to credit risk.

Our Corporate Reinsurance Security Committee manages the credit quality of our cessions and reinsurance assets. The Group typically cedes new business to authorized reinsurers with a minimum rating of BBB. As of December 31, 2009, 74% of the business ceded to reinsurers that fall below BBB or are not rated are collateralized. 51% of this business is ceded to captive insurance companies.

Reinsurance assets include reinsurance recoverables of USD 18,715 million and USD 18,684 million as of December 31, 2009 and 2008, respectively, which are the reinsurers' share of reserves for insurance contracts, and receivables arising from ceded reinsurance, gross of allowance for impairments, of USD 1,092 million and USD 1,166 million as of December 31, 2009 and 2008, respectively. Reserves for potentially uncollectible amounts of reinsurance assets amount to USD 268 million and USD 296 million as of December 31, 2009 and 2008, respectively. 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 the table below are shown before taking into account the fair value of credit default swaps, bought by the Group to mitigate credit risks of the reinsurance exposure, and other collateral such as cash or letters of credit from banks rated at least 'A,' which can be converted into cash and deposits received under ceded reinsurance contracts.

The risk-weighted average credit quality of reinsurance assets (including receivables, but after deduction of collateral) was 'A' as of December 31, 2009 and 2008, respectively. Credit factors to determine the risk-weighted average credit quality of reinsurance assets are based on historical insurance impairment statistics, consistent with the prior year. For credit risk assessment purposes, collateral has been taken into account at nominal value as an approximation for fair value. For collateral we apply minimum requirements, such as a minimum rating for the issuers of letters of credit and guarantees, and for pledged assets a minimum coverage ratio of 100 percent.

The following table shows reinsurance premiums ceded and reinsurance assets split by rating. Due to the downgrade of large counterparties, there was a shift of reinsurance assets from the 'AA' category to the 'A' category.

Rating	2009				2008			
	Premiums ceded		Reinsurance assets		Premiums ceded		Reinsurance assets	
	USD millions	% of total	USD millions	% of total	USD millions	% of total	USD millions	% of total
AAA	107	1.8%	85	0.4%	189	3.0%	417	2.1%
AA	1,209	20.7%	6,395	32.7%	1,495	24.0%	9,106	46.6%
A	2,401	41.1%	9,402	48.1%	2,465	39.6%	6,368	32.6%
BBB	693	11.9%	1,244	6.4%	706	11.3%	1,291	6.6%
BB	268	4.6%	410	2.1%	172	2.8%	280	1.4%
B	49	0.8%	87	0.4%	70	1.1%	96	0.5%
Unrated	1,117	19.1%	1,915	9.8%	1,129	18.1%	1,996	10.2%
Total	5,844	100.0%	19,538 ¹	100.0%	6,226	100.0%	19,554 ¹	100.0%

¹ The value of the collateral received amounts to USD 8,446 million and USD 8,662 million as of December 31, 2009 and 2008, respectively.

Credit risk related to mortgage loans and mortgage loans given as collateral

Mortgage loans and mortgage loans given as collateral expose the Group to credit risk. The mortgage business is dependent on local property market conditions and local legislation. Investment portfolio allocations made to mortgages consider these factors and are within the framework of the strategic asset allocation defined by the Group Asset/Liability Management Investment Committee and adapted and approved by local investment committees (except for the activities of Zurich Bank, which has its own policies that are aligned with the Group's policies). Conservative lending criteria and the diversification of loans across many single borrowers help reduce potential loss. Loans are secured by first mortgages only and maximum mortgage loan to property value ratios are applied. Furthermore, business units are required to clearly state criteria for determining borrower and collateral quality in their local mortgage policies. The Group specifies requirements for the local policies and sets monitoring and reporting standards. The Group closely monitors the performance of the portfolios in terms of impairments and losses.

The Group's largest mortgage loan portfolios are in Germany (USD 7,193 million, including mortgage loans given as collateral) and in Switzerland (USD 4,000 million); these are predominantly secured against residential property. The next largest portfolio comprises loans granted by Zurich Bank (including the UK property lending activity of Dunbar Bank) of USD 2,264 million in the UK and Ireland. They concern residential and commercial property development financing or investment loans, secured as either property under development or completed developments. Deteriorating economic conditions and decreases in property values in the UK and Ireland have led to a significant worsening of property loan performance at Zurich Bank, where impaired mortgage loans increased by USD 549 million over the year to amount to USD 611 million as of December 31, 2009. Similarly, past due but not impaired loans at Zurich Bank also increased by USD 47 million to USD 213 million as of December 31, 2009.

Mortgage loans given as collateral concern German mortgages that are subject to repurchase agreement, but where Zurich still retains the credit risk of the underlying mortgages. See note 16 of the Consolidated Financial Statements.

Credit risk related to other loans

The credit risk arising from other loans is assessed and monitored together with the fixed income securities portfolio. 69.1 percent of the reported loans are to government or supranational institutions, of which 99.5 percent are to the German Central Government or the German Federal States. The table below shows the composition of the loan portfolio by rating class. As of December 31, 2009, a total of USD 10,655 million or 70.7 percent of loans are secured. As of December 31, 2008, a total of USD 10,083 million or 72.1 percent of loans were secured.

Table 13

Other loans by
rating of issuer

as of December 31	2009		2008	
	USD millions	% of total	USD millions	% of total
Rating				
AAA	7,934	52.6%	7,642	54.6%
AA	2,540	16.8%	2,369	16.9%
A	2,431	16.1%	1,258	9.0%
BBB	16	0.1%	2	0.0%
Unrated	2,156	14.3%	2,717	19.4%
Total	15,077	100.0%	13,988	100.0%

Credit risk related to receivables

The Group's largest credit risk exposure to receivables is from third party agents, brokers and other intermediaries; the risk arises where they collect premiums from customers to be paid to the Group or pay claims to customers on behalf of the Group. The Group has policies and standards to manage and monitor credit risk from intermediaries with a focus on day-to-day monitoring of the largest positions. As part of these standards, the Group requires that intermediaries maintain segregated cash accounts for policyholder money. Additionally, the Group requires intermediaries to satisfy minimum requirements in terms of their capitalization, reputation and experience as well as providing short-dated business credit terms.

Past due but not impaired receivables 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. In 2009, the Group continued efforts to reduce past-due receivables through both short- and long-term initiatives to improve our processes and systems. Longer-dated past-due receivable balances often relate to positions in dispute or subject to litigation.

Receivables from ceded reinsurance form part of the reinsurance assets and are managed accordingly.

Refer to note 15 of the Consolidated Financial Statements for additional information on receivables.

Credit risk related to derivatives

The positive replacement value of outstanding derivatives, such as interest rate, currency, total return and equity swaps, forward contracts and purchased options represents a credit risk to the Group. In addition there is a potential exposure arising from possible changes in replacement value. 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. In addition, it is the Group standard to only transact derivatives with counterparties where we have an ISDA Master Agreement with a Credit Support Annex in place. This mitigates credit exposures from OTC transactions due to close-out netting and requires the counterparty to post collateral when the derivative position is beyond an agreed threshold. We mitigate credit exposures from derivative transactions further by using exchange-traded instruments whenever possible.

Analysis of financial assets

The table below provides 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 14.a

in USD millions, as of December 31, 2009

Analysis of financial assets – current year	in USD millions, as of December 31, 2009					
	Debt securities	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	135,717	12,105	1,090	15,076	15,504	179,493
Past due but not impaired financial assets.						
Past due by:						
1 to 90 days	–	137	–	1	1,188	1,325
91 to 180 days	–	34	–	–	274	309
181 to 365 days	–	24	–	–	254	278
> 365 days	–	68	9	–	448	525
Past due but not impaired financial assets	–	263	9	1	2,164	2,437
Financial assets impaired	758	641	5	1	226	1,630
Gross carrying value	136,476	13,010	1,103	15,079	17,893	183,560
Less: impairment allowance						
Impairment allowances on individually assessed financial assets	132	239	1	1	160	534
Impairment allowances on collectively assessed financial assets	–	34	–	–	277	311
Net carrying value	136,344 ¹	12,736	1,102	15,077	17,456	182,715

¹ Available-for-sale debt securities are included net of USD 510 million of impairment charges recognized during the year.

Analysis of
financial assets –
prior year

Table 14.b

in USD millions, as of December 31, 2008

	Debt securities	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	117,982	12,587	1,219	13,961	13,784	159,534
Past due but not impaired financial assets.						
Past due by:						
1 to 90 days	5	106	–	1	1,473	1,584
91 to 180 days	–	17	–	1	341	359
181 to 365 days	7	35	–	1	318	361
> 365 days	1	50	11	13	489	564
Past due but not impaired financial assets	13	207	11	16	2,621	2,868
Financial assets impaired	357	77	3	16	187	640
Gross carrying value	118,352	12,871	1,234	13,994	16,592	163,042
Less: impairment allowance						
Impairment allowances on individually assessed financial assets	65	30	1	6	171	273
Impairment allowances on collectively assessed financial assets	–	21	–	–	286	307
Net carrying value	118,287 ¹	12,820	1,233	13,988	16,135	162,462

¹ Available-for-sale debt securities are included net of USD 1,142 million of impairment charges recognized during 2008.

The table below shows how the allowances for impairments of financial assets shown in tables 14a and 14b have developed over the 2008 and 2009 financial years.

Table 15.a

in USD millions

Development of
allowance for
impairments –
current year

	Debt securities held-to-maturity	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables
As of January 1, 2009	65	51	1	6	457
Increase/(Decrease) in allowance for impairments	63	231	1	(4)	(25)
Amounts written-off	–	(6)	(1)	(1)	(6)
Foreign currency translation effects	4	(3)	–	–	12
As of December 31, 2009	132	273	1	1	437

Table 15.b

Development of allowance for impairments – prior year	in USD millions				
	Debt securities held-to-maturity	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables
As of January 1, 2008	–	34	1	1	554
Increase/(Decrease) in allowance for impairments	69	24	(1)	6	(5)
Amounts written-off	–	–	1	–	(68)
Foreign currency translation effects	(4)	(8)	–	(1)	(24)
As of December 31, 2008	65	51	1	6	457

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 both normal and stressed conditions. To achieve this, the Group assesses, monitors and manages its liquidity needs on an ongoing basis.

The Group has Group-wide liquidity management policies and specific guidelines as to how local businesses have to plan, manage and report their local liquidity. This includes regularly conducting stress tests for all major carriers 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 liquidity drain the Group would face if it had to recapitalize local balance sheets.

At the Group level, similar guidelines apply and detailed liquidity forecasts based on the local businesses' input and the Group's own forecasts are regularly performed. As part of its liquidity management, the Group maintains sufficient cash and cash equivalents to meet expected outflows including those for maturing debt obligations. In addition, the Group maintains internal liquidity sources that cover the Group's potential liquidity needs, including under stressed conditions. The Group takes into account the amount, permanence of availability and speed of accessibility of the sources. The Group centrally maintains committed borrowing facilities, as well as access to diverse funding sources to cover contingencies. Funding sources include asset sales, external debt issuances and use of Letters of Credit. The Group maintains a broad range of maturities for external debt securities. A possible concentration risk could arise from a downgrade of the Group's credit rating. This could impact the Group's commitments and guarantees, thus potentially increasing the Group's liquidity needs. These contingencies are also considered in the Group's liquidity management.

The Group limits the percentage of the investment portfolio that is not readily realizable, and regularly monitors exposures to take action if necessary to maintain an appropriate level of asset liquidity. During 2009, the Group was within its limits for asset liquidity. The Fair Value Hierarchy tables disclosed in note 27 to the Consolidated Financial Statements segregate financial assets in three levels to reflect how their fair value was determined. These tables indicate the high liquidity of our investments.

Refer to note 22 of the Consolidated Financial Statements for additional information on our debt obligation maturities and on credit facilities and to note 26 of the Consolidated Financial Statements for information on commitments and guarantees.

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

The table below provides an analysis of the maturity profile of reserves for insurance contracts, net of reinsurance, based on expected cash flows without considering the surrender values as of December 31, 2009 and 2008. Reserves for unit-linked insurance contracts amounting to USD 58,204 million and USD 47,297 million as of December 31, 2009 and 2008, respectively, are not included in the table below, 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 borne by the policyholders of unit-linked contracts.

Table 16.a

Expected maturity profile for reserves for insurance contracts, net of reinsurance	Table 16.a				Total
	in USD millions, as of December 31, 2009	Reserves for losses and loss adjustment expenses	Future life policyholders' benefits	Policyholders' contract deposits and other funds	
< 1 year		14,778	5,715	1,397	21,890
1 to 5 years		22,169	21,613	1,908	45,690
6 to 10 years		8,065	16,281	2,482	26,828
11 to 20 years		6,836	17,522	2,617	26,974
> 20 years		4,056	15,383	7,996	27,435
Total		55,903	76,514	16,400	148,817

Table 16.b

Expected maturity profile for reserves for insurance contracts, net of reinsurance	Table 16.b				Total
	in USD millions, as of December 31, 2008	Reserves for losses and loss adjustment expenses	Future life policyholders' benefits	Policyholders' contract deposits and other funds	
< 1 year		15,507	5,874	1,387	22,767
1 to 5 years		22,966	20,061	1,759	44,786
6 to 10 years		7,626	17,444	1,773	26,843
11 to 20 years		4,643	15,549	2,301	22,494
> 20 years		2,245	15,416	7,136	24,798
Total		52,986	74,345	14,357	141,688

For additional information on reserves for insurance contracts, refer to note 8 of the Consolidated Financial Statements.

The table below provides an analysis of the maturity of liabilities for investment contracts based on expected cash flows as of December 31, 2009 and 2008. The undiscounted contractual cash flows for liabilities for investment contracts are USD 48,423 million and USD 38,753 million as of December 31, 2009 and December 31, 2008, respectively. Liabilities for unit-linked investment contracts amount to USD 40,143 million and USD 30,397 million as at December 31, 2009 and 2008, respectively. The policyholders of unit-linked investment contracts 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 borne by the policyholders of unit-linked investment contracts.

Certain non-unit-linked contracts also provide for surrender of the contract by the policyholder at any time. Liabilities for such contracts amounted to USD 1,162 million and USD 2,417 million as of December 31, 2009 and 2008 respectively. The Group has established active management of the Global Life in-force business to improve persistency and retention.

Table 17.a

Expected maturity profile for liabilities for investment contracts	in USD millions, as of December 31, 2009	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		3,510	210	370	4,090
1 to 5 years		5,301	22	1,235	6,558
6 to 10 years		6,487	14	1,149	7,650
11 to 20 years		8,557	7	1,025	9,589
> 20 years		16,287	1	1,948	18,236
Total		40,143	254	5,728	46,124

Table 17.b

Expected maturity profile for liabilities for investment contracts	in USD millions, as of December 31, 2008	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		2,750	80	182	3,012
1 to 5 years		4,335	20	1,370	5,725
6 to 10 years		5,498	13	966	6,478
11 to 20 years		7,124	7	999	8,131
> 20 years		10,689	1	1,944	12,634
Total		30,397	122	5,461	35,979

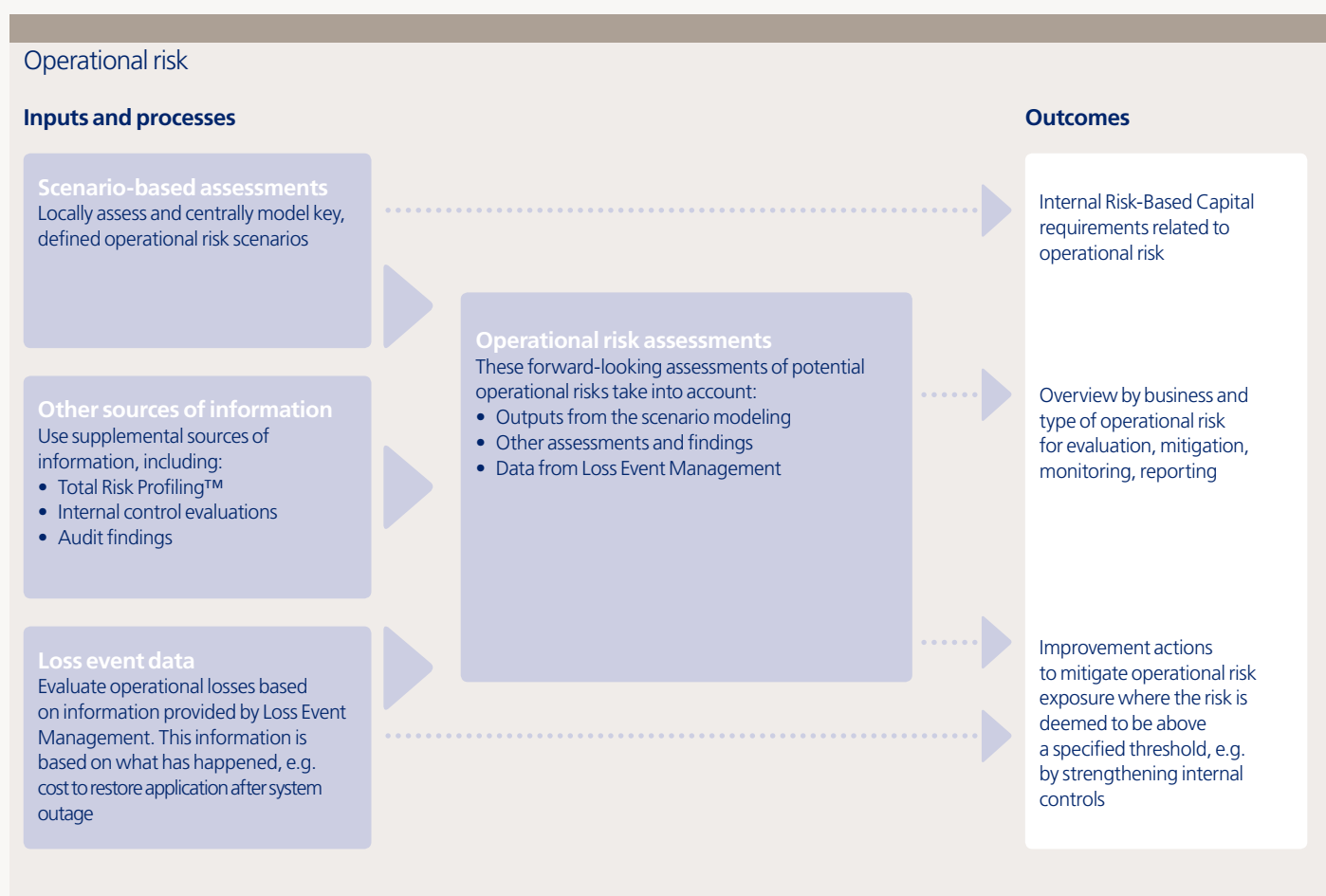
Refer to notes 16 and 22 of the Consolidated Financial Statements for information on the maturities of collateralized loans and total debt issued, respectively. For more information on the Group's other financial liabilities, refer to note 20 of the Consolidated Financial Statements. Refer to note 6 of the Consolidated Financial Statements for information on the maturity of our debt securities for total investments.

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 26 of the Consolidated Financial Statements.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.

To support a common approach to managing operational risks throughout the Group, we have established a comprehensive framework to identify, assess, quantify, mitigate, monitor and report operational risks within the Group as summarized below.



Within this framework, the Group:

- Uses a scenario-based approach to quantify and allocate Risk-Based Capital for operational risk for all business units. This approach allows us to compare information across the Group.
- Documents and evaluates loss events above a threshold determined by the Zurich Risk Policy, in a Group-wide database. Improvement actions are put in place to avoid recurrence of such operational loss events.
- Conducts operational risk assessments through which operational risks are identified for our key business areas and are qualitatively assessed. Risks identified and assessed above a certain threshold must be mitigated, and escalated in specific reports at the Group level. Plans for improvement actions are documented and tracked on an ongoing basis. The Group uses a scoping exercise to determine which business units and Group-wide functional areas conduct operational risk assessments. A significant input to the scoping is Risk-Based Capital consumption for operational risk. In the assessments, we make use of such sources of information as Total Risk Profiling™, internal control assessments, and audit findings, as well as scenario modeling and loss event data.

In addition to our overall framework, we have specific processes and systems in place to focus continuously on high priority operational matters such as information security, managing business continuity, and combating fraud.

In the area of information security, we especially focused in 2009 on rolling out a global data classification and ownership awareness campaign, which helps our businesses to establish best-practice data protection measures for electronic and non-electronic information assets.

A key task is keeping our business continuity plans up-to-date, with an emphasis on recovery from unexpected events such as natural catastrophes and the possibility of a pandemic. In 2009, the Group rolled out a new testing standard for business continuity management. The new standard reduces testing complexity and helps improve testing of the recovery capabilities for business-critical processes. In response to the H1N1 flu outbreak in the spring of 2009, preparedness plans in the Group were reviewed and updated where appropriate to improve employee safety and business continuity.

The economic downturn increased the importance of addressing the risk of claims- and non-claims fraud. In 2009, the Group launched a global anti-fraud initiative in order to accelerate the Group's ability to prevent, detect and respond to fraud. While claims fraud is calculated as part of insurance risk and non-claims fraud is calculated as part of operational risk for Risk-Based Capital, both are part of our common framework for assessing and managing operational risks.

Generally, all business activities contain some aspect of operational risk. Therefore, ongoing initiatives such as The Zurich Way and Operational Transformation help us manage operational risks through standardization of processes. Projects with an expected budget over a defined threshold undergo a risk assessment.

We consider controls to be key instruments for monitoring and managing operational risk. Although primarily focused on important controls for financial reporting, our internal control effort also includes related operational and compliance controls. Therefore, we continue to strengthen the consistency, documentation and assessment of our internal controls for significant entities, processes and locations. Operational effectiveness of our key controls is assessed in various ways, including self assessment, management validation and independent testing. For more details, refer to the Risk Management and Internal Control Statement in the Corporate Governance Report (unaudited).

Risks to our reputation

Risks to our reputation include the risk that an act or omission by the Group or any of its employees could result in damage to the Group's reputation or loss of trust among our stakeholders. Every risk type has potential consequences for Zurich's reputation, and therefore, effectively managing each type of risk helps us reduce threats to our reputation.

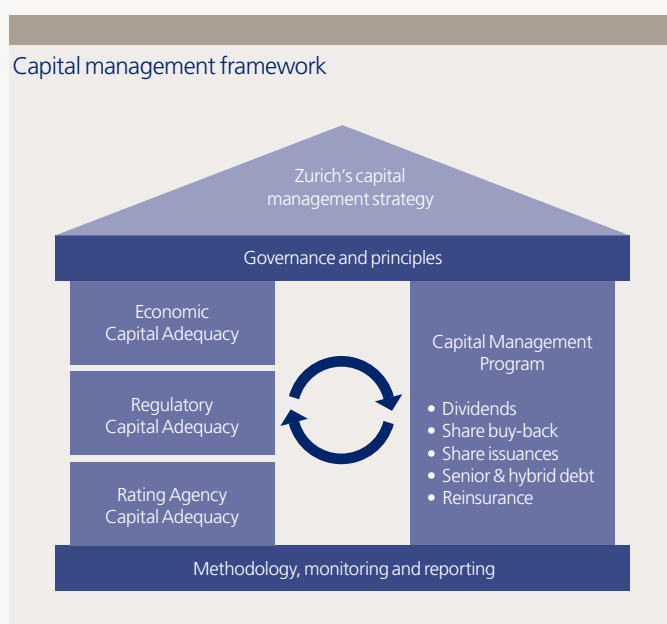
Additionally, we endeavor to preserve our reputation by adhering to applicable laws and regulations, and by following the core values and principles of Zurich Basics, our company's code of conduct, which includes integrity and good business practice. We centrally manage certain aspects of reputation risk, for example, communications, through functions with the appropriate expertise.

Capital management

The Group's capital management strategy is to maximize long term shareholder value by optimizing capital allocation while managing the balance sheet at 'AA' level and in accordance with regulatory, solvency and rating agency requirements. In particular, the Group endeavors to manage its capital such that the Group and all of its regulated entities are adequately capitalized according to the respective regulatory capital adequacy requirements.

Capital management framework

Our capital management framework forms the basis for actively managing the capital within Zurich.



Zurich's policy is to manage our capital position by allocating capital to businesses earning the highest risk adjusted returns and pooling risks and capital as much as possible to operationalize our global risk diversification, subject to local and Group regulatory solvency requirements and rating agency capital adequacy constraints.

We manage capital and solvency through an integrated and comprehensive framework of principles and governance structures as well as methodology, monitoring and reporting processes. At a Group executive level, the Group Balance Sheet Committee defines the capital management strategy and sets the principles, standards and policies for the execution of the strategy. Group Treasury and Capital Management is responsible for the execution of the capital management strategy within the mandate set by the Group Balance Sheet Committee.

Within these defined principles, the Group manages its capital using a number of different capital models taking into account regulatory, economic and rating agency constraints. Our capital and solvency position is monitored and reported on a regular basis. Based on the results of the capital models and the defined standards and principles, Group Treasury and Capital Management has a set of measures and tools available to manage capital within the defined constraints. This tool set is referred to as the capital management program.

Capital management program

Our capital management program comprises various measures to optimize shareholders' return and to meet capital needs, while enabling Zurich to take advantage of growth opportunities as they arise. Such measures are used as and when required and include efficient balance sheet structuring as well as cash dividends, share buy-backs, special dividends, issuances of shares or senior and subordinated debt and purchase of reinsurance.

The Group seeks to maintain the balance between higher returns for shareholders on equity raised, which may be possible with higher levels of borrowing, and the security provided by a sound capital position. The payment of dividends, share buy-backs, and issuances and redemption of debt have an important influence on the capital levels.

In the financial year, Farmers Group, Inc. completed an acquisition of 100 percent of AIG's U.S. Personal Auto Group, which includes "21st Century Insurance" (comprising the former "AIG Direct" and "21st Century Insurance"), as well as AIG's "Agency Auto." In addition, Zurich has provided increased underwriting capacity to the Farmers Exchanges through an increase of the existing quota share reinsurance agreement from the Farmers Exchanges in various steps to 37.5%. Effective December 31, 2009 the participation was reduced to 35%. The resulting increase in Zurich's capital requirements to support the acquisition and the additional business assumed has been financed through the sale of Zurich ordinary shares in April 2009 in the equivalent amount of USD 1.1 billion, as well as the issuance of capital notes from the EMTN program in the equivalent amount of USD 0.2 billion.

Zurich Financial Services Ltd is not subject to legal restrictions on the amount of dividends it may pay to its shareholders other than under the Swiss Code of Obligations. The Swiss Code of Obligations provides that dividends may only be paid out of freely distributable reserves or retained earnings and that 5 percent of annual retained earnings must be allocated to a general legal reserve until such reserve in the aggregate has reached 20 percent of the paid-in share capital and therefore the earnings allocated to those reserves are restricted. As of December 31, 2009, the amount of the general legal reserve exceeded 20 percent of the paid-in share capital of the Group. Similarly, the company laws in many countries in which the Group's subsidiaries operate may restrict the amount of dividends payable by those subsidiaries to their parent companies.

Other than by operation of the restrictions mentioned above, the ability of the Group's subsidiaries to pay dividends may be restricted or, while dividend payments as such may be legally permitted, may be indirectly influenced by minimum capital and solvency requirements imposed by insurance, bank and other regulators in the countries in which the subsidiaries operate as well as by other limitations existing in some countries such as foreign exchange control restrictions.

In the U.S., restrictions on the payment of dividends that apply to insurance companies may be imposed by the insurance laws or regulations of an insurer's state of domicile. For general insurance subsidiaries, dividends are generally limited over a 12 month period to 10 percent of the previous year's policyholders' surplus or previous year's net income. For life, accident and health insurance subsidiaries, dividends are generally limited over a 12 month period to 10 percent of the previous year's policyholders' surplus or the previous year's net gain from operations. Dividends paid in excess of statutory limitations require prior approval from the Insurance Commissioner in the insurer's state of domicile.

The regulatory, rating agency and economic capital adequacy are major elements of our capital management framework.

For details on dividend payment, share buy-backs, and issuances and redemption of debt, refer to notes 22 and 23 of the Consolidated Financial Statements. For details on the 21st Century acquisition, refer to note 5 of the Consolidated Financial Statements. For details on the quota share reinsurance agreement provided to the Farmers Exchanges, refer to note 29 of the Consolidated Financial Statements.

Regulatory capital adequacy

The Group endeavors to manage its capital such that all of its regulated entities meet local regulatory capital requirements at all times.

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. The Group targets to hold, in addition to the minimum capital required to comply with the solvency requirements, an adequate buffer to ensure that each of its regulated subsidiaries meets the local capital requirements. The Group is subject to different capital requirements depending on the country in which it operates. The two main areas are Europe (in particular Switzerland and the European Union (EU) and European Economic Area (EEA) countries) and the U.S..

In EU countries, insurance entities are required to maintain minimum solvency margins according to the existing Solvency I legislation. Solvency I capital is calculated as a fixed percentage of premiums, claims, reserves and/or net amounts at risk. The required minimum solvency margin for general insurers is the greater of 16 percent of premiums written for the year or 23 percent of a three-year average of claims incurred, subject to the first tranche (EUR 50 million) of premiums being at 18 percent and the first tranche (EUR 35 million) of claims at 26 percent. In these calculations, premiums and claims for certain liability lines are increased by 50 percent. A reduction is given for reinsurance based on reinsurance claims recoveries over three years as a percentage of gross claims in those years, limited to a maximum of 50 percent. Life insurance companies are required to maintain a minimum solvency margin generally of 4 percent of insurance reserves, but reduced to 1 percent of insurance reserves for life insurance where the credit and market risks are carried by policyholders, plus 0.3 percent of the amount at risk under insurance policies. The same minimum capital requirements are applicable for insurance entities operating in Switzerland. In certain European countries, both EU and non-EU, further requirements have been imposed by regulators.

On November 25, 2009 the directive on Solvency II adopted earlier in 2009 by the European Parliament and the Ecofin Council was published in the Official Journal. Solvency II introduces a new solvency regime and reflects the latest developments in prudential supervision, actuarial methods and risk management. It includes economic risk-based solvency requirements, which are more risk sensitive and more sophisticated than Solvency I. Solvency II capital requirements also consider all material risks and their interactions. As part of the risk management system, all EU/EEA insurance and reinsurance entities will be required to conduct their own risk and solvency assessments, including the assessment of the overall solvency needs reflecting their specific risk profiles. As part of the disclosure provisions, companies will have to publicly report their solvency and financial condition. The directive requires transposition of the laws, regulations and administrative provisions across the EU/EEA by October 31, 2012, at the latest.

Some countries have already introduced, or are in the process of introducing, requirements for an economic risk-based capital assessment. In the UK, this is known as Pillar 2. In Switzerland, the Insurance Supervisory Law, which came into effect on January 1, 2006, introduces the Swiss Solvency Test (SST). Under SST, groups, conglomerates and reinsurers are required to use company-specific internal models to calculate risk-bearing and target capital. Models must be approved by the Swiss Financial Market Supervisory Authority (FINMA). In 2009, Zurich continued to further enhance and refine our internal model to meet evolving regulatory requirements. The model approval process continued with FINMA, and Zurich filed SST results as required.

In the U.S., required capital is determined to be the 'company action level risk-based capital' calculated with the risk-based capital model of the National Association of Insurance Commissioners. This method, which builds on regulatory accounts, measures the minimum amount of capital for an insurance company to support its overall business operations by taking into account its size and risk profile. The calculation is based on risk-sensitive factors that are applied to various asset, premium, claim, expense and reserve items.

The Group's banking operations, based in Europe, adopted Basel II as of January 1, 2008. Under Basel II, required capital is calculated on a risk-based approach.

At a Group level, we endeavor to pool risk and capital as much as possible and, in so doing, benefit in regimes where diversification benefits are recognized (e.g. U.S., UK and Switzerland).

The Group continues to be subject to Solvency I requirements based on the Swiss Insurance Supervisory Law. The following table sets out the Solvency I position as filed with FINMA for 2008 and as drafted for filing with the Swiss regulator for 2009.

Table 18

The Group's solvency as of December 31		2009	2008
in USD millions, as of December 31			
Eligible equity			
Total equity		31,478	23,781
Net of intangibles and other assets		(7,546)	(6,217)
Free reserves for policyholders dividends		2,799	2,325
Subordinated debt ¹		4,153	3,683
Deferred policy acquisition costs non-life insurance		(3,054)	(2,793)
Dividends, share buy-back and nominal value reduction ²		(2,226)	(1,411)
Total eligible equity		25,604	19,369
Total required solvency capital		12,932	12,142
Excess margin		12,672	7,227
Solvency I ratio		198%	160%

¹ Under guidelines issued by FINMA during 2007, dated subordinated debt issuances are admissible up to 25 percent of the capital requirement, undated issuances up to 50 percent of the capital requirement.

² Amount for dividend reflects the proposed dividend for the financial year 2009, not yet approved by the Annual General Meeting.

From the Group's perspective, local regulatory requirements for banking operations are aggregated with the requirement for insurance businesses. For some of the Group's holding companies, which do not have local regulatory requirements, the Group uses 8 percent of assets as a capital requirement.

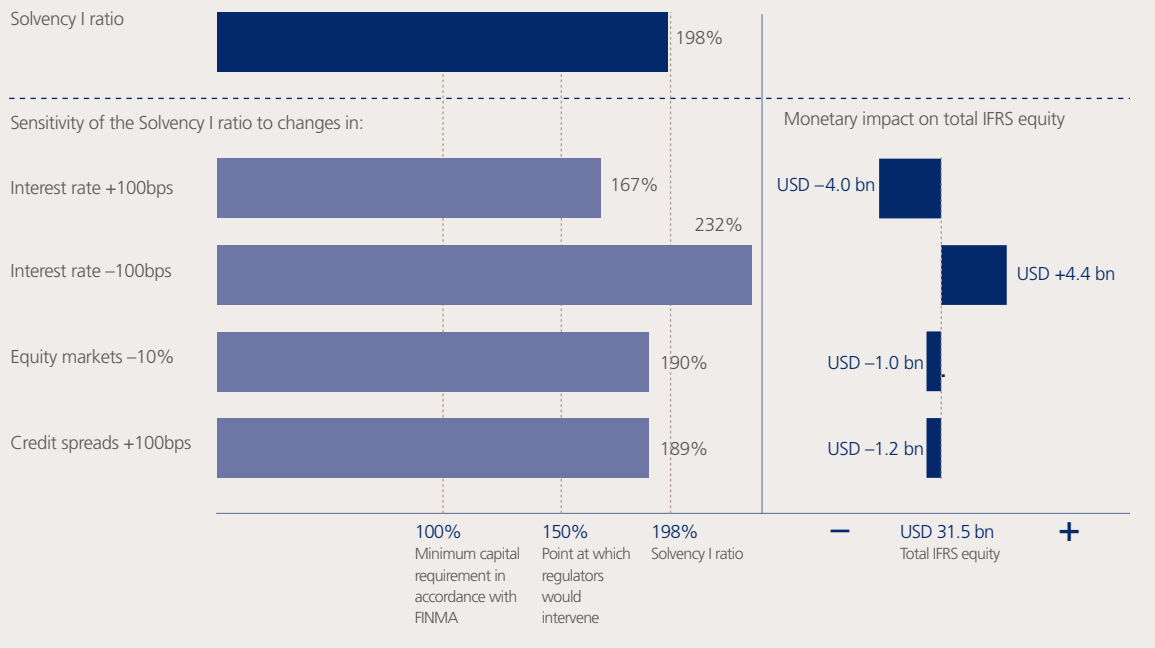
Throughout 2008 and 2009, the Group and all its material, regulated subsidiaries complied with the applicable regulatory minimum capital requirements.

The chart below shows the estimated impact on the Group's solvency position of a one percentage point increase/decrease in yield curves, a separate 10 percent decline in all stock markets, after consideration of hedges in place and a separate one percentage point change in credit spread, as of December 31, 2009 and 2008, respectively. The sensitivities are considered three separate but instantaneous scenarios.

Limitations of the analysis:

- The sensitivity analysis does not take into account actions that might be taken to mitigate losses. The Group uses an active strategy to manage these risks, which may involve changing the asset allocation, for example, through selling and buying assets.
- The sensitivities show the effects from a change of certain risk factors, while other assumptions, such as policyholder assumptions, remain unchanged.
- The interest rate scenarios assume a parallel shift of all interest rates.
- The equity market scenario assumes a concurrent movement of all stock markets.
- The impact on unit-linked business is not included, as policyholders bear the investment risk.
- The impact on changes to the required capital is not included in the sensitivities for the Solvency I ratio.
- The major markets in which the Group invests are the United States and Europe. The major interest rate exposures are to USD- and Euro-denominated assets and liabilities. The sensitivities do not indicate a probability of such events and do not necessarily represent the Group's view of expected future market changes. Debt securities are primarily exposed to interest rate risk, while equity securities are primarily exposed to equity market risk. Debt securities can be affected also by spread widening due to changes in credit quality.
- The Group internal tax rate is assumed to be 21.9 percent.

Sensitivities for Solvency I ratio and total IFRS equity (As of December 31, 2009)



Rating agency capital adequacy

Rating agencies apply their own models to evaluate the relationship between the required risk capital for a company or Group and its available capital resources. We maintain a continuous dialogue with rating agencies regarding the assessment of our capital adequacy.

The financial strength ratings of the Group's main operating entities are an important element of our competitive position. Moreover, the Group's credit ratings derived from the financial strength ratings affect the cost of capital. As of December 31, 2009 the financial strength rating of Zurich Insurance Company Ltd and other key operating legal entities of the Group was rated by Standard and Poor's as 'AA-', by A.M. Best as 'A,' by Fitch as 'A+' and by Moody's as 'A1.'

Economic capital adequacy (unaudited)

The Group uses an additional capital management tool, our internal Risk-Based Capital (RBC) model, which is calibrated to an "AA" financial strength target level. We define RBC as being the capital required to protect the Group's policyholders against any economic insufficiency to meet their claims over a one-year time horizon and at a confidence level of 99.95 percent.

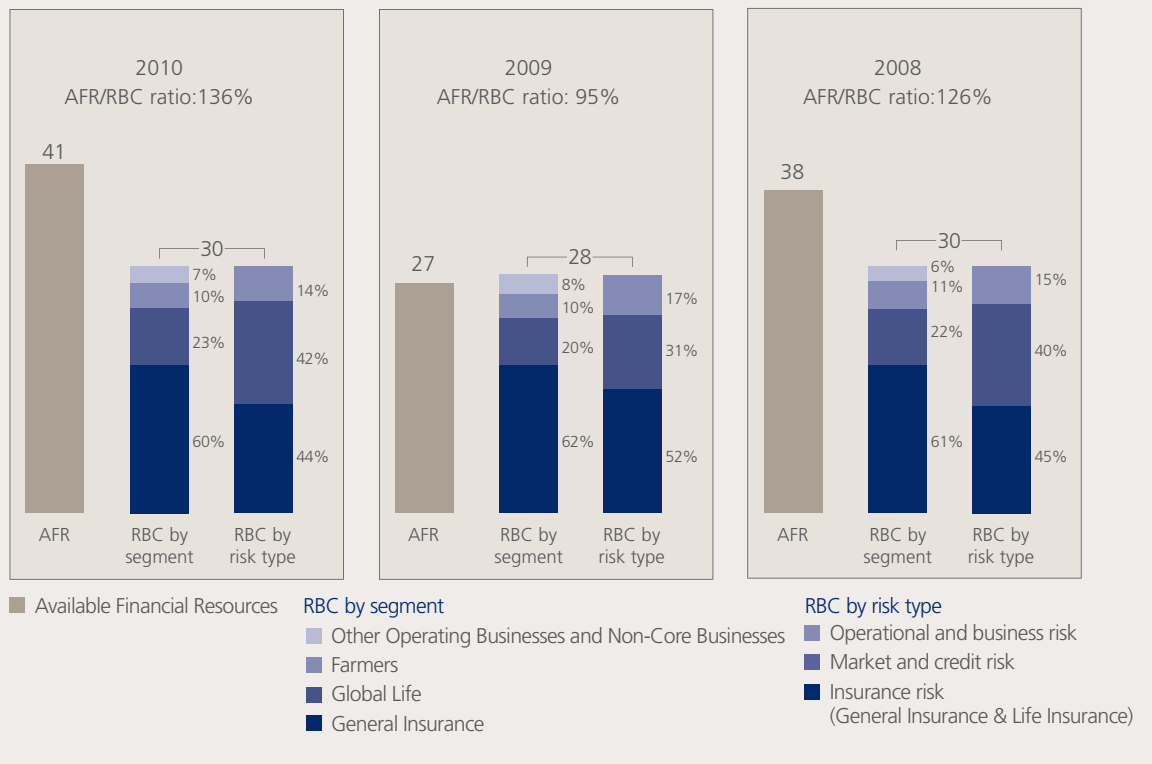
We use RBC to assess the economic capital consumption of our business on a one-balance-sheet approach. The RBC framework is an integral part of how we manage the Group. It is embedded in our organization and decision making, and is used in capital allocation, business performance management, pricing, reinsurance purchasing, transaction evaluation, risk optimization, and regulatory and rating agency communication.

At the Group level, we compare RBC to the Group's Available Financial Resources (AFR) to derive Economic Capital Adequacy. AFR reflects financial resources available to cover policyholder liability claims in excess of their expected value. It is derived by adjusting the IFRS shareholders' equity to reflect the full economic capital base available to absorb any unexpected volatility in our business activities.

The chart below shows the estimated AFR at the beginning of the respective year (based on the IFRS balance sheet as of December 31 of the prior year) to cover the risks that could materialize during the year indicated. Zurich's estimated RBC is broken down by segment and risk types.

Analysis of Group's Available Financial Resources and Risk-Based Capital

(USD billions as of January 1)



As of January 1, 2010 AFR amounted to USD 41 billion, while the latest estimate of the internal RBC requirements for the year 2010 amounted to USD 30 billion, resulting in an estimated Economic Capital Adequacy ratio of 136 percent compared to 95 percent for 2009 and 126 percent for 2008. The increase in AFR over 2009 was driven by strengthened IFRS equity. In addition, USD 2 billion of capital was raised through the issuance of senior debt. AFR includes a deduction for the proposed dividend for the respective financial year, not yet approved by the Annual General Meeting. The increase in RBC is caused by the 21st Century acquisition as well as the strengthening of our market and credit risk models.

The largest proportion of RBC arises from Insurance Risk. Of the 44% allocated to Insurance Risk, 1% covers Life Insurance risk (biometric risks such as mortality and morbidity risk) and 43% covers General Insurance risk including natural catastrophe risk. The next largest proportion is market and credit risk at 42%.

The RBC split by segment for 2008 and 2009 has been reclassified between General Insurance and Other Operating Businesses and Non-Core Businesses, to reflect the current management structure.



Financial Information

Consolidated Financial Statements	139
Report of the Statutory Auditor	264
Significant Subsidiaries	266
Embedded Value Report	270
Holding Company	304
Report of the Statutory Auditor	322
Shareholder Information	326
Financial Calendar	330
Contact Information	330
Glossary	331

Consolidated Financial Statements

Contents

I	
1. Consolidated income statements	139
2. Consolidated statements of comprehensive income	140
3. Consolidated balance sheets	142
4. Consolidated statements of cash flows	144
5. Consolidated statements of changes in equity	146
II	
1. Basis of presentation	148
2. Implementation of new accounting standards and amendments to published accounting standards	153
3. Summary of significant accounting policies	155
4. Critical accounting judgements and estimates	172
5. Acquisitions and divestments	177
6. Investments	181
7. Derivative financial instruments and hedge accounting	189
8. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts	193
9. Liabilities for investment contracts with and without discretionary participation features (DPF)	200
10. Equity component relating to contracts with DPF	200
11. Gross and ceded insurance revenues and expenses	201
12. Deferred policy acquisition costs and deferred origination costs	202
13. Administrative and other operating expenses	202
14. Farmers management fees and other related revenues	203
15. Receivables	203
16. Mortgage loans given as collateral and collateralized loans	204
17. Property and equipment	205
18. Goodwill and other intangible assets	207
19. Other assets	208
20. Other liabilities	208
21. Income taxes	210
22. Debt	214
23. Shareholders' equity	219
24. Employee benefits	223
25. Share-based compensation and cash incentive plans	228
26. Contingent liabilities, contractual commitments and financial guarantees	232
27. Fair value of financial assets and financial liabilities	235
28. Related party transactions	239
29. Farmers Exchanges	241
30. Segment information	244
III	
1. Report of the Statutory Auditor	264

Consolidated income statements

In USD millions, for the years ended December 31	Notes	2009	2008
Revenues			
Gross written premiums and policy fees		53,817	51,894
Less premiums ceded to reinsurers		(5,844)	(6,226)
Net written premiums and policy fees		47,973	45,667
Net change in reserves for unearned premiums	11	(746)	(1,560)
Net earned premiums and policy fees		47,227	44,107
Farmers management fees and other related revenues	14	2,690	2,458
Net investment result on Group investments	6	6,082	5,805
Net investment income on Group investments		7,505	8,698
Net capital gains/(losses) and impairments on Group investments		(1,423)	(2,893)
Net investment result on unit-linked investments	6	12,475	(21,731)
Net gain/(loss) on divestments of businesses	5	(5)	16
Other income		1,802	1,693
Total revenues		70,272	32,349
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance ¹	11	39,522	31,387
Less ceded insurance benefits and losses ¹	11	(3,261)	3,425
Insurance benefits and losses, net of reinsurance	11	36,261	34,811
Policyholder dividends and participation in profits, net of reinsurance	11	12,859	(21,514)
Underwriting and policy acquisition costs, net of reinsurance	11	8,254	8,287
Administrative and other operating expense	13	7,248	6,729
Interest expense on debt	22	586	599
Interest credited to policyholders and other interest		533	773
Total benefits, losses and expenses		65,741	29,685
Net income before income taxes		4,531	2,663
Income tax expense	21	(1,295)	452
attributable to policyholders	21	(387)	1,184
attributable to shareholders	21	(908)	(732)
Net income after taxes		3,236	3,116
attributable to non-controlling interests		21	77
attributable to shareholders		3,215	3,039
in USD			
Basic earnings per share	23	22.51	21.80
Diluted earnings per share	23	22.35	21.63
in CHF			
Basic earnings per share	23	24.39	23.53
Diluted earnings per share	23	24.21	23.35

¹ Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio reinsured in 2007 were transferred to the reinsurer. This transaction had no net impact on the consolidated income statement in 2008, but impacted each of these line items by USD 7.0 billion.

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

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
2008		
Comprehensive income for the period	3,039	(3,159)
Details of movements during the period		
Change (before reclassification, tax and currency translation effects and after allocation to policyholders)		(6,317)
Reclassification to income statement (before tax and currency translation effects and after allocation to policyholders)		2,089
Deferred income tax (before currency translation effects)		947
Foreign currency translation effects		121
2009		
Comprehensive income for the period	3,215	3,292
Details of movements during the period		
Change (before reclassification, tax and currency translation effects and after allocation to policyholders)		3,395
Reclassification to income statement (before tax and currency translation effects and after allocation to policyholders)		1,014
Deferred income tax (before currency translation effects)		(1,110)
Foreign currency translation effects		(7)

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

	Cash flow hedges	Cumulative translation adjustment	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	87	(2,725)	16	(1,115)	(6,897)	(3,858)	6	(3,852)
	60	(2,707)	21	(1,690)	(10,635)			
	54	(18)	–	–	2,125			
	(20)	–	(5)	461	1,383			
	(7)	–	–	114	228			
	7	944	(1)	171	4,413	7,628	85	7,714
	119	944	(2)	288	4,745			
	(96)	–	–	–	918			
	(16)	–	–	(63)	(1,189)			
	–	–	–	(53)	(60)			

Consolidated balance sheets

Assets	in USD millions, as of December 31	Notes	2009	2008	Restated
					2007
Investments					
Total Group investments			196,258	179,570	193,600
Cash and cash equivalents			11,631	12,428	14,111
Equity securities			12,450	14,303	20,496
Debt securities			136,344	118,287	125,535
Real estate held for investment			7,789	7,524	7,563
Mortgage loans			12,736	12,820	12,718
Other loans			15,077	13,988	12,941
Equity method accounted investments			232	220	238
Investments for unit-linked contracts			99,167	78,203	122,092
Total investments		6	295,425	257,773	315,693
Reinsurers' share of reserves for insurance contracts ¹		8	18,627	18,595	26,970
Deposits made under assumed reinsurance contracts			3,861	2,397	1,359
Deferred policy acquisition costs		12	16,181	14,323	14,941
Deferred origination costs		12	856	770	1,003
Accrued investment income			2,744	2,429	2,593
Receivables		15	13,182	13,229	12,846
Other assets		19	3,327	4,095	3,405
Mortgage loans given as collateral		16	1,102	1,233	2,243
Deferred tax assets		21	2,257	2,901	1,682
Assets held for sale ²			67	–	–
Property and equipment		17	1,942	1,889	1,972
Goodwill		18	2,297	1,677	1,553
Other intangible assets		18	7,044	6,633	3,083
Total assets			368,914	327,944	389,342

¹ Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio ceded in 2007 for an amount of USD 7.1 billion were transferred to the reinsurer, resulting in a reduction of reinsurers' share of reserves for insurance contracts.

² As of December 31, 2009, assets held for sale include land and buildings held for own use reclassified in March and December 2009 as assets held for sale.

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

Liabilities
and equity

in USD millions, as of December 31					Restated
	Notes	2009	2008		2007
Liabilities					
Reserve for premium refunds		649	620		625
Liabilities for investment contracts	9	46,124	35,979		54,485
Deposits received under ceded reinsurance contracts		1,558	1,619		1,739
Deferred front-end fees		5,543	4,695		5,791
Reserves for insurance contracts ¹	8	241,412	222,179		252,740
Obligations to repurchase securities		3,976	3,608		5,370
Accrued liabilities		2,839	2,820		2,755
Other liabilities	20	17,485	16,944		20,257
Collateralized loans	16	1,102	1,233		2,243
Deferred tax liabilities	21	4,464	3,485		4,057
Debt related to capital markets and banking activities	22	839	2,527		1,663
Senior and subordinated debt	22	11,444	8,455		8,300
Total liabilities		337,435	304,163		360,023
Equity					
Share capital	23	10	10		10
Additional paid-in capital	23	11,400	10,131		10,289
Net unrealized gains/(losses) on available-for-sale investments		334	(2,957)		202
Cash flow hedges		(9)	(16)		(103)
Cumulative translation adjustment		(396)	(1,341)		1,385
Revaluation reserve		98	99		83
Retained earnings		17,680	15,616		16,406
Common shareholders' equity		29,117	21,542		28,273
Preferred securities	23	561	561		671
Shareholders' equity		29,678	22,103		28,945
Non-controlling interests		1,800	1,678		374
Total equity		31,478	23,781		29,318
Total liabilities and equity		368,914	327,944		389,342

¹ Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio ceded in 2007 for an amount of USD 7.1 billion were transferred to the reinsurer, resulting in a reduction of reserves for insurance contracts.

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

Consolidated statements of cash flows

in USD millions, for the years ended December 31	2009	2008
Cash flows from operating activities		
Net income attributable to shareholders	3,215	3,039
Adjustments for:		
Net (gain)/loss on divestments of businesses	5	(16)
Income from equity method accounted investments	(4)	(8)
Depreciation, amortization and impairments of fixed and intangible assets	892	654
Other non-cash items	554	1,377
Underwriting activities:	13,102	(24,588)
<i>Reserves for insurance contracts, gross</i> ¹	8,882	(19,773)
<i>Reinsurers' share of reserves for insurance contracts</i> ¹	566	7,056
<i>Liabilities for investment contracts</i>	6,674	(9,486)
<i>Deferred policy acquisition costs</i>	(1,455)	(975)
<i>Deferred origination costs</i>	(16)	8
<i>Deposits made under assumed reinsurance contracts</i>	(1,453)	(1,308)
<i>Deposits received under ceded reinsurance contracts</i>	(97)	(110)
Investments:	(19,844)	30,690
<i>Net capital (gains)/losses on total investments and impairments</i>	(9,419)	27,808
<i>Net change in trading securities</i>	214	2,042
<i>Sales and maturities</i>		
<i>Debt securities</i>	209,776	80,270
<i>Equity securities</i>	49,510	66,830
<i>Other</i>	48,457	30,311
<i>Purchases</i>		
<i>Debt securities</i>	(218,147)	(82,002)
<i>Equity securities</i>	(50,007)	(63,314)
<i>Other</i>	(50,227)	(31,256)
Proceeds from sale and repurchase agreements	(14)	(443)
Movements in receivables and payables	(60)	(3,173)
Net changes in debt for capital markets and banking activities	(1,745)	1,035
Net changes in other operational assets and liabilities	974	509
Deferred income tax, net	453	(1,725)
Net cash (used in)/provided by operating activities	(2,470)	7,350

¹ Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio ceded in 2007 for an amount of USD 7.1 billion were transferred to the reinsurer, resulting in a reduction of both the reinsurers' share of reserves for insurance contracts and gross reserves for insurance contracts.

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

in USD millions, for the years ended December 31	2009	2008
Cash flows from investing activities		
Sales of property and equipment	86	309
Purchase of property and equipment	(359)	(444)
Investments in equity method accounted investments, net	6	11
Acquisitions of companies, net of cash acquired	(307)	(1,319)
Divestments of companies, net of cash balances	(10)	(6)
Dividends from equity method accounted investments	5	5
Net cash used in investing activities	(581)	(1,443)
Cash flows from financing activities		
Dividends paid	(1,426)	(2,104)
Issuance of share capital	929	–
Net movement in treasury shares	367	(812)
Redemption of preferred securities and repayments to non-controlling interests	–	(124)
Issuance of debt	3,475	2,420
Repayments of debt outstanding	(898)	(1,930)
Net cash provided by/(used in) financing activities	2,448	(2,551)
Foreign currency translation effects on cash and cash equivalents	870	(1,896)
Change in cash and cash equivalents excluding change in cash held as collateral for securities lending ¹	267	1,460
Cash and cash equivalents as of January 1, excluding cash held as collateral for securities lending	16,711	15,251
Cash and cash equivalents as of December 31, excluding cash held as collateral for securities lending	16,978	16,711
Change in cash held as collateral for securities lending	316	(1,700)
Cash and cash equivalents as of January 1, including cash held as collateral for securities lending	16,888	17,128
Cash and cash equivalents as of December 31, including cash held as collateral for securities lending	17,471	16,888
of which:		
– cash and cash equivalents – Group Investments	11,631	12,428
– cash and cash equivalents – unit linked	5,840	4,460
Other supplementary cash flow disclosures		
Other interest income received	7,146	8,831
Dividend income received	1,644	2,943
Other interest expense paid	(1,146)	(1,478)
Income tax paid	(1,019)	(1,253)

As of December 31, 2009 and 2008, cash and cash equivalents held to meet local regulatory requirements were USD 1,715 million and USD 1,131 million, respectively.

Cash and cash equivalents

in USD millions, as of December 31	2009	2008
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	7,167	7,829
Cash equivalents	9,811	8,882
Cash held as collateral for securities lending	493	177
Total	17,471	16,888

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital	Net unrealized gains/(losses) on available-for-sale investments
Balance as of December 31, 2007	10	10,289	202
Issuance of share capital	–	1	–
Dividends to shareholders	–	–	–
Redemption of preferred shares	–	(14)	–
Share-based payment transactions	–	48	–
Treasury share transactions ³	–	(194)	–
Total comprehensive income for the year, net of tax	–	–	(3,159)
<i>Net income</i>	–	–	–
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	(3,159)
<i>Cash flow hedges</i>	–	–	–
<i>Cumulative translation adjustment</i>	–	–	–
<i>Revaluation reserve</i>	–	–	–
<i>Net actuarial gains/(losses) on pension plans</i>	–	–	–
Net changes in capitalization and non-controlling interests	–	–	–
Balance as of December 31, 2008	10	10,131	(2,957)
Balance as of December 31, 2008	10	10,131	(2,957)
Issuance of share capital ^{1,2}	–	929	–
Dividends to shareholders	–	–	–
Share-based payment transactions	–	59	–
Treasury share transactions ³	–	282	–
Total comprehensive income for the year, net of tax	–	–	3,292
<i>Net income</i>	–	–	–
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	3,292
<i>Cash flow hedges</i>	–	–	–
<i>Cumulative translation adjustment</i>	–	–	–
<i>Revaluation reserve</i>	–	–	–
<i>Net actuarial gains/(losses) on pension plans</i>	–	–	–
Net changes in capitalization and non-controlling interests	–	–	–
Balance as of December 31, 2009	10	11,400	334

¹ Includes all transaction costs amounting to USD 41 million deducted from the proceeds related to the issuance of USD 1.2 billion (CHF 1.3 billion) of capital through the accelerated book building transaction (see note 23).

² The number of common shares issued as of December 31, 2009 was 147,473,068 (December 31, 2008: 142,122,620, December 31, 2007: 145,546,820).

³ The number of treasury shares deducted from equity amounted to 3,269,338 and 5,219,803 as of December 31, 2009 and December 31, 2008, respectively (see note 23).

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

	Cash flow hedges	Cumulative translation adjustment	Revaluation reserve	Retained earnings	Common shareholders' equity	Preferred securities	Shareholders' equity	Non-controlling interests	Total equity
	(103)	1,385	83	16,406	28,273	671	28,945	374	29,318
	-	-	-	-	1	-	1	-	1
	-	-	-	(2,064)	(2,064)	(32)	(2,096)	(8)	(2,104)
	-	-	-	-	(14)	(110)	(124)	-	(124)
	-	-	-	-	48	-	48	-	48
	-	-	-	(618)	(812)	-	(812)	-	(812)
	87	(2,725)	16	1,892	(3,890)	32	(3,858)	6	(3,853)
	-	-	-	3,007	3,007	32	3,039		
	-	-	-	-	(3,159)	-	(3,159)		
	87	-	-	-	87	-	87		
	-	(2,725)	-	-	(2,725)	-	(2,725)		
	-	-	16	-	16	-	16		
	-	-	-	(1,115)	(1,115)	-	(1,115)		
	-	-	-	-	-	-	-	1,307	1,307
	(16)	(1,341)	99	15,616	21,542	561	22,103	1,678	23,781
	(16)	(1,341)	99	15,616	21,542	561	22,103	1,678	23,781
	-	-	-	-	929	-	929	-	929
	-	-	-	(1,389)	(1,389)	(19)	(1,408)	(17)	(1,426)
	-	-	-	-	59	-	59	-	59
	-	-	-	86	367	-	367	-	367
	7	944	(1)	3,367	7,609	19	7,628	85	7,714
	-	-	-	3,196	3,196	19	3,215		
	-	-	-	-	3,292	-	3,292		
	7	-	-	-	7	-	7		
	-	944	-	-	944	-	944		
	-	-	(1)	-	(1)	-	(1)		
	-	-	-	171	171	-	171		
	-	-	-	-	-	-	-	54	54
	(9)	(396)	98	17,680	29,117	561	29,678	1,800	31,478

Zurich Financial Services Ltd and its subsidiaries (collectively the "Group") are an insurance-based financial services provider with a global network. The Group also distributes non-insurance products, such as mutual funds, mortgages and other financial services products, from selected third-party providers. The Group operates mainly in Europe, the USA, Latin America and Asia Pacific through subsidiaries, branch offices and representations.

Zurich Financial Services Ltd, a Swiss corporation, is the holding company of the Group and is listed on the SIX Swiss Exchange. Zurich Financial Services 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. Due to a change in the Swiss Code of Obligations Zurich Financial Services was renamed to Zurich Financial Services Ltd effective April 2, 2009. Throughout this document the new name Zurich Financial Services Ltd is used consistently even if reference is made to facts that occurred prior to the renaming of the company.

On February 3, 2010 the Board of Directors of Zurich Financial Services 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 March 30, 2010.

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 products, IFRS permits reference to another comprehensive body of accounting principles that uses a similar conceptual framework. In these cases, the Group typically refers to accounting principles generally accepted in the United States of America (US GAAP) for guidance. In certain cases the Group may decide to maintain the local statutory treatment if this does not distort a fair presentation of the financial position of the Group. If significant, the impact of such cases is 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, with the exception of dividends, realized capital gains as well as gains and losses on transfer of net assets, which are eliminated against equity. For 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 "Risk Review" on pages 97 to 135, and they form an integral part of the Consolidated Financial Statements.

Significant Subsidiaries included in the scope of consolidation are disclosed on pages 266 to 268.

Certain amounts recorded in the Consolidated Financial Statements reflect estimates and assumptions made by management about insurance liability reserves, investment valuations, interest rates and other factors. Critical accounting judgments and estimates are discussed in note 4. Actual results may differ from the estimates made.

The Group erroneously classified certain products as traditional insurance and investment contracts that should have been classified as unit-linked contracts. The classification was corrected in the current period as the impact on the Group's income statement was not material. The reclassifications in the balance sheet from Group investments to Investments held for unit-linked contracts, from Reserves for future life policyholder benefits to Reserves for unit-linked contracts, and from Deferred policy acquisition costs to Deferred origination cost and Deferred front end fees are footnoted in notes 8 and 12.

As part of our process to improve the presentation of the Group's Consolidated Financial Statements, we have made certain changes regarding the presentation of "Other investments" in order to better reflect their nature and measurement basis. These changes in presentation have no effect on the previously reported net income or shareholders' equity. Comparative information has been amended to reflect this change.

"Short-term investments", previously reported under "Other investments" amounting to USD 2,307 million (out of which Group Investments represented USD 2,103 million) as of December 31, 2008, are now presented, depending on their nature and measurement basis, under "Cash and cash equivalents", "Debt securities – Available-for-sale", "Debt securities Fair value through profit and loss", "Debt securities – Trading" or "Other loans". Similarly, Group investments previously presented under "Other" within "Other investments" amounting to USD 61 million as of December 31, 2008, are now presented under "Equity securities – Trading". These changes in presentation are reflected in the consolidated balance sheets, consolidated statements of cash flows and notes 6 and 30.

As of December 31, 2008 an amount of USD 618 million previously reported under "Debt securities – Available-for-sale", is now presented under "Other loans" to better reflect the nature of the underlying investments.

Interest on reinsurance deposits previously presented under "Net Investment income" amounting to USD 28 million is now presented under "Other income" for the year ended December 31, 2008. This change in presentation is reflected in the consolidated income statements.

USD 169 million as of December 31, 2008, was erroneously presented under "Goodwill" but in substance comparable to distribution agreement intangible assets is now reported under "Other intangible assets". This is a change in presentation with no effect on the previously reported net income or shareholders' equity. Comparative amounts have been amended accordingly in the consolidated balance sheets and note 18.

The treatment of the elimination of inter-segment transactions has been changed to eliminate gross up effects on certain intercompany clearing accounts. This change results in an increase/(decrease) on the inter-segment revenue line for the year ended December 31, 2008 as follows: USD 724 million in General Insurance, USD (131) million in Global Life, USD (11) million in Farmers, USD (627) million in Other Operating Businesses and USD 45 million in Non-Core Businesses. The change has no impact on either segmental Business Operating Profit (BOP) or net income of the Group.

The Group's balance sheet is not presented using a current/non-current classification. However, the following balances are generally considered to be current: cash and cash equivalents, short-term investments, deferred policy acquisition costs on general insurance contracts, accrued investment income, receivables, reserve for premium refunds, accrued liabilities and obligation to repurchase securities.

The following balances are generally considered to be non-current: equity securities, equity method accounted investment, real estate held for investment, deferred policy acquisition costs on life insurance contracts, deferred tax assets, goodwill, other intangible assets, property and equipment, and deferred tax liabilities.

The following balances are mixed in nature (including both current and non-current portions): debt securities, mortgage loans, other loans, other investments, reinsurers' share of reserves for insurance contracts, deposits made under assumed reinsurance contracts, deferred front-end fees, deferred origination costs, other assets, mortgage loans given as collateral, reserves and investments for unit-linked contracts, liabilities for investment contracts, deposits received under ceded reinsurance contracts, reserves for losses and loss adjustment expenses, reserves for unearned premiums, future life policyholders' benefits, policyholders' contract deposits and other funds, other liabilities, collateralized loans, debt related to capital markets and banking activities, and senior and subordinated debt.

Maturity tables have been provided for the following balances: reserves for insurance contracts (tables 16a and 16b in "Risk Review"), liabilities for investment contracts (tables 17a and 17b in "Risk Review"), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), collateralized loans (table 16), other financial liabilities (table 20.2) and outstanding debt (table 22.3).

Changes related to operating segments are shown in note 30.

All amounts in the Consolidated Financial Statements are shown in USD millions, rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add to the rounded total in all cases.

The table below summarizes the principal exchange rates that have been used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD (49) million and USD 26 million for the years ended December 31, 2009 and 2008, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 118 million and USD (801) million for the years ended December 31, 2009 and 2008, respectively.

Table 1

Principal exchange rates	USD per foreign currency unit	Balance sheets		Income statements and cash flows	
		12/31/09	12/31/08	12/31/09	12/31/08
Euro		1.4333	1.3924	1.3935	1.4719
Swiss franc		0.9649	0.9371	0.9232	0.9265
British pound		1.6164	1.4620	1.5650	1.8556

Change in presentation in 2009

Table 1.1				
Reclassifications on consolidated income statement	in USD millions, for the year ended December 31, 2008	As reported	Reclassifications	As revised
	Revenues			
	Gross written premiums and policy fees	51,894		51,894
	Less premiums ceded to reinsurers	(6,226)		(6,226)
	Net written premiums and policy fees	45,667		45,667
	Net change in reserves for unearned premiums	(1,560)		(1,560)
	Net earned premiums and policy fees	44,107		44,107
	Farmers management fees and other related revenues	2,458		2,458
	Net investment result on Group investments	5,832	(28)	5,805
	Net investment income on Group investments	8,725	(28)	8,698
	Net capital gains/(losses) and impairments on Group investments	(2,893)		(2,893)
	Net investment result on unit-linked investments	(21,731)		(21,731)
	Net gain/(loss) on divestments of businesses	16		16
	Other income	1,665	28	1,693
	Total revenues	32,349		32,349
Benefits, losses and expenses				
	Insurance benefits and losses, gross of reinsurance	31,387		31,387
	Less ceded insurance benefits and losses	3,425		3,425
	Insurance benefits and losses, net of reinsurance	34,811		34,811
	Policyholder dividends and participation in profits, net of reinsurance	(21,514)		(21,514)
	Underwriting and policy acquisition costs, net of reinsurance	8,287		8,287
	Administrative and other operating expense	6,729		6,729
	Interest expense on debt	599		599
	Interest credited to policyholders and other interest	773		773
	Total benefits, losses and expenses	29,685		29,685
	Net income before income taxes	2,663		2,663
	Income tax expense	452		452
	attributable to policyholders	1,184		1,184
	attributable to shareholders	(732)		(732)
	Net income after taxes	3,116		3,116
	attributable to non-controlling interests	77		77
	attributable to shareholders	3,039		3,039

Reclassification on consolidated balance sheet

Table 1.2				
in USD millions, as of December 31, 2008		As reported	Reclassifications	As revised
Investments				
Total Group investments		179,570	–	179,570
Cash and cash equivalents		11,965	463	12,428
Equity securities		14,242	61	14,303
Debt securities		118,103	184	118,287
Real estate held for investment		7,524	–	7,524
Mortgage loans		12,820	–	12,820
Other loans		12,531	1,457	13,988
Equity method accounted investments		220	–	220
Other investments		2,165	(2,165)	–
Investments for unit-linked contracts		78,203	–	78,203
Total investments		257,773	–	257,773
Reinsurers' share of reserves for insurance contracts		18,595	–	18,595
Deposits made under assumed reinsurance contracts		2,397	–	2,397
Deferred policy acquisition costs		14,323	–	14,323
Deferred origination costs		770	–	770
Accrued investment income		2,429	–	2,429
Receivables		13,229	–	13,229
Other assets		4,095	–	4,095
Mortgage loans given as collateral		1,233	–	1,233
Deferred tax assets		2,901	–	2,901
Property and equipment		1,889	–	1,889
Goodwill		1,846	(169)	1,677
Other intangible assets		6,464	169	6,633
Total assets		327,944	–	327,944
Liabilities				
Reserve for premium refunds		620	–	620
Liabilities for investment contracts		35,979	–	35,979
Deposits received under ceded reinsurance contracts		1,619	–	1,619
Deferred front-end fees		4,695	–	4,695
Reserves for insurance contracts		222,179	–	222,179
Obligations to repurchase securities		3,608	–	3,608
Accrued liabilities		2,820	–	2,820
Other liabilities		16,944	–	16,944
Collateralized loans		1,233	–	1,233
Deferred tax liabilities		3,485	–	3,485
Debt related to capital markets and banking activities		2,527	–	2,527
Senior and subordinated debt		8,455	–	8,455
Total liabilities		304,163	–	304,163
Equity				
Shareholders' equity		22,103	–	22,103
Non-controlling interests		1,678	–	1,678
Total equity		23,781	–	23,781
Total liabilities and equity		327,944	–	327,944

2. Implementation of new accounting standards and amendments to published accounting standards

Standards published and effective as of January 1, 2009 and relevant for the Group's operations

The following new accounting standards or amendments to and interpretations of standards relevant to the Group have been implemented for the financial year beginning January 1, 2009 with no material impact on the Group's financial position or performance.

In November 2006, the IASB issued IFRS 8 "Operating Segments". IFRS 8 is effective for reporting periods beginning on or after January 1, 2009. The standard sets out the requirements for disclosure of an entity's operating segments on the same basis as internal reporting used by management for decision making, as well as disclosures of the entity's products and services, the geographical areas in which it operates, and its major customers. The segment disclosures reflect the implementation of this standard. Segment information is disclosed in the manner in which the business is managed. As a result, the Group has amended its segment structure and some reporting units have been allocated to a different reportable segment. Additionally, the Group now includes its internal performance measure, Business Operating Profit (BOP), in the segment disclosures. Comparative information has been amended accordingly. Note 30 provides detailed information on the new segmental structure.

In March 2007, the IASB issued amendments to IAS 23 "Borrowing Costs" that are effective for reporting periods beginning on or after January 1, 2009. The amendments eliminate the option to recognize all borrowing costs for eligible assets immediately as an expense.

In June 2007, IFRIC 13 "Customer Loyalty Programmes" was issued. IFRIC 13 is effective for reporting periods beginning on or after July 1, 2008. The interpretation explains how entities that grant loyalty award credits should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits.

In January 2008, the IASB issued amendments to IFRS 2 "Vesting Conditions and Cancellations". The amendments are effective for reporting periods beginning on or after January 1, 2009. The amended standard clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or the valuation thereof subsequent to the date of grant. All cancellations whether by the entity or by other parties, should receive the same accounting treatment.

In February 2008, the IASB issued amendments to IAS 32 "Financial Instruments: Presentation" and to IAS 1 "Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation". The amendments are effective for reporting periods beginning on or after January 1, 2009. The amended standards require entities to classify as equity all puttable financial instruments, and instruments or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, provided such financial instruments have particular features and meet specific conditions.

In March 2009, the IASB issued amendments to IFRS 7 "Improving Disclosures about Financial Instruments". The amendments are effective for reporting periods beginning on or after January 1, 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. These new disclosures have been included in note 27.

In March 2009, the IASB issued amendments to IFRIC 9 and IAS 39 "Embedded Derivatives". The amendments are effective for reporting periods ending on or after June 30, 2009. The amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the 'fair value through profit or loss' category as permitted by the October 2008 amendments to IAS 39 "Financial Instruments: Recognition and Measurement".

Standards, amendments and interpretations issued that are not yet effective

The following standards, amendments and interpretations of existing published standards are not yet effective but will be relevant to the Group's operations. The Group is currently evaluating the impact of adopting these standards, amendments and interpretations.

In January 2008, the IASB issued the revised IFRS 3 "Business Combinations". The standard is effective for reporting periods beginning on or after July 1, 2009, prospectively. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent consideration that are classified as debt being subsequently re-measured at fair value through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed.

In January 2008, the IASB issued amendments to IAS 27 "Consolidated and Separate Financial Statements". The amendments are effective for reporting periods beginning on or after July 1, 2009. The amended standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer give rise to goodwill or gains and losses.

In July 2008, the IASB issued amendments to IAS 39 "Eligible Hedged Items". The amendments are mandatory for reporting periods beginning on or after July 1, 2009. The amendments clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for hedge designation should be applied in particular situations.

In November 2008, IFRIC 17 "Distributions of Non-cash Assets to Owners" was issued. IFRIC 17 is effective for reporting periods beginning on or after July 1, 2009. The interpretation clarifies when a dividend payable should be recognized and how distributions of assets other than cash should be measured when an entity pays dividends to its owners.

In April 2009, the IASB issued several minor amendments as part of the IASB's annual improvements project. The amendments are effective for reporting periods beginning on or after January 1, 2010 with the exception of amendments regarding IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IAS 38 "Intangible Assets", IFRIC 9 "Reassessment of Embedded Derivatives" and IFRIC 10 "Interim Financial Reporting and Impairment" which are effective for reporting periods beginning on or after July 1, 2009.

In June 2009, the IASB issued amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions". The amendments are effective for reporting periods beginning on or after January 1, 2010. The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

In October 2009, the IASB issued amendments to IAS 32 "Classification of Rights Issues". The amendments are effective for reporting periods beginning on or after February 1, 2010. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

In November 2009, the IASB issued amendments to IAS 24 "Related Party Disclosures". The amendments are effective for reporting periods beginning on or after January 1, 2011. The amendment provides a partial exemption from the disclosure requirements for government-related entities and clarifies the definition of a related party.

In November 2009, the IASB issued IFRS 9 "Financial Instruments" which reconsiders the classification and measurement of financial assets. These requirements are effective for reporting periods beginning on or after January 1, 2013, with earlier adoption permitted. Under the new guidance the classification of financial assets is based on how the reporting entity manages these assets (business model) and on the contractual cash flow characteristics of the specific financial assets. The measurement of financial assets will be either amortized costs or fair value through profit or loss, whereby for equity instruments an irrevocable election can be made on an instrument-by-instrument basis to record fair value through Other Comprehensive Income (OCI). The Group plans to assess the impact of this standard on its financial statements in conjunction with the revised standard on IFRS 4 "Insurance Contracts" which is expected to be released in 2011 effective for reporting periods beginning on or after January 1, 2013. Changes to the IFRS timetable may have an impact on this approach.

3. Summary of significant accounting policies

The principal 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.

a) Consolidation principles

The Group's Consolidated Financial Statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Financial Services Ltd and its subsidiaries. A subsidiary is an entity in which Zurich Financial Services Ltd owns, directly or indirectly, more than 50 percent of the outstanding voting rights, or which it otherwise has the power to control. 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 significant intercompany balances, profits and transactions are eliminated in full.

Acquisition transactions with non-controlling interests are accounted for as transactions with parties external to the Group. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant carrying value of non-controlling interest acquired.

Investments in associates and partnerships where the Group has the ability to exercise significant influence but not control, as well as joint ventures where there is joint control, are accounted for using the equity method. Significant influence is presumed to exist when the Group owns, directly or indirectly, between 20 percent and 50 percent of the voting rights. Under the equity method of accounting, investments in associates, partnerships or joint ventures are initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investment.

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 effects on the Group's Consolidated Financial Statements are not material.

b) Insurance contracts and investment contracts with discretionary participating features (DPF)

IFRS does not provide specific guidance on all aspects of recognition and measurement of insurance and reinsurance contracts. 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. At the time of adoption, the Group typically considered U.S. GAAP pronouncements issued by the Financial Accounting Standards Board (FASB) on insurance and reinsurance contracts in areas where IFRS 4 did not include specific requirements.

Classification

Insurance and reinsurance contracts are those contracts that transfer significant insurance risk. These contracts may also transfer financial risk. Significant insurance risk is defined as the possibility of paying significantly more in a scenario where the insured event occurs than in a scenario where the insured event does not occur. Scenarios considered include those which have commercial substance.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of insurance and investment contracts contain DPF which entitle the contract holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- the amount or timing of which is contractually at the discretion of the Group; and
- that are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract;
 - realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
 - the net income of the company, fund or other entity that issues the contract.

The Group applies the same accounting policies for the recognition and measurement of obligations arising from insurance contracts and from investment contracts with DPF. These recognition and measurement criteria apply to obligations arising from the contract, deferred acquisition costs and other related intangible assets.

The Group also issues products containing an embedded option to the policyholder to switch all or part of the current and future invested funds into another product issued by the Group, usually from a unit-linked product into a unitized with-profits contract or similar. Certain of these products allow policyholders to switch back to the previous product at their convenience. 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 also reclassified and are accounted for in accordance with the accounting policies for such products on a prospective basis.

As a consequence, no gain or loss is recognized as a result of the reclassification of a contract from investment to insurance.

Once a contract has been classified as an insurance contract, no reclassification can be made subsequently.

Premiums

Premiums from the sale of general insurance products are recorded when written and normally are accreted to earnings on a pro-rata basis over the term of the related policy coverage. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are recognized over the period of risk in proportion to the amount of insurance protection provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage.

Premiums from traditional life insurance contracts, including participating contracts and annuity policies with life contingencies, are recognized as revenue when due from the policyholder. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies. Moreover, for single premium and limited pay contracts, premiums are recognized in income 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 contracts such as universal life, unit-linked and unitized with-profits contracts are 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 are recognized over the estimated life of the contracts.

Cash flows from certain universal life-type contracts in our Spanish operations are recognized as gross written premiums and insurance benefits and losses instead of deposits.

Deferred policy acquisition costs (DAC)

The costs of acquiring new business, including commissions, underwriting and policy issue expenses, which vary with and are directly related to the production of new business, are deferred. Certain direct response marketing costs for efforts which solicit a direct response that is specific and quantifiable are also deferred, when it can be demonstrated that such marketing results in future economic benefits.

DAC for participating traditional life insurance contracts is amortized over the expected life of the contracts based on estimated gross margins expected to be realized over the life of the contract. Estimated gross margins are updated for historical and anticipated future experience using the latest revised interest rate for the remaining benefit period. Resultant deviations from estimated experience are reflected in income.

DAC for other traditional life insurance and annuity policies is amortized over the expected 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 premium deficiency occurs.

DAC for contracts such as universal life, unit-linked and unitized with-profits contracts is amortized over the expected life of the contracts based on estimated gross profits expected to be realized over the life of the contract. Estimated gross profits are updated for historical and anticipated future experience using the latest revised interest rate for the remaining benefit period. Resultant deviations from estimated experience are reflected in income.

Unamortized DAC for life business accrues interest at a rate consistent with the related assumptions for reserves.

For certain products the DAC asset is adjusted for the impact of unrealized gains/(losses) on allocated investments that are recorded in equity (shadow accounting).

DAC for general insurance contracts is amortized over the period in which the related premiums written are earned.

Unamortized DAC associated with internally replaced contracts that are, in substance, contract modifications, continue to be deferred and amortized. Costs associated with internally replaced contracts that are, in substance, new contracts, are written down at the time of replacement.

Liability adequacy tests

Liability adequacy testing is performed for portfolios of contracts at each reporting date, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. Net unearned premiums are tested to determine whether they are sufficient to cover related expected claims, loss adjustment expenses, policyholder dividends, commission, amortization and maintenance expenses using current assumptions and considering investment returns. If a premium deficiency is identified, the DAC asset is written down by the amount of the deficiency. If, after writing down the DAC asset to nil (for the respective portfolio of contracts), a premium deficiency still exists, then a premium deficiency reserve is recorded to provide for the deficiency in excess of the DAC asset written down.

For traditional life contracts, the net premium reserve, calculated on a locked-in basis and reduced by the unamortized balance of DAC or present value of future profits of acquired insurance contracts (PVFP) is compared with the gross premium reserve, calculated on a best-estimate basis as of the valuation date. If there is a deficiency, the DAC or PVFP is written down to the extent of the deficiency. If, after writing down the DAC or PVFP to nil (for the respective portfolio of contracts), a deficiency still exists, the net liability is increased by the amount of the remaining deficiency.

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 the accumulation of estimates for ultimate losses and include provisions for losses incurred but not yet reported (IBNR). The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. The Group does not discount its loss reserves, other than for settled claims with fixed payment terms. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed.

Future life policyholders' benefits and policyholders' contract deposits

These represent the estimated future policyholder benefit liability for traditional life insurance policies and for certain unit-linked contracts, respectively.

Future life policyholders' benefits for participating traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions equal to guaranteed mortality and interest rates.

Future life policyholders' 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 including a margin for adverse deviation. These assumptions are locked-in at inception and are regularly assessed as part of the related liability adequacy testing over the period of the contract.

For traditional life insurance policies, interest rate assumptions can vary by country, year of issuance and product. The mortality rate assumptions are based on published mortality tables and are adjusted for actual experience by geographic area and modified to allow for variations in policy terms. The surrender assumptions are based on actual experience by geographic area and modified to allow for variations in policy terms.

Future life policyholders' benefits include the value of accumulated declared bonuses or dividends that have vested to policyholders.

Policyholders' contract deposits represent the accumulation of premium received less charges plus declared dividends.

Where unrealized gains or losses on the revaluation of available-for-sale assets arise they are recorded directly in equity in accordance with the Group's accounting policy for such assets, the corresponding adjustments to future life policyholders' benefits and related assets are also recognized directly in equity.

The policyholders' share of unrealized gains or losses, which may be paid in the future, in respect of assets, is included in future life policyholders' benefits.

For products containing discretionary participation features the amount of the discretionary participation feature is deemed to be the investment return on all related assets where the apportionment between the shareholder and the policyholder has not yet been determined. The liability includes certain elements of net unrealized gains/(losses) and portions of retained earnings attributable to the DPF, based on the mandated rates applied to these gains and earnings on the assumption that they had been realized as of the balance sheet date.

The minimum mandated amounts, which are to be paid to policyholders plus any declared additional benefits, are recorded in liabilities. The remainder of any undeclared discretionary balances are not included in the liability but are included in shareholders' equity until such time as the discretionary element of a bonus is determined and declared.

Reserves for unit-linked contracts are recorded at an amount equal to the consideration received plus accumulated investment yield less any fees charged or dividends paid to the policyholder.

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 coupled with a loss adequacy test taking into account policyholder behavior and current market conditions.

Reinsurance

The Group's insurance subsidiaries cede risk in the normal course of business in order 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 incidental to their normal business, as well as from the Farmers Exchanges. Reinsurance assets include balances expected from reinsurance companies for 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 claim liability associated with the reinsured policy. Reinsurance is recorded gross in the consolidated balance sheet unless a legal right of offset exists.

Reinsurance assets are assessed for impairment on a regular basis for any events that may trigger impairment. Triggering events may include legal disputes with third parties, changes in capital and surplus levels, change in credit ratings of a counterparty and historical experience regarding collectibility from specific reinsurers.

If there is objective evidence that a reinsurance asset is impaired, the carrying amount of the asset is reduced to its recoverable amount. An impairment is considered to have taken place if it is probable that the Group will not be able to collect the amounts expected from reinsurers. The carrying amount of a reinsurance asset is reduced through the use of an allowance account, and the amount of any impairment loss is recognized in income.

In addition to assessing whether significant insurance risk has been transferred, reinsurance contracts are further assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the ceding company to the reinsurer. Those contracts that do not transfer both risks, referred to in total as insurance risk, are accounted for using the deposit method. A deposit asset or liability is recognized based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the ceding company. Deposits for contracts that transfer only significant underwriting risk are subsequently measured based on the unexpired portion of coverage until a loss is incurred, after which the present value of expected future cash flows under the contract is added to the remaining unexpired portion of coverage. Changes in the deposit amount are recorded in the consolidated income statements as an incurred loss. Interest on deposits that transfer only timing risk, or no risk at all, are accounted for using the effective interest rate method. Future cash flows are estimated to calculate the effective yield, and revenue and expense are recorded as interest income or expense. Premiums paid under retroactive contracts are included in reinsurance recoverables in the balance sheet. If the amount of gross claims provisions reinsured is higher than the premium paid, reinsurance receivables are increased by the difference, and the gain is deferred and amortized over the period in which the underlying claims are paid.

c) Investment contracts (without DPF)

The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

Liabilities for investment contracts (unit-linked)

These represent portfolios maintained to meet specific investment objectives of policyholders who bear the credit and market and liquidity risks related to those investments. The liabilities are carried at fair value, with fair value of the liabilities determined by reference to the underlying financial assets. The related assets held under unit-linked investments contracts are classified as designated at fair value through profit or loss in order to reduce measurement inconsistencies. Changes in the fair value of the assets and liabilities are recorded in income. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against the policyholders' account balances are included in policy fee revenue.

The liability held for unit-linked contracts with capital units is measured at the funded value of those units. At the date of issue, the difference between the funded and unfunded value of units is treated as deferred revenue.

Valuation techniques are used to establish the fair value of investment contracts at inception and at each subsequent reporting date.

The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. If market data is not observable, the Group uses assumptions based on its own experience. The fair value of a unit-linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitized investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder as of the balance sheet date.

If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never recorded at less than the amount payable on surrender, discounted for the required notice period, where applicable.

Liabilities for investment contracts (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 deducted from the initial amount and form part of the effective yield. Future assumptions, except for the effective interest rate, are reviewed as of each reporting date. Changes in the liability due to changes in future assumptions are recognized in income.

The effective interest rate method applies an interest rate (the effective interest rate) that exactly discounts the estimated future cash payments or receipts to the net carrying amount of the financial liability, through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument before maturity.

As of each reporting date, the Group re-estimates the expected future cash flows and recalculates 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 as income or expense.

Deferred origination costs (DOC)

The costs of acquiring new investment contracts with investment management services, including commissions and other incremental expenses directly related to the issuance of each new contract, are capitalized and amortized in line with the revenue generated by the investment management service. DOC is tested for recoverability as of each reporting date.

The costs of acquiring new investment contracts without investment management services are included as part of the effective interest rate used to calculate the amortized-cost measure of the related liabilities.

d) Other revenue recognition

Fees for non-claims related management services provided by FGI to the Farmers Exchanges are calculated primarily as a percentage of gross premiums earned by the Farmers Exchanges. FGI provides non-claims related management services to the Farmers Exchanges, including risk selection, preparation and mailing of policy forms and invoices, premium collection, management of the investment portfolios and certain other administrative and managerial functions. The Farmers Exchanges are directly responsible for their own claims functions, including the settlement and payment of claims and claims adjustment expenses, as well as for the payment of agent commissions and bonuses and the payment of premium and income taxes.

Revenues from investment management and distribution fees are based on contractual fee arrangements applied to assets under management and recognized as earned when the service has been provided. For practical purposes, the Group recognizes these fees on a straight-line basis over the estimated life of the contract.

The Group charges its customers for asset management and other related services using the following different approaches:

- Front-end fees charged to the customer at inception are used particularly for single premium contracts. The consideration received is deferred as a liability and recognized over the life of the contract on a straight-line basis.

- 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 as a receivable and are offset against the financial liability when charged to the customer.

e) Net investment income

Net investment income includes investment income earned and investment expenses incurred.

Investment income primarily consists of dividend income on equity securities, interest income on financial assets other than equity securities, rental income earned on real estate held for investment and income earned on investments that are accounted for using the equity method of accounting.

Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date.

Interest income on financial assets that are not classified as held for trading or designated at fair value through profit or loss is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Rental income earned on real estate held for investment is recognized on an accrual basis.

Investment expenses consist of operating expenses for real estate held for investment and other investment expenses. These expenses are recognized on an accrual basis.

f) Investments

Investments include cash and cash equivalents, non-derivative financial instruments, real estate held for investment, and investments in associates and joint ventures.

Categories of non-derivative financial instruments

Non-derivative financial instruments are classified as financial assets at fair value through profit or loss, financial assets held-to-maturity, loans and receivables, and financial assets available-for-sale. The classification depends on the purpose for which the investments were acquired. Management determines the classification of these investments at initial recognition with reference to its long-term investment objectives.

Financial assets at fair value through profit or loss include financial assets held for trading and those designated at fair value through profit or loss at inception.

Financial assets held for trading are debt and equity securities which the Group buys with the principal intention to resell in the near term.

Financial assets designated at fair value through profit or loss at inception are mainly financial assets backing unit-linked insurance and unit-linked investment contracts. Reserves relating to unit-linked insurance contracts and liabilities for unit-linked investment contracts are carried at fair value, which is determined by reference to these assets with changes in the fair value of both the asset and liability recognized in income. 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 from recognizing the resultant gains and losses on them on a different basis to the liabilities. The fair value designation, once made, is irrevocable.

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables, and for which the Group's management has the positive intention and the ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated at fair value

through profit or loss or is holding as available-for-sale. Loans and receivables include loans where money is provided directly to the borrower, such as mortgage loans, policyholder loans and other loans.

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or are not classified in any of the other categories.

Measurement of investments

General

The Group recognizes regular way 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.

Financial assets are initially recognized at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition.

Held-to-maturity financial assets

Held-to-maturity financial assets are subsequently carried at amortized cost using the effective interest rate method, less any charges for impairment. The amortization of premium and accretion of discount on held-to-maturity investments recognized in the current period is included in investment income.

Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss are subsequently measured at fair value. 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.

Investments backing certain life insurance policies with participation features are held as at fair value through profit or loss in order to reduce measurement inconsistencies. The change in fair value of these assets recognized in net investment result are offset by equivalent movements attributable to policyholders.

Loans and receivables

Loans and receivables are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Available-for-sale financial assets

Available-for-sale financial assets are subsequently carried at fair value, with changes in fair values recognized directly in shareholders' equity until the securities are either sold or impaired.

The cumulative unrealized gains or losses recorded in shareholders' equity are net of cumulative deferred income taxes, certain 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 previously recognized in shareholders' equity are recognized in income.

Dividends on available-for-sale equity instruments are recognized in income when the Group's right to receive payments is established. Dividends are included in the investment income line. Interest on available-for-sale debt instruments calculated using the effective interest method is recognized in the investment income line.

Other items

Cash and cash equivalents are short-term highly liquid investments that are readily convertible into cash. This includes cash in hand, deposits held at call with banks, other short-term investments with original maturities of three months or less. Cash and cash equivalents also includes cash received as collateral for securities lending. Cash and cash equivalents are stated at face value.

Real estate held for investment is initially recorded at cost (including transaction costs) and is subsequently measured at fair value with changes in fair value recognized in income. Fair value is based on active market prices, adjusted if necessary for differences in the nature, location or condition of the property. If active market prices are not available, alternative valuation methods are used, for example discounted cash flow projections. Valuations are performed annually by internal valuation specialists and generally at least once every three years by external valuers. No depreciation is recorded for real estate held for investment. The gain or loss on disposal of real estate held for investment is based on the difference between the proceeds received and the carrying value of the investment and is recognized in income when the disposal is completed.

Impairments of non-derivative financial instruments*General*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group as a result of one or more of the following events:

- a) significant financial difficulty of the issuer or debtor;
- b) a breach of contract, such as a default or delinquency in payments;
- c) it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- d) the disappearance of an active market for that financial asset because of financial difficulties; or
- e) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in that group, including:
 - adverse changes in the payment status of issuers or debtors in that group; or
 - national or local economic conditions that correlate with defaults on the assets in that group.

The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Financial assets carried at amortized cost

For held-to-maturity financial assets as well as loans and receivables, impairment is considered to have occurred if it is probable that the Group will not be able to collect principal and/or interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount of held-to-maturity financial assets, loans or receivables is reduced through the use of an allowance account, and the movement in the impairment allowance is recognized as an impairment loss in income. The impairment of financial assets carried at amortized cost is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows, using the original effective interest rate for the financial assets. The impairment for mortgage loans and receivables is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for known or anticipated trends in the group of financial assets or individual accounts. If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through income. This reversal does not result in a carrying amount for the financial asset exceeding the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Financial assets carried at fair value

When a decline in the fair value of an available-for-sale equity security has been recognized directly in shareholders' equity and there is objective evidence that the security is impaired, the cumulative loss already recognized directly in shareholders' equity, including any portion attributable to foreign currency changes, is recognized in income. Such impairment arises when the fair value of the security is below the weighted-average cost by a significant amount. Impairment thresholds are determined each quarter on the basis of the underlying price volatility of securities within the various equity markets in which the Group invests (such as North America, UK, Switzerland, Rest of Continental Europe, Asia Pacific). Additionally, the Group considers an available-for-sale equity security impaired when the fair value has been below the weighted-average cost for a prolonged period of 24 months or longer. The amount of the cumulative loss that is removed from shareholders' equity and recognized in current period income is the difference between weighted-average acquisition cost and current fair value, less any impairment loss on that security previously recognized in income. Impairment losses recognized in income on equity securities classified as available-for-sale are not reversed through income. When a previously impaired equity security increases in fair value, unrealized gains will be recognized through shareholders' equity. Any subsequent losses, including any portion attributable to foreign currency changes, are also reclassified from shareholders' equity to income as impairments until the equity instrument is derecognized.

When a decline in the fair value of an available-for-sale debt security has been recognized directly in shareholders' equity and there is objective evidence that the security is impaired, the cumulative loss already recognized directly in shareholders' equity is recognized in income. Available-for-sale debt securities are evaluated for impairment if a loss event that has an impact on future cash flows and that can be reliably estimated has occurred. The amount of the cumulative loss that is removed from shareholders' equity and recognized in income is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that debt security previously recognized in income. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognized in income, the impairment loss is reversed through income. This reversal would be recognized in income only up to the amount of the previously recognized impairment loss, adjusted for any amortization already recognized in income. Any subsequent gains are recognized directly in shareholders' equity. Any subsequent losses, to the extent they do not represent impairment losses, are also recognized in shareholders' equity.

g) Derivative financial instruments

Derivative financial instruments held by the Group include interest rate, currency and total return swaps, futures, forwards and option contracts, all of which derive their value mainly from changes in underlying interest rates, foreign exchange rates, commodity values or equity instruments. A derivative contract may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardized and include futures and certain option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, caps, floors and swaps. Derivative financial instruments are subject to various risks similar to those related to the underlying financial instruments, including market, credit and liquidity risk.

In addition to the derivative financial instruments described above, the Group enters into contracts that are not considered derivative financial instruments in their entirety but which include embedded derivative features. Such embedded derivatives are assessed at inception of the contract and, depending on their characteristics, are accounted for as separate derivative financial instruments.

Derivative financial instruments, except those designated under a qualifying hedge relationship are classified as held for trading assets or liabilities and carried at fair value on the balance sheet with changes in fair value recognized in income.

Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for the underlying instrument, time to expiry, correlations, yield curves, prepayment rates and volatility of the underlying instrument. Such inputs used in pricing models are generally market observable or derived from market observable data.

Derivative financial instruments that qualify for hedge accounting

For the purpose of hedge accounting, hedging instruments are classified as fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or hedges of the net investment in a foreign operation.

To qualify for hedge accounting, the relationship of the hedging instrument to the underlying transaction must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting, in which case the hedging instrument and the hedged item are reported independently in accordance with the respective accounting policy as if there was no hedging designation. Where hedge accounting conditions are met, the accounting treatments are as follows:

Fair value hedges

Gains or losses from re-measuring the derivatives that are designated and qualify as fair value hedges are recognized immediately in the same line item of the consolidated income statement as the offsetting change in fair value of the risk being hedged. Offsetting gains or losses on the fair value of the hedged item attributable to the hedged risk are adjusted against the carrying amount of the hedged item and recognized in income.

Cash flow hedges

In a cash flow hedge relationship the effective portion of the gain or loss on the re-measurement of the cash flow hedging instrument is recognized directly in shareholders' equity. The ineffective portion is recognized immediately in income. The accumulated gains and losses on the hedged instrument in shareholders' equity are transferred to income in the same period in which gains or losses on the item hedged are recognized in income.

Discontinued hedges

Where hedge accounting is applied, the Group formally documents all relationships between hedging instruments and hedged items, including the risk management objectives and strategy for undertaking hedge transactions. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed in order to determine whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. The Group discontinues hedge accounting prospectively in the following circumstances:

- it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including forecast transactions);
- the derivative expires or is sold, terminated, or exercised;
- the derivative is no longer designated as a hedging instrument because it is unlikely that the forecast transaction will occur; or
- the Group otherwise determines that designation of the derivative as a hedging instrument is no longer appropriate.

When the Group discontinues fair value hedge accounting because it determines that the hedging instrument no longer qualifies as an effective fair value hedge, the hedging instrument will be carried separately on the consolidated balance sheet at its fair value, and the value of the hedged asset or liability will no longer be adjusted for changes in fair value attributable to the hedged risk. Interest-related fair value adjustments made to the underlying hedged items will be amortized in income over the remaining life of the hedged item. Any unamortized interest-related fair value adjustment is recorded in income upon sale or extinction of the hedged asset or liability, respectively. Any other fair value hedge adjustments remain part of the carrying amount of the hedged asset or liability and are recognized in income as part of the gain or loss on disposal of the hedged item.

When hedge accounting is discontinued for a cash flow hedge, the net gain or loss will remain in comprehensive income within shareholders' equity and be reclassified to income in the same period or periods during which the formerly hedged transaction is reported in income. When the Group discontinues hedge accounting because the forecast transaction is no longer expected to occur the hedging instrument will continue to be carried on the consolidated balance sheet at its fair value, and any related accumulated gains and losses that were previously recorded in comprehensive income from the period when the hedge was effective are recognized in income. The forecast transaction may still be expected to occur, but may no longer be highly probable, in which case the related cumulative gains and losses on the hedging instrument remain in comprehensive income within shareholders' equity until the forecast transaction occurs or is no longer expected to occur. At that point, the gains and losses will be treated as described above.

h) Derecognition of financial assets and liabilities

Financial assets are derecognized when the right to receive cash flows from the assets has expired, or when the Group has transferred its contractual right to receive the cash flows from the financial asset, and either

- substantially all the risks and rewards of ownership have been transferred; or
- substantially all the risks and rewards have not been retained or transferred, but control has been transferred.

Financial liabilities are derecognized when they are extinguished, that is when the obligation is discharged, is cancelled or has expired.

i) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to settle the asset and settle the liability simultaneously.

j) Securities lending

Certain entities within the Group participate in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of the securities lending agreements, the Group retains substantially all the risks and rewards of ownership of these loaned securities, and also retains contractual rights to cash flows therefrom. These securities are therefore not derecognized from the Group's balance sheet. Cash received as collateral for loaned securities is recorded as an asset and a corresponding liability is established.

k) Repurchase and reverse repurchase transactions

Securities sold under agreements to repurchase at a certain later date (Repurchase agreements) and securities purchased under agreements to resell (Reverse repurchase agreements) are generally accounted for as collateralized financing transactions. The securities delivered under the repurchase agreement are not derecognized from the balance sheet, when all or substantially all of the risk and rewards are retained. The proceeds received are reported as a liability under Obligation to repurchase securities. Interest expense is charged to income using the effective interest rate method over the life of the agreement.

In a reverse repurchase agreement, the securities received are not recognized on the balance sheet, as long as the risk and rewards of ownership have not been obtained by the Group. The cash delivered is derecognized and a corresponding receivable is recorded. Interest income is recognized in income using the effective interest rate method over the life of the agreement.

In cases such as in events of default by a third party, it may be determined that the risks and rewards of ownership over the collateral have been obtained by the Group. At such point in time, the securities held under the reverse repurchase agreement are recognized on the balance sheet at fair value and the original receivable is derecognized. Any shortfall is recorded as a loss in income.

l) Borrowings

Borrowings (debt issued) are recognized initially at fair value of the consideration received, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in income over the period of the borrowings using the effective interest rate method.

Preference shares, which are mandatory redeemable on a specific date are classified as liabilities. The dividends on these preference shares are recognized in the income statement as interest expense.

When fair value hedge accounting is applied to borrowings, the carrying value of borrowings are adjusted for changes in fair values related to the hedged exposure.

m) Interest expense

Interest expense for all financial instruments except for those classified as held for trading or designated at fair value is recognized in income using the effective interest method.

n) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date. Goodwill on acquisition of subsidiaries is included in the balance sheet as a separate line. Goodwill on acquisition of associates is included in investments in associates and joint ventures and is tested for impairment as part of the overall measurement of the carrying amount of those investments.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use of that group of assets (the 'cash generating unit' (CGU)), and that is largely independent of the cash inflows of other assets or groups of assets. The Group's CGUs, on which impairment losses are assessed, represent the lowest level at which goodwill is monitored for internal management purposes. CGUs are not larger than an operating segment.

The test for goodwill impairment is performed annually or whenever there is an indication that the CGU may be impaired. Goodwill is carried at cost less accumulated impairment losses. Impairments are recorded in income if the recoverable amount is less than the carrying amount of the CGU including goodwill. Gains and losses on the divestment of an entity are calculated including the carrying amount of any goodwill relating to the entity sold.

The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value-in-use. Fair value less costs to sell is based on the best information available to reflect the amount that the Group could obtain, as of the balance sheet date, from the disposal of the CGU on an arm's length basis between knowledgeable, willing parties, after deducting the costs of disposal. Impairment losses on goodwill are not reversed.

Indications that goodwill related to a CGU may be impaired include events or changes in circumstances that may have a significant negative impact on the operations of the CGU, or material adverse changes in the assumptions used in determining its recoverable amount.

o) Other intangible assets

Intangible assets include present value of future profits from acquired insurance contracts (PVFP), attorney-in-fact relationships (AIF), and other intangible assets, such as customer relationships and contracts, affinity partnerships, distribution agreements, computer software licenses and capitalized software development costs. Intangible assets acquired in a business combination are recognized separately from goodwill at the acquisition date if their fair values can be measured reliably, the assets are separable or arise from contractual or other legal rights, and they are controlled by the entity.

Costs incurred during the development phase of computer software are capitalized when the following recognition criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and to use it;
- the software is expected to generate future economic benefits;
- sufficient sources are available to complete the development of the software; and
- expenditures can be reliably measured.

Costs associated with research and maintenance of computer software are expensed as incurred.

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

The useful lives of customer relationships and contracts, affinity partnerships and distribution agreements extend up to 30 years and are estimated based on the period of time over which they are expected to provide economic benefits and taking into account all relevant economic and legal factors such as usage of the assets, typical product life cycles, potential obsolescence, stability of the industry, competitive position and the period of control over the assets.

The useful lives of computer software licenses and capitalized software development costs generally do not exceed five years. In some exceptional 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.

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

Other intangible assets with infinite lives are not subject to amortization but are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recorded in income when the carrying value of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less selling costs of an asset and its value-in-use.

Present value of future profits from acquired insurance contracts (PVFP)

On the acquisition of life insurance businesses a customer contract intangible asset representing the PVFP is determined. This asset has a finite life and is amortized over the expected life of the policies acquired, based on a constant percentage of the present value of estimated gross profits (margins) expected to be realized, or over the premium recognition period, as appropriate.

Attorney-in-fact relationships (AIF)

The AIF reflects the ability of the Group to generate future revenues based on the Group's relationship with the Farmers Exchanges. In determining that these relationships have an indefinite useful life, the Group considered the organizational structure of inter-insurance exchanges, under which subscribers exchange contracts with each other and appoint an attorney-in-fact to provide certain management services, and the historical AIF between FGI and the Farmers Exchanges.

p) Income taxes

The Group provides current tax expense according to the tax laws of each jurisdiction in which it operates. Deferred income taxes are recognized using the asset and liability method. Deferred income taxes are recorded for temporary differences, which are based on the difference between financial statement carrying amounts and income tax bases of assets and liabilities using enacted income tax rates and laws. Losses for tax purposes are treated as deferred tax assets to the extent it is probable that the losses can offset future taxable income in the respective jurisdiction.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them.

Taxes payable by either the holding company or its subsidiaries on expected distributions to the holding company of the profits of subsidiaries are not recognized as deferred income taxes unless a distribution of those profits is intended in the foreseeable future.

Taxes paid by certain of our 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 our 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. In addition, deferred tax on unrealized gains on investment contracts with DPF related to certain unit-linked contracts is included as income tax expense and an accrual for future policy fees to recover the tax charge is included in gross written premiums as policy fee revenue.

q) Employee benefits

Retirement benefits

The operating companies in the Group provide employee retirement benefits through both defined benefit plans and defined contribution plans. The assets of these plans are generally held separately from the Group's general assets in trustee-administered funds. Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Group's expense relating to these plans is accrued over the employees' service periods based upon the actuarially determined cost for the period.

Actuarial gains and losses are recognized in full in the period in which they occur and are presented on a separate line in the statement of comprehensive income. Actuarial gains and losses result from experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred during the accounting period), changes in actuarial assumptions since the previous balance sheet date, and differences between the expected and actual returns on plan assets. Unrecognized past service costs represent non-vested benefits on the date of a change in the amount of benefits following an amendment to the plan and are amortized on a straight-line basis over the average vesting period.

Other post-employment benefits

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

r) Share-based compensation and cash incentive plans

Under the Group's equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of shares and/or options is recognized as an expense in income over the vesting period, with a corresponding amount recorded in additional paid-in capital.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and/or options granted. Non-market vesting conditions (for example, profitability and premium income growth targets) are included in assumptions about the number of shares and/or options that are expected to be issued or become exercisable. At each balance sheet date, the Group revises its estimates of the number of shares and/or options that are expected to be issued or become exercisable. It recognizes the impact of the revision to original estimates, if any, in income with a corresponding adjustment to equity. However, no subsequent adjustment to total equity is made after the vesting date.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and additional paid-in capital when the shares are delivered or options are exercised.

Under the Group's cash-settled share-based payment compensation plan, the Group allows participants to take their option award in the form of Share Appreciation Rights (SAR). Hence, the Group incurs a liability which is measured at the fair value of the SAR. As the fair value of the options which the Group uses for its employee schemes cannot be compared with those in the market, the Group estimates the fair value using the Black-Scholes model. This model requires inputs such as share price, exercise price, implied volatility, risk-free interest rate, expected dividend rate and the expected life of the option. The liability is measured at initial recognition and at each balance sheet date until settled thereby taking into account the terms and conditions on which the SAR were granted, and the extent to which the participants have rendered service to date. The fair value of the participants' services received in exchange for the SAR is recognized as an expense in income over the vesting period and measured by reference to the fair value of the liability.

s) Property and equipment

Own use property is defined as property held by the Group for use in the supply of services or for administrative purposes. Buildings held for own use and equipment are carried at cost less accumulated depreciation and any accumulated impairment loss. These assets are depreciated usually on a straight-line basis to income over the following estimated useful lives:

- buildings 25 to 50 years;
- furniture and fixtures five to ten years; and
- computer equipment three to six years.

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

Maintenance and repair costs are charged to income as incurred. The costs of IT systems purchased from third party vendors are capitalized and amortized over expected useful lives. Gains and losses on the disposal of property and equipment are determined by comparing the proceeds with the carrying amounts and are recorded in other income or administrative and other operating expense, respectively.

Assets that have an indefinite useful life, for example land, are not subject to amortization and are tested regularly for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value-in-use. Assets are grouped on a CGU level if the recoverable amount cannot be separately determined.

t) Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the period of the lease, unless another systematic basis is representative of the time pattern of the user's benefit even if the payments are not on that basis.

u) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of such an obligation. Provisions are discounted when the effect of the time value of money is considered material.

Restructuring provisions comprise employee termination costs and costs related to onerous contracts. Restructuring provisions are recognized when the Group has a present obligation as a result of a detailed formal plan, which has been announced to those affected and the amount can be reasonably estimated.

v) Treasury shares

Zurich Financial Services Ltd shares held by the Group are classified as treasury shares and are deducted from share capital at nominal value. The difference between the nominal value and the amount paid to acquire, or received for the disposal of treasury shares, is recorded as an adjustment to additional paid-in capital, net of transaction costs and tax effects.

w) Foreign currency translation and transactions

Foreign currency translation

In view of the international nature of the Group, there are many individual entities with different functional currencies. A functional currency is the currency of the primary economic environment in which an entity operates. Therefore, a common presentation currency is required. Due to the Group's economic exposure to the U.S. dollar (USD), the presentation currency of the Group has been determined to be the USD. Assets and liabilities of Group companies with functional currencies other than USD are translated into the presentation currency at end-of-period exchange rates, while income statements are translated at average exchange rates for the period. The resulting translation differences are recorded directly in shareholders' equity as cumulative translation adjustments.

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, which are carried at fair value, are translated at end-of-period exchange rates. Foreign currency non-monetary items which are carried at historical cost are translated at historical exchange rates. The resulting foreign currency translation differences are recorded in income, except for the following:

- when the gain or loss on non-monetary items measured at fair value, such as available-for-sale equity securities, is recognized directly in shareholders' equity, any foreign currency component of that gain or loss is also recognized directly in shareholders' equity;
- changes in the fair value of monetary items denominated in foreign currency, such as debt securities, that are classified as available-for-sale, are analyzed between foreign currency translation differences resulting from changes in the amortized cost of the security and other fair value changes of the security. Foreign currency translation differences related to changes in amortized cost are recognized in income, and those related to other changes in fair value are recognized in shareholders' equity; and
- on consolidation, foreign currency translation differences arising on monetary items that form part of net investments in foreign operations are recognized directly in shareholders' equity.

Goodwill and any fair value adjustment to the carrying amounts of assets and liabilities on the acquisition of a foreign operation are expressed in the functional currency of the foreign operation and are translated at the end-of-period exchange rates, with any foreign currency translation differences recorded directly in shareholders' equity.

4. Critical accounting judgements and estimates

Critical accounting estimates are those which involve the most complex or subjective judgments or assessments, and relate to general insurance and life insurance reserves, the determination of fair value for financial asset and liabilities, impairment charges, the determination of fair values of assets and liabilities attributable to business combinations, deferred policy acquisition costs, deferred taxes, retirement and other defined benefit post-employment plans and share-based compensation and cash incentive plans. In each case, the determination of these items requires management to make informed judgments based on information and financial data that may change in future periods. Because of the uncertainties involved in such judgments, actual outcomes and results may differ from assumptions and estimates made by management.

a) Reserves for losses and loss adjustment expenses

The Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the Group's general insurance products and the run-off of its former third party reinsurance operations. 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. Loss reserves fall into two categories: reserves for reported losses and reserves for 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 general insurance claims and claims from the run-off of its former third party reinsurance operations. The Group bases such estimates on the facts available at the time the reserves are established. The Group generally establishes these reserves on an undiscounted basis to recognize the estimated costs of bringing pending claims to final settlement, taking 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 would 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, generally on an undiscounted basis, 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 claims for these not yet reported losses 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. The Group revises these reserves 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 automobile and property damage, are normally reported soon after the incident and are generally settled within months following the reported incident. Long-tail claims, such as bodily injury, pollution, asbestos and product liability, can take years to develop and additional time to settle. For long-tail claims, information

concerning the event, such as the required medical treatment for bodily injury claims and the measures and costs required 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.

Refer to notes 8 and 11 for further information on reserves for losses and loss adjustment expenses.

b) Future life policyholders' benefits and policyholders' contract deposits

The future life policyholders' benefits and policyholders' contract deposits liabilities contain a number of assumptions regarding mortality (or longevity), lapses, surrenders, expenses and investment returns. These assumptions are determined with reference to past experience adjusted for new trends, current market conditions and future expectations. As such the liabilities for future life policyholders' benefits and policyholders' 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 also 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 client 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.

Refer to notes 8 and 11 for further information on future life policyholders' benefits and policyholders' contract deposits and other funds.

c) Fair value of financial assets and liabilities

As described in note 3, all financial assets and liabilities are recorded initially at fair value. Subsequently, derivative financial instruments, financial assets and liabilities classified as held for trading, designated at fair value, available-for-

sale and financial liabilities designated at fair value are carried at fair value. While all the other financial instruments are carried at amortized cost, their fair values are disclosed in note 27.

The determination of fair value for financial assets and liabilities is based generally on quoted market prices or broker/dealer price quotations. If prices are not readily available, fair value is based on either internal valuation models (for example, discounted cash flow models) or management estimates of amounts that could be realized under current market conditions.

Fair values of debt and equity securities are based on quoted market prices when available. If such prices are not available, then fair values are estimated on the basis of pricing models, discounted cash flow models or other recognized valuation techniques or information from external pricing sources.

Discounted cash flow models are used for mortgage and other loans and long term receivables. The discount rates used in these models are either current interest rates charged by the Group on these instruments or a calculated rate that reflects the return a market participant would expect to receive on instruments with similar remaining maturity, cash flow pattern, currency, credit risk, collateral and interest basis.

Fair values of debt instruments issued by the Group are estimated using discounted cash flow models based upon the Group's current incremental borrowing rates for similar types of borrowings, with maturities consistent with those remaining for the debt instruments being valued.

Fair values of derivative instruments are obtained from quoted market prices, 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, correlations, yield curves, prepayment rates and volatility of underlying instruments. Such inputs used in pricing models are generally market observable or derived from market observable data.

Fair value of liabilities related to unit-linked investment contracts are based on the fair value of financial assets backing these liabilities. Fair values of liabilities related to other investment contracts are determined using discounted cash flow models. A variety of factors are considered in the Group's valuation techniques, including credit risk, embedded derivatives (such as unit-linking features), volatility factors (including contract holder behavior), servicing costs and surrenders of similar instruments.

For certain financial instruments, the carrying amounts approximate to fair value because of the short term nature of the instruments. Such instruments include short-term investments, receivables, obligations to repurchase securities and other short term financial assets and liabilities.

The Group makes extensive use of third party pricing providers in determining fair values of invested assets and only in rare cases places reliance on prices that are derived from internal models. The Group's control environment and the process of selection of pricing providers confirms that fair values of invested assets are sourced only from independent, reliable and reputable third party pricing providers.

The Group employs third party asset managers who manage a significant percentage of assets on behalf of the Group, but are not responsible for determining the fair values used in the financial statements. Investment accounting and operations functions, are completely independent from those responsible for buying and selling the assets, and are responsible for receiving, challenging and verifying values provided by third parties to ensure that fair values are reliable and comply with the applicable accounting and valuation policies. The quality control procedures used depend on the nature and complexity of the invested assets and include regular reviews of valuation techniques and inputs used by pricing providers (for example, default rates of collateral for asset backed securities), variance and stale price analysis and comparisons with fair values of similar instruments and with alternative values obtained from asset managers and brokers.

In cases where significant reliance is placed on an independent price provider, the Group has engaged with that price provider to confirm that the control environment conforms to the high standards that the Group expects. In addition, the Group ensures that independently sourced prices are determined based on valuation techniques that incorporate all factors that market participants would consider in setting a price and are consistent with best practice methodologies for pricing financial instruments. Such models make maximum use of market inputs such as benchmark yields, reported trades and broker/dealer quotes. The Group holds certain asset classes that are not actively traded, in particular hedge funds and private equity investments. Fair values of such instruments are based on regular reports from the issuing hedge funds and private equity funds. Performance of these investments and determination of their fair value are monitored closely by the Group's in-house investment professionals.

Refer to notes 6, 7 and 27 for further information on the fair value of financial assets and liabilities.

d) Impairment of assets

Assets are subject to regular impairment reviews under the relevant IFRS standard.

A financial asset is considered impaired if there is objective evidence of impairment as a result of a loss event that has an impact on the estimated future cash flows of the financial asset.

For a non-derivative financial asset, the decision to record an impairment is based on a review of objective evidence, such as the issuer's current financial position and future prospects and the national or economic conditions that may correlate with defaults on the asset, as well as the availability of an active financial market for that financial asset. For a quoted available-for-sale asset the impairment decision is further based on an assessment of the probability that the current market price will recover to former levels within the foreseeable future. The recoverable amount is determined by reference to the market price. For non-quoted available-for-sale financial assets, the recoverable amount is determined by applying recognized valuation techniques.

For held-to-maturity financial assets and loans and receivables, the recoverable amount is determined by reference to the present value of the estimated future cash flows. The carrying amount of mortgage loans and receivables is reduced through an allowance account, and the allowance is determined using an analytical method based on knowledge of each loan group or receivable. The method is normally based on historical statistics, adjusted for known or anticipated trends in the group of financial assets or individual accounts. As judgement is involved in the process of evaluating the impairment of such assets, actual outcomes could vary significantly from the forecasted future cash flows.

For goodwill the recoverable amount is the higher of its fair value less costs to sell and its value-in-use. Fair value of CGUs 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 or used by the CGU. Cash flow projections are based on financial budgets, which are approved by management, typically covering a three-to-five-year period or if appropriate, a longer period. Cash flows beyond this period are extrapolated using amongst others estimated growth rates. The discount rates applied reflect the respective risk free interest rate adjusted for the relevant risk factors to the extent not already considered in the underlying cash flows.

The recoverable amount of the intangible assets with an infinite life related to the Farmers segment (i.e. attorney-in-fact (AIF) relationships and goodwill) is determined on the basis of value-in-use calculations. These calculations use cash flow projections based on business plans and the surplus development in the Farmers Exchanges. Business plans are approved by management and typically cover a 5-year period. Cash flows beyond that five-year period are extrapolated for 20 years assuming zero growth.

Refer to notes 3, 6, 15, 17 and 18 for further information on impairments of assets.

e) Fair values of assets and liabilities attributable to business combinations

Acquired businesses are accounted for using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Fair values of financial assets and liabilities and insurance liabilities are determined as described in the respective sections above.

Fair values of identifiable intangible assets are based on market-participant assumptions and applicable valuation techniques, depending on the nature of the assets valued. For customer relationship and contract intangibles, including banc-assurance agreements, the multi-period excess earnings or cash flow method is applied, using pre-tax future cash-flows expected to be generated from such assets and discounting at applicable market rates. For brand intangibles the relief from royalty method is generally applied and resulting cash-flows are discounted at applicable market rates. For information technology intangibles the replacement cost method is generally applied.

Refer to note 5 for further information on the fair value of assets and liabilities attributable to business combinations.

f) Deferred policy acquisition costs

Deferred policy acquisition costs generally consist of commissions, underwriting expenses and policy issuance costs. The amount of acquisition costs to be deferred is dependent on judgments as to which issuance costs are directly related to and vary with the acquisition. The related asset is amortized over the premium earning pattern for non-life and certain traditional life products. For most life products, amortization is based on the estimated profitability of the contract throughout its life. The estimation of profitability considers both historical and future experience as regards assumptions, such as expenses, lapse rates or investment income.

Refer to note 12 for further information on deferred policy acquisition costs.

g) 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, are available for realization. The utilization of deferred tax assets arising from temporary differences depends on the generation of sufficient taxable profits in the period in which the underlying asset or liability is recovered or settled. 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 would be recognized.

Refer to note 21 for further information on deferred taxes.

h) Employee benefits

The Group provides defined benefit pension 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, expected long-term rates of return on plan assets, future salary increases, future pension increases and increases in long-term healthcare costs. The discount rate for the significant plans is 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 outflows 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.

Refer to note 24 for further information on employee benefits.

i) 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. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. The fair value of options granted is estimated using the Black-Scholes option pricing model. The key factors involve, but are not limited to, the expected share price

volatility, expected change in dividend rate and contracted option life. These assumptions may differ from actual results due to changes in economic conditions.

Refer to note 25 for further information on share-based compensation and cash incentives plans.

5. Acquisitions and divestments

Recent developments

On July 21, 2009, Caixa d'Estalvis de Sabadell ("Caixa Sabadell"), a savings bank based in Spain with which the Group entered into bank distribution agreements for the Spanish market in 2008, announced that it was developing plans for a merger between itself and two other Spanish savings banks. On September 10, 2009, Caixa Sabadell announced that a third Spanish savings bank had joined these merger preparations on September 7, 2009. The Group is reviewing the potential impact on its distribution agreements with Caixa Sabadell and its options resulting from such a merger.

On December 3, 2009, the Group reached an agreement with Royal Bafokeng Finance (Pty) Limited (RBF), an investment company based in South Africa and wholly owned by Royal Bafokeng Holdings (Pty) Limited, based in South Africa and responsible for the management and development of the commercial assets of the Royal Bafokeng Nation, to increase the RBF share holding in Zurich Insurance Company South Africa Limited, of which the Group owns 73.6 percent, by 15.1 percent from 10 percent to 25.1 percent with option rights to increase up to 50.1 percent or sell the entire stake back to the Group. Regulatory approval has been granted and the parties are preparing to close the transaction in February 2010.

Transactions in 2009

Acquisitions

Table 5.1				
in USD millions				
Business combinations – current period		21st Century ¹	Minas Brasil	Total
	Book value of net assets prior to acquisition	147	9	156
	Fair value of net tangible assets acquired	8	9	17
	Identifiable intangible assets, net of deferred tax	91	19	110
	Goodwill	440	114	553
	Total acquisition costs	539	143	681
	Cash consideration	320	135	455
	Subordinated capital notes transferred	201	–	201
	Transaction costs	18	3	21
	Present value of deferred payments	–	4	4
	Cash and cash equivalents acquired	–	47	47

¹ The 21st Century purchase price allocation is provisional.

On July 1, 2009, the Group completed the acquisition of 100 percent of the U.S. Personal Auto Group, primarily comprising the direct platform of 21st Century and consequently named "21st Century" going forward, from American International Group, Inc. The purchase price amounted to USD 1,893 million, of which USD 1,692 million was paid in cash and USD 201 million was met through the issue of Euro denominated Subordinated Capital Notes. As part of the transaction, the Group contemporaneously sold the regulated insurance businesses and certain other related net assets to the Farmers Exchanges, which the Group manages but does not own, for USD 1,372 million in cash, resulting in a net purchase price of USD 521 million for the management services business retained by the Group. Up to December 31, 2009, the Group has incurred transaction costs directly attributable to the business combination of USD 18 million, which are included in the total acquisition costs of USD 539 million. Based on the provisional purchase price allocation, net tangible assets of USD 8 million and capitalized software of USD 91 million were acquired. The residual goodwill of USD 440 million reflects the economic benefit of the retained management services business. Total revenues and

business operating profit of the retained management services business for the six months starting July 1, 2009 and ending December 31, 2009 were USD 214 million and USD 81 million, respectively. The book value of net assets prior to acquisition amounted to USD 147 million. The purchase price allocation will be finalized in 2010.

"Minas Brasil" sets out the acquisition of 100 percent of Companhia de Seguros Minas Brasil (CSMB) and of 100 percent of Minas Brasil Seguradora Vida e Previdência S.A. (MBVP), a life insurer based in Brazil. On November 28, 2008 the Group acquired 87.35 percent of CSMB and 100 percent of MBVP from Banco Mercantil do Brasil S.A. (Banco Mercantil) and two private investors. As part of this transaction, the Group entered into an exclusive distribution agreement with Banco Mercantil for both life and general insurance products. Following price adjustments in accordance with the purchase agreement, total acquisition costs for CSMB, MBVP and the distribution agreement amounted to USD 121 million and included net tangible assets acquired of USD 9 million and identifiable intangible assets, net of deferred tax, of USD 19 million, mainly relating to the distribution agreement with Banco Mercantil. The residual goodwill of USD 93 million represents expected synergies and growth opportunities from the bank distribution agreement and the expansion of other sales channels. In addition, an earn-out component of up to USD 21 million based on future performance under the distribution agreement has been agreed. During the year ended December 31, 2009 the Group acquired the remaining 12.65 percent of the outstanding shares of CSMB for a total consideration of USD 22 million, resulting in total ownership for the Group of 100 percent of the share capital of CSMB and an increase of goodwill of USD 21 million. The amounts shown in table 5.1 under total acquisition costs of USD 143 million and goodwill of USD 114 million comprise MBVP and the distribution agreement, the acquisition of the 87.35 percent of CSMB in 2008 and of the remaining 12.65 percent of CSMB in 2009, respectively. Total revenues for the year ended December 31, 2009 of both, CSMB and MBVP combined were USD 216 million and the impact of this transaction on the income was immaterial.

Divestments

During the year ended December 31, 2009, the Group sold all of its shares in Paofoong Insurance Company (Hong Kong) Limited based in Hong Kong and in Constellation Reinsurance Company based in New York, recording a pre-tax loss on disposal in aggregate of USD 5 million. Total cash and net assets divested in 2009 were in aggregate USD 18 million and USD 12 million, respectively. The total consideration received in 2009, net of immaterial transaction costs, amounted in aggregate to USD 7 million.

Transactions in 2008

Acquisitions

During 2008, the Group completed several acquisitions that were accounted for as business combinations. The acquisitions indicated in the following table were individually significant to the Group and are therefore presented separately. The other acquisitions are presented in aggregate. The purchase price allocation has been finalized for all acquisitions completed during 2008.

Table 5.2

Business combinations – prior period

in USD millions	TEB Sigorta	Caixa Sabadell	Banco Sabadell ¹	Other	Total
Book value of net assets prior to acquisition	22	140	179	104	445
Fair value of net tangible assets acquired	35	140	167	102	444
Identifiable intangible assets, net of deferred tax	76	548	1,931	219	2,775
Goodwill	253	–	–	66	320
Non-controlling interests	–	(344)	(1,049)	(77)	(1,470)
Total acquisition costs	364	344	1,049	311	2,069
Cash consideration	363	343	1,041	254	2,001
Transaction costs	1	1	8	2	12
Present value of deferred payments	–	–	–	55	55
Cash and cash equivalents acquired	48	172	337	64	621

¹ The Banco Sabadell purchase price allocation comprises the purchase price adjustment completed during 2009.

“TEB Sigorta” sets out the acquisition of 100 percent of TEB Sigorta A.Ş., a general insurer based in Turkey, from TEB Mali Yatırımlar A.Ş. (TEB Mali), which the Group completed on March 31, 2008. Total acquisition costs amounted to USD 364 million and included net tangible assets acquired of USD 35 million and identifiable intangible assets, net of deferred tax, of USD 76 million (USD 94 million before tax, mainly relating to distribution arrangements with TEB Mali subsidiaries including Türk Ekonomi Bankası A.Ş. (TEB) for the distribution of general insurance products in Turkey on an exclusive basis). The residual goodwill of USD 253 million represented expected growth opportunities from the banc-assurance partnership with TEB and the expansion of other sales channels.

“Caixa Sabadell” sets out the acquisition of 50 percent of both the life and general insurance companies CaixaSabadell Vida, S.A. de Seguros y Reaseguros (CSV) and CaixaSabadell Companyia d’Assegurances Generals, S.A. (CSG), both of which are based in Spain, from Caixa d’Estalvis de Sabadell (Caixa Sabadell), which the Group completed on August 14, 2008. Total acquisition costs for CSV amounted to USD 300 million and included net tangible assets acquired of USD 128 million and identifiable intangible assets, net of deferred tax, of USD 472 million (USD 674 million before tax, mainly relating to the life insurance distribution agreement with Caixa Sabadell of USD 552 million and to the present value of profits of acquired insurance contracts of USD 122 million). Total acquisition costs for CSG amounted to USD 45 million and included net tangible assets acquired of USD 13 million and identifiable intangible assets, net of deferred tax, of USD 77 million (USD 109 million before tax, relating to the general insurance distribution agreement with Caixa Sabadell). 50 percent of net tangible assets acquired and of identifiable intangible assets, net of deferred tax, reflecting non-controlling interests in CSV and CSG, amounted in total to USD 344 million. The Group has management control of the jointly owned companies and fully consolidates them.

“Banco Sabadell” sets out the acquisition of 50 percent of life insurance, pension and general insurance operations of Banco Sabadell S.A. (Banco Sabadell), all based in Spain, which the Group completed on September 18, 2008. Following price adjustments during 2009 in accordance with the purchase agreement, total acquisition costs for BanSabadell Vida S.A. de Seguros y Reaseguros (BSV) and BanSabadell Pensiones E.G.F.P., S.A. (BSP) amounted to USD 905 million (initially USD 832 million) and included net tangible assets acquired of USD 157 million (initially USD 181 million) and identifiable intangible assets, net of deferred tax, of USD 1,652 million (initially USD 1,483 million). Identifiable intangible assets before tax amounted to USD 2,358 million (initially USD 2,117 million), mainly relating to the life insurance and pension distribution agreement with Banco Sabadell of USD 1,918 million (initially

USD 1,665 million) and the present value of profits of acquired insurance contracts of USD 437 million (initially USD 449 million). Total acquisition costs for BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros (BSG) amounted to USD 145 million and included net tangible assets acquired of USD 10 million and identifiable intangible assets, net of deferred tax, of USD 280 million (USD 396 million before tax, mainly relating to the general insurance distribution agreement with Banco Sabadell). 50 percent of net tangible assets acquired and of identifiable intangible assets, net of deferred tax, reflecting non-controlling interests in BSV, BSP and BSG, amounted in total to USD 1,049 million (initially USD 976 million). The Group has management control of the three jointly owned companies and fully consolidates them.

“Other” sets out in aggregate the acquisition of 100 percent of the Italian life insurer DWS Vita S.p.A. (DWS Vita), completed on June 3, 2008, the acquisition of 50 percent of Can Soluciones Integrales S.A. (Can Soluciones), a general insurance company based in Spain, completed on June 20, 2008, and the acquisition of 100 percent of Baden-Badener Versicherung Aktiengesellschaft (Baden-Badener), an accident insurer based in Germany, completed on August 5, 2008. Further details of these acquisitions are given below.

Total acquisition costs for DWS Vita amounted to USD 138 million and included net tangible assets acquired of USD 64 million and identifiable intangible assets, net of deferred tax, of USD 75 million (USD 110 million before tax, relating to the present value of profits of acquired insurance contracts of USD 69 million and a distribution agreement of USD 41 million which DWS Vita entered into with Finanza & Futuro Banca S.p.A. for the distribution of life insurance products as part of the transaction).

Total acquisition costs for Can Soluciones amounted to USD 133 million, including the present value of an expected earn-out payment of USD 55 million, and included net tangible assets acquired of USD 14 million and identifiable intangible assets, net of deferred tax, of USD 140 million (USD 199 million before tax, relating to a distribution agreement with Caja de Ahorros y Monte de Piedad de Navarra). The residual goodwill of USD 56 million represented expected synergies from the efficiencies gained through a service level agreement with Can Soluciones relating to the management and administration of the business. 50 percent of net tangible assets acquired and of identifiable intangible assets, net of deferred tax, reflecting non-controlling interests in Can Soluciones, amounted to USD 77 million. The Group has management control of the jointly-owned company, which is therefore fully consolidated.

Total acquisition costs for Baden-Badener amounted to USD 40 million and included net tangible assets acquired of USD 25 million, identifiable intangible assets, net of deferred tax, of USD 5 million (USD 6 million before tax), and residual goodwill of USD 10 million, representing expected synergies and growth opportunities.

Table 5.2 does not include the acquisition of the remaining 34 percent of Zurich Retail Insurance Company Ltd., Russia, for USD 203 million which the Group completed on November 20, 2008. The acquisition had no material impact on the Group's financial statements and did not affect its scope of consolidation, as the present value of the estimated deferred consideration for the 34 percent had been recognized in 2007.

The acquisition of 87.35 percent of Companhia de Seguros Minas Brasil, of 100 percent of Minas Brasil Seguradora Vida e Previdência S.A. and the distribution agreement with Banco Mercantil do Brasil S.A. was completed on November 28, 2008. Initial accounting has been finalized during 2009 of which details are presented in section “Transactions in 2009” and in table 5.1. The initial purchase price for both companies including the consideration for the distribution agreement amounted to USD 127 million. As of December 31, 2008, the Group was still in the process of preparing the initial accounting and, therefore, the initial purchase price was recorded as an unconsolidated investment in other assets and is not included in table 5.2.

The impact of the acquisitions on the income statement of the year ended December 31, 2008 was immaterial.

Divestments

During the year ended December 31, 2008, the Group sold all of its shares in Financial Lifestyle Solutions Pty Ltd based in Australia, of Nova Scotia Company, a Canadian investment holding company, and of Zurich Insurance (Guam), Inc., recording in aggregate a pre-tax gain on disposal of USD 16 million. Total cash and net assets divested in 2008 were USD 19 million and USD 12 million, respectively. The total consideration received in 2008, net of transaction costs of USD 2 million, amounted to USD 13 million.

6. Investments

Table 6.1a

Investment result
for total
investments

in USD millions, for the years ended December 31

	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2009	2008	2009	2008	2009	2008
	Cash and cash equivalents	175	647	94	(60)	269
Equity securities	1,601	2,971	10,536	(25,444)	12,138	(22,473)
Debt securities	5,861	6,652	(148)	(1,924)	5,712	4,728
Real estate held for investment	804	933	(352)	(1,596)	452	(664)
Mortgage loans	575	647	(235)	(29)	339	618
Other loans	724	646	22	2	746	648
Equity method accounted investment	4	8	(4)	(4)	–	4
Other investments ¹	68	220	(498)	1,246	(431)	1,467
Investment result, gross	9,812	12,725	9,414	(27,809)	19,226	(15,084)
Investment expenses	(669)	(842)	–	–	(669)	(842)
Investment result, net	9,143	11,883	9,414	(27,809)	18,557	(15,926)

¹ Including net capital gains/(losses) on derivative financial instruments of USD (499) million and USD 1,241 million for the years ended December 31, 2009 and 2008, respectively, of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 33 million and USD 5 million for the years ended December 31, 2009 and 2008, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 144 million and USD 179 million for the years ended December 31, 2009 and 2008, respectively.

Table 6.1b

Investment result for
Group
investments

in USD millions, for the years ended December 31

	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2009	2008	2009	2008	2009	2008
	Cash and cash equivalents	103	493	6	1	109
Equity securities	346	604	(264)	(2,827)	82	(2,223)
Debt securities	5,527	6,066	(536)	(1,573)	4,991	4,494
Real estate held for investment	464	491	131	210	594	700
Mortgage loans	575	647	(235)	(29)	339	618
Other loans	718	645	22	2	740	648
Equity method accounted investment	4	8	(4)	(4)	–	4
Other investments ¹	12	5	(543)	1,327	(531)	1,331
Investment result, gross for Group investments	7,748	8,959	(1,423)	(2,893)	6,324	6,066
Investment expenses for Group investments	(243)	(261)	–	–	(243)	(261)
Investment result, net for Group investments	7,505	8,698	(1,423)	(2,893)	6,082	5,805

¹ Including net capital gains/(losses) on derivative financial instruments of USD (543) million and USD 1,352 million for the years ended December 31, 2009 and 2008, respectively, of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 33 million and USD 5 million for the years ended December 31, 2009 and 2008, respectively.

For the years ended December 31, 2009 and 2008, respectively, impairment charges on Group investments included in net capital losses amounted to USD 1,394 million and USD 2,457 million, of which impairment charges on mortgage loans and other investments comprised USD 231 million and USD 49 million, respectively. For the year 2009 impairment charges on mortgage loans are primarily attributable to the Group's banking activities.

Table 6.1c

Investment result for unit-linked contracts

in USD millions, for the years ended December 31

	Net investment income		Net capital gains/(losses) on investments		Investment result	
	2009	2008	2009	2008	2009	2008
Cash and cash equivalents	72	154	88	(60)	160	94
Equity securities	1,256	2,367	10,800	(22,617)	12,055	(20,250)
Debt securities	334	586	387	(351)	721	235
Real estate held for investment	341	442	(483)	(1,806)	(142)	(1,364)
Other loans	7	–	–	–	7	–
Other investments ¹	56	216	45	(80)	101	135
Investment result, gross for unit-linked contracts	2,064	3,766	10,837	(24,916)	12,901	(21,150)
Investment expenses for unit-linked contracts	(426)	(581)	–	–	(426)	(581)
Investment result, net unit-linked contracts	1,638	3,185	10,837	(24,916)	12,475	(21,731)

¹ Including net capital gains/(losses) on derivative financial instruments of USD 45 million and USD (111) million for the years ended December 31, 2009 and 2008, respectively.

Table 6.2

Net capital gains, losses and impairments on equity and debt securities on total investments

in USD millions, for the years ended December 31

	Equity securities		Debt securities		Total	
	2009	2008	2009	2008	2009	2008
Securities at fair value through profit or loss:	11,273	(23,672)	392	(548)	11,666	(24,221)
Net capital gains/(losses) on Group investments						
<i>Trading securities</i>	69	(319)	(2)	(23)	66	(343)
<i>Securities designated at fair value through profit or loss</i>	405	(736)	7	(173)	412	(909)
Net capital gains/(losses) for unit-linked contracts	10,800	(22,617)	387	(351)	11,187	(22,968)
Available-for-sale securities:	(737)	(1,772)	(477)	(1,307)	(1,214)	(3,078)
Realized capital gains on Group investments	323	556	988	458	1,312	1,013
Realized capital losses on Group investments	(471)	(1,130)	(955)	(622)	(1,426)	(1,752)
Impairments on Group investments	(590)	(1,197)	(510)	(1,142)	(1,100)	(2,340)
Held-to-maturity securities ¹	–	–	(64)	(69)	(64)	(69)
Total net capital gains/(losses) and impairments	10,536	(25,444)	(148)	(1,924)	10,388	(27,368)

¹ Including impairments on held-to-maturity securities of USD 63 million and USD 69 million for the years ended December 31, 2009 and 2008, respectively.

Details of total investments by category	Total investments			
	2009		2008	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	17,471	5.9	16,888	6.6
Equity securities:				
Fair value through profit or loss	83,329	28.2	65,150	25.3
<i>of which: trading</i>	879	0.3	1,419	0.6
<i>of which: trading equity portfolios in capital markets and banking activities</i>	461	0.2	786	0.3
Available-for-sale	7,432	2.5	9,307	3.6
Total equity securities	90,761	30.7	74,458	28.9
Debt securities:				
Fair value through profit or loss	17,037	5.8	16,801	6.5
<i>of which: trading</i>	82	0.0	186	0.1
Available-for-sale	124,358	42.1	105,752	41.0
Held-to-maturity	5,143	1.7	5,244	2.0
Total debt securities	146,538	49.6	127,797	49.6
Real estate held for investment	11,686	4.0	11,601	4.5
Mortgage loans	12,736	4.3	12,820	5.0
Other loans	16,001	5.4	13,990	5.4
Equity method accounted investments	232	0.1	220	0.1
Total investments	295,425	100.0	257,773	100.0

Details
of Group
investments
by category

Table 6.3b
as of December 31

	Group investments			
	2009		2008	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	11,631	5.9	12,428	6.9
Equity securities:				
Fair value through profit or loss	5,018	2.6	4,996	2.8
<i>of which: trading</i>	879	0.4	1,419	0.8
<i>of which: trading equity portfolios in capital markets and banking activities</i>	461	0.2	786	0.4
Available-for-sale	7,432	3.8	9,307	5.2
Total equity securities	12,450	6.3	14,303	8.0
Debt securities:				
Fair value through profit or loss	6,843	3.5	7,291	4.1
<i>of which: trading</i>	82	0.0	186	0.1
Available-for-sale	124,358	63.4	105,752	58.9
Held-to-maturity	5,143	2.6	5,244	2.9
Total debt securities	136,344	69.5	118,287	65.9
Real estate held for investment	7,789	4.0	7,524	4.2
Mortgage loans	12,736	6.5	12,820	7.1
Other loans	15,077	7.7	13,988	7.8
Equity method accounted investments	232	0.1	220	0.1
Total Group investments	196,258	100.0	179,570	100.0

Cash and investments with a carrying value of USD 4,908 million and USD 5,235 million were deposited on behalf of regulatory authorities as of December 31, 2009 and 2008, respectively.

Securities under security lending and short-term sale and repurchase agreements

As of December 31, 2009 and 2008, investments included USD 5,073 million and USD 2,917 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Cash and cash equivalents included USD 493 million and USD 177 million of cash received as collateral for loaned securities as of December 31, 2009 and 2008, respectively. Liabilities for cash collateral received for securities lending comprised USD 508 million and USD 182 million as of December 31, 2009 and 2008, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 5,046 million and USD 3,274 million as of December 31, 2009 and 2008, respectively. The Group can sell or repledge the collateral only in the event of a default by a counterparty.

As of December 31, 2009 and 2008, respectively, debt securities with a carrying value of USD 3,938 million and USD 3,608 million have been sold to financial institutions under short-term sale and repurchase agreements. These securities continue to be recognized as investments in the balance sheets. Obligations to repurchase these securities comprised USD 3,976 million and USD 3,608 million as of December 31, 2009 and 2008, respectively. The Group retains the rights to the risks and rewards of ownership of loaned securities and securities under short-term sale and repurchase agreements. These risks and rewards include changes in market values and income earned.

Details of investments held for unit-linked contracts	Investments for unit-linked contracts			
	2009		2008	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	5,840	5.9	4,460	5.7
Equity securities	78,311	79.0	60,154	76.9
Debt securities	10,194	10.3	9,510	12.2
Real estate held for investment	3,897	3.9	4,077	5.2
Other loans	924	0.9	2	0.0
Total investments for unit-linked contracts	99,167	100.0	78,203	100.0

Investments held under unit-linked investments contracts are classified as designated at fair value through profit or loss.

Debt securities maturity schedule (total investments)	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2009	2008	2009	2008	2009	2008
	Debt securities:					
< 1 year	357	571	9,973	7,790	1,403	2,665
1 to 5 years	1,517	1,190	42,911	34,156	5,098	3,297
5 to 10 years	1,189	1,220	26,243	21,924	4,158	4,632
> 10 years	2,081	2,263	22,941	19,854	4,848	4,769
Subtotal	5,143	5,244	102,068	83,722	15,508	15,363
Mortgage and asset-backed securities:						
< 1 year	–	–	1,288	759	69	68
1 to 5 years	–	–	5,323	4,891	370	307
5 to 10 years	–	–	5,114	5,392	351	323
> 10 years	–	–	10,565	10,988	741	741
Subtotal	–	–	22,290	22,030	1,530	1,438
Total	5,143	5,244	124,358	105,752	17,037	16,801

The analysis 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.

Available-for-sale securities

	Cost or amortized cost ¹		Gross unrealized gains		Gross unrealized losses		Fair value	
	2009	2008	2009	2008	2009	2008	2009	2008
Equity securities								
Common stock	3,809	5,052	827	352	(289)	(1,015)	4,346	4,389
Unit trusts	3,359	5,556	166	157	(586)	(944)	2,939	4,769
Non-redeemable preferred stock	153	190	10	–	(15)	(40)	148	149
Total equity securities	7,320	10,798	1,002	509	(890)	(1,999)	7,432	9,307
Debt securities								
Swiss federal and cantonal governments	2,788	3,657	199	212	(2)	(1)	2,986	3,868
United Kingdom government	7,932	5,748	176	397	(30)	(2)	8,078	6,143
United States government	8,050	5,582	129	484	(237)	(38)	7,942	6,028
Other governments and supra-nationals	29,727	24,987	1,060	1,042	(233)	(207)	30,554	25,821
Corporate securities	51,757	44,101	2,186	1,098	(1,454)	(3,378)	52,489	41,821
Mortgage and asset-backed securities	22,787	24,412	556	310	(1,053)	(2,692)	22,290	22,030
Redeemable preferred stocks	18	56	1	–	–	(15)	19	41
Total debt securities	123,059	108,544	4,308	3,542	(3,009)	(6,334)	124,358	105,752

¹ Net of impairments (see table 6.2).

	Group investments				Investments for unit-linked products		Total investments	
	2009		2008		2009	2008	2009	2008
	USD millions	% of total	USD millions	% of total	USD millions	USD millions	USD millions	USD millions
Equity securities:								
Common stock	4,177	35.2%	4,402	35.8%	42,773	33,068	46,950	37,470
<i>of which: trading equity portfolios in capital markets and banking activities</i>	461	3.9%	786	6.4%	–	–	461	786
<i>of which: common stock portfolios backing participating with profit policyholder contracts</i>	674	5.7%	630	5.1%	–	–	674	630
Unit trusts	840	7.1%	594	4.8%	35,521	27,069	36,361	27,663
Non-redeemable preferred stock	–	0.0%	–	0.0%	17	17	17	17
Total equity securities	5,018	42.3%	4,996	40.7%	78,311	60,154	83,329	65,150
Debt securities:								
Debt securities	5,621	47.4%	6,111	49.7%	9,887	9,252	15,507	15,363
<i>of which: trading debt securities in capital markets and banking activities</i>	20	0.2%	121	1.0%	–	–	20	121
Mortgage and asset-backed securities	1,222	10.3%	1,180	9.6%	308	258	1,530	1,438
Total debt securities	6,843	57.7%	7,291	59.3%	10,194	9,510	17,037	16,801
Total	11,860	100.0%	12,287	100.0%	88,505	69,665	100,366	81,952

	2009		2008	
	USD millions	% of total	USD millions	% of total
Swiss federal and cantonal governments	1,635	31.8	1,590	30.3
United States government	1,310	25.5	1,669	31.8
Other governments and supra-nationals	849	16.5	819	15.6
Corporate securities	1,350	26.2	1,165	22.2
Total held-to-maturity debt securities	5,143	100.0	5,244	100.0

Real estate held for investment (total investments)

	Total	
	2009	2008
As of January 1	11,601	15,386
Additions and improvements	431	664
Disposals	(616)	(1,061)
Market value revaluation	(308)	(1,823)
Transfer from/(to) assets held for own use	(47)	(45)
Foreign currency translation effects	625	(1,520)
As of December 31	11,686	11,601

Real estate held for investment consists of investments in commercial, residential and mixed-use properties primarily located in Switzerland, Germany and the UK.

Equity method accounted investments

	Carrying value		Share in profit		Ownership interest	
	2009	2008	2009	2008	2009	2008
Associates:						
DKN Financial Group Limited	60	50	(3)	2	30.99%	31.84%
Seven Investment Management Limited	17	15	–	(3)	49.00%	49.00%
Other	12	16	(1)	1	–	–
Joint ventures:						
MCIS Zurich Insurance Berhad	37	37	1	2	40.00%	40.00%
Other	11	9	1	1	–	–
SPEs: ¹						
Euclid Office, L.P.	28	25	1	1	99.00%	99.00%
Other	68	69	4	3	–	–
Total	232	220	4	8	–	–

¹ The Group has several special purpose entities (SPEs) in the U.S. which are consolidated using the equity method as a reasonable approximation, as the equity pick up is usually 99% and the investment balance approximates the value of the SPE's assets. These entities were specifically designed to facilitate U.S. commercial property sale and leaseback transactions.

Net unrealized gains/(losses) on Group investments included in shareholders' equity

	Total	
	2009	2008
Equity securities: available-for-sale	112	(1,490)
Debt securities: available-for-sale	1,298	(2,792)
Other	(20)	(2)
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(665)	236
Life deferred acquisition costs	(98)	256
Deferred income taxes	(287)	837
Non-controlling interests	(15)	(18)
Total¹	326	(2,973)

¹ Net unrealized gains/(losses) include net losses arising on cash flow hedges of USD (9) million and USD (16) million as of December 31, 2009 and 2008, respectively.

7. Derivative financial instruments and hedge accounting

The Group uses derivatives mainly for economic hedging purposes in order to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates. The Group may also use derivatives to protect itself against the credit risk of counterparties.

In certain circumstances these instruments may meet the requirements of an effective hedge for accounting purposes. Where this is the case, hedge accounting may be applied. Details of the accounting for these instruments are set out in table 7.2.

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2009 and 2008, respectively. Whilst these notional amounts express the extent of the Group's involvement in derivative transactions, they are not however representative of amounts at risk. Fair values for derivatives are included in the consolidated balance sheets in the lines Other Assets and Other Liabilities.

Table 7.1

in USD millions, as of December 31

Maturity profile of notional amounts and fair values of derivative financial instruments

	Maturity by notional amount			Notional amounts	2009		2008		
	< 1 year	1 to 5 years	> 5 years		Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
Interest rate contracts:									
OTC									
Swaps	23	179	863	1,064	102	(11)	1,277	168	(23)
Swaptions	167	1,114	1,845	3,126	126	(14)	2,976	260	(21)
Caps	45	213	–	259	–	–	531	–	–
Exchange traded									
Futures	1,969	3	–	1,972	–	–	761	2	–
Total interest rate contracts	2,204	1,509	2,708	6,422	228	(24)	5,545	430	(44)
Equity contracts:									
OTC									
Puts	2,050	3,152	1,853	7,055	286	(203)	4,871	445	(288)
Calls	1,546	1,847	480	3,874	58	(243)	1,593	32	(32)
Exchange traded									
Futures	411	2	–	413	–	–	–	–	–
Total equity contracts	4,008	5,001	2,333	11,342	344	(446)	6,464	477	(319)
Foreign exchange contracts:									
OTC									
Cross Currency Swaps	–	737	–	737	21	–	81	–	(28)
Forwards	12,915	–	–	12,915	109	(106)	15,526	314	(956)
Total foreign exchange contracts	12,915	737	–	13,652	131	(106)	15,606	315	(985)
Credit contracts:									
OTC									
Credit Default Swaps	187	462	–	649	3	(8)	776	91	(6)
Total credit contracts	187	462	–	649	3	(8)	776	91	(6)
Other contracts:									
OTC									
Puts	2	–	1,043	1,046	–	(40)	938	–	(32)
Total Return Swaps	–	–	71	71	–	(1)	74	–	(2)
Total other contracts	2	–	1,114	1,116	–	(41)	1,012	–	(34)
Total	19,316	7,709	6,155	33,180	706	(625)	29,403	1,311	(1,388)

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 uses exchange traded contracts, which are standardized and liquid and are not considered to carry counterparty risk. Over the counter (OTC) contracts are otherwise applied and comprise swaps, swaptions and caps. In terms of notional amounts, the major OTC positions are swaptions that are mostly long receiver swaptions to hedge against the risk of a fall in interest rates.

Equity contracts

Equity contracts are entered into mostly on a portfolio level to protect equity investments against a decline in equity market prices and to manage the risk return profile of equity exposures. Most equity contracts are purchased put options. The change in the notional amounts of put options between December 31, 2009 and December 31, 2008 was mainly driven by entering into new long equity put options. Most of the equity call options are used in collar structures to mitigate the overall hedging costs or to hedge equity risks embedded in guaranteed equity bonds. Written put positions are mostly hedged by long put positions or backed by cash collateral.

Foreign exchange contracts

Foreign exchange contracts consist mainly of forward contracts which are used to hedge the Group's foreign currency exposures and manage currency mismatches on the balance sheets.

The notional amounts of foreign exchange forwards decreased by USD 2,611 million between December 31, 2008 and December 31, 2009, mostly due to a decrease in underlying foreign exchange exposures. The Group has also entered into new swaps positions to hedge the foreign currency risk arising from certain debt issued.

Credit contracts

Credit default swaps offer protection to the owner in case a credit event occurs. The Group is very selective in its purchase of credit default swaps. As of both December 31, 2009, and 2008 these related to reinsurance receivables.

Other contracts

Other contracts predominantly include stable value options (SVOs), which include written equity put options. SVOs have been provided by the Group to certain bank and corporate customers (policyholders) in the U.S., in respect of the investment returns which arise on investments underlying Bank Owned Life Insurance (BOLI) and Company Owned Life Insurance (COLI) policies.

Premiums received from policyholders under these policies are invested in separate account portfolios. Throughout the life of the policies, policyholders are entitled, in addition to mortality cover, to tax-exempt investment returns linked to the performance of the underlying investments. The policies are long duration contracts providing charges and benefits over a policy life that can be greater than 45 years. SVOs reduce the volatility of the policyholders' investment returns. In the event that a policy is surrendered, the policyholder would be entitled to recover the excess of the notional SVO derived value over the market value of the underlying investments. Certain policy features as well as certain regulations provide disincentives for surrender. We monitor the risk of surrender on an ongoing basis and consider the likelihood of surrender the one input factor to the model to determine the fair value of the SVOs. During 2009, one policyholder surrendered the contract, resulting in a net loss of USD 5 million after applicable reductions. Another policyholder elected to eliminate certain certificates under the policies. No losses were incurred on this transaction. The fair value of the derivative liability recognized in respect of the SVOs, included in written put options, was USD 37 million and USD 23 million as of December 31, 2009 and 2008, respectively. The difference between the notional SVO derived value and market value of the underlying investments for BOLI/COLI policies was USD 1,043 million and USD 929 million as of December 31, 2009 and 2008, respectively, representing the total net market value loss after surrender charges in the unlikely event that all policies would have been surrendered on those dates.

The following table sets out details of fair value and cash flow hedges:

Maturity profile of notional amounts and fair values of derivative financial instruments	Maturity by notional amount			Notional principal amounts	2009			2008		
	< 1 year	1 to 5 years	> 5 years		Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values	
Fair value hedges:										
Cross currency interest rate swaps	–	244	614	858	204	–	975	141	–	–
Currency swaps	–	1	70	71	–	(29)	–	–	–	–
Total fair value hedges	–	245	684	929	204	(29)	975	141	–	–
Cash flow hedges:										
Options on interest rate swaps	–	–	3,474	3,474	171	–	3,373	209	–	–
Currency swaps	–	975	793	1,768	255	–	1,114	63	–	–
Interest rate swaps	155	257	154	566	2	(6)	–	–	–	–
Total cash flow hedges	155	1,232	4,421	5,808	428	(6)	4,487	272	–	–

Fair value hedges

Designated fair value hedges consist of cross currency interest rate swaps used to protect the Group against changes in foreign currency exposure and interest rate exposure of Euro-denominated debt issued by the Group. A fair value hedge relationship on the EUR 500 million 4.5 percent subordinated bond due for repayment in June 2025 issued by Zurich Finance (USA), Inc. (see note 21), was entered into at the issuance of the debt instrument in 2005 and will end on June 15, 2015.

A fair value hedge relationship on 20 percent of the EUR 1 billion 4.5 percent senior debt due for repayment in 2014 issued by Zurich Finance (USA), Inc. (see note 21), was entered into on January 1, 2007 and will end at maturity of the underlying debt instrument in 2014.

The Group also has fair value hedge relationships consisting of currency swaps to protect the certain non Euro-denominated fixed income securities from foreign currency fluctuation.

Changes in the fair value of the derivatives designated as fair value hedges and changes in the fair value of the hedged item in relation to the risk being hedged are recognized in income.

Gains and losses arising from fair value hedges are as follows:

Gains/(losses) arising from fair value hedges	2009		2008
Gains/(losses)			
<i>on hedging instruments¹</i>		62	21
<i>on hedged item attributable to the hedged risk</i>		(57)	(26)

¹ Excluding current interest income, which is booked on the same line as an offset to interest expense on the hedged debt.

Cash flow hedges

Designated cash flow hedges, such as options on interest rate swaps 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 (during the years 2011, 2016, 2021 and 2026) required for certain life insurance policies. The effective portion of the gains and losses on these swaps are initially recognized in comprehensive income. Subsequently the gains or losses will be recycled to income between the years ended December 31, 2011 and 2036. The gains and losses relating 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 currency swaps for cash flow hedging to protect against exposures to variability of cash flows. The change in the fair value of the hedging instrument is recognized directly in comprehensive income. The ineffective portion of the change in fair value is recognized directly in income within administrative and other operating expense. The effective portion, related to spot rate changes in fair value of the hedging instrument, is reclassified to income within administrative and other operating expense as an offset to foreign currency revaluation on the underlying hedged debt.

As of December 31, 2009 the following cash flow hedge relationships were in place (see note 22):

- 80 percent of the EUR 1 billion 4.5 percent senior bond due 2014 issued by Zurich Finance (USA), Inc. entered on January 1, 2007 ending September 17, 2014.
- 100 percent of EUR 600 million 6.5 percent senior bond due October 2015 issued by Zurich Finance (USA), Inc. entered on April 14, 2009 ending October 15, 2015.

The Group has also designated cash flow hedges consisting of interest rate swaps to eliminate its exposure to interest rates on Floating Rate Notes held by the Group.

The net gains deferred in shareholders' equity on derivatives designated as cash flow hedges were USD 23 million and USD 107 million before tax for the years ended December 31, 2009 and 2008, respectively.

The portion recognized in income was a gain of USD 96 million and a loss of USD 54 million before tax for the years ended December 31, 2009 and 2008, respectively, as an offset to the foreign currency revaluation on the underlying hedged debt.

A net gain of USD 32 million and USD 2 million for the years ended December 31, 2009 and 2008, respectively, was recognized in net capital gains/(losses) and impairments due to a hedge ineffectiveness.

8. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts

Table 8.1		2009	2008
Reserves for insurance contracts	in USD millions, as of December 31		
	Gross		
	Reserves for losses and loss adjustment expenses	68,086	65,218
	Reserves for unearned premiums	17,676	16,399
	Future life policyholders' benefits	78,589	76,218
	Policyholders' contract deposits and other funds	18,857	17,047
	Reserves for unit-linked contracts	58,204	47,297
	Total reserves for insurance contracts, gross	241,412	222,179
	Ceded		
	Reserves for losses and loss adjustment expenses	(12,182)	(12,232)
	Reserves for unearned premiums	(2,000)	(1,889)
	Future life policyholders' benefits	(2,076)	(1,873)
	Policyholders' contract deposits and other funds	(2,457)	(2,690)
	Reinsurers' share of reserves for insurance contracts, ceded ¹	(18,715)	(18,684)
	Net		
	Reserves for losses and loss adjustment expenses	55,903	52,986
	Reserves for unearned premiums	15,676	14,510
	Future life policyholders' benefits	76,514	74,345
	Policyholders' contract deposits and other funds	16,400	14,357
	Reserves for unit-linked contracts	58,204	47,297
Total reserves for insurance contracts, net	222,697	203,495	

¹ Gross of allowance for uncollectible amounts of USD 88 million and USD 89 million as of December 31, 2009, and 2008, respectively.

Table 8.2		Gross		Ceded		Net	
Development of reserves for losses and loss adjustment expenses	in USD millions	2009	2008	2009	2008	2009	2008
	As of January 1	65,218	67,890	(12,232)	(13,179)	52,986	54,712
	Losses and loss adjustment expenses incurred:						
	Current year	28,308	28,296	(2,610)	(2,879)	25,698	25,416
	Prior years	(933)	(1,354)	(126)	83	(1,059)	(1,271)
	Total incurred	27,375	26,942	(2,736)	(2,796)	24,639	24,145
	Losses and loss adjustment expenses paid:						
	Current year	(11,178)	(10,190)	536	591	(10,642)	(9,599)
	Prior years	(15,547)	(15,080)	2,500	2,528	(13,047)	(12,551)
	Total paid	(26,725)	(25,269)	3,036	3,119	(23,689)	(22,150)
	Acquisitions/(divestments) of companies and businesses	103	105	1	(28)	104	77
	Foreign currency translation effects	2,114	(4,450)	(251)	653	1,863	(3,797)
	As of December 31	68,086	65,218	(12,182)	(12,232)	55,903	52,986

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 information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Table 8.2 shows the development of reserves for losses and loss adjustment expenses during the year. The increase in the total net reserves during the year included USD 1,059 million favorable development emerging from reserves established in prior years, after allowing for asbestos charges of USD 539 million. This favorable development is primarily attributable to our General Insurance business and breaks down into many individual movements by Business Division, country, line of business, and accident year. In the Global Corporate segment, favorable development of USD 257 million was approximately equally shared between North America and the rest of the world. North America Commercial favorable development of USD 146 million arose mostly from program and surety business. Europe General Insurance favorable development of USD 487 million arose from several European countries besides Italy where we had a negative development of USD 100 million. The remaining favorable development came from Group Reinsurance, International Markets, and the assumed business from Farmers Re; this was somewhat offset by adverse development at Centre.

Table 8.3		2001	2002	2003	2004	2005	2006	2007	2008	2009
Development of insurance losses, net	in USD millions, as of December 31									
	Gross reserves for losses and loss adjustment expenses	37,694	45,306	51,068	57,765	60,425	64,535	67,890	65,218	68,086
	Reinsurance recoverable	(13,605)	(14,940)	(14,055)	(14,279)	(14,231)	(13,722)	(13,179)	(12,232)	(12,182)
	Initial net reserves for losses and loss adjustment expenses	24,089	30,366	37,013	43,486	46,194	50,814	54,712	52,986	55,903
	Cumulative paid as of December 31:									
	<i>One year later</i>	(7,976)	(8,923)	(9,930)	(9,464)	(11,423)	(11,237)	(12,551)	(13,047)	
	<i>Two years later</i>	(12,855)	(14,472)	(15,550)	(16,273)	(18,044)	(18,362)	(19,660)		
	<i>Three years later</i>	(16,698)	(18,001)	(20,407)	(21,234)	(23,077)	(23,421)			
	<i>Four years later</i>	(19,255)	(21,390)	(23,941)	(24,945)	(26,850)				
	<i>Five years later</i>	(21,634)	(23,814)	(26,616)	(27,798)					
	<i>Six years later</i>	(23,471)	(25,799)	(28,668)						
	<i>Seven years later</i>	(24,849)	(27,442)							
	<i>Eight years later</i>	(26,166)								
	Net reserves re-estimated as of December 31:									
	<i>One year later</i>	26,908	32,239	38,977	43,627	45,976	49,594	53,441	51,927	
	<i>Two years later</i>	28,471	34,471	40,413	45,006	45,827	48,642	52,559		
	<i>Three years later</i>	30,636	36,118	42,004	45,325	45,297	48,127			
	<i>Four years later</i>	31,784	37,691	42,254	45,294	45,249				
	<i>Five years later</i>	33,326	37,880	42,470	45,604					
	<i>Six years later</i>	33,799	38,282	43,017						
	<i>Seven years later</i>	34,004	38,951							
	<i>Eight years later</i>	34,716								
	Cumulative (deficiency)/redundancy	(10,627)	(8,585)	(6,004)	(2,118)	945	2,686	2,152	1,059	
	Cumulative (deficiency)/redundancy as a percentage of initial net reserves	(44.1%)	(28.3%)	(16.2%)	(4.9%)	2.0%	5.3%	3.9%	2.0%	
	Gross reserves re-estimated as of December 31, 2009	52,433	56,977	59,655	61,197	60,379	61,815	65,565	64,285	
	Cumulative (deficiency)/redundancy	(14,739)	(11,671)	(8,587)	(3,432)	46	2,720	2,325	933	
	Cumulative (deficiency)/redundancy as a percentage of initial gross reserves	(39.1%)	(25.8%)	(16.8%)	(5.9%)	0.1%	4.2%	3.4%	1.4%	

Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Group established in 2001 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. The net 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, 2009. It is

the difference between the initial net reserve estimate and the last entry of the diagonal. Conditions and trends that have affected the development of our 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 may not be derived from the information presented in table 8.3.

Table 8.4

Development of reserves for losses and loss adjustment expenses for asbestos and environmental claims

in USD millions		2009		2008	
		Gross	Net	Gross	Net
Asbestos					
As of January 1		3,001	2,523	3,799	3,238
Losses and loss adjustment expenses incurred		652	539	240	196
Losses and loss adjustment expenses paid		(299)	(281)	(339)	(278)
Foreign currency translation effects		251	217	(699)	(632)
As of December 31		3,604	2,998	3,001	2,523
Environmental					
As of January 1		332	277	394	326
Losses and loss adjustment expenses incurred		7	4	(11)	–
Losses and loss adjustment expenses paid		(61)	(40)	(57)	(51)
Foreign currency translation effects		1	1	6	2
As of December 31		280	242	332	277

Management has considered asbestos, environmental and latent injury claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Group continues to be advised of claims asserting injuries from toxic waste, hazardous materials and other environmental pollutants, alleged damages to cover the clean-up costs of hazardous waste dump sites relating to policies written in prior years and 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. 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 relating to standard lines of business. Reserves for asbestos increased by USD 603 million gross and USD 475 million net during 2009. This increase was almost entirely driven by strengthening of UK asbestos reserves in respect of mesothelioma claims. This follows the annual review of UK Disease claims, taking account of emerging experience and developments in external benchmarks, including the publication of revised projections of population deaths by the UK Health and Safety Executive. For this class of claims, the Group's methodology, consistent with industry practice, relies on three key assumptions: the total future population deaths, the number of claims per number of deaths ratio, and the Group's share of market claims. Estimates of all three drivers increased in 2009, based on the Group's own experience and published revised industry experience, and this has been reflected in the increase in reserves.

While the Group believes that it has made adequate provision for these claims, it is possible that future adverse development could have a material effect on the Group's results of operations, cash flows and financial position. The net reserve amounts relating to such claims are not discounted for the time value of money.

Development of future life policyholders' benefits	Gross		Ceded		Net	
	2009	2008	2009	2008	2009	2008
As of January 1	76,218	80,147	(1,873)	(9,258)	74,345	70,889
Premiums and claims ¹	(2,642)	(9,583)	31	6,913	(2,611)	(2,670)
Interest and bonuses credited to policyholders	2,752	2,983	(68)	(252)	2,683	2,730
Change in assumptions	214	(344)	(13)	349	201	5
Acquisitions/transfers ²	(497)	6,769	–	(281)	(497)	6,489
(Decreases)/increases recorded in shareholders' equity	85	(11)	–	–	85	(11)
Foreign currency translation effects	2,459	(3,744)	(151)	656	2,308	(3,088)
As of December 31	78,589	76,218	(2,076)	(1,873)	76,514	74,345

¹ Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio ceded in 2007 for an amount of USD 7.1 billion were transferred to the reinsurer, resulting in a reduction of gross and ceded future life policyholders' benefits.

² The 2009 movement represents the transfer to reserves for unit-linked contracts (see note 1 for further details).

Long-duration contract liabilities included in future life policyholders' benefits result primarily from traditional participating and non-participating life insurance products. Short-duration contract liabilities are primarily accident and health insurance products.

The amount of policyholder dividends to be paid is determined annually by each life insurance subsidiary. Policyholder dividends include life policyholders' 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 relating to future policyholders' benefits and policyholders' 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.

The impact of changes in assumptions on net future life policyholders' benefits was USD 201 million and USD 5 million for the years ended December 31, 2009 and 2008, respectively. The net changes include the following significant movements:

- interest rate assumptions increased the benefits by USD 11 million in 2009 and by USD 229 million in 2008;
- expense assumptions increased the benefits by USD 2 million in 2009 and reduced them by USD 4 million in 2008;
- longevity assumptions reduced the benefits by USD 12 million in 2009 and increased them by USD 85 million in 2008;
- morbidity assumptions increased the benefits by USD 23 million in 2009 and reduced them by USD 192 million in 2008;
- investment return assumptions reduced the benefits by USD 133 million in 2009 and by USD 118 million in 2008.
- modelling assumptions reduced the benefits by USD 118 million in 2009 and by nil in 2008.

in USD millions, as of December 31		2009	2008
Policyholders' contract deposits and other funds gross	Annuities	2,760	2,393
	Universal life and other contracts	10,801	10,365
	Policyholder dividends	5,297	4,289
	Total	18,857	17,047

in USD millions	Gross		Ceded		Net	
	2009	2008	2009	2008	2009	2008
Development of policyholders' contract deposits and other funds	17,047	18,687	(2,690)	(2,976)	14,357	15,711
As of January 1	(681)	(871)	332	384	(349)	(487)
Premiums and claims	879	(385)	(90)	(105)	789	(490)
Interest and bonuses credited to policyholders	–	(2)	–	1	–	(1)
Changes in assumptions	1	16	–	(9)	1	7
Acquisitions/transfers	825	188	–	–	825	188
(Decrease)/increase recorded in shareholders' equity	786	(585)	(9)	14	777	(571)
Foreign currency translation effects	18,857	17,047	(2,457)	(2,690)	16,400	14,357
As of December 31						

in USD millions	Gross		Ceded		Net	
	2009	2008	2009	2008	2009	2008
Development of reserves for unit-linked contracts	47,297	70,075	–	–	47,297	70,075
As of January 1	613	(1,901)	–	–	613	(1,901)
Premiums and claims	6,616	(12,223)	–	–	6,616	(12,223)
Interest and bonuses credited/(charged) to policyholders	587	833	–	–	587	833
Acquisitions/transfers ¹	3,091	(9,486)	–	–	3,091	(9,486)
Foreign currency translation effects	58,204	47,297	–	–	58,204	47,297
As of December 31						

¹ 2009 includes USD 497 million of transfers from future life policyholders' benefits (see note 1 for further details).

Guarantees arising from minimum death benefits (GMDB) and retirement income benefits (GRIB) Certain products for which policyholders bear in full the credit and market risks associated with the underlying invested funds selected by them contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees. These arise primarily in the subsidiary Kemper Investors Life Insurance Company which has written variable annuity contracts that provide policyholders with certain guarantees related to minimum death and income benefits. The determination of these liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates, annuitization elections and mortality experience. After 2001 the Group no longer issued new variable annuity contracts that provide policyholders with minimum death and retirement income benefit guarantees.

Table 8.9			
Information on guaranteed liabilities	in USD millions (except average attained age), as of	12/31/09	12/31/08
		Account balance for products with guarantee features	
	Gross	1,758	1,966
	Ceded	(188)	(187)
	Net	1,570	1,778
	Amount at risk from minimum death benefits (GMDB)		
	Gross	1,182	1,744
	Ceded	(230)	(290)
	Net	952	1,453
	Average attained age of policyholders (in years)	64	64

The net amount at risk is the present value of payouts exceeding the current policyholder account balance assuming the payout criteria in all policies would have been collectively triggered as of the balance sheet date. The net amount at risk is not the same as the fair value of these benefits, as it does not fully take into account the option value accruing to the policyholder. In determining the excess benefit reserve, the Group follows the guidance in the U.S. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") related to insurance companies and contracts. Under this guidance the new reserve level is determined from expected policyholder benefits net of assessments, coupled with a loss adequacy test on the result taking into account policyholder behavior experience and current market conditions. Policyholder behavior assumptions are updated when statistically relevant changes in behavior have been observed. The liability for future life policyholder benefits net of reinsurance includes an excess benefit reserve of USD 629 million and USD 513 million as of December 31, 2009 and 2008, respectively, with the increase since December 31, 2008 largely due to policyholders' behavior experienced in current market conditions.

9. Liabilities for investment contracts with and without discretionary participation features (DPF)

Table 9.1

in USD millions, as of December 31		2009	2008
Liabilities for investment contracts	Liabilities related to unit-linked investment contracts	40,143	30,397
	Liabilities related to investment contracts (amortized cost)	254	122
	Liabilities related to investment contracts with DPF	5,728	5,461
	Total	46,124	35,979

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 derivatives. 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 discount rate is determined by the current market assessment of the time value of money and risk specific to the liability.

Table 9.2

in USD millions		2009	2008
Development of liabilities for investment contracts	As of January 1	35,979	54,485
	Premiums and claims	787	(838)
	Interest and bonuses charged/(credited) to policyholders	5,864	(8,647)
	Acquisitions/transfers	–	790
	Increase/(decrease) recorded in shareholders' equity	28	9
	Foreign currency translation effects	3,465	(9,819)
	As of December 31	46,124	35,979

10. Equity component relating to contracts with DPF

Certain investment and insurance contracts sold 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 of undeclared funds surplus is included in shareholders' equity. Mandated allocations related to unrealized results and earnings are included in policyholder liabilities and, upon declaration, discretionary bonuses are allocated to policyholders. The changes in the table below represent the increase or decrease in unallocated gains and retained earnings after charging discretionary bonuses to policyholder liabilities.

Table 10

in USD millions		2009	2008
Development of the equity component relating to contracts with DPF	As of January 1	1,221	1,309
	Net unrealized (losses)/gains on investments	381	(371)
	Current period profit	192	230
	Foreign currency translation effects	44	53
	As of December 31	1,837	1,221

11. Gross and ceded insurance revenues and expenses

Table 11.1

Insurance benefits and losses

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2009	2008	2009	2008	2009	2008
Losses and loss adjustment expenses	27,375	26,942	(2,736)	(2,796)	24,639	24,145
Life insurance death and other benefits	11,816	11,315	(460)	(778)	11,356	10,538
Change in future life policyholders' benefits	330	(6,870)	(64)	6,999	266	128
Total insurance benefits and losses¹	39,522	31,387	(3,261)	3,425	36,261	34,811

¹ Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio reinsured in 2007 were transferred to the reinsurer. This transaction had no net impact on the consolidated income statement in 2008, but impacted both gross and ceded change in the future life policyholders' benefits in 2008.

Table 11.2

Policyholder dividends and participation in profits

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2009	2008	2009	2008	2009	2008
Change in policyholders' contract deposits and other funds	483	(602)	–	40	484	(562)
Change in reserves for unit-linked products	6,911	(13,239)	–	–	6,911	(13,239)
Change in liabilities for investment contracts – unit-linked	5,623	(8,384)	–	–	5,623	(8,384)
Change in liabilities for investment contracts – other	206	147	–	–	206	147
Change in unit-linked liabilities related to UK capital gains tax	(364)	524	–	–	(364)	524
Total policyholder dividends and participation in profits	12,859	(21,554)	–	40	12,859	(21,514)

Table 11.3

Underwriting and policy acquisition costs

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2009	2008	2009	2008	2009	2008
Amortization of deferred acquisition costs	5,153	4,689	(394)	(458)	4,759	4,231
Amortization of deferred origination costs	110	122	–	–	110	122
Commissions and other underwriting and acquisition expenses ¹	3,713	4,474	(328)	(540)	3,385	3,934
Total underwriting and policy acquisition costs	8,976	9,285	(723)	(998)	8,254	8,287

¹ Net of additions related to deferred acquisition and origination costs.

Table 11.4

Change in reserves for unearned premiums

in USD millions, for the years ended December 31

	Gross		Ceded		Net	
	2009	2008	2009	2008	2009	2008
Change in reserves for unearned premiums	826	1,781	(80)	(220)	746	1,560

12. Deferred policy acquisition costs and deferred origination costs

Table 12.1

Development of deferred policy acquisition costs	in USD millions							
	General Insurance		Global Life		Other segments ¹		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
As of January 1	3,247	3,306	10,768	11,571	308	65	14,323	14,941
Acquisition costs deferred	3,012	2,918	1,793	1,736	1,403	580	6,208	5,234
Amortization	(2,965)	(2,851)	(614)	(1,038)	(1,180)	(341)	(4,759)	(4,230)
Amortization charged/ (credited) to shareholders' equity	–	–	(291)	128	1	2	(290)	130
Transfers ²	–	–	(28)	–	–	–	(28)	–
Foreign currency translation effects	80	(125)	648	(1,629)	(1)	2	726	(1,752)
As of December 31	3,374	3,247	12,276	10,768	531	308	16,181	14,323

¹ Net of eliminations from inter-segment transactions.

² The 2009 movement represents the reclassification from insurance contracts to investment contracts (see note 1 for further details).

Table 12.2

Development of deferred origination costs	in USD millions	
	2009	2008
As of January 1	770	1,003
Origination costs deferred	96	119
Amortization	(110)	(122)
Transfers ¹	28	–
Foreign currency translation effects	71	(230)
As of December 31	856	770

¹ The 2009 movement represents the reclassification from insurance contracts to investment contracts (see note 1 for further details).

13. Administrative and other operating expenses

Table 13

Administrative and other operating expenses	in USD millions, for the years ended December 31	
	2009	2008
Wages and salaries	2,908	2,888
Other employee benefits	566	453
Amortization and impairments of assets	878	638
Rent, leasing and maintenance	398	369
Marketing costs	315	372
Life renewal commission	318	309
Premium, asset and other non-income taxes	184	153
IT costs	734	816
Other	947	731
Total	7,248	6,729

The above numbers reflect the costs by nature after allocation of certain costs, in particular wages and salaries as well as other employee benefits, on a functional basis.

14. Farmers management fees and other related revenues

Table 14		2009	2008
Farmers management fees and other related revenues	in USD millions, for the years ended December 31		
	Farmers management fees and other related revenues	2,690	2,458

Farmers Group, Inc. (FGI) through its attorney-in-fact (AIF) relationship with the Farmers Exchanges, which the Group manages but does not own, is contractually permitted to receive a management fee of up to 20% (25% in the case of the Fire Insurance Exchange) of the gross premiums earned by the Farmers Exchanges for non-claims related services. To enable the Farmers Exchanges to maintain appropriate capital and surplus while offering competitive insurance rates, FGI has historically charged a lower management fee than the maximum allowed. The range of fees has varied by line of business over time and from year to year. During the past five years, aggregate management fees have averaged between 12% and 13% of gross premiums earned by the Farmers Exchanges. The gross earned premiums of the Farmers Exchanges were USD 17,884 million and USD 16,541 million for the years ended December 31, 2009 and 2008, respectively.

15. Receivables

Table 15.1		2009	2008
Receivables	in USD millions, as of December 31		
	Financial instruments		
	Receivables from policyholders	3,415	3,107
	Receivables from insurance companies, agents, brokers and intermediaries	5,803	6,348
	Receivables arising from ceded reinsurance	1,092	1,166
	Other receivables	2,671	2,445
	Allowance for impairments ¹	(437)	(457)
	Non-financial instruments		
	Tax receivables	638	621
	Total	13,182	13,229

¹ Allowance for impairments includes USD 181 million and USD 206 million as of December 31, 2009, and 2008, respectively, for receivables arising from ceded reinsurance.

Receivables are generally settled within one year.

16. Mortgage loans given as collateral and collateralized loans

As part of the Deutscher Herold transaction in 2002, the Group acquired various mortgage loans. Deutscher Herold had previously sold these loans to credit institutions while retaining the related credit and interest risk. Therefore the loans have not been derecognized from the balance sheet and the transaction is reflected as a collateralized borrowing. Accordingly, the loans are recorded as "Mortgage loans given as collateral" and the liability to credit institutions as "Collateralized loans".

Impairment charges of USD 1 million on mortgage loans given as collateral were recorded in income for both years ended December 31, 2009 and 2008.

The table below shows the maturity schedule of collateralized loans as of December 31, 2009 and 2008, respectively.

Table 16		2009		2008	
Maturity schedule – collateralized loans		Carrying value ¹	Undiscounted cash flow ²	Carrying value ¹	Undiscounted cash flow ²
in USD millions, as of December 31					
< 1 year		134	138	125	133
1 to 2 years		546	560	121	129
2 to 3 years		178	182	556	590
3 to 4 years		92	94	181	192
4 to 5 years		78	80	127	135
> 5 years		74	76	123	133
Total		1,102	1,131	1,233	1,313

¹ Allocation to the time bands is based on the expected maturity date.

² Allocation to the time bands is based on the earliest contractual maturity.

17. Property and equipment

Table 17.1

Property and equipment – current period

in USD millions

	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2009	359	1,398	438	767	735	3,697
Less: accumulated depreciation/impairments	–	(547)	(351)	(548)	(361)	(1,808)
Net carrying value as of January 1, 2009	359	851	86	219	374	1,889
Additions, improvements and transfers	–	38	48	156	161	403
Disposals and transfers	(8)	(58)	(2)	(4)	(100)	(171)
Depreciation and impairments	–	(36)	(25)	(108)	(76)	(245)
Foreign currency translation effects	13	32	4	4	13	67
Net carrying value as of December 31, 2009	364	828	111	267	371	1,942
Plus: accumulated depreciation/impairments	–	422	364	604	422	1,811
Gross carrying value as of December 31, 2009	364	1,249	475	871	794	3,754

Table 17.2

Property and equipment – prior period

in USD millions

	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2008	393	1,577	436	765	615	3,787
Less: accumulated depreciation/impairments	(1)	(571)	(359)	(561)	(324)	(1,815)
Net carrying value as of January 1, 2008	392	1,006	78	204	292	1,972
Additions, improvements and transfers	1	61	36	130	217	445
Disposals and transfers	(31)	(152)	1	(28)	(56)	(265)
Depreciation and impairments	–	(45)	(23)	(87)	(63)	(218)
Foreign currency translation effects	(3)	(20)	(5)	–	(17)	(44)
Net carrying value as of December 31, 2008	359	851	86	219	374	1,889
Plus: accumulated depreciation/impairments	–	547	351	548	361	1,808
Gross carrying value as of December 31, 2008	359	1,398	438	767	735	3,697

The fire insurance value of the Group's own-use property and equipment totalled USD 3,473 million and USD 3,676 million as of December 31, 2009 and 2008, respectively.

18. Goodwill and other intangible assets

Table 18.1

Intangible assets –
current period

in USD millions					
	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2009	1,696	2,617	6,112	1,025	11,451
Less: accumulated amortization/impairments	(20)	(1,364)	(1,757)	–	(3,142)
Net carrying value as of January 1, 2009	1,677	1,252	4,355	1,025	8,310
Additions and transfers	548	(8)	935	–	1,475
Divestments and transfers	–	–	(1)	–	(1)
Amortization	–	(51)	(501)	–	(552)
Amortization charged to shareholders' equity	–	(65)	–	–	(65)
Impairments	(12)	(30)	(52)	–	(94)
Foreign currency translation effects	85	39	146	–	269
Net carrying value as of December 31, 2009	2,297	1,137	4,882 ¹	1,025	9,342
Plus: accumulated amortization/impairments	34	1,612	2,263	–	3,909
Gross carrying value as of December 31, 2009	2,331	2,749	7,145	1,025	13,251

¹ Other intangible assets include software of USD 1,569 million and distribution agreements of USD 3,193 million.

The Group has management control of certain Spanish insurance companies, where it has a 50 percent share and which are therefore fully consolidated. As of December 31, 2009, USD 224 million of the present value of profits of acquired insurance contracts (PVFP) and USD 1,492 million of other intangible assets related to non-controlling interests. In comparison, as of December 31, 2008, USD 267 million of the PVFP and USD 1,387 million of other intangible assets related to non-controlling interests. The increase compared with December 31, 2008 is related to the finalization of the purchase price allocation for Banco Sabadell.

USD 548 million additions to goodwill, USD 4 million additions to PVFP, and USD 106 million additions to other intangible assets resulted from the acquisitions accounted for in 2009 as disclosed in note 5.

Impairment charges of USD 94 million were recorded in income comprising impairments on PVFP of USD 30 million in the Spanish Life operations, goodwill impairments of USD 12 million mainly related to the Spanish General Insurance operations and USD 52 million of impairments of other intangible assets primarily related to other intangible assets with definite life in the Italian Life operations, as well as software in the Banking operations.

Table 18.2

Intangible assets
by segment –
current period

in USD millions, as of December 31, 2009					
	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
General Insurance	1,029	–	1,419	–	2,448
Global Life	442	1,137	2,864	–	4,443
Farmers	821	–	372	1,025	2,218
Other Operating Businesses	5	–	219	–	223
Non-Core Businesses	–	–	9	–	9
Net carrying value as of December 31, 2009	2,297	1,137	4,882	1,025	9,342

Table 18.3

Intangible assets –
prior period

in USD millions

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2008	1,560	2,392	2,961	1,025	7,939
Less: accumulated amortization/impairments	(8)	(1,612)	(1,683)	–	(3,303)
Net carrying value as of January 1, 2008	1,553	780	1,278	1,025	4,636
Additions and transfers	337	640	3,655	–	4,631
Divestments and transfers	–	–	(22)	–	(22)
Amortization	–	(56)	(299)	–	(354)
Amortization charged to shareholders' equity	–	50	–	–	50
Impairments	(14)	(64)	(5)	–	(83)
Foreign currency translation effects	(198)	(97)	(252)	–	(548)
Net carrying value as of December 31, 2008	1,677	1,252	4,355 ¹	1,025	8,310
Plus: accumulated amortization/impairments	20	1,364	1,757	–	3,142
Gross carrying value as of December 31, 2008	1,697	2,617	6,112	1,025	11,451

¹ Other intangible assets include software of USD 1,156 million and distribution agreements of USD 3,052 million.

In 2008 impairment charges of USD 83 million were recorded in income comprising impairment of PVFP of USD 64 million in the UK and German Life operations, impairment of goodwill of USD 14 million as a result of updated cash flow assumptions in the German Life operations and other intangible assets of USD 5 million relating to impairments on capitalized software.

Table 18.4

Intangible assets
by segment –
prior period

in USD millions, as of December 31, 2008

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
General Insurance	895	–	1,303	–	2,199
Global Life	395	1,252	2,672	–	4,320
Farmers	382	–	182	1,025	1,589
Other Operating Businesses	5	–	185	–	190
Non-Core Businesses	–	–	13	–	13
Net carrying value as of December 31, 2008	1,677	1,252	4,355	1,025	8,310

19. Other assets

Table 19.1

in USD millions, as of December 31		2009	2008
Other assets	Other financial assets:		
	Derivative assets	1,338	1,724
	Other assets	199	133
	Other non-financial assets:		
	Accrued premiums	785	900
	Prepaid expenses	286	315
	Prepaid insurance benefits	369	392
	Other assets	350	630
	Total other assets	3,327	4,095

The undiscounted amounts of the financial assets as of December 31, 2009 and 2008 are not materially different from the carrying amounts.

20. Other liabilities

Table 20.1

in USD millions, as of December 31		2009	2008
Other liabilities	Other financial liabilities:		
	Amounts due to reinsurers, agents and other insurance companies	1,996	1,778
	Amounts due to investment brokers	853	790
	Amounts due to life policyholders	561	559
	Liabilities for cash collateral received for securities lending	508	182
	Derivative liabilities	660	1,388
	Bank deposits	1,800	1,179
	Liabilities for defined benefit plans	1,891	2,294
	Other liabilities for employee benefit plans	101	105
	Other liabilities	6,616	6,264
	Other non-financial liabilities:		
	Current tax payables	983	1,025
	Restructuring provisions	119	88
	Premium prepayments and other advances	828	697
	Other liabilities	567	594
	Total other liabilities	17,485	16,944

Table 20.2 shows the maturity schedule of other financial liabilities as of December 31, 2009 and 2008, respectively.

Table 20.2		2009		2008	
Maturity schedule – other financial liabilities ¹	in USD millions, as of December 31	Carrying	Undiscounted	Carrying	Undiscounted
		value ²	cash flow ³	value ²	cash flow ³
< 1 year		11,209	11,217	10,704	10,709
1 to 2 years		208	213	183	174
2 to 3 years		551	558	162	170
3 to 4 years		278	286	440	453
4 to 5 years		81	93	98	124
> 5 years		768	1,732	657	1,621
Total		13,095	14,098	12,245	13,252

¹ Excluding liabilities for defined benefit plans.

² Allocation to the time bands is based on the expected maturity date.

³ Allocation to the time bands is based on the earliest contractual maturity.

Table 20.3		2009	2008
Restructuring provisions	in USD millions		
		As of January 1	88
	Provisions made during the period	101	141
	Provisions used during the period	(86)	(200)
	Provisions reversed during the period	(3)	(2)
	Foreign currency translation effects	4	(10)
	Net changes due to acquisitions/divestments	17	–
	Other changes	(1)	(2)
	As of December 31	119	88

During the year ended December 31, 2009, the Group entered into several restructuring programs, recording a total charge to income of USD 86 million. Additionally, USD 15 million were incurred with respect to restructuring programs already initiated in prior years. The largest restructuring program in 2009 relates to the integration of the management services business of 21st Century into the Group's Farmers business division. A restructuring plan was announced in which office closures and a reduction in workforce will occur. The impact is predominantly headcount related, with costs approximating USD 28 million. As a result of the 21st Century transaction, the Group also assumed already existing restructuring provisions of USD 17 million for on-going restructuring activities.

During the year ended December 31, 2008, the Group entered into four main restructuring programs, recording a total charge to income of USD 141 million. The UK General Insurance Business recorded restructuring costs totalling approximately USD 66 million, of which, USD 53 million related to a restructuring program aligned to the operational transformation strategy of the Group. The remainder related to a decision to close all retail outlets of one of the UK subsidiaries in order to focus on internet based sales.

In 2008, the Group's North America Commercial business division also entered into an operational transformation program. The impact is predominantly headcount related, with costs approximating USD 24 million. A further USD 32 million restructuring charge was recorded in 2008, to cover costs associated with the sale of Zurich American Insurance Company's Commercial Small Business Solutions book of business to Truck Insurance Exchange, one of the Farmers Exchanges. The costs are mainly related to IT infrastructure but also include severance payments.

21. Income taxes

Table 21.1			
in USD millions, for the years ended December 31		2009	2008
Income tax expense – current/deferred split	Current	968	737
	Deferred	327	(1,189)
	Total income tax expense/(benefit)	1,295	(452)

Table 21.2			
in USD millions, for the years ended December 31		2009	2008
Income tax expense – policyholder/shareholder attribution	Total income tax expense/(benefit) attributable to policyholders	387	(1,184)
	Total income tax expense/(benefit) attributable to shareholders	908	732
	Total income tax expense/(benefit)	1,295	(452)

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.

Table 21.3					
in USD millions, for the years ended December 31		Rate	2009	Rate	2008
Expected and actual income tax expense	Net income before income taxes		4,531		2,663
	Less: income tax (expense)/benefit attributable to policyholders		(387)		1,184
	Net income before income taxes attributable to shareholders		4,144		3,847
	Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	912	22.0%	846
	Increase/(reduction) in taxes resulting from:				
	<i>Tax rate differential in foreign jurisdictions</i>		69		164
	<i>Tax exempt and lower taxed income</i>		(53)		(10)
	<i>Non-deductible expenses</i>		79		98
	<i>Tax losses previously unrecognized or no longer recognized</i>		40		(262)
	<i>Prior year adjustments and other</i>		(139)		(104)
	Actual income tax expense attributable to shareholders	21.9%	908	19.0%	732
	Plus: income tax expense/(benefit) attributable to policyholders		387		(1,184)
	Actual income tax expense/(benefit)	28.6%	1,295	(17.0%)	(452)

The table above sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss Statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

Table 21.4			
in USD millions, as of December 31		2009	2008
Current tax receivables and payables	Current tax receivables	638	621
	Current tax payables	(983)	(1,025)
	Net current tax payables	(345)	(404)

Table 21.5			
in USD millions, as of December 31		2009	2008
Deferred tax assets and liabilities	Deferred tax assets	2,257	2,901
	Deferred tax liabilities	(4,464)	(3,485)
	Net deferred tax liabilities	(2,207)	(583)

Table 21.6			
in USD millions		2009	2008
Development of net deferred tax liabilities	As of January 1	(583)	(2,375)
	Net change recognized in the income statement	(327)	1,189
	Net change recognized in equity	(1,189)	1,380
	Net changes due to acquisitions/(divestments)	11	(1,029)
	Foreign currency translation effects	(119)	253
	As of December 31	(2,207)	(583)

The cumulative amount of deferred tax credited to shareholders' equity, net of foreign currency translation effects, amounted to USD 531 million and USD 1,720 million for the years ended December 31, 2009 and 2008, respectively.

USD 1,029 million increase in deferred tax liabilities resulted from the acquisitions in 2008 as disclosed in note 5, of which USD 485 million relates to non-controlling interests.

Table 21.7			
in USD millions, as of December 31		2009	2008
Deferred taxes – policyholder/ shareholder attribution	Net deferred tax assets/(liabilities) attributable to policyholders	(74)	544
	Net deferred tax assets/(liabilities) attributable to shareholders	(2,133)	(1,128)
	Net deferred tax liabilities	(2,207)	(583)

Deferred tax
assets/(liabilities)
analysis
by source

Table 21.8

in USD millions, as of December 31

	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	31	(516)	65	(584)
Depreciable and amortizable assets	20	(31)	22	(43)
Life policyholders' benefits and deposits ¹	11	(7)	20	–
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	316	(365)	965	(332)
Accruals & deferred income	197	–	239	–
Reserves for losses and loss adjustment expenses	489	–	569	(46)
Reserves for unearned premiums	706	(158)	744	(253)
Pensions and other employee benefits	376	–	384	–
Other assets/liabilities	768	(54)	658	(30)
Tax loss carryforwards	475	–	691	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,391	(1,131)	4,357	(1,289)
Valuation allowance	(2)	–	(167)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,389	(1,131)	4,190	(1,289)
Deferred tax assets	2,257		2,901	
Deferred acquisition and origination costs	56	(2,762)	22	(2,330)
Depreciable and amortizable assets	101	(2,116)	191	(1,592)
Life policyholders' benefits and deposits ¹	529	(861)	473	(817)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	344	(580)	710	(355)
Accruals & deferred income	105	(123)	66	(125)
Reserves for losses and loss adjustment expenses	339	(478)	268	(575)
Reserves for unearned premiums	156	(64)	201	(53)
Deferred front-end fees	747	–	629	–
Pensions and other employee benefits	366	(29)	435	(21)
Other assets/liabilities	930	(1,345)	918	(1,706)
Tax loss carryforwards	244	–	183	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,916	(8,358)	4,095	(7,573)
Valuation allowance	(23)	–	(6)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,893	(8,358)	4,089	(7,573)
Deferred tax liabilities		(4,464)		(3,485)
Net deferred tax liabilities		(2,207)		(583)

¹ Includes reserves for unit-linked contracts.

The Group's deferred tax assets and liabilities are recorded in the 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 the table above 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, 2009 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 16 billion. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

Table 21.9			
Tax losses carryforwards and tax credits		2009	2008
in USD millions, as of December 31			
For which deferred tax assets have been recognized, expiring			
< 5 years		160	42
5 to 20 years		1,290	1,399
> 20 years or with no time limitation		1,095	1,715
Subtotal		2,545	3,156
For which deferred tax assets have not been recognized, expiring			
5 to 20 years		178	203
> 20 years or with no time limitation		219	–
Subtotal		397	203
Total		2,942	3,359

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 24 percent and 35 percent for the years 2009 and 2008, respectively.

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

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income projections and believes that the carrying values of the deferred tax assets as of December 31, 2009, are recoverable.

22. Debt

Table 22.1

in USD millions, as of		2009	2008
Debt related to capital markets and banking activities			
Zurich Capital Markets	Various debt instruments payable within 1 year	25	2,079
Zurich Financial Services			
EUB Holdings Limited	Various debt instruments payable within 1 year	813	447
	Various debt instruments payable in more than 1 year	1	1
Debt related to capital markets and banking activities		839	2,527
Senior debt			
Zurich Finance (USA), Inc.	3.50% CHF 300 bond, due November 2011 ^{1,6}	291	283
	4.50% EUR 1,000 bond, due September 2014 ^{2,6}	1,443	1,395
	4.875% EUR 800 bond, due April 2012 ⁶	1,143	–
	6.50% EUR 600 bond, due October 2015 ^{3,6}	857	–
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 bond, due September 2013 ^{1,6}	747	–
Kemper Corporation	Various debt instruments, due within 1 year	–	23
Zurich Insurance Company Ltd	3.875% CHF 1,000 bond, due July 2011	965	938
	3.75% CHF 500 bond, due September 2013 ⁶	478	463
	Various debt instruments payable within 1 year	200	100
Other	Various debt instruments payable within 1 year	5	1
	Various debt instruments payable in more than 1 year	149	156
Senior debt		6,277	3,358
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 capital notes, undated ⁶	203	–
	7.5% EUR 425 bond, due July 2039 ⁶	603	–
Zurich Finance (UK) plc	6.625% GBP 450 bond, undated notes ^{4,6}	717	648
Zurich Finance (USA), Inc.	5.75% EUR 500 bond, due October 2023 ⁶	707	687
	4.5% EUR 500 bond, due June 2025 ^{5,6}	730	691
ZFS Finance (USA) Trust I	Series I 6.15% USD 600 ECAPS, due December 2065	567	569
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 ECAPS, due December 2065	672	672
ZFS Finance (USA) Trust III	Series III Floating Rate USD 400 ECAPS, due December 2065	200	318
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 Trust Preferred Securities, due May 2062	249	498
ZFS Finance (USA) Trust V	Series V 6.5% USD 1,000 Trust Preferred Securities, due May 2067	496	994
Other	Various debt instruments payable in more than 1 year	22	21
Subordinated debt		5,167	5,096
Total senior and subordinated debt		11,444	8,455
Total debt		12,283	10,981

¹ The bond is economically hedged, but hedge accounting treatment has not been applied.

² The bond is part of a qualifying cash flow hedge (80% of the total) and fair value hedge (20% of the total).

³ The bond is part of a qualifying cash flow hedge.

⁴ The holders of these notes benefit from the Replacement Capital Covenant which states that if Series IV and V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trusts IV and V, are called before 2042 and 2047 respectively, the Group will issue a replacement debt instrument with terms and provisions that are as or more equity-like than the replaced notes.

⁵ This bond is part of a qualifying fair value hedge.

⁶ Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).

None of the debt instruments listed above were in default as of December 31, 2009 and 2008.

Debt related to capital markets and banking activities

Debt related to capital markets and banking activities decreased from USD 2,527 million as of December 31, 2008 to USD 839 million as of December 31, 2009. Zurich Capital Markets' debt reduced by USD 2,054 million, largely due to commercial paper repayments, partially offset by an increase of USD 366 million in the level of corporate and institutional deposits held by our banking operations. A significant portion of the commercial paper repayments was financed by the issue of longer term senior debt which better matches the duration of the assets.

Senior and subordinated debt

To facilitate the issuance of debt, the Group has in place a Euro Medium Term Note Programme (EMTN Programme) allowing for the issuance of senior and subordinated notes up to a maximum of USD 15 billion. All issuances under this programme are either issued or guaranteed by Zurich Insurance Company Ltd. The Group has also issued debt instruments outside this programme when deemed appropriate.

i) Senior debt

Senior debt increased from USD 3.4 billion to USD 6.3 billion during the year, mainly as a result of issuances under the EMTN Programme. The senior debt issued on September 30, 2009, was used to meet operational debt requirement of capital markets and banking activities, partially through the repayment of existing operational debt.

On April 14, 2009, Zurich Finance (USA), Inc. issued EUR 800 million (USD 1,143 million) and EUR 600 million (USD 857 million) of senior debt under its EMTN Programme. These bonds carry a fixed annual coupon of 4.875% and 6.50% and mature in April 2012 and in October 2015, respectively.

On September 30, 2009 Zurich Finance (Luxembourg) S.A. issued USD 750 million of senior debt under its EMTN Programme. These bonds carry a fixed annual coupon of 3.25% and mature in September 2013.

ii) Subordinated debt

Subordinated debt increased slightly from USD 5.1 billion as of December 31, 2008 to USD 5.2 billion as of December 31, 2009, due to issuances of approximately USD 806 million under the EMTN Programme and foreign currency revaluation of GBP and EUR bonds, partially offset by the repurchase of USD 866 million of previously issued subordinated debt.

Subordinated debt securities are obligations of the Group which, in case of liquidation, rank junior to all present and future senior indebtedness and certain other obligations of the Group.

On July 1, 2009, Zurich Insurance Company Ltd issued EUR 143 million (USD 203 million) of subordinated capital notes under its EMTN Programme. These subordinated bonds carry a fixed annual coupon of 12.0% and are callable in 2014.

On July 24, 2009, Zurich Insurance Company Ltd issued EUR 425 million (USD 603 million) of subordinated notes under the EMTN Programme. These subordinated bonds carry a fixed coupon of 7.5%, are first callable in 2019 and mature in 2039.

On March 31, 2009, Zurich Holding Company of America (ZHCA), a subsidiary of the Group, repurchased USD 9 million Enhanced Capital Advantaged Preferred Securities (ECAPS) and USD 85 million Trust Preferred Securities. On May 20, 2009, ZHCA repurchased USD 50 million of ECAPS. These repurchases resulted in a total pre-tax gain of USD 74 million.

On August 11, 2009, Zurich Insurance Company Ltd, Bermuda Branch, purchased the following principal amounts of securities issued by ZFS Financial (USA) Trusts from investors, which resulted in a total pre-tax gain of USD 136 million:

- USD 64 million of Series III Floating Rate ECAPS issued by ZFS Finance (USA) Trust III;
- USD 206 million of Series IV Fixed/Floating Rate Trust Preferred Securities issued by ZFS Finance (USA) Trust IV; and,
- USD 458 million of Series V Fixed/Floating Rate Trust Preferred Securities issued by ZFS Finance (USA) Trust V.

Description and features of significant subordinated debt

Table 22.2

in USD millions

Description	Coupon conditions	Call/ redemption date	Redemption conditions
12.00% EUR 143 bond, undated notes	12.00% payable annually up to July 15, 2014 and then reset quarterly to 3-month EURIBOR plus 10.33%.	Quarterly on or after July 15, 2014	Redeemable in whole at par plus any accrued interest.
7.5% EUR 425 bond, due July 2039	7.5% payable annually up to July 24, 2019 and then reset quarterly to 3-month EURIBOR plus 5.85%.	Quarterly on or after July 24, 2019	Redeemable in whole or in part at par plus any accrued interest.
6.625% GBP 450 bond, undated notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest. ¹	Every five years on or after October 2, 2022	Redeemable in whole every five years at par plus any accrued interest.
5.75% EUR 500 bond, due October 2023	5.75% payable annually up to October 2, 2013 and then reset quarterly to 3-month EURIBOR plus 2.67%.	Quarterly on or after October 2, 2013	Redeemable in whole at par plus any accrued interest.
4.5% EUR 500 bond, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015	Redeemable in whole at par plus any accrued interest.
Series I 6.15% Fixed/Adjustable Rate USD 600 ECAPS, due December 2065	6.15% payable semi-annually until December 15, 2010 and then reset quarterly to the adjustable rate plus 1.75%. ²	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accrued interest.
Series II 6.45% Fixed/Adjustable Rate USD 700 ECAPS, due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%. ²	Quarterly on or after June 15, 2016	Redeemable in whole or in part at par plus any accrued interest.
Series III Floating Rate USD 400 ECAPS, due December 2065	3-month LIBOR plus 1.15% reset quarterly until December 15, 2010 and then 3-month LIBOR plus 2.15%.	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accrued interest.
Series IV 5.875% USD 500 Fixed/Floating Trust Preferred Securities, due May 2062	5.875% payable semi-annually until May 9, 2012 and then reset quarterly to 3-month LIBOR plus 1.815%.	Quarterly on or after May 9, 2012	Redeemable in whole or in part at par plus any accrued interest.
Series V 6.5% USD 1,000 Fixed/Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017	Redeemable in whole or in part at par plus any accrued interest.

¹ Reset rate of interest is equal to the gross redemption yield on the benchmark five-year Gilt as determined by the Calculation Bank, plus 2.85% per annum.

² Adjustable Rate is equal to the greatest of (i) the 3-month LIBOR rate; (ii) the 10-year Treasury CMT (Constant Maturity Treasury) Rate; and (iii) the 30-year Treasury CMT Rate, subject to a maximum under (ii) and (iii) of 13.25% Series I and 13% for Series II.

	2009		2008	
	Carrying value	Undiscounted cash flow	Carrying value	Undiscounted cash flow
< 1 year	1,044	1,644	2,650	3,139
1 to 2 years	1,272	1,872	11	446
2 to 3 years	1,143	1,721	1,237	1,659
3 to 4 years	1,235	1,731	13	392
4 to 5 years	1,448	1,890	463	835
5 to 10 years	975	2,456	1,513	2,857
> 10 years	5,167	7,265	5,096	7,123
Total	12,283	18,579	10,981	16,451

Debt maturities shown in table 22.3 reflect original contractual dates without taking early redemption options into account. For call/redemption dates, refer to table 22.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 22.3. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2009 and December 31, 2008, respectively. All debt is assumed to mature within 20 years of the balance sheet date without refinancing and where the Group has the option to repay the debt, the option is assumed to expire. Floating interest rates are assumed to remain constant as of December 31, 2009 and December 31, 2008, respectively. The aggregated cash flows are translated into USD at end-of-period rates.

	2009	2008
Debt related to capital markets and banking activities	66	127
Senior debt	215	141
Subordinated debt	305	331
Total	586	599

Interest expense on debt

Interest expense on debt decreased from USD 599 million in 2008 to USD 586 million in 2009, primarily as a result of lower interest rates and foreign exchange fluctuations.

Credit facilities

The Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in 2012. Zurich Financial Services Ltd through the absorption of Zurich Group Holding, together with Zurich Insurance Company Ltd and Farmers Group, Inc. are guarantors of the facility and can draw up to USD 1.25 billion, USD 1.5 billion and USD 250 million, respectively. No borrowings were outstanding under this facility as of December 31, 2009 and December 31, 2008.

Dunbar Bank and Zurich Bank have access to various committed credit facilities totalling GBP 240 million and GBP 190 million, respectively. As of December 31, 2009 and December 31, 2008, GBP 50 million were drawn under these credit facilities.

In addition, Zurich Insurance Company Ltd also has access to a USD 300 million credit facility expiring in 2010 for the sole purpose of financing surplus notes issued by the Leschi Life Assurance Company (Leschi), a special purpose reinsurer owned by Farmers New World Life (FNWL) and to which FNWL cedes business subject to U.S. Regulation Reserve Requirements XXX (Triple X). As of December 31, 2009 and December 31, 2008, USD 200 million and USD 100 million, respectively, were drawn under this credit facility.

Financial debt

Financial debt consists of all debt items that are included in financial leverage calculations of rating agencies.

As of December 31, 2009 and December 31, 2008, financial debt consisted of the following components.

Table 22.5

Financial debt	in USD millions, as of	2009	2009	2009	2008
		Reported	Adjustments	Financial Debt	Financial Debt
	Debt related to capital markets and banking activities	839	814	25	1,379
	Senior debt	6,277	1,047	5,230	3,158
	Subordinated debt	5,167	–	5,167	5,096
	Total	12,283	1,862	10,422	9,633

The USD 814 million capital markets and banking activities adjustment relates to notes and loans payable held by Zurich Financial Services EUB Holdings Limited.

The USD 1,047 million adjustment to senior debt contains the newly issued USD 750 million under the EMTN Programme by Zurich Finance (Luxembourg) S.A. loaned directly to our capital markets and banking activities, an adjustment of USD 100 million for non-recourse debt and the USD 200 million drawn under the Leschi credit facility.

23. Shareholders' equity

Table 23.1

Share capital	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2007	14,554,682	145,546,820	0.10
Capital reduction by canceling shares bought back under the share buy-back program announced in 2007	(343,250)	(3,432,500)	0.10
New shares issued from contingent capital in 2008	830	8,300	0.10
As of December 31, 2008	14,212,262	142,122,620	0.10
New shares issued from authorized capital in 2009	480,000	4,800,000	0.10
New shares issued from contingent capital in 2009	55,045	550,448	0.10
As of December 31, 2009	14,747,307	147,473,068	0.10
Authorized, contingent and issued share capital			
As of December 31, 2008	15,679,873	156,798,727	0.10
As of December 31, 2009	16,531,690	165,316,899	0.10

a) Issued share capital

As of December 31, 2008, Zurich Financial Services Ltd had bought back 3,750,500 of its registered shares over a second trading line within its buy-back program authorized by the Board of Directors on February 13, 2008. In March 2009, the Board of Directors decided not to propose the destruction of these shares to the Annual General Meeting of shareholders but to keep the shares as treasury shares for use in connection with the funding of potential acquisitions in the future or for employee share-based compensation. This rededication of the shares has been approved by the Swiss Takeover Board.

At the Annual General Meeting on April 2, 2009 the shareholders approved an increase in both authorized and contingent share capital to a new maximum of CHF 1,000,000 each, allowing for enhanced financial flexibility of the company for future capital management. On April 17, 2009, Zurich Financial Services Ltd placed 4,800,000 new shares issued under its authorized share capital and 1,914,096 existing treasury shares, bought back under the share buy-back program authorized in 2008, with institutional investors via an accelerated bookbuild. This capital increase reduced the authorized capital to CHF 520,000. The proceeds from the accelerated bookbuild were used in connection with the funding of the 21st Century acquisition completed on July 1, 2009.

During the year 2009, a total of 550,448 shares were issued to employees out of the contingent capital.

At the Annual General Meeting on April 3, 2008, the shareholders approved a share capital reduction of CHF 343,250 from CHF 14,554,682 to CHF 14,211,432 by cancelling 3,432,500 registered shares that were bought back under the share buy-back program announced on February 15, 2007. The effective date of the capital reduction was June 27, 2008. During the year 2008, a total of 8,300 shares were issued to employees out of the contingent capital.

b) Authorized share capital

Until April 3, 2011, the Board of Zurich Financial Services Ltd is authorized to increase the share capital by an amount not exceeding CHF 520,000 by issuing up to 5,200,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board determines the date of issue of such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the beginning of dividend entitlement. 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 pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or withdraw the pre-emptive rights of shareholders and to allocate them to third parties if the shares are to be used for the take-over of an enterprise, or parts of an enterprise or of participations or if issuing shares for 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.

c) Contingent share capital

Capital market instruments and option rights to shareholders

The share capital of Zurich Financial Services Ltd may be increased by an amount not exceeding CHF 1,000,000 by the issuance of up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each (i) by exercising of conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services Ltd or one of its Group companies in national or international capital markets; and/or (ii) by exercising option rights which are granted to current shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board of Directors is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at then current convertible bond or warrant issue conditions. The conversion rights may be exercisable during a maximum of ten years and option rights for a maximum of seven years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions, whereby for shares of Zurich Financial Services Ltd the quoted share price is to be used as a basis.

Employee participation

On February 14, 2007, the Board of Directors of Zurich Financial Services Ltd decided to allow the issuance of up to 4,000,000 shares out of the contingent share capital to employees of the Group. A respective proposal for the increase of the contingent share capital was made by the Board of Directors to the shareholders and was approved at the Annual General Meeting on April 3, 2007. On January 1, 2008, the contingent share capital, to be issued to employees of Zurich Financial Services Ltd and Group companies, amounted to CHF 320,258 or 3,202,579 fully paid registered shares with a nominal value of CHF 0.10 each. During 2009 and 2008, 550,448 and 8,300 shares, respectively, were issued to employees out of the contingent share capital under the program described above. As a result, on December 31, 2009 and 2008, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Financial Services Ltd and its subsidiaries, amounted to CHF 264,383 and CHF 319,428 or 2,643,831 and 3,194,279 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each. The pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board of Directors and take into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to the employees at a price lower than that quoted on the stock exchange.

d) Preferred securities

Table 23.2

Preferred securities	Preferred securities in USD	Number of securities	Par value in USD
As of December 31, 2007	700,000,000	700,000	1,000
Redeemed securities	(125,000,000)	(125,000)	1,000
As of December 31, 2008 ¹	575,000,000	575,000	1,000
As of December 31, 2009 ¹	575,000,000	575,000	1,000

¹ The amount is gross of issuance costs of USD 14 million as of December 31, 2009 and 2008 and of USD 29 million as of December 31, 2007.

In February 2001, the Group placed six series of Trust Capital Securities (Zurich RegCaPS) for a total amount of USD 1,125 million (USD 1,096 million net of issuance costs) with a limited number of qualified institutional and corporate U.S. investors. The securities, which were issued under Rule 144A in the U.S., are perpetual, non-cumulative and have a par value of USD 1,000 each. They have no voting rights, except in certain specified circumstances and are linked to Farmers Group, Inc. Class C shares. On March 30, 2006, April 11, 2006 and April 18, 2008, the Group redeemed the Series I, III and IV of the Zurich RegCaPS, respectively. The liquidation amounts totalled USD 550 million in aggregate. Of the remaining series totalling USD 575 million, one has a fixed rate coupon of 6.58 percent and two have floating rate coupons at LIBOR +71 basis points. These coupon rates step up after the first call dates. The Group has the option to call all outstanding securities in 2011.

e) Additional paid-in capital

This reserve is not ordinarily available for distribution.

f) Treasury shares

Table 23.3

Treasury shares	number of shares, as of December 31	2009	2008
Treasury shares		3,269,338	5,219,803

Treasury shares comprise shares repurchased under the share buy-back program announced in 2008 and shares acquired in the market held to cover employee share and option plans. The number of treasury shares amounted to 3,269,338 and 5,219,803 as of December 31, 2009 and 2008, respectively.

On February 14, 2007 the Board of Zurich Financial Services Ltd authorized a share buy-back program. 3,432,500 fully paid shares, with a nominal value CHF 0.10, were bought back at an average price of CHF 364 per share, at a total cost of CHF 1.2 billion. At the Annual General Meeting on April 3, 2008, the shareholders approved a share capital reduction by CHF 343,250 from CHF 14,554,682 to CHF 14,211,432 by cancelling these 3,432,500 registered shares. The effective date of the capital reduction was June 27, 2008.

On February 13, 2008 the Board of Zurich Financial Services Ltd authorized a share buy-back program for the repurchase of up to CHF 2.2 billion worth of shares over the course of 2008. As of December 31, 2008, 3,750,500 fully paid shares, with a nominal value of CHF 0.10, had been bought back at an average price of CHF 293 per share, at a total cost of CHF 1.1 billion. In March 2009, the Board of Directors decided not to propose the destruction of these shares to the Annual General Meeting of shareholders but to keep the shares as treasury shares for use in connection with the funding of potential acquisitions or for employee share-based compensation. This rededication has been approved by the Swiss Takeover Board.

On April 17, 2009, Zurich Financial Services Ltd placed 1,914,096 treasury shares, bought back in 2008 under the share buy-back program, with institutional investors with the proceeds applied to the 21st Century acquisition completed on July 1, 2009.

In its meeting of February 3, 2010, the Board of Directors decided to propose to the Annual General Meeting 2010 the destruction of the remaining 1,836,404 shares from the share buyback program authorized by the Board of Directors on February 13, 2008. Since their rededication in March 2009 these shares were held as treasury shares for use in connection with the funding of potential acquisitions in the future or for employee share-based compensation plans.

g) Earnings per share

Table 23.4				
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
2009				
Basic earnings per share	3,196	141,943,376	22.51	24.39
Effect of potentially dilutive shares related to share-based compensation plans		1,023,350	(0.16)	(0.17)
Diluted earnings per share	3,196	142,966,726	22.35	24.21
2008				
Basic earnings per share	3,007	137,943,218	21.80	23.53
Effect of potentially dilutive shares related to share-based compensation plans		1,049,425	(0.16)	(0.18)
Diluted earnings per share	3,007	138,992,643	21.63	23.35

¹ The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2009 and 2008, respectively.

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 and preferred securities. Diluted earnings per share reflects the effect of potentially dilutive shares.

24. Employee benefits

The Group had 56,668 and 57,609 employees (full-time equivalents) as of December 31, 2009 and 2008, respectively. Personnel and other related costs incurred for the year ended December 31, 2009 and 2008, were USD 5,174 million and USD 5,404 million, including wages and salaries of USD 4,197 million and USD 4,468 million, respectively. The reduction of wages and salaries of USD 271 million represents a reduction of USD 130 million on a local currency basis.

The Group operates a number of retirement benefit arrangements for employees, the majority of employees belong to defined benefit plans. Other employees participate in defined contribution plans, which provide benefits equal to amounts contributed by both the employer and the employee plus investment returns.

The Group also operates post-employment plans, mainly in the U.S., which provide employees with certain defined post-employment benefits such as medical care and life insurance.

To ensure appropriate governance of the Group's pension and post-employment benefit plans, the Group Pension Committee provides oversight of the Group's benefits policy.

a) Defined benefit plans

Defined benefit pension plans

Employees of the Group's companies are covered by various pension plans, the largest of which are in the UK, U.S., Germany and Switzerland. Certain companies provide defined benefit plans, some of which provide benefits related to employees' service periods and final pensionable earnings. Others provide cash balance plans where the participants receive the benefit of the accumulated employer and employee contributions together with additional cash credits in line with the rules of the plan. Eligibility for participation in the various plans is either based on completion of a specified period of continuous service or from the date of commencement of employment.

Most of the Group's defined benefit pension plans are funded through contributions by the Group, and in some cases the employee, to trusts or foundations independent of the Group's finances. In these cases, the annual funding requirements are determined in accordance with local funding and actuarial cost methods. Where plans are not funded, a liability for the accrued pension obligations is recognized in the Group's balance sheet.

For the defined benefit pension plans, total contributions to funded pension plans and benefit payments by the Group are currently estimated at USD 456 million for 2010 compared with USD 451 million estimated in the previous year for 2009. The actual amount may differ.

Other defined post-employment benefits

Certain of the Group's operating companies provide post-employment benefit programs covering medical care and/or life insurance. Eligibility in the various plans is generally based on completion of a specified period of eligible service and reaching a specified age. The programs typically pay a stated percentage of medical expenses subject to deductibles and other factors. The cost of post-employment benefits is accrued during the employees' service periods. The method of accounting and the frequency of valuations are similar to those for defined benefit pension plans.

The tables below show the funded status of the Group's plans; this being the pension plans' assets at fair value less the pension plans' liabilities based on the present value of the obligations. Plans that are wholly unfunded are shown separately from plans that are wholly or partly funded.

	Defined benefit pension plans				Other defined post-employment benefits			
	2009	2008	2007	2006	2009	2008	2007	2006
Present value of funded obligations	(13,966)	(12,680)	(13,653)	(12,190)	(70)	(93)	(66)	(70)
Fair value of plan assets	12,622	10,879	13,285	11,071	–	–	5	10
Funded status	(1,344)	(1,801)	(368)	(1,119)	(70)	(92)	(61)	(60)
Unrecognized past service cost	–	(1)	–	2	–	–	–	–
Cumulative impact of asset ceiling	(15)	(7)	(62)	–	–	–	–	–
Liability – funded obligations	(1,359)	(1,808)	(430)	(1,117)	(70)	(92)	(61)	(60)

Pensions 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, but included in other comprehensive income.

	Defined benefit pension plans				Other defined post-employment benefits			
	2009	2008	2007	2006	2009	2008	2007	2006
Present value of unfunded obligations	(230)	(210)	(207)	(985)	(205)	(183)	(208)	(196)
Unrecognized past service cost	–	–	–	–	(28)	(1)	(2)	(1)
Liability – unfunded obligations	(229)	(209)	(207)	(985)	(234)	(184)	(210)	(197)

	Defined benefit pension plans				Other defined post-employment benefits			
	2009	2008	2007	2006	2009	2008	2007	2006
Liability	(1,588)	(2,017)	(637)	(2,101)	(303)	(277)	(271)	(256)

	Defined benefit pension plans		Other defined post-employment benefits	
	2009	2008	2009	2008
Current service cost	(298)	(300)	(7)	(5)
Interest cost	(685)	(715)	(16)	(15)
Expected return on plan assets	619	727	–	–
Past service cost	(7)	(14)	9	–
Gains on curtailment or settlement	2	2	–	–
Net pension expense	(369)	(300)	(14)	(19)

Pension expense is recognized in other employee benefits, which are included in administrative and other operating expense.

Table 24.5

Fair value of assets held in funded defined benefit plans

in USD millions, as of December 31

	Defined benefit pension plans		Other defined post-employment benefits	
	2009	2008	2009	2008
Mortgage loans	396	409	–	–
Cash and cash equivalents	181	130	–	–
Equity securities	3,598	2,847	–	–
Debt securities	7,740	6,816	–	–
Real estate	701	671	–	–
Other assets ¹	6	6	–	–
Total	12,622	10,879	–	–

¹ UK annuity policies.

As a matter of policy, pension plan investment guidelines do not permit investment in any assets in which the Group or its subsidiaries have an interest, including shares or other financial instruments issued and real estate held for own use.

Table 24.6

Movement in funded and unfunded defined benefit plan obligation

in USD millions

	Defined benefit pension plans		Other defined post-employment benefits	
	2009	2008	2009	2008
Benefit obligation as of January 1	(12,890)	(13,860)	(275)	(274)
Current service cost	(298)	(300)	(7)	(5)
Past service cost including plan amendments	(9)	(15)	37	–
Interest cost	(685)	(715)	(16)	(15)
Actuarial gain/(loss) included in other comprehensive income	12	(320)	(7)	3
Employee contributions	(42)	(42)	(4)	(4)
Effect of curtailments or settlements	15	2	–	–
Benefits paid	526	512	17	16
Effects of business combinations and other transfers	(53)	(47)	(12)	(11)
Foreign currency translation effects	(771)	1,894	(7)	13
Benefit obligation as of December 31	(14,196)	(12,890)	(275)	(275)

Table 24.7

Movement in fair value of plan assets – funded plans

in USD millions

	Defined benefit pension plans		Other defined post-employment benefits	
	2009	2008	2009	2008
Fair value of plan assets as of January 1	10,879	13,286	–	5
Expected return on plan assets	619	727	–	–
Actuarial gain/(loss) included in other comprehensive income	318	(1,485)	–	–
Employer contributions	528	533	13	7
Employee contributions	42	42	4	4
Benefits paid	(526)	(512)	(17)	(16)
Effect of curtailments or settlements	(13)	–	–	–
Effects of business combinations and other transfers	61	52	–	–
Foreign currency translation effects	713	(1,763)	–	–
Fair value of plan assets as of December 31	12,622	10,879	–	–

The actual returns on defined benefit pension plan assets for the years ended December 31, 2009 and 2008 were gains of USD 937 million and losses of USD 758 million, respectively.

The summary of the balance sheet changes in relation to defined benefit plans and other defined post-employment benefits is given below.

Table 24.8

Movement in liability for funded and unfunded plans	in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
		2009	2008	2009	2008
		Liability as of January 1	(2,017)	(637)	(277)
Current year expense	(369)	(300)	(14)	(19)	
Contributions paid	528	533	13	7	
Change in liability due to asset ceiling	(7)	51	–	–	
Actuarial gain/(loss) passed through other comprehensive income	329	(1,805)	(7)	3	
Effects of business combinations and other transfers	(1)	(6)	2	(9)	
Foreign currency translation effects	(51)	148	(21)	11	
Liability as of December 31		(1,588)	(2,017)	(303)	(277)

The movements in actuarial gains and losses due to differences between actual and expected experience on the Group's plan assets and defined benefit obligations, together with the impact of changes in actuarial assumptions to reflect economic conditions at the year end are summarized below:

Table 24.9

Actuarial gain/(loss)	in USD millions	2009	2008	2007	2006
		Actuarial gain/(loss) as of January 1	(2,907)	(1,308)	(1,870)
Experience adjustments on plan liabilities	(37)	(147)	(118)	(375)	
Experience adjustments on plan assets	318	(1,485)	188	447	
Changes due to discount rate assumptions	(103)	223	975	–	
Changes due to other actuarial assumptions	144	(392)	(345)	528	
Asset ceiling recognition	(7)	51	(64)	–	
Foreign currency translation effects	(80)	152	(75)	(50)	
Total actuarial gain/(loss) as of December 31		(2,672)	(2,907)	(1,308)	(1,870)
Total actuarial gain/(loss) net of policyholder participation and taxes as of December 31		(1,762)	(1,934)	(818)	(1,286)

The principal financial assumptions used to calculate the Group's major defined benefit pension and defined post-employment benefit obligations and the Group's pension expenses are as follows:

Table 24.10

Assumptions used in determining the actuarial liabilities for major defined benefit pension plans

as of December 31	2009				2008			
	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany
Discount rate	3.1%	5.9%	5.8%	5.4%	2.9%	5.9%	6.1%	5.7%
Inflation rate	1.5%	3.1%	2.4%	1.7%	1.6%	3.0%	2.1%	1.8%
Expected long-term rate of return on assets	4.1%	6.6%	7.0%	5.1%	4.1%	5.9%	6.8%	5.0%
Expected future salary increases	2.1%	4.3%	3.9%	2.7%	2.2%	4.3%	4.4%	3.1%
Expected future pension increases	1.0%	3.1%	0.3%	1.7%	1.1%	3.2%	0.3%	1.8%
Current average life expectancy for a 65 year old male	19.8	22.3	19.4	18.1	19.8	22.2	19.3	18.0

The expected long-term rate of return on assets is derived separately for each of the Group's funded benefit plans. Each major asset class is assigned an expected long-term rate of return, net of investment expenses, appropriate for the environment in which that plan is invested. The overall expected long-term rate of return on assets for a plan is calculated as the weighted average of the expected return for each asset class, weighted by the plan's target allocation to each asset class.

The mortality assumptions in each country have been based on mortality tables in accordance with the general use in that market. Where appropriate these tables make allowance for projected future improvements in life expectancy.

Table 24.11

Assumptions used in determining the actuarial liabilities for other defined post-employment benefit plans

as of December 31	2009	2008
	U.S.	U.S.
Discount rate	5.5%	6.0%
Expected increase in long-term health cost – initial rate	8.4%	8.4%
Expected increase in long-term health cost – ultimate rate	4.8%	4.9%

The actuarial assumptions of healthcare cost trend rates have an impact on the amounts recognized. A one percentage point change in the health care cost trend rates would have the effects on amounts recognized in 2009 as set out in table 24.12.

Table 24.12

Effect of a change in health care cost trends on other defined post-employment benefits

	1% increase	1% decrease
Effect on total service cost and interest cost	– ¹	– ¹
Effect on benefit obligation	3	(3)

¹ Below USD 1 million.

b) Defined contribution pension plans

Certain of the Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either based on completion of a specified period of continuous service or the date of commencement of employment. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 10 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 47 million and USD 52 million in 2009 and 2008, respectively.

25. 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, are awarded. Share-based compensation plans are based on the provision of the Group's 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 unit. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expenses recognized for these cash incentive plans amounted to USD 354 million and USD 285 million for the years ended December 31, 2009 and 2008, respectively.

b) Share-based compensation plans for employees and executives

The Group encourages employees to own shares of Zurich Financial Services Ltd and has set up a framework based on the implementation of either share options and/or performance share programs. Actual plans are tailored to meet local market requirements.

Table 25.1

Expenses
recognized
in income

in USD millions, as of December 31	2009	2008
Total option-based expenses	42	35
Total share-based expenses	119	139
Total expenses	161	174

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 Financial Services Ltd shares at the prevailing market price out of their gross earnings. There were 374 and 420 participants in the plan as of December 31, 2009 and 2008, respectively. The Group also operates the 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 the participating employee's business unit's Business Operating Profit (BOP) after tax for the year, subject to a maximum individual award of 5 percent of participant's base salary (before any flexible benefit adjustments) or GBP 3,000. The total number of participating employees in the reward share element of the plans as of December 31, 2009 and 2008 was 5,569 and 6,269 respectively.

Share Incentive Plans 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 CHF 3,500 per employee. During 2009, 6,053 employees participated in the Employee Incentive Plan compared with 6,282 in 2008. For the year ended December 31, 2009, 1,579 employees received shares under the 2008 employee performance share plan. For the year ended December 31, 2008, 1,909 employees received shares under the 2007 employee performance share plan.

Share-based compensation plans for executives

The Group operates long-term incentive plans for selected executives. These plans comprise the allocation of a target number of share grants and/or share option grants with the vesting of these share and option grants being subject to the achievement of specific financial performance goals, such as net income after tax and BOP. The Group can also make restricted share grants to selected employees, which provide share awards if the individual remains employed with the Group on selected dates in the future.

Senior Executive long-term incentive plans

Each year, Senior Executives are granted performance shares and performance options, which vest on an annual basis over the subsequent three year period. The actual level of vesting, which can be between 0 percent and 175 percent, with an additional discretion to increase vesting to a maximum of 200 percent, of the original number of shares and/or options granted, depends on the performance of the Group during the previous calendar year. For 2009 and future grants we are looking back to a three year performance period. The current performance metrics are the Group's return on equity (ROE) and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. One half of the shares that actually vest are sales-restricted for a further period of three years. The options have a seven year term from the date of grant. Grants under the plan are made annually each April. The actual number of performance shares and performance options granted is determined such that the economic value is a defined percentage of annual salary in the year of allocation. There were a total of 175 and 170 participants in this plan as of December 31, 2009 and 2008, respectively.

Executive long-term performance share plans

Each year, selected executives are granted performance shares which vest on an annual basis over the subsequent three year period. The actual level of vesting, which can be between 0 percent and 175 percent, with an additional discretion to increase vesting to a maximum of 200 percent, of the original number of shares granted, depends on the performance of the Group during the previous calendar year. For 2009 and future grants we are looking back to a three year performance period. The current performance metrics are the Group's ROE and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. Grants under the plan are made annually each April. The actual number of performance shares granted is determined such that the economic value is a defined percentage of the annual salary in the year of allocation. Actual awards under these plans are made fully in shares of Zurich Financial Services Ltd. One half of the shares that actually vest are sales-restricted for a further period of three years. There were a total of 900 and 833 participants in this plan as of December 31, 2009 and 2008, respectively.

c) Further information on performance share and option plans

Table 25.2

Movements in options granted under the various equity participation plans	Number of shares under option		Weighted average exercise price (in CHF)	
	2009	2008	2009	2008
	As of January 1	2,760,367	2,387,815	284
Options granted	1,175,774	855,214	276	314
Options forfeited	(31,161)	(61,701)	303	321
Options exercised	(147,369)	(288,287)	147	182
Options expired during period	(703,854)	(132,674)	327	461
As of December 31	3,053,757	2,760,367	278	284
Exercisable options as of December 31	2,132,033	1,912,112	278	284

Certain plan participants elected in 2002 to take their option award in the form of Share Appreciation Rights (SAR). The plan expired on April 30, 2009.

The average share price for Zurich Financial Services Ltd shares in 2009 and 2008 was CHF 209.33 and CHF 280.49 respectively.

Table 25.3

Share options exercised during the period	Amount	Average share price in CHF
Exercise date		
January to April, 2009	2,211	190
May to August, 2009	68,336	218
September to December, 2009	76,822	241
Total	147,369	230

Table 25.4

Range of exercise prices of options outstanding	in CHF, as of December 31, 2009		
	Number of options	Weighted average contractual life in years	Weighted average remaining expected life in years
Exercise price			
100 to 200	527,527	7.0	6.1
201 to 300	785,161	7.0	2.0
301 to 400	1,741,069	7.1	4.3
Total	3,053,757	7.0	4.0

Table 25.5

Options and shares granted during the period

for the years ended December 31

	Number		Weighted average fair value at grant date (in CHF)	
	2009	2008	2009	2008
	Shares granted during the period	543,698	271,374	198
Options granted during the period ¹	1,175,774	855,214	62	67

¹ Number of options granted is shown as the number of shares under option granted during the period.

The shares and options granted during the year are the target allocations made under the performance option and performance share plans together with any restricted share awards granted during the year. Whether these grants become vested or not will depend on whether the performance achievements are met. In case the performance achievements deviate from the initial assumptions, the expense is being adjusted.

The fair value of options granted is estimated using the Black-Scholes option pricing model, with the assumptions shown in table 25.6.

Table 25.6

Black-Scholes assumptions for fair value of options

	2009	2008
Share price, in CHF ¹	198	337
Exercise price, in CHF	198	337
Assumed volatility	42.95%	29.50%
Risk-free interest rate	2.21%	3.21%
Expected dividend rate	4.07%	4.50%
Contracted option life	7 years	7 years

¹ Share price as at date of grant.

The risk-free interest rate was determined by using the seven year CHF swap rate applicable in 2009 and 2008. The implied volatility was determined based on the average of a number of several independent quotes.

26. Contingent liabilities, contractual commitments and financial guarantees

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 delinquent principal and interest payments, make capital contributions or provide equity financing.

Table 26.1

in USD millions, as of December 31		2009	2008
Quantifiable commitments and contingencies	Commitments under investment agreements	4,165	4,205
	Less funded commitments	(3,386)	(3,423)
	Remaining commitments under investment agreements	779	782
	Guarantees and letters of credit ¹	9,911	915
	Future rent commitments	1,154	1,261
	Undrawn loan commitments (capital markets and banking activities)	405	646
	Other commitments and contingent liabilities	84	47

¹ Guarantee features embedded in life insurance products are not included. For such guarantee features refer to note 8 on insurance reserves.

Commitments under investment agreements

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.

Guarantees and letters of credit

USD 9,044 million of the USD 9,911 million for financial guarantees and letter of credit in 2009 relate to guarantees in the aggregate amount of GBP 5,595,189,729 provided to the directors of a fully owned subsidiary in connection with the rationalization of the Group's top legal holding structure which resulted in the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009.

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.

Commitments under lease agreements

The Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 200 million and USD 198 million for the years ended December 31, 2009 and 2008, respectively.

Table 26.2

in USD millions, as of December 31		2009	2008
Future payments under non-cancellable operating leases with terms in excess of one year	< 1 year	227	229
	1 to 2 years	201	208
	2 to 3 years	156	177
	3 to 4 years	127	134
	4 to 5 years	133	112
	> 5 years	309	401
	Total	1,154	1,261

Indemnity agreements

The Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (now Scor Holding (Switzerland) AG) and its successor companies' net exposure for losses arising out of the September 11, 2001 event at USD 289 million. As of December 31, 2009, and 2008 respectively, the Group has recorded in this respect provisions of USD 44 million and USD 54 million.

Pledged assets

The majority of assets pledged to secure the Group's liabilities relates 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 9,288 million and USD 6,564 million as of December 31, 2009 and 2008, 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.

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 would not materially affect the Group's consolidated financial position.

The Group has commitments to provide collateral on certain contracts in the event of Zurich Insurance Company Ltd's financial strength downgrading from currently AA- by Standard & Poor's. Should the rating fall to A+ by Standard & Poor's, the additional collateral based on information available on December 31, 2009 is estimated to amount to approximately USD 182 million.

In common with other groups writing life assurance business in the UK, the Group remains exposed to a number of Conduct of Business issues. While provisions are maintained which reflect management's best evolving estimate of the probable costs and expenses of resolving these matters, significant uncertainty regarding the ultimate cost remains. The main area of uncertainty concerns sales advice related complaints. The key assumptions used to derive the complaint provision are the volume of complaints, both those already recorded and an assumption as to the level of future complaints, the percentage of complaints which will be successful (the uphold rate), the average redress payable per complaint and the expenses of reviewing each case or complaint. The assumptions used to set the provision have been based on actual recent experience.

In 2003, the Group completed the divestment of various asset management operations. As part of these agreements, the Group has guaranteed certain minimum levels of "assets under management" to the acquirers. The guarantees provide that if the "assets under management" fall below those defined levels under certain conditions, the Group may be required to compensate for these shortfalls.

Litigation and regulatory investigations

The Group and its subsidiaries are continuously involved in legal proceedings, claims and litigation arising, for the most part, in the ordinary course of their business operations.

In 2006, the Group settled with various U.S. state attorneys general and state insurance regulators in connection with investigations in the U.S. concerning certain business practices involving insurance brokers and insurance companies. In July 2006, the Group also entered into a settlement agreement to resolve consolidated class-action litigation concerning those matters. Final judgment has been entered approving the settlement, and the appellate court has upheld the settlement approval. A number of individual claims not covered by the class action settlement remain pending against the Group.

Zurich Financial Services (now Zurich Financial Services Ltd) was a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium (now Scor Holding (Switzerland) AG). On July 25, 2008, Zurich Financial Services Ltd and the class-action plaintiffs entered into an amended stipulation of settlement that called for a payment of USD 28 million to settle the case in two parts on behalf of all persons and entities who purchased Converium securities between January 7, 2002 and September 2, 2004: one settlement in the U.S. court, covering all U.S. persons and entities, and all other persons who purchased Converium securities on U.S. markets, and another settlement in the Amsterdam Court of Appeal, in the Netherlands, covering all non-U.S. persons and entities who purchased Converium securities on non-U.S. markets. The U.S. and Dutch settlements are both subject to court approval and are independent of each other. The U.S. court approved the U.S. settlement on December 12, 2008, but a notice of appeal was filed. The appeal, however, was dismissed by stipulation of the parties on June 25, 2009 and the U.S. settlement is now considered final. The proposed Dutch settlement has not yet been presented to the Dutch court.

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 would have a material adverse effect on the Group's consolidated financial condition. However, it is possible that the outcome of any proceedings could have a material impact on results of operations in the particular reporting period in which it is resolved.

27. Fair value of financial assets and financial liabilities

The following tables compare the fair value of financial assets and financial liabilities with their carrying value.

Fair value (FV) and carrying value of Group investments and other Non-unit linked financial instruments	in USD millions, as of December 31			
	Fair value		Carrying value	
	2009	2008	2009	2008
Cash and cash equivalents	11,631	12,428	11,631	12,428
Available-for-sale securities				
Debt securities	124,358	105,752	124,358	105,752
Equity securities	7,432	9,307	7,432	9,307
Total available-for-sale securities	131,790	115,059	131,790	115,059
Securities at FV through profit or loss				
Trading				
Debt securities	82	186	82	186
Equity securities	879	1,419	879	1,419
Designated at FV				
Debt securities	6,761	7,105	6,761	7,105
Equity securities	4,138	3,577	4,138	3,577
Total securities at FV through profit or loss	11,860	12,287	11,860	12,287
Derivative assets	1,240	1,629	1,240	1,629
Held-to-maturity debt securities	5,408	5,482	5,143	5,244
Loans and receivables				
Mortgage loans	12,791	13,090	12,736	12,820
Other loans	15,617	14,477	15,077	13,988
Deposits made under assumed reinsurance contracts	3,854	2,391	3,861	2,397
Mortgage loans given as collateral	1,130	1,313	1,102	1,233
Receivables	12,477	12,506	12,543	12,608
Other financial assets	8	14	8	14
Total loans and receivables	45,878	43,790	45,328	43,060
Total	207,807	190,674	206,992	189,706
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	(3,976)	(3,608)	(3,976)	(3,608)
Derivative liabilities	(660)	(1,388)	(660)	(1,388)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(254)	(122)	(254)	(122)
Liabilities related to investment contracts with DPF	(5,306)	(5,314)	(5,728)	(5,461)
Debt	(12,294)	(11,011)	(12,283)	(10,981)
Deposits received under ceded reinsurance contracts	(1,446)	(1,537)	(1,558)	(1,619)
Collateralized loans	(1,131)	(1,313)	(1,102)	(1,233)
Other financial liabilities	(4,009)	(2,844)	(4,014)	(2,850)
Total	(29,076)	(27,137)	(29,575)	(27,261)

Fair value (FV) and carrying value of unit-linked financial instruments

Table 27.1b

in USD millions, as of December 31

	Fair value		Carrying value	
	2009	2008	2009	2008
Cash and cash equivalents	5,840	4,460	5,840	4,460
Investments at FV through profit or loss				
Designated at FV				
Debt securities	10,194	9,510	10,194	9,510
Equity securities	78,311	60,154	78,311	60,154
Other loans	924	2	924	2
Total investments at FV through profit or loss	89,429	69,666	89,429	69,666
Derivative assets	98	95	98	95
Total	95,368	74,222	95,368	74,222
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	(40,143)	(30,397)	(40,143)	(30,397)

The methods and assumptions used by the Group in determining fair values of financial assets and liabilities are set out in note 4. Depending on the valuation techniques used and whether the underlying assumptions are based on observable market data, financial instruments carried at fair value are classified under the following three levels (the "Fair Value Hierarchy").

Level 1 – this category includes financial assets for which fair values are determined based on quoted prices (unadjusted) in active markets for identical instruments. A market is considered active only if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Group has classified under Level 1 the majority of common stocks, government bonds and certain corporate bonds and investments in unit trusts that are traded in very liquid markets.

Level 2 – this category includes financial assets and liabilities for which fair values are determined using valuation techniques with all significant inputs based on observable market data. Depending on the nature of the instruments and the market in which they are traded, examples of observable market data may include quoted prices, broker quotes, interest rates, yield curves etc. The Group has classified under Level 2 the majority of corporate bonds, investments in unit trusts, agency-backed and senior tranches of asset-backed securities, and derivatives traded over-the-counter. While markets for these instruments do not meet the strict requirements to be classified as active, they offer sufficient transaction volumes and, therefore, observable market data to enable the Group to determine their fair value. The Group has also classified under Level 2 liabilities related to unit-linked investment contracts and obligations to repurchase securities.

Level 3 – this category includes financial 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. In circumstances when there is little, if any, market activity for a certain instrument, a valuator is required to develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability. This would normally apply in the case of investments in hedge funds, private equity funds, asset-backed securities for which currently very limited market activity is observed, and long-dated derivatives. The effect of changes in the internal valuation inputs to reasonably possible alternative values is disclosed under "Sensitivity of fair values reported for Level 3 instruments to changes in key assumptions".

Group investments and other non-unit linked financial instruments carried at fair value

Fair value hierarchy	in USD millions, as of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	45,300	76,081	2,977	124,358
Equity securities	3,939	2,528	965	7,432
Total available-for-sale securities	49,238	78,610	3,942	131,790
Securities at FV through profit or loss				
Trading				
Debt securities	73	8	–	82
Equity securities	–	35	844	879
Designated at FV				
Debt securities	2,511	4,030	220	6,761
Equity securities	901	933	2,305	4,138
Total securities at FV through profit or loss	3,486	5,006	3,369	11,860
Derivative assets	–	1,200	40	1,240
Total	52,724	84,816	7,351	144,890
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	–	(3,976)	–	(3,976)
Derivative liabilities	–	(623)	(37)	(660)
Total	–	(4,599)	(37)	(4,636)

Roll forward analysis for financial instruments classified under Level 3	in USD millions						
	Available-for-sale securities		Securities at FV through profit or loss			Derivative assets	Derivative liabilities
	Debt securities	Equity securities	Trading	Designated at FV			
			Equity securities	Debt securities	Equity securities		
As of January 1, 2009	3,122	1,118	1,314	201	2,350	89	(23)
Realized gains/(losses) recognized in income ¹	(43)	1	(8)	1	42	–	(5)
Unrealized gains/(losses) recognized in income ¹	(303)	(134)	64	13	150	(50)	(15)
Unrealized gains/(losses) recognized in shareholders' equity	511	(183)	–	–	–	–	–
Purchases	137	164	159	2	589	–	–
Sales/Redemptions/Settlements	(786)	(23)	(652)	(10)	(855)	–	5
Net transfers into Level 3	315	2	–	10	–	–	–
Foreign currency translation effects	24	21	(32)	4	28	1	–
As of December 31, 2009	2,977	965	844	220	2,305	40	(37)

¹ Presented under "Net capital gains/(losses) and impairments on Group investments" in the Consolidated income statements.

Sensitivity of fair values reported for Level 3 instruments to changes in key assumptions

The Group has classified under Level 3 a total amount of USD 3.2 billion of asset-backed securities (ABSs) held as Group investments. These ABSs include non-agency backed securities for which the limited market activity observed at year end required our pricing providers to make certain internal valuation assumptions. To determine the fair value of these investments, pricing providers use valuation models that are based on an expected present value technique.

The key assumptions driving the valuation of these investments include discount margins and prepayment, recovery and default rates. The effect on reported fair values of using reasonably possible alternative values for each of these assumptions, while the other key assumptions remain unchanged, is disclosed in table 27.4. While the table below illustrates the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions, may differ significantly between investments, given their different terms and circumstances.

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments, under the current market conditions, and its results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of the investments. 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 fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

Table 27.4
as of December 31, 2009

Sensitivity analysis of
Level 3
ABSs to changes in
key assumptions

	Less favorable values (relative change)	Decrease of reported fair value USD millions	More favorable values (relative change)	Increase of reported fair value USD millions
Key assumptions				
Discount margins	+20%	(171)	20%	183
Prepayment rates	-20%	(39)	+20%	33
Recovery rates	20%	(37)	+20%	27
Default rates	+20%	(18)	20%	12

The Group has also classified under Level 3 a total amount of USD 3.3 billion of investments in hedge funds and private equity funds that are valued based on regular reports from the issuing funds. Fair values of such investments are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments. Investments in hedge funds and private equity funds have not been included in the sensitivity analysis due to the large number of valuation assumptions that while, in total, have a significant effect on the fair value of these investments, when considered individually, the impact of changing them to reasonably possible alternative values would not be significant.

Unit-linked financial instruments

Table 27.5
in USD millions, as of December 31, 2009

Fair Value Hierarchy

	Level 1	Level 2	Level 3	Total
Investments at FV through profit or loss				
Designated at FV				
Debt securities	4,189	5,875	130	10,194
Equity securities	47,895	25,837	4,579	78,311
Other loans	-	924	-	924
Total investments at FV through profit or loss	52,084	32,636	4,709	89,429
Derivative assets	-	98	-	98
Total	52,084	32,734	4,709	89,527
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	-	(40,143)	-	(40,143)

in USD millions	Securities at FV through profit or loss	
	Designated at FV	
	Debt securities	Equity securities
As of January 1, 2009	138	4,554
Realized gains/(losses) recognized in income ¹	6	18
Unrealized gains/(losses) recognized in income ¹	1	48
Purchases	12	100
Sales/Redemptions	(32)	(145)
Foreign currency translation effects	4	4
As of December 31, 2009	130	4,579

¹ Presented under "Net investment result on unit-linked investments" in the Consolidated income statements.

28. Related party transactions

In the normal course of business, the Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the Group, either individually or in aggregate. 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.

The table below sets out related party transactions with equity method accounted investments, as well as other related parties, such as our distribution partners of the jointly owned companies in Spain, reflected in the consolidated income statements and consolidated balance sheets.

in USD millions	2009	2008
Consolidated income statements for the years ended December 31		
Net earned premiums and policy fees	10	10
Net investment income	3	9
Net investment expense	(1)	–
Other income/(expense)	–	11
Losses and loss adjustment expenses	(11)	(8)
Administrative and other operating expenses	(6)	(2)
Consolidated balance sheets as of December 31		
Cash and bank deposits	158	171
Other loans	1,095	1,457
Total unit-linked investments	2,349	818
Receivables	1	7
Policyholders' collateral and other loans	12	15
Reserves for losses and loss adjustment expenses	(12)	(8)

Table 28.2 summarizes related party transactions with key personnel reflected in the Consolidated Financial Statements. Key personnel includes Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd and the Members of the Group Executive Committee.

Table 28.2

Related party transactions – key personnel

in USD millions, for the years ended December 31		2009	2008
Remuneration of key personnel of the Group			
Cash compensation, current benefits and fees		29	39
Post-employment benefits		4	4
Share-based compensation		31	34
Total remuneration of key personnel		64	77

Outstanding loans and guarantees granted to Members of the Group Executive Committee amounted to USD 1 million for both the years ended December 31, 2009 and 2008. Outstanding loans and guarantees granted to Members of the Board of Directors amounted to USD 2 million for the years ended December 31, 2009 and 2008. The terms "Directors" and "Members of the Group Executive Committee" in this context include the individual as well as members of their respective households. The above figures include the fees paid to members of the Board of Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd, which were USD 3 million, for the years ended December 31, 2009 and 2008.

No provision for non-repayment has been required in 2009 and 2008 for the loans or guarantees made to Members of the Group Executive Committee.

Information required by art. 663b^{bis} and art. 663c paragraph 3 of the Swiss Code of Obligation is disclosed in the Financial Statements of the holding company.

The cash compensation, current benefits and fees are short term in nature.

29. Farmers Exchanges

Farmers Group, Inc. (FGI) and its subsidiaries provide certain non-claims related management services to the Farmers Exchanges, which the Group manages but does not own. In addition, the Group has the following relationships with the Farmers Exchanges.

a) Surplus note and certificates of contribution issued by the Farmers Exchanges

As of December 31, 2009 and 2008, FGI and other Group companies held the following surplus note and certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Surplus Notes	in USD millions, as of December 31	
	2009	2008
6.15% surplus note, due December 2013	88	88
6.15% certificates of contribution, due December 2013	523	523
6.15% certificates of contribution, due August 2014	296	296
10.30% certificates of contribution, due December 2013	300	300
Various other certificates of contribution	23	23
Total	1,230	1,230

Conditions governing payment of interest and repayment of principal are outlined in the surplus note and certificates of contribution. Generally, repayment of principal may be made only when the issuer has an appropriate amount of surplus, and then only after approval is granted by the issuer's governing board and the appropriate state insurance regulatory department in the U.S. In addition, payment of interest may generally 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.

b) Quota share reinsurance treaties with the Farmers Exchanges

The Farmers Exchanges cede risk through quota share reinsurance treaties to Farmers Reinsurance Company (Farmers Re), a wholly owned subsidiary of FGI, and to Zurich Insurance Company Ltd (ZIC).

Auto Physical Damage Quota Share reinsurance agreement

Effective January 1, 2004, annually, Farmers Re assumes USD 200 million and ZIC assumes USD 800 million of gross written premiums under an Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges. In addition, Farmers Re and ZIC assume a quota share percentage of ultimate net losses sustained by the Farmers Exchanges in their APD lines of business. The APD agreement, which can be terminated after 30 days notice by any of the parties, also provides for the Farmers Exchanges to receive a ceding commission of 18.0 percent of premiums, with additional experience commissions that depend on loss experience. This experience commission arrangement limits Farmers Re and ZIC's potential underwriting gain on the assumed business to 2.5 percent of premiums assumed. The APD agreement was initially entered into on April 1, 2001, which replaced a January 1, 1998 reinsurance agreement.

The following are the significant changes to the 2004 APD agreement:

- Effective January 1, 2006, the Farmers Exchanges modified the terms of the APD agreement with Farmers Re and ZIC. The new APD agreement provides for annual ceded premiums of USD 1 billion of gross written premiums with 20.0 percent assumed by Farmers Re and 80.0 percent assumed by ZIC, a 25.8 percent ceding commission for acquisition expenses, and an 8.2 percent ceding commission for unallocated loss adjustment expense. The APD agreement also includes provisions for additional experience commissions that will depend on loss experience and recoveries below a specified ratio for each year. This experience commission arrangement limits Farmers Re and ZIC's potential underwriting gain on the assumed business to 2.0 percent of premiums assumed plus 20.0 percent of the underwriting gain resulting from a combined ratio under 98.0 percent. The APD agreement, which can be cancelled after 90 days notice by any of the parties, was renewed with the same terms on January 1, 2009 and has a termination date of December 31, 2011.

Farmers Exchanges' share of ceded premiums amounted to USD 1 billion for both the years ended December 31, 2009 and 2008. Ceded incurred losses and loss adjustment expenses totaled USD 667 million and USD 678 million for the years ended December 31, 2009 and 2008, respectively. Farmers Exchanges' share of the total experience commission income was USD 299 million and USD 294 million for the years ended December 31, 2009 and 2008, respectively.

All Lines Quota Share reinsurance agreement

Effective December 31, 2002, certain of the Farmers Exchanges began participating in a 10.0 percent All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Re and ZIC which has been amended over the years. The All Lines agreement provided 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 after the APD agreement has been applied. Loss recoveries are subjected to a maximum ratio. In addition, under this treaty the Farmers Exchanges' catastrophe losses are subject to a maximum of USD 800 million. The All Lines agreement also provided for the Farmers Exchanges to receive a provisional ceding commission of 22.0 percent of premiums for acquisition expenses which are recognized as ceded premiums are written, and 8.8 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses which are both recognized as premiums are earned, with additional experience commissions potentially payable depending on loss experience.

The following are the significant changes to the 2002 All Lines agreement:

- Effective December 31, 2004, the 10.0 percent All Lines agreement was amended and the quota share participation was increased by 2.0 percent to 12.0 percent;
- Effective December 31, 2005, the quota share participation was decreased from 12.0 percent to 6.0 percent;
- Effective December 31, 2007, the quota share participation was further reduced by 1.0 percent to 5.0 percent. In addition, under this treaty the Farmers Property and Casualty (P&C) Companies' catastrophe losses were changed from USD 800 million to a maximum of USD 1 billion;
- Effective September 30, 2008, the quota share was modified and the participation was increased from 5.0 percent to 25.0 percent. In addition to this change, the ceding commission for acquisition expenses was increased from 22.0 percent to 25.0 percent;
- Effective June 30, 2009, the All Lines agreement was cancelled subsequent to which Farmers Re and ZIC entered into a new 37.5 percent All Lines agreement under which each assumes a percentage of all lines of business written by the Farmers P&C Companies, prospectively. Under the All Lines agreement, which amended the 25.0 percent All Lines agreement in effect since September 30, 2008, Farmers Re and ZIC assume a 7.5 percent and 30.0 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers P&C Companies after the APD agreement has been applied. In addition, under the All Lines agreement, the Farmers P&C Companies catastrophe losses are subject to a maximum of USD 1 billion. As a result, Farmers Re and ZIC are subject to a maximum annual catastrophe loss of USD 75 million and USD 300 million, respectively. The All Lines agreement, which can be terminated after 90 days notice by any of the parties, also provides for the Farmers P&C Companies to receive a provisional ceding commission of 25.0 percent of premiums for acquisition expenses, 8.8 percent of premiums for unallocated loss adjustment expense and 5.3 percent of premiums for other expenses. Unearned premiums totaling USD 970 million were transferred from the Farmers P&C Companies to Farmers Re and ZIC as a result of their increased participation in the All Lines agreement through September 30, 2009. In addition, Farmers Re and ZIC remitted USD 242 million of reinsurance commissions to the Farmers P&C Companies for acquisition expenses due to the increased participation in the All Lines agreement.

- Effective December 31, 2009, the All Lines quota share reinsurance agreement was modified and the participation ratio was decreased by 2.5 percent to 35 percent. In addition to this change, the provisional ceding commission for acquisition expenses was increased from 25.0 percent to 25.7 percent, and the ceding commission for unallocated loss adjustment expense increased from 8.8 percent to 9.0 percent.

Based on the results for 2009 and 2008, Farmers Exchanges' share of recoveries were USD 3,239 million and USD 940 million, respectively. For the years ended December 31, 2009 and 2008, Farmers Exchanges' share of ceded premiums earned were USD 4,722 million and USD 1,379 million, respectively. Farmers Exchanges' share of ceding commissions was USD 1,461 million and USD 403 million for the years ended December 31, 2009 and 2008, respectively.

c) North America Commercial Small Business Solutions (SBS)

On June 13, 2008, the Group completed the sale of the rights to access renewals of its North America Commercial Small Business Solutions (SBS) book of business to Truck Insurance Exchange (TIE), one of the Farmers Exchanges, which the Group manages but does not own. As part of the transaction, the Group has entered into a 100 percent quota share reinsurance agreement for the in-force business as of June 1, 2008. This resulted in the Group paying TIE the balance of unearned premium reserve related to the business ceded to TIE of USD 425 million and TIE compensating the Group for its deferred acquisition cost balance as of the effective date of the transaction by paying a ceding commission of USD 120 million. In addition, the management of the in-force SBS book of business has been transferred together with certain assets and liabilities to FGI. This transaction had no impact on the scope of consolidation.

30. Segment information

The Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both businesses and geography. The Group's operating 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. Segment information is presented accordingly. The Group's reportable segments are as follows:

General Insurance serves the property-casualty insurance needs of a wide range of customers, from individuals to small and medium-size businesses, commercial enterprises and major multinational corporations.

Global Life pursues a strategy with market-leading propositions in unit-linked and protection products through global distribution and proposition pillars to develop leadership positions in its chosen segments.

Farmers provides through Farmers Group, Inc. and its subsidiaries (FGI) non-claims related management services to the Farmers Exchanges. FGI receives fee income for the provision of services to the Farmers Exchanges, which the Group manages, but does not own, and to their customers. This segment also includes the Farmers Re business, which includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal lines and small commercial lines business in the U.S.

For the purpose of discussing our financial performance we consider General Insurance, Global Life and Farmers to be our core operating segments.

Other Operating Businesses predominantly consist of the Group's Headquarter and Holding & Financing activities. In addition, certain alternative investment positions not allocated to core operating segments are carried in this segment.

Non-Core Businesses include insurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off.

In addition, Non-Core Businesses now also include the Group's banking activities that, following a strategic review, are no longer seen to support the core insurance business, but as a useful adjunct to it. As a result management responsibility over banking activities has been transferred as of September 30, 2009 and to reflect this transfer the segment analysis has been aligned by moving them from Other Operating Businesses to Non-Core Businesses.

Throughout 2009, the structured alignment of the Group's segment information compared with 2008 necessitated the following major transfers between the old 2008 and the new 2009 segments:

- Farmers Re from the previously reported Other Businesses to Farmers
- Universal Underwriters Life Insurance Company from the previously reported Other Businesses to Global Life
- Centre from the previously reported Other Businesses to Non-Core Businesses
- Centrally Managed Businesses from the previously reported Other Businesses to Non-Core Businesses

The Group also manages its business on a geographic structure. As a result of the realignment of the previous International Businesses region into a new regional structure, as of January 1, 2009, Southern Africa is part of an expanded Europe & Africa region, Latin America is part of an expanded Americas region and Asia-Pacific & Middle East forms a new stand-alone region. The Group's identified regions are as follows:

Americas

Europe & Africa

Asia-Pacific & Middle East

Central Region

To be consistent with the Group's geographic structure, the following major transfers between regions have been made for 2009 financial reporting:

- Reporting Units in Southern Africa from the previous International Businesses to Europe & Africa
- Reporting Units in Latin America from the previous International Businesses to Americas
- Universal Underwriters Life Insurance Company from Central Region to Americas

The 2008 segmental results have been restated to reflect these changes, with no impact on the Group's financial position or performance.

The segment information includes the Groups' internal performance measure, Business Operating Profit (BOP). This measure is the basis on which business units are managed. It indicates the underlying performance of the business units by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains on investments and impairments (except for the capital markets and banking operations included in Other Operating Businesses and investments in hedge funds and certain securities held for specific economic hedging purposes), policyholders' share of investment results for the life businesses, non-operational foreign exchange movements, and significant items arising from special circumstances, including restructuring charges and gains and losses on divestments of businesses.

Business operating profit by business segment

Table 30.1

in USD millions, for the years ended December 31

	General Insurance		Global Life	
	2009	2008	2009	2008
Revenues				
Direct written premiums and policy fees ¹	32,516	35,357	12,343	10,694
Assumed written premiums	1,641	1,794	97	100
Gross written premiums and policy fees	34,157	37,151	12,440	10,794
Less premiums ceded to reinsurers	(5,222)	(5,646)	(769)	(741)
Net written premiums and policy fees	28,935	31,505	11,672	10,053
Net change in reserves for unearned premiums	136	(583)	6	–
Net earned premiums and policy fees	29,071	30,922	11,677	10,053
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	3,181	3,623	4,032	3,688
Net investment income on Group investments	3,070	3,711	4,081	4,518
Net capital gains/(losses) and impairments on Group investments	110	(88)	(49)	(829)
Net investment result on unit-linked investments	–	–	11,697	(19,039)
Other income	852	736	854	1,195
Total BOP revenues	33,103	35,281	28,261	(4,102)
<i>of which: inter-segment revenues</i>	<i>(385)</i>	<i>(520)</i>	<i>(294)</i>	<i>(202)</i>
Benefits, losses and expenses				
Insurance benefits and losses, net	20,622	22,441	10,594	9,229
Losses and loss adjustment expenses, net	20,590	22,388	53	29
Life insurance death and other benefits, net	40	53	10,577	9,888
(Decrease)/increase in future life policyholders' benefits, net ¹	(8)	–	(36)	(688)
Policyholder dividends and participation in profits, net	15	16	12,018	(18,942)
Income tax expense/(benefit) attributable to policyholders	–	–	387	(1,184)
Underwriting and policy acquisition costs, net	5,375	5,679	1,116	1,887
Administrative and other operating expense (excl. depreciation/amortization)	3,303	3,190	1,857	2,138
Interest credited to policyholders and other interest	32	195	444	521
Restructuring provisions and other items not included in BOP	(170)	(246)	(119)	423
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	29,177	31,277	26,296	(5,929)
Business operating profit (before interest, depreciation and amortization)	3,927	4,004	1,965	1,826
Depreciation and impairments of property and equipment	80	77	34	42
Amortization and impairments of intangible assets	177	133	346	224
Interest expense on debt	209	235	93	45
Business operating profit before non-controlling interests	3,460	3,559	1,492	1,516
Non-controlling interests	(3)	24	15	26
Business operating profit	3,463	3,535	1,477	1,490
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	474	1,614	407	3,127

¹ The Global Life segment includes approximately USD 2,698 million and USD 1,250 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in our Spanish operations for the years ended December 31, 2009 and 2008, respectively (see note 3).

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	-	-	-	(6)	566	469	(11)	19	45,414	46,532
	6,615	3,381	142	182	134	184	(226)	(279)	8,403	5,362
	6,615	3,381	142	176	700	652	(237)	(260)	53,817	51,894
	-	-	(52)	(61)	(39)	(39)	237	260	(5,844)	(6,226)
	6,615	3,381	90	115	661	613	-	-	47,973	45,667
	(893)	(1,002)	-	-	5	25	-	-	(746)	(1,560)
	5,722	2,378	90	116	666	638	-	-	47,227	44,107
	2,690	2,458	-	-	-	-	-	-	2,690	2,458
	174	160	461	603	333	468	(880)	(998)	7,301	7,544
	174	160	461	528	598	779	(880)	(998)	7,505	8,698
	-	-	-	75	(265)	(311)	-	-	(204)	(1,154)
	-	-	-	-	778	(2,692)	-	-	12,475	(21,731)
	85	21	1,101	1,044	186	17	(1,277)	(1,320)	1,802	1,693
	8,672	5,018	1,653	1,763	1,963	(1,569)	(2,157)	(2,318)	71,496	34,071
	(90)	(97)	(1,312)	(1,386)	(77)	(114)	2,157	2,318	-	-
	3,904	1,622	86	175	1,055	1,344	-	-	36,261	34,811
	3,904	1,622	5	1	49	106	38	-	24,639	24,145
	-	-	82	101	656	495	1	-	11,356	10,538
	-	-	-	73	350	743	(39)	1	266	128
	-	-	-	-	826	(2,588)	-	-	12,859	(21,514)
	-	-	-	-	-	-	-	-	387	(1,184)
	1,760	696	12	14	9	14	(18)	(3)	8,254	8,287
	1,311	1,210	962	1,067	138	(249)	(1,215)	(1,282)	6,356	6,074
	-	-	1	9	59	71	(4)	(24)	533	773
	(34)	2	81	99	6	58	-	-	(236)	336
	6,941	3,531	1,143	1,364	2,093	(1,351)	(1,237)	(1,309)	64,413	27,583
	1,731	1,487	510	399	(129)	(219)	(921)	(1,009)	7,083	6,488
	86	63	35	33	11	4	-	-	245	218
	82	59	38	18	3	3	-	-	647	437
	8	9	1,049	1,122	147	198	(921)	(1,009)	586	599
	1,554	1,356	(611)	(774)	(290)	(423)	-	-	5,605	5,234
	-	-	-	(2)	1	-	-	-	12	48
	1,554	1,356	(611)	(772)	(290)	(423)	-	-	5,593	5,186
	917	171	81	151	(1)	13	-	-	1,877	5,076

Reconciliation of
BOP to net income
after income taxes

Table 30.2

in USD millions, for the years ended December 31

	General Insurance		Global Life	
	2009	2008	2009	2008
Business operating profit	3,463	3,535	1,477	1,490
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	(674)	(1,172)	(441)	(411)
Net gain/(loss) on divestments of businesses	(2)	14	–	4
Restructuring provisions and other	(170)	(246)	(119)	423
Add back:				
Business operating profit attributable to non-controlling interests	(3)	24	15	26
Net income before shareholders' taxes	2,614	2,156	931	1,531
Income tax expense attributable to policyholders	–	–	387	(1,184)
Net income before income taxes	2,614	2,156	1,318	347
Income tax expense (attributable to policyholders and shareholders)				
Net income after taxes				

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	1,554	1,356	(611)	(772)	(290)	(423)	5,593	5,186
	(50)	(56)	(62)	(59)	8	(41)	(1,219)	(1,739)
	–	–	–	–	(3)	(1)	(5)	16
	(34)	2	81	99	6	58	(236)	336
	–	–	–	(2)	1	–	12	48
	1,470	1,302	(592)	(734)	(279)	(408)	4,145	3,847
	–	–	–	–	–	–	387	(1,184)
	1,470	1,302	(592)	(734)	(279)	(408)	4,531	2,663
							(1,295)	452
							3,236	3,116

Assets and liabilities by business segment

Table 30.3

in USD millions, as of December 31

	General Insurance		Global Life	
	2009	2008	2009	2008
Assets				
Total Group Investments	85,413	77,328	101,597	94,626
Cash and cash equivalents	9,940	9,703	4,385	5,130
Equity securities	4,743	5,966	5,342	4,816
Debt securities	63,594	53,578	62,883	56,256
Real estate held for investment	3,004	2,922	4,408	4,228
Mortgage loans	1,483	1,794	9,021	8,953
Other loans	2,623	3,340	15,432	15,131
Equity method accounted investments	25	26	125	113
Investments for unit-linked contracts	–	–	87,430	65,977
Total investments	85,413	77,328	189,026	160,604
Reinsurers' share of reserves for insurance contracts	12,957	12,749	2,160	2,008
Deposits made under assumed reinsurance contracts	66	68	3	–
Deferred policy acquisition costs	3,374	3,247	12,276	10,768
Deferred origination costs	–	–	856	770
Goodwill	1,029	895	442	395
Other intangible assets	1,419	1,303	4,000	3,925
Other assets ¹	15,339	16,119	6,730	6,835
Total assets (after cons. of investments in subsidiaries)	119,597	111,710	215,494	185,304
Liabilities				
Liabilities for investment contracts	–	–	46,374	36,230
Reserves for insurance contracts	79,900	77,468	136,256	120,706
Reserves for losses and loss adjustment expenses	63,476	61,396	35	18
Reserves for unearned premiums	15,191	14,874	302	226
Future life policyholders' benefits	98	95	74,760	72,782
Policyholders' contract deposits and other funds	1,135	1,102	14,691	12,611
Reserves for unit-linked contracts	–	–	46,468	35,069
Debt related to capital markets and banking activities	–	–	–	–
Senior debt	3,462	3,031	265	694
Subordinated debt	2,054	2,189	1,019	412
Other liabilities	14,942	14,680	17,615	15,399
Total liabilities	100,357	97,368	201,530	173,441
Equity				
Common shareholders' equity				
Preferred securities				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				

¹ As of December 31, 2009, for the General Insurance segment, other assets include USD 67 million related to land and buildings held for own use reclassified in March and December 2009 as assets held for sale.

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	4,561	3,607	18,027	15,193	15,826	15,415	(29,167)	(26,600)	196,258	179,570
	734	714	6,226	6,682	2,762	2,935	(12,417)	(12,736)	11,631	12,428
	85	224	1,538	2,277	742	1,021	–	–	12,450	14,303
	1,302	696	2,920	1,478	6,669	6,644	(1,024)	(365)	136,344	118,287
	149	156	46	44	181	175	–	–	7,789	7,524
	–	–	–	–	2,264	2,104	(33)	(32)	12,736	12,820
	2,290	1,817	7,294	4,708	3,129	2,459	(15,693)	(13,468)	15,077	13,988
	–	–	3	3	79	78	–	–	232	220
	–	–	–	–	11,737	12,226	–	–	99,167	78,203
	4,561	3,607	18,027	15,193	27,563	27,641	(29,167)	(26,600)	295,425	257,773
	211	209	(95)	–	4,688	5,477	(1,293)	(1,849)	18,627	18,595
	3,158	1,685	–	–	664	677	(29)	(32)	3,861	2,397
	529	307	–	–	2	2	–	–	16,181	14,323
	–	–	–	–	–	–	–	–	856	770
	821	382	5	5	–	–	–	–	2,297	1,677
	1,397	1,207	219	185	9	13	–	–	7,044	6,633
	1,547	1,500	1,737	1,907	1,306	1,704	(2,037)	(2,289)	24,621	25,776
	12,224	8,897	19,893	17,290	34,233	35,514	(32,527)	(30,771)	368,914	327,944
	–	–	–	–	–	–	(250)	(251)	46,124	35,979
	3,946	2,095	365	415	22,221	23,325	(1,276)	(1,831)	241,412	222,179
	1,793	835	49	44	3,531	4,147	(799)	(1,223)	68,086	65,218
	2,153	1,260	5	5	33	43	(7)	(10)	17,676	16,399
	–	–	311	366	3,890	3,573	(470)	(598)	78,589	76,218
	–	–	–	–	3,030	3,334	1	–	18,857	17,047
	–	–	–	–	11,736	12,228	–	–	58,204	47,297
	–	–	553	–	2,584	3,632	(2,298)	(1,106)	839	2,527
	–	–	23,224	19,893	1,082	1,054	(21,756)	(21,314)	6,277	3,358
	–	180	5,206	5,169	155	73	(3,268)	(2,926)	5,167	5,096
	1,801	1,582	1,709	2,707	5,228	3,999	(3,679)	(3,344)	37,616	35,024
	5,747	3,858	31,058	28,184	31,270	32,083	(32,527)	(30,771)	337,435	304,163
									29,117	21,542
									561	561
									29,678	22,103
									1,800	1,678
									31,478	23,781
									368,914	327,944

General Insurance –
Customer segment
overview

Table 30.4

in USD millions, for the years ended December 31

	Global Corporate		North America Commercial	
	2009	2008	2009	2008
Gross written premiums and policy fees	7,602	7,888	9,864	11,215
Net earned premiums and policy fees	4,738	4,834	8,331	9,258
Insurance benefits and losses, net	3,540	4,457	5,711	6,508
Policyholder dividends and participation in profits, net	3	4	8	11
Total net technical expenses	964	975	2,355	2,495
Net underwriting result	231	(602)	257	243
Net investment income	601	689	1,150	1,253
Net capital gains/(losses) and impairments on investments	35	(29)	52	(37)
Net non-technical result (excl. items not included in BOP)	(79)	(10)	(216)	(222)
Business operating profit before non-controlling interests	787	47	1,243	1,237
Non-controlling interests	–	–	–	–
Business operating profit	787	47	1,243	1,238
Ratios, as % of net earned premiums and policy fees				
Loss ratio	74.7%	92.2%	68.5%	70.3%
Expense ratio	20.4%	20.2%	28.4%	27.1%
Combined ratio	95.1%	112.4%	96.9%	97.4%

Europe General Insurance		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
14,556	15,946	2,695	2,753	486	502	(1,046)	(1,153)	34,157	37,151
13,894	14,776	2,057	1,999	51	55	–	–	29,071	30,922
10,230	10,334	1,265	1,204	(124)	(61)	–	–	20,622	22,441
4	1	–	–	–	–	–	–	15	16
3,439	3,652	727	719	18	28	1	1	7,504	7,871
222	788	64	76	157	88	(1)	(1)	930	594
1,102	1,504	162	180	62	142	(6)	(57)	3,070	3,711
23	(21)	–	–	–	–	–	–	110	(88)
(236)	(389)	(51)	(49)	(75)	(45)	7	58	(651)	(657)
1,111	1,882	175	207	144	186	–	–	3,460	3,559
(9)	17	5	7	–	–	–	–	(3)	24
1,120	1,864	169	201	144	186	–	–	3,463	3,535
73.6%	69.9%	61.5%	60.2%	nm	nm	n/a	n/a	70.9%	72.6%
24.8%	24.7%	35.3%	36.0%	nm	nm	n/a	n/a	25.9%	25.5%
98.4%	94.7%	96.9%	96.2%	nm	nm	n/a	n/a	96.8%	98.1%

General Insurance –
Revenues by region

Table 30.5

in USD millions, for the years ended December 31

	Gross written premiums and policy fees from external customers	
	2009	2008
Global Corporate		
North America	2,685	2,966
Europe	4,298	4,546
Rest of Global Corporate	370	129
Subtotal	7,353	7,640
Europe & Africa		
United Kingdom	3,170	3,941
Germany	2,944	3,096
Switzerland	2,259	2,339
Italy	2,213	2,276
Spain	1,338	1,496
Southern Africa	650	654
Rest of Europe & Africa	1,899	2,013
Subtotal	14,473	15,816
Americas		
United States	9,189	10,469
Rest of North America	469	520
Latin America	1,353	1,236
Subtotal	11,012	12,225
Asia-Pacific & Middle East		
Asia-Pacific Mature Markets	1,070	1,141
China & South East Asia	229	311
Subtotal	1,299	1,452
Central Region		
Europe	2	1
Subtotal	2	1
Total	34,138	37,133

Table 30.6

in USD millions, as of December 31

General Insurance –
Assets by region

	Property / equipment and intangible assets	
	2009	2008
Europe & Africa		
United Kingdom	222	211
Germany	253	259
Switzerland	127	109
Italy	75	128
Spain	747	764
Southern Africa	22	10
Rest of Europe & Africa	1,437	1,341
Subtotal	2,883	2,822
Americas		
United States	216	244
Rest of North America	6	3
Latin America	164	46
Subtotal	386	293
Asia-Pacific & Middle East		
Asia-Pacific Mature Markets	93	68
China & South East Asia	24	23
Subtotal	117	90
Total	3,385	3,206

Global Life –
Overview

Table 30.7

in USD millions, for the years ended December 31

	Americas		United Kingdom		Germany	
	2009	2008	2009	2008	2009	2008
Revenues						
Life insurance deposits	619	555	3,612	3,708	2,118	1,872
Gross written premiums and policy fees ¹	1,257	1,087	1,096	1,094	3,431	3,906
Net earned premiums and policy fees	982	841	923	931	3,323	3,797
Net investment income on Group investments	437	433	342	710	1,733	1,899
Net capital gains/(losses) and impairments on Group investments	10	(26)	3	(326)	(125)	(398)
Net investment result on Group investments	446	407	346	384	1,608	1,500
Net investment income on unit-linked investments	(15)	20	1,500	2,360	107	128
Net capital gains/(losses) and impairments on unit-linked investments	161	(312)	5,118	(13,520)	1,582	(3,156)
Net investment result on unit-linked investments	146	(291)	6,618	(11,160)	1,689	(3,028)
Other income	117	124	187	399	181	316
Total BOP revenues	1,691	1,081	8,074	(9,445)	6,801	2,585
Benefits, losses and expenses						
Insurance benefits and losses, net ¹	646	557	365	598	3,604	3,891
Policyholder dividends and participation in profits, net	150	(261)	6,472	(10,721)	1,948	(3,556)
Income tax expense/(benefit) attributable to policyholders	–	–	311	(1,300)	50	180
Underwriting and policy acquisition costs, net	46	123	249	861	317	407
Administrative and other operating expense (excl. depreciation/amortization)	223	193	412	458	335	578
Interest credited to policyholders and other interest	169	171	11	64	160	216
Restructuring provisions and other items not included in BOP	1	1	(56)	43	–	450
Total BOP benefits, losses and expenses	1,233	784	7,764	(9,998)	6,414	2,166
Business operating profit (before interest, depreciation and amortization)	458	297	311	553	387	419
Depreciation and impairments of property and equipment	2	2	10	12	12	14
Amortization and impairments of intangible assets	(8)	1	30	109	41	57
Interest expense on debt	3	2	11	3	–	–
Business operating profit before non-controlling interests	462	292	261	429	334	348
Non-controlling interests	5	2	–	–	10	16
Business operating profit	458	290	261	429	324	332
Supplementary information						
Gross written premiums and policy fees from external customers	1,257	1,087	1,089	1,089	3,379	3,846
Property, equipment and intangible assets	297	244	446	403	1,020	996

¹ The Global Life segment includes approximately USD 2,698 million and USD 1,250 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in our Spanish operations for the years ended December 31, 2009 and 2008, respectively (see note 3).

	Switzerland		Ireland		Spain		Emerging Markets in Asia		Rest of the World		Eliminations		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	81	89	1,912	1,586	2,266	808	1,215	1,673	1,765	789	–	–	13,589	11,079
	1,607	1,753	385	353	3,523	1,635	255	198	924	781	(36)	(14)	12,440	10,794
	1,600	1,746	287	263	3,495	1,618	215	160	852	696	–	–	11,677	10,053
	606	627	87	98	476	280	34	54	366	416	–	–	4,081	4,518
	43	(113)	(39)	(5)	8	–	45	74	4	(35)	–	–	(49)	(829)
	649	514	49	93	484	280	79	128	370	381	–	–	4,032	3,688
	2	6	171	212	75	29	8	12	71	257	–	–	1,920	3,026
	52	(127)	967	(2,378)	249	(243)	1,034	(1,016)	615	(1,313)	–	–	9,777	(22,065)
	54	(121)	1,138	(2,165)	324	(214)	1,042	(1,003)	686	(1,056)	–	–	11,697	(19,039)
	45	120	2	2	44	19	79	49	201	170	(3)	(3)	854	1,195
	2,348	2,259	1,476	(1,807)	4,347	1,703	1,416	(666)	2,110	191	(3)	(3)	28,261	(4,102)
	1,539	1,671	61	96	3,613	1,727	109	86	657	602	–	–	10,594	9,229
	198	(38)	1,128	(2,124)	340	(213)	1,011	(1,045)	771	(983)	–	–	12,018	(18,942)
	–	–	20	(5)	–	–	–	–	6	(59)	–	–	387	(1,184)
	152	157	100	84	53	17	76	94	123	144	–	–	1,116	1,887
	222	298	86	63	99	63	109	138	376	350	(3)	(3)	1,857	2,138
	16	22	43	–	2	8	28	28	17	13	–	–	444	521
	(21)	(53)	–	–	(45)	(16)	10	4	(9)	(7)	–	–	(119)	423
	2,105	2,057	1,438	(1,886)	4,062	1,587	1,343	(695)	1,941	60	(3)	(3)	26,296	(5,929)
	243	202	39	79	286	116	72	29	169	131	–	–	1,965	1,826
	4	7	1	1	–	–	4	4	1	1	–	–	34	42
	–	–	1	1	203	43	4	2	75	11	–	–	346	224
	2	6	–	–	69	25	–	1	9	8	–	–	93	45
	237	190	37	77	13	48	64	21	84	111	–	–	1,492	1,516
	–	–	–	–	1	9	–	–	–	–	–	–	15	26
	237	190	37	77	13	39	64	21	84	111	–	–	1,477	1,490
	1,606	1,753	385	353	3,523	1,635	221	189	909	779	–	–	12,369	10,731
	198	159	5	6	2,859	2,742	11	14	163	270	–	–	4,998	4,835

Farmers –
Overview

Table 30.8

in USD millions, for the years ended December 31

	Total	
	2009	2008
Farmers Management Services		
Management fees and other related revenues	2,690	2,458
Management and other related expenses	1,399	1,317
Gross management result	1,291	1,142
Other net income (excl. items not included in BOP)	35	60
Business operating profit before non-controlling interest	1,326	1,202
Business operating profit	1,326	1,202
Farmers Re		
Gross written premiums and policy fees	6,615	3,381
Net earned premiums and policy fees	5,722	2,378
Insurance benefits and losses, net	(3,904)	(1,622)
Total net technical expenses	(1,760)	(697)
Net underwriting result	58	59
Net non-technical result (excl. items not relevant for BOP)	71	19
Net investment result income	100	75
Business operating profit before non-controlling interests	228	154
Business operating profit	228	154
Farmers business operating profit	1,554	1,356
Ratios, as % of net earned premiums and policy fees		
Farmers Re Combined ratio	99.0%	97.5%
Supplementary information		
Property, equipment and intangible assets ¹	2,541	1,811

¹ As of December 31, 2009 and 2008, respectively.

Other Operating
Businesses –
Overview

Table 30.9

in USD millions, for the years ended December 31

	Alternative Investments	
	2009	2008
Gross written premiums and policy fees	–	–
Net earned premiums and policy fees	–	–
Net investment income	8	10
Net capital gains/(losses) and impairments on investments	–	–
Other income	11	11
Total BOP revenues	19	21
Insurance benefits and losses, incl. PH dividends, net	–	–
Underwriting and policy acquisition costs, net	–	–
Administrative and other operating expense (excl. depreciation/amortization)	27	8
Other expenses (excl. items not included in BOP)	–	–
Depreciation, amortization and impairments of property, equipment and intangible assets	–	–
Interest expense on debt	24	40
Business operating profit before non-controlling interests	(32)	(28)
Non-controlling interests	–	(2)
Business operating profit	(32)	(25)

	Holding & Financing		Headquarters		Eliminations		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	134	168	8	8	–	–	142	176
	83	108	8	8	–	–	90	116
	456	546	5	10	(8)	(38)	461	528
	–	75	–	–	–	–	–	75
	103	(86)	1,070	1,185	(82)	(66)	1,101	1,044
	642	643	1,082	1,203	(89)	(104)	1,653	1,763
	81	171	5	4	–	–	86	175
	12	14	–	–	–	–	12	14
	(129)	(108)	1,145	1,232	(82)	(66)	962	1,067
	82	108	–	–	–	–	82	108
	–	–	72	50	–	–	73	51
	1,032	1,113	1	7	(8)	(38)	1,049	1,122
	(438)	(656)	(141)	(90)	–	–	(611)	(774)
	–	–	–	–	–	–	–	(2)
	(438)	(656)	(141)	(90)	–	–	(611)	(772)

Non-Core
Businesses –
Overview

Table 30.10

in USD millions, for the years ended December 31

	Total	
	2009	2008
Gross written premiums and policy fees	700	652
Net earned premiums and policy fees	666	638
Insurance benefits and losses, net	1,055	1,344
Policyholder dividends and participation in profits, net	826	(2,588)
Total net technical expenses	(33)	96
Net underwriting result	(1,182)	1,786
Net investment income	316	938
Net capital gains/(losses) and impairments on investments	795	(3,162)
Net non-technical result (excl. items not included in BOP)	(219)	15
Business operating profit before non-controlling interests	(290)	(423)
Non-controlling interests	1	–
Business operating profit	(290)	(423)

Report of the Statutory Auditor

To the General Meeting of Zurich Financial Services Ltd

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Zurich Financial Services Ltd, 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 (pages 139 to 262 and 98 to 134), for the year ended December 31, 2009.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

Patrick Shouvin
Audit expert
Auditor in charge

Ray Kunz
Audit expert

Zurich, February 3, 2010

Significant Subsidiaries

Significant subsidiaries

as of December 31, 2009

	Domicile	Segment ¹	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Australia						
Zurich Australia Limited	Sydney	Global Life	100	100	AUD	0.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance	99.98	99.98	EUR	12.0
Bermuda						
Centre Group Holdings Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
ZCM Holdings (Bermuda) Limited	Hamilton	Non-Core Businesses	100	100	USD	137.0
ZG Investments Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
ZG Investments II Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
ZG Investments III Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
ZG Investments IV Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
Zurich Finance (Bermuda) Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
Zurich International (Bermuda) Ltd.	Hamilton	Non-Core Businesses	100	100	USD	9.9
Brazil						
Companhia de Seguros Minas Brasil	Belo Horizonte	General Insurance	100	100	BRL	60.0
Zurich Participações e Representações Ltda.	Sao Paulo	Other Operating Businesses	100	100	BRL	446.0
Zurichpar Participações Ltda.	Sao Paulo	Other Operating Businesses	100	100	BRL	447.5
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.95	98.95	CLP	24,484.0
Cyprus						
Zurich Insurance Holding (Cyprus) Ltd ²	Nicosia	General Insurance	100	100	RUB	2.0
Germany						
DA Deutsche Allgemeine Versicherung Aktiengesellschaft	Oberursel	General Insurance	100	100	EUR	24.5
Deutscher Herold Aktiengesellschaft ³	Bonn	Global Life	79.33	79.33	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt/Main	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	86.03	86.03	EUR	68.5
Zurich Versicherung Aktiengesellschaft (Deutschland)	Frankfurt/Main	General Insurance	95.50	95.50	EUR	142.2

¹ The segments are defined in the notes to the Consolidated Financial Statements, note 30, Segment information.

² Zurich Insurance Holding (Cyprus) Ltd holds 99.9% of Zurich Insurance Company Ltd. in Russia which is a fully owned subsidiary of the Group.

³ In addition buy out options exist which allow the minority shareholders to sell another 15.67 percent of the shares of Deutscher Herold Aktiengesellschaft to the Group.

Significant subsidiaries
(continued)

as of December 31, 2009					
	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)
Ireland					
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR 17.5
Zurich Financial Services EUB Holdings Limited	Dublin	Non-Core Businesses	100	100	GBP 0.001
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR 0.1
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR 4.9
Italy					
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR 74.0
Zurich Life and Pensions S.p.A.	Milan	Global Life	100	100	EUR 40.5
Zurich Life Insurance Italia S.p.A.	Milan	Global Life	100	100	EUR 25.9
Luxembourg					
Zurich Eurolife S.A.	Howald	Global Life	100	100	EUR 5.0
Zurich Finance (Luxembourg) S.A.	Howald	Other Operating Businesses	100	100	EUR 0.1
Zurich Group Funding Luxembourg S.A.	Howald	Other Operating Businesses	100	100	EUR 0.03
Portugal					
Zurich – Companhia de Seguros S.A. ⁴	Lisbon	General Insurance	100	100	EUR 10.0
South Africa					
Zurich Insurance Company South Africa Limited ⁵	Johannesburg	General Insurance	73.61	73.61	ZAR 3.0
Spain					
Bansabadell Pensiones, E.G.F.P, S.A.	Barcelona	Global Life	50	50	EUR 7.8
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Barcelona	General Insurance	50	50	EUR 10.0
Bansabadell Vida S.A. de Seguros y Reaseguros	Barcelona	Global Life	50	50	EUR 43.9
CaixaSabadell Vida, S.A. Companyia d'Assegurances i Reassegurances	Sabadell	Global Life	50	50	EUR 39.1
CAN Seguros Generales SA	Pamplona	General Insurance	50	50	EUR 9.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Global Life	100	100	EUR 50.4
"Zurich España, Compañía de Seguros y Reaseguros, S.A." ⁶	Barcelona	General Insurance	100	100	EUR 33.6

⁴ Zurich – Companhia de Seguros S.A. (a public limited liability company incorporated and existing under the laws of Portugal) merged into Zurich Insurance plc (a public limited liability company incorporated in Ireland) with effect from 1 January 2010.

⁵ Listed on the Johannesburg Stock Exchange. On December 31, 2009, the company had a market capitalization of ZAR 2.2 billion (ISIN Number 000094496).

⁶ "Zurich España, Compañía de Seguros y Reaseguros, S.A." (a public limited liability company incorporated and existing under the laws of Spain) merged into Zurich Insurance plc (a public limited liability company incorporated in Ireland) by way of transfer en bloc with effect from 1 January 2010.

Significant subsidiaries
(continued)

as of December 31, 2009

	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	17.0
Zurich Insurance Company Ltd	Zurich	Other Operating Businesses	100	100	CHF	825.0
Zurich Life Insurance Company Ltd	Zurich	Other Operating Businesses	100	100	CHF	60.0
"Zurich" Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Turkey						
Zurich Sigorta A.S.	Findikli, Istanbul	General Insurance	100	100	TRY	47.3
United Kingdom						
Allied Zurich Limited	Swindon, England	Other Operating Businesses	100	100	GBP	0.1
Allied Zurich Holdings Limited	Jersey, Channel Islands	Other Operating Businesses	100	100	GBP	90.7
Eagle Star Holdings Limited	Swindon, England	Other Operating Businesses	100	100	GBP	0.05
Eagle Star Insurance Company Limited	Fareham, England	Non-Core Businesses	100	100	GBP	40.0
Zurich Assurance Ltd	Swindon, England	Global Life	100	100	GBP	236.1
Zurich Financial Services (UKISA) Limited	Swindon, England	Other Operating Businesses	100	100	GBP	1,492.1
Zurich Holdings (UK) Limited	Fareham, England	Other Operating Businesses	100	100	GBP	137.3
Zurich International (UK) Limited	Fareham, England	General Insurance	100	100	GBP	40.0
Zurich International Life Limited	Douglas, Isle of Man	Global Life	100	100	GBP	105.6
Zurich Specialties London Limited	Fareham, England	Non-Core Businesses	100	100	GBP	150.0
United States of America						
Farmers Group, Inc.	Reno, NV	Farmers	98.28	100	USD	0.001
Farmers New World Life Insurance Company	Mercer Island, WA	Global Life	98.28	100	USD	6.6
Farmers Reinsurance Company	Los Angeles, CA	Farmers	98.28	100	USD	5.0
Farmers Services LLC ⁷	Wilmington, DE	Farmers	100	100	USD	–
Kemper Corporation	Schaumburg, IL	Non-Core Businesses	100	100	USD	220.0
Kemper Investors Life Insurance Company	Bellevue, WA	Non-Core Businesses	100	100	USD	2.5
ZFS Finance (USA) LLC V ⁷	Wilmington, DE	Other Operating Businesses	100	100	USD	–
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD	5.0
Zurich Finance (USA), Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	0.000001
Zurich Holding Company of America, Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	0.6

⁷ This entity is a LLC that has no share capital.

Contents

1. Analysis of Embedded Value Earnings	272
2. New Business	276
3. Expected Contribution and Transfer to Free Surplus	279
4. Operating, Non Operating and Economic Variance	280
5. Closing Adjustments	283
6. Reconciliation of IFRS Net Assets to Embedded Value	284
7. Sensitivities	285
8. Life Business Included in Non-Core Businesses	286
9. Group MCEV	287
10. Embedded Value Methodology	288
11. Embedded Value Assumptions	295
Appendix: Embedded Value Tables	298

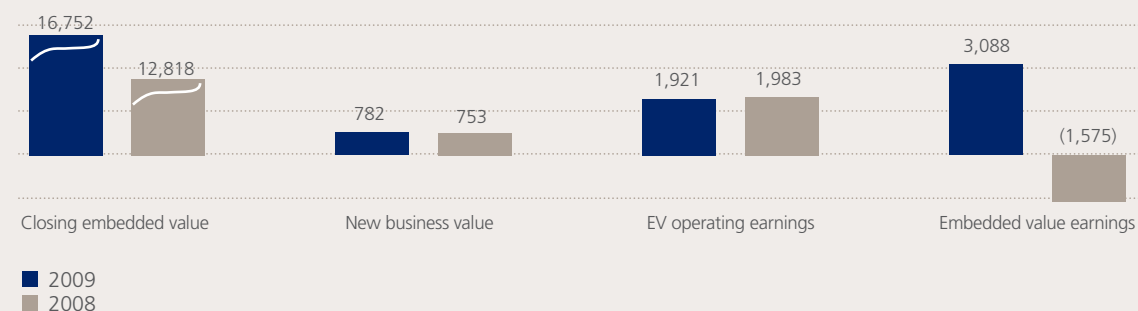
This report describes the development in 2009 of the embedded value of the Zurich Financial Services Group.

The majority of this report, Sections 1 to 7, relates to Global Life, but summary information relating to the Non-Core Business is given in Section 8 and to the total Group in Section 9.

Embedded Value Report – Global Life

Key results

(in USD millions, for the years ended December 31)



Embedded value key results

in USD millions, for the years ended December 31

	2009	2008	Change Amount
Embedded value	16,752	12,818	3,934
EV operating earnings	1,921	1,983	(62)
of which New business value	782	753	29
Embedded value earnings	3,088	(1,575)	4,663
Return on Opening EV	24.0%	(9.9%)	

The Global Life segment continued to execute on its strategy delivering strong results with profitable growth in a difficult market environment and performed well on all key embedded value metrics. The growth was driven through the strong new business performance as well as a strong focus on in-force management resulting in a positive operating variance. Progress was made on developing the industrial business model, that aims to centralise operational functions, decreasing our unit costs and supporting an increase in cross-border sales. We achieved a return of 24% on opening embedded value, also sustained by a positive economic variance of USD 1.3 billion. The new business value increased in each successive quarter of 2009 underpinned by efficiency gains and focused efforts to shift the new business mix towards protection products to increase profitability.

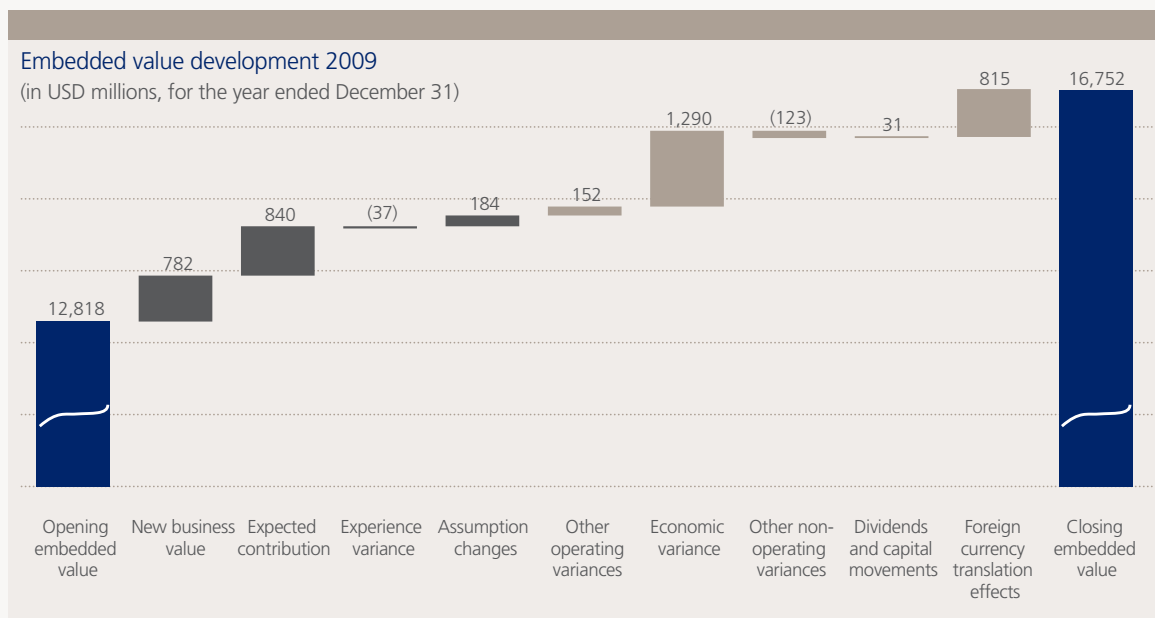
New business value was USD 782 million. This was 4 percent higher than the prior period in U.S. dollar terms and 9 percent higher in local currency terms. The increase was partly attributable to the fast growing joint ventures in Spain whose growth exceeded expectations and from which we benefited from a full year's contribution this year compared to only one quarter last year. The good performance was also driven by Latin America, Emerging Markets in Asia and the Rest of the World, supported by the development of the newly operational private banking client solutions hub in Luxembourg which was able to deliver successful client propositions. This was partially offset by the effect of lower interest rates in many European countries.

EV operating earnings were USD 1.9 billion, a 3 percent decrease compared with the prior year. Operating earnings were resilient due to the strong new business performance and the impact of changes to align with the new European Insurance CFO Forum MCEV Principles¹, which had an estimated impact of USD 220 million, in spite of lower expected returns.

EV earnings were USD 3.1 billion, representing a return of 24 percent. The economic and non operating positive variances of USD 1.2 billion were largely due to a recovery in equity markets in many countries during the second half of the year.

¹ © Stichting CFO Forum Foundation 2008

1. Analysis of Embedded Value Earnings



Analysis of embedded value earnings, 2009

in USD millions,
for the year ended December 31, 2009

	Required Capital	Free Surplus	Shareholders' net assets	Value of business in force	Total
Opening embedded value	4,231	1,216	5,447	7,371	12,818
Dividends & capital movements start of period	546	(503)	44	28	72
New business value Global Life	390	(1,171)	(781)	1,563	782
<i>New business net of non-controlling interests</i>	337	(1,112)	(775)	1,506	730
Expected contribution at reference rate	63	72	135	236	371
Expected contribution in excess of reference rate	14	25	38	430	469
Transfer to free surplus	436	687	1,123	(1,123)	-
Experience variance	-	73	73	(110)	(37)
Assumption changes	(370)	396	26	158	184
Other operating variances	(1,147)	1,317	170	(17)	152
Operating earnings	(614)	1,398	784	1,137	1,921
Economic variance	(531)	953	423	867	1,290
Other non-operating variances	(98)	(261)	(359)	236	(123)
Embedded value earnings	(1,242)	2,090	848	2,240	3,088
Dividends & capital movements end of period	(95)	(62)	(157)	116	(41)
Foreign currency translation effects	265	107	372	443	815
Closing embedded value	3,705	2,849	6,554	10,198	16,752

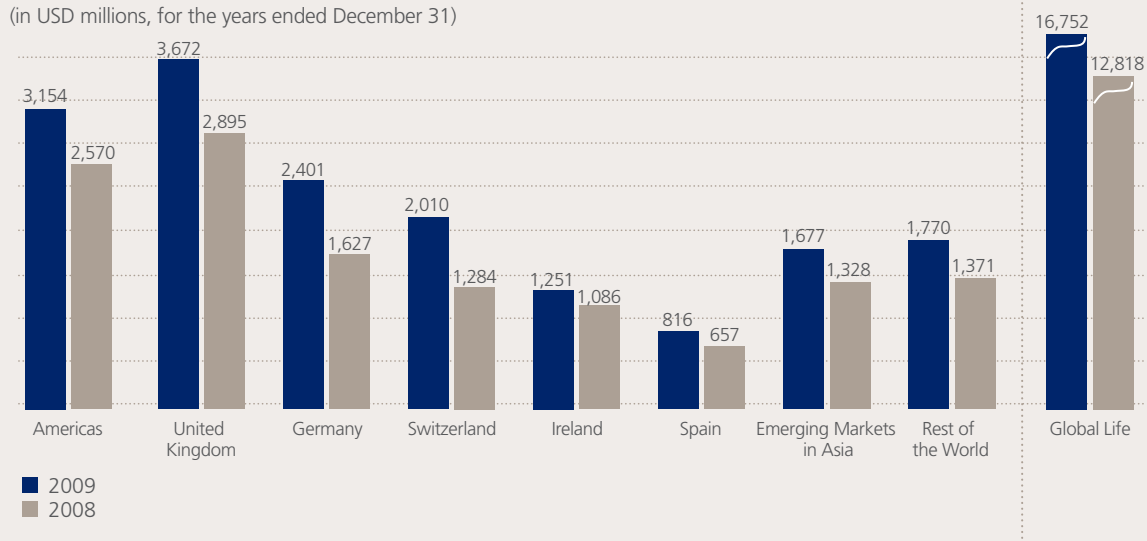
Analysis of embedded value earnings, 2008

in USD millions,
for the year ended December 31, 2008

	Shareholders' net assets	Value of business in force	Total
Opening embedded value	6,981	8,953	15,935
New business value global Life	(685)	1,437	753
Expected contribution	262	701	964
Transfer to free surplus	1,179	(1,179)	–
Experience variance	74	(158)	(84)
Assumption changes	(49)	84	35
Other operating variances	315	1	316
Operating earnings	1,096	887	1,983
Economic variance	(1,730)	(2,082)	(3,811)
Other non-operating variances	118	136	253
Embedded value earnings	(515)	(1,059)	(1,575)
Dividends & capital movements	(217)	309	92
Foreign currency translation effects	(802)	(831)	(1,633)
Closing embedded value	5,447	7,371	12,818

Embedded value by territory

(in USD millions, for the years ended December 31)



The Group applied the MCEV Principles for its embedded value calculations for the year ended December 31, 2009. For the year ended December 31, 2008, embedded value calculations were performed in accordance with the EEV Principles which preceded the MCEV Principles.

In addition, the Group has amended the split of geographical segments this year in line with, and as described in, the Group's IFRS Financial statements.

Embedded value
by territory
2009

in USD millions, as of December 31, 2009		Required Capital	Free Surplus	Required capital (% SM) ¹	Share- holders' net assets	CE ²	FC ³	TVFOG ⁴	CRNHR ⁵	Value of business in force	Total
Americas		460	527	163.2%	987	2,610	(70)	(199)	(174)	2,167	3,154
<i>United States</i>		339	351	208.3%	691	2,383	(54)	(198)	(167)	1,965	2,655
<i>Latin America</i>		121	175	101.5%	297	227	(17)	(2)	(7)	202	499
United Kingdom		909	438	141.8%	1,347	2,916	(91)	(420)	(80)	2,325	3,672
Germany		657	844	100.8%	1,501	1,350	(302)	(68)	(81)	900	2,401
Switzerland		262	1	100.0%	263	1,975	(20)	(151)	(56)	1,747	2,010
Ireland		199	280	100.0%	479	816	(15)	(4)	(26)	772	1,251
Spain		353	103	104.5%	456	434	(23)	(26)	(25)	360	816
Emerging Markets in Asia		186	262	141.2%	448	1,292	(6)	(16)	(41)	1,229	1,677
<i>ZIS⁶</i>		136	278	153.0%	415	983	(6)	–	(32)	945	1,360
<i>Hong Kong</i>		50	5	116.8%	55	309	–	(16)	(9)	284	339
<i>Other</i>		–	(22)	0.0%	(22)	–	–	–	–	–	(22)
Rest of the World		678	395	107.5%	1,072	910	(74)	(94)	(44)	698	1,770
<i>Italy</i>		257	178	100.0%	435	435	(18)	(79)	(11)	327	762
<i>Other</i>		421	216	112.6%	637	475	(56)	(15)	(33)	371	1,008
Global Life		3,705	2,849	118.1%	6,554	12,304	(601)	(978)	(527)	10,198	16,752

¹ SM is the local minimum solvency margin

² CE is the certainty equivalent value of business in force

³ FC is the frictional cost (which in 2009 was applied to only required capital in accordance with the MCEV Principles)

⁴ TVFOG is the time value of financial options and guarantees

⁵ CRNHR is the cost of residual non-hedgeable risk (see Section 10 for further details)

⁶ ZIS is Zurich International Solutions, the international business based in the Isle of Man

Embedded value
by territory
2008

in USD millions, as of December 31, 2008		Share- holders' net assets	Certainty equivalent value	Frictional costs	TVFOG ¹	CNMR ²	Value of business in force	Total
Americas		659	2,263	(83)	(49)	(219)	1,912	2,570
<i>United States</i>		528	2,064	(67)	(48)	(205)	1,743	2,271
<i>Latin America</i>		130	200	(16)	(1)	(14)	169	299
United Kingdom		1,386	1,982	(138)	(283)	(51)	1,509	2,895
Germany		1,362	863	(257)	(220)	(121)	265	1,627
Switzerland		32	1,402	(2)	(96)	(53)	1,251	1,284
Ireland		374	771	(18)	(8)	(33)	712	1,086
Spain		477	252	(26)	(10)	(35)	181	657
Emerging Markets in Asia		328	1,053	(5)	–	(47)	1,001	1,328
<i>ZIS³</i>		280	762	(5)	–	(36)	722	1,002
<i>Hong Kong</i>		50	298	–	–	(11)	286	336
<i>Other</i>		(2)	(7)	–	–	–	(7)	(9)
Rest of the World		830	742	(50)	(84)	(67)	541	1,371
<i>Italy</i>		291	345	(17)	(69)	(10)	249	539
<i>Other</i>		539	397	(33)	(14)	(58)	292	831
Global Life		5,447	9,328	(579)	(752)	(627)	7,371	12,818

¹ TVFOG is the time value of financial options and guarantees

² CNMR is the cost of non-market risk (see Section 10 for further details)

³ ZIS is Zurich International Solutions, the international business based in the Isle of Man

Movement in embedded value, after tax

in USD millions, for the year ended December 31, 2009		Opening embedded value	EV operating earnings	Economic and non operating variance	EV earnings	Dividends & capital	Foreign currency translation effects	Closing embedded value
Americas		2,570	273	197	471	64	49	3,154
United States		2,271	179	143	322	62	–	2,655
Latin America		299	94	55	149	2	49	499
United Kingdom		2,895	308	(1)	307	150	321	3,672
Germany		1,627	398	370	768	(62)	68	2,401
Switzerland		1,284	285	416	701	(42)	68	2,010
Ireland		1,086	88	41	130	–	36	1,251
Spain		657	124	63	187	(52)	23	816
Emerging Markets in Asia		1,328	257	2	259	(14)	104	1,677
ZIS ¹		1,002	264	(11)	253	–	105	1,360
Hong Kong		336	4	13	18	(14)	–	339
Other		(9)	(11)	–	(11)	–	(1)	(22)
Rest of the World		1,371	188	77	265	(12)	147	1,770
Italy		539	55	140	196	5	22	762
Other		831	133	(63)	70	(18)	125	1,008
Global Life		12,818	1,921	1,167	3,088	31	815	16,752

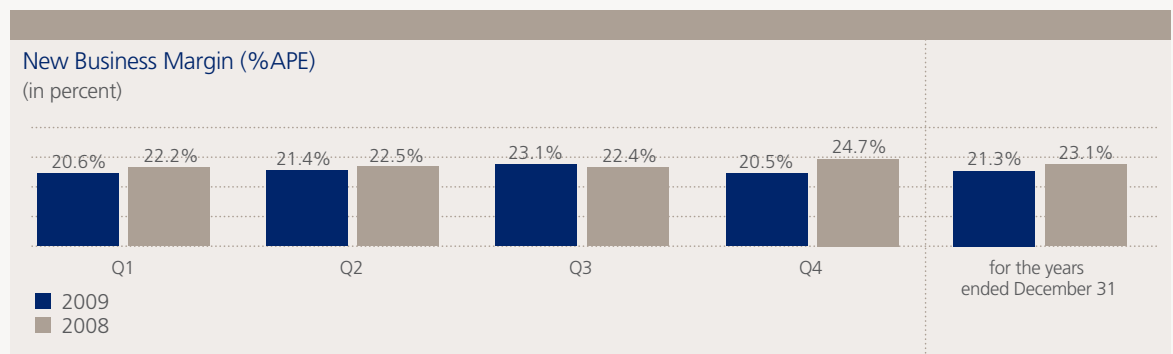
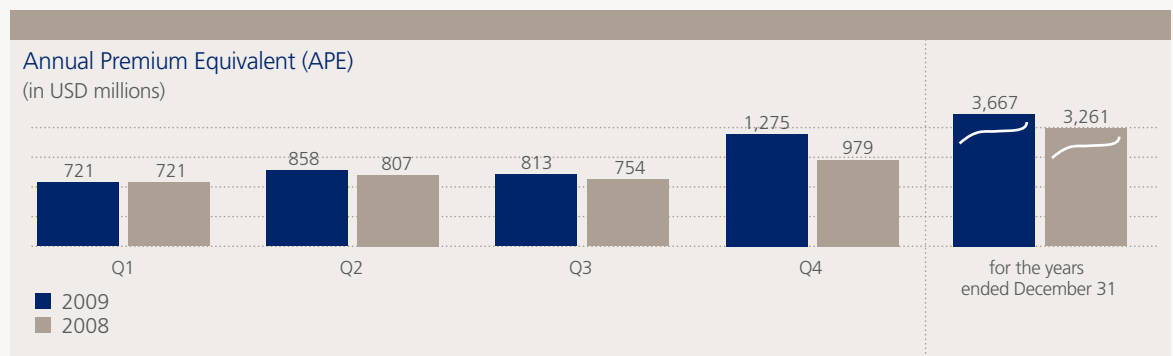
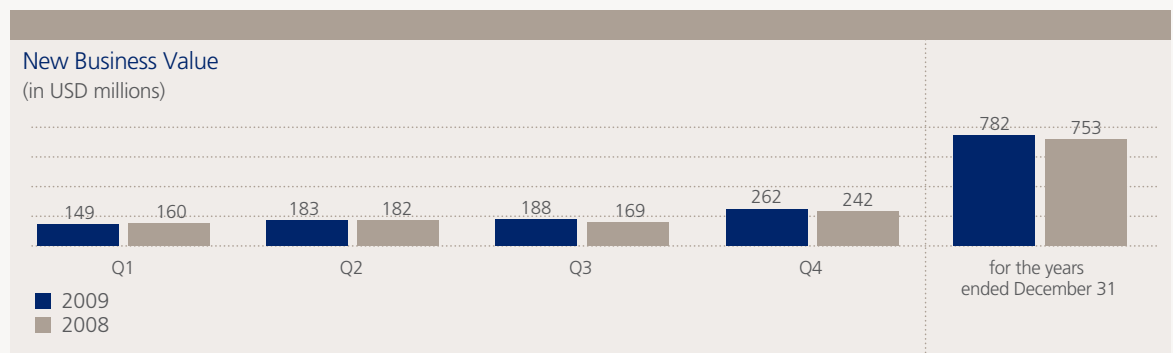
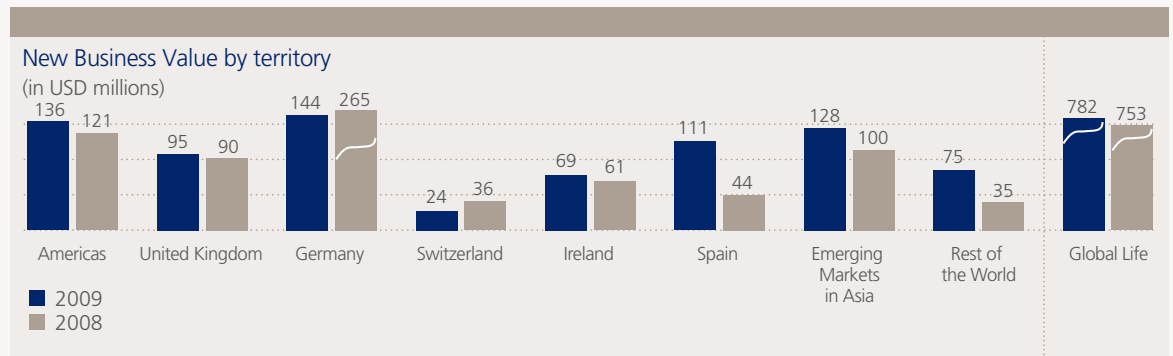
¹ ZIS is Zurich International Solutions, the international business based in the Isle of Man

EV operating earnings

in USD millions, for the year ended December 31, 2009		Expected contribution	New business value	Operating experience variances	Operating assumption changes	Other experience variances	EV operating earnings
Americas		222	136	(11)	(47)	(26)	273
United States		201	100	(8)	(39)	(74)	179
Latin America		22	36	(3)	(8)	48	94
United Kingdom		253	95	7	6	(54)	308
Germany		74	144	–	84	97	398
Switzerland		110	24	(11)	91	71	285
Ireland		39	69	14	(18)	(17)	88
Spain		20	111	–	(15)	7	124
Emerging Markets in Asia		53	128	(20)	81	15	257
ZIS ¹		29	112	(12)	110	25	264
Hong Kong		23	16	(8)	(29)	2	4
Other		–	–	–	–	(11)	(11)
Rest of the World		69	75	(17)	2	59	188
Italy		35	30	(8)	(2)	1	55
Other		34	46	(9)	4	58	133
Global Life		840	782	(37)	184	152	1,921

¹ ZIS is Zurich International Solutions, the international business based in the Isle of Man

2. New Business



New business	in USD millions, for the years ended December 31	2009					2008				
		Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4	YTD
New business value		149	183	188	262	782	160	182	169	242	753
Annual premiums		420	485	459	629	1,993	493	498	523	604	2,118
Single premiums		3,014	3,727	3,539	6,464	16,743	2,286	3,087	2,311	3,749	11,433
Annual premium equivalent (APE)¹		721	858	813	1,275	3,667	721	807	754	979	3,261
Present value of new business premiums (PVNBP) ²		5,912	6,363	6,449	10,791	29,515	5,857	6,366	5,360	8,301	25,883
Average annual premium multiplier		6.9	5.4	6.3	6.9	6.4	7.3	6.6	5.8	7.5	6.8
New business margin (as % APE)		20.6%	21.4%	23.1%	20.5%	21.3%	22.2%	22.5%	22.4%	24.7%	23.1%
New business margin (as % PVNBP)		2.5%	2.9%	2.9%	2.4%	2.6%	2.7%	2.9%	3.2%	2.9%	2.9%

¹ APE is new annual premiums plus 10% of single premiums.

² PVNBP is new single premiums plus the present value of new annual premiums.

New business value has improved in each successive quarter this year. This has been mainly due to expense efficiency programs in many countries driving up margins and improved management of the new business mix with a focus on selling higher margin protection business. Premium volumes grew strongly, particularly during the fourth quarter.

Bank Distribution APE increased by USD 0.4 billion to USD 1.1 billion, driven by the joint ventures in Spain through successful protection and savings campaigns. 2009 has also benefited from a full year's inclusion of the results from the joint ventures compared to 2008 which only received the benefit of one quarter. The UK business grew from the sale of newly introduced investment products.

IFA/Brokers distribution increased APE by 11 percent in local currency terms but reduced slightly in U.S. dollar terms. Strong pension sales in the UK and successful sales campaigns from the Finanza e Futuro distribution channel in Italy were partially offset by lower sales of unit-linked pension products in Germany.

Agents distribution volumes reduced slightly. Sales in many countries proved resilient to the financial crisis mainly as a result of several customer and distributor focused programs. Growth continues in Latin America, Germany, Switzerland and Italy. These positive developments were offset by a decline in unit-linked sales in the Hong Kong domestic market, particularly in the first half of 2009.

Corporate Life & Pensions distribution increased APE by USD 0.2 billion to USD 0.6 billion. The pillar experienced growth in both protection and pension business with the main contributions arising from ZIS, the UK and Latin America.

The **International/Expats** pillar APE decreased by USD 65 million. The lower sales, predominantly of investment products, reflected reduced consumer confidence caused by the market conditions earlier in the year.

The **Private banking** pillar delivered successful client propositions this year in the UK and from its new hub in Luxembourg, achieving an APE of USD 0.2 billion.

In addition, the CRNHR replaced the CNMR methodology in 2009 to align with the MCEV Principles, which increased new business value by USD 16 million in the second quarter.

New business by territory

in USD millions, for the years ended December 31	APE		PVNBP		New business value		New business margin			
							as % APE		as % PVNBP	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Americas	259	223	1,794	1,609	136	121	52.4%	54.3%	7.6%	7.5%
<i>United States</i>	97	101	1,013	947	100	91	102.5%	90.4%	9.8%	9.6%
<i>Latin America</i>	161	122	781	662	36	30	22.1%	24.6%	4.6%	4.5%
United Kingdom	785	878	6,913	7,272	95	90	12.1%	10.2%	1.4%	1.2%
Germany	622	690	4,955	6,681	144	265	23.1%	38.3%	2.9%	4.0%
Switzerland	118	123	1,102	1,177	24	36	20.1%	29.4%	2.2%	3.1%
Ireland	310	327	2,374	2,277	69	61	22.4%	18.7%	2.9%	2.7%
Spain	709	294	6,510	2,632	111	44	15.7%	14.9%	1.7%	1.7%
Emerging Markets in Asia	528	526	2,554	2,579	128	100	24.2%	19.1%	5.0%	3.9%
<i>ZIS¹</i>	453	449	2,263	2,220	112	84	24.7%	18.7%	4.9%	3.8%
<i>Hong Kong</i>	75	77	290	359	16	17	21.4%	21.6%	5.6%	4.6%
Rest of the World	336	200	3,313	1,656	75	35	22.4%	17.6%	2.3%	2.1%
<i>Italy</i>	147	122	1,476	981	30	26	20.1%	21.1%	2.0%	2.6%
<i>Other</i>	190	78	1,837	675	46	10	24.1%	12.2%	2.5%	1.4%
Global Life	3,667	3,261	29,515	25,883	782	753	21.3%	23.1%	2.6%	2.9%

¹ ZIS is Zurich International Solutions, the international business based in the Isle of Man. ZIS in 2008 includes USD 7 million of development costs that were incurred centrally.

The **Americas'** new business value grew strongly. In the U.S. business volumes remained stable but margins increased due to the lower interest rate environment. In Latin America, Global Life successfully tendered to become one of the preferred providers in the reformed social security system in Chile. This was the key driver behind the 20% value increase.

The **UK** continued to grow its new business value, particularly in local currency, driven by improved margins, higher pension sales and successful sales through our major banking partners.

Germany and **Switzerland** have suffered lower margins in 2009. The economic environment has increased the cost of interest rate guarantees, although there has been some improvement in the third and fourth quarters due to management action to refine profit sharing models and close some products. The continuing economic uncertainty has also reduced investment in unit-linked products. Germany's new business in 2008 included a one-off impact from premiums received in respect of state-funded pension business.

Ireland's new business value grew strongly in 2009, by 19% in local currency. New business premiums fell only slightly despite the steep decline in the local market. Margins increased substantially due to a successful focus on protection business particularly in the group protection market and also through effective expense control.

Spain delivered strong new business performance in particular from the joint ventures whose growth exceeded expectations. 2009 has benefited from a full year's inclusion of the results from the joint ventures compared to 2008 which only received the benefit of one quarter.

Emerging Markets in Asia have also performed favorably in the difficult market conditions, driven by an increased focus on protection business and strong management control of pricing and expenses have improved margins.

The Rest of the World saw a strong improvement in new business value coming from the renegotiation of reinsurance terms, lower interest rates that improved the value of protection business and the strong start of the new private banking insurance hub in Luxembourg.

3. Expected Contribution and Transfer to Free Surplus

a) Expected Contribution

The expected contribution is the projected change in the embedded value over the period using expected "real world" investment returns.

Expected contributions were lower in 2009 compared with 2008 due to the lower interest rate environment and the lower opening embedded value.

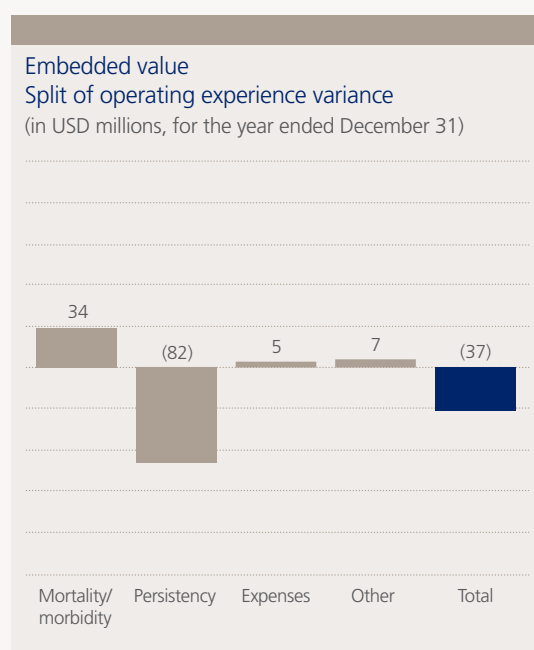
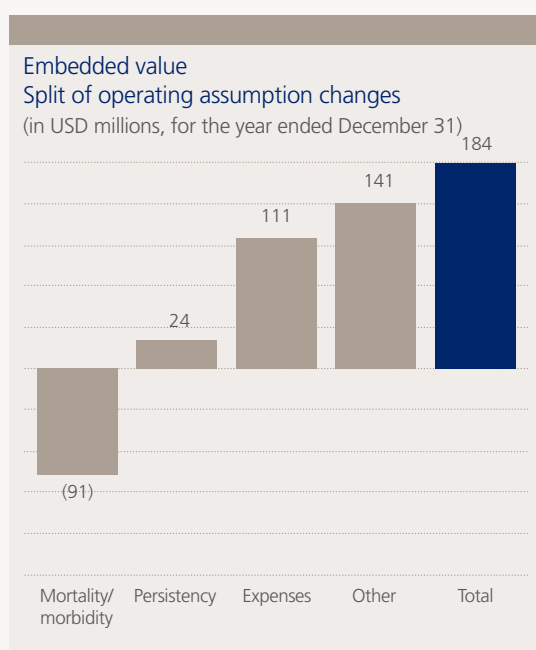
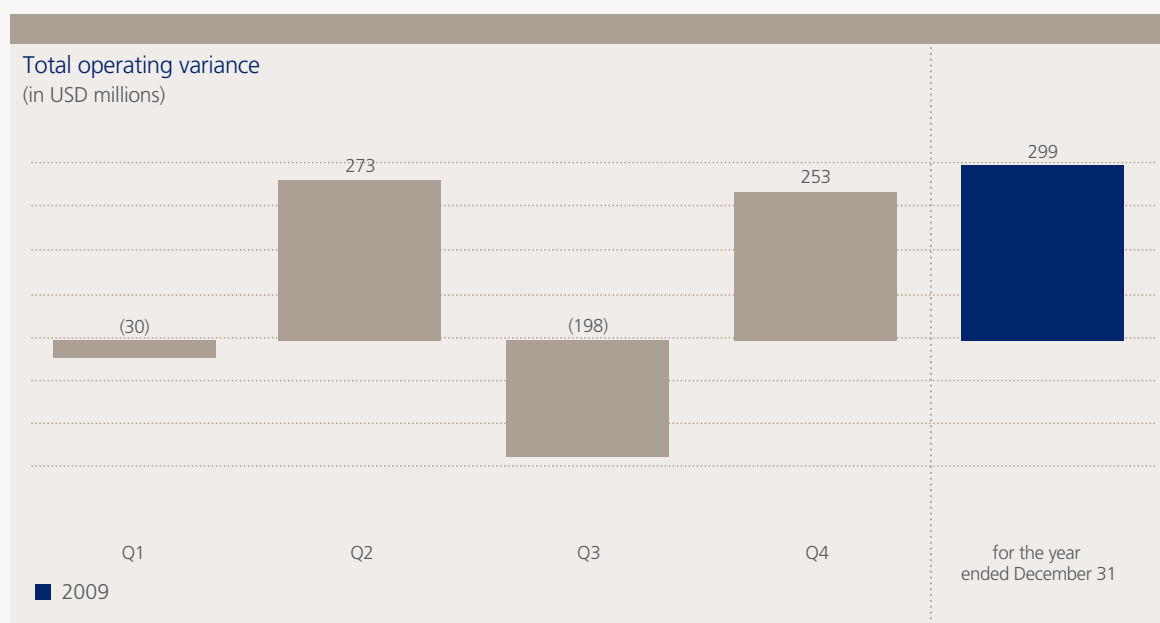
b) Transfer to Free Surplus

The expected transfer to shareholders' net assets shows the profits expected to emerge during the period in respect of business that was in force at the beginning of the period. The net effect is zero, as the reduction in value of business in force is offset by the increase in shareholders' net assets.

4. Operating, Economic and Other Non Operating Variance

Operating Variance

Operating variance measures the difference between actual experience during the period and that implied by the operating assumptions. It also includes the impact of changes in assumptions about future operating experience.



Operating variance

in USD millions, for the year ended December 31, 2009

	Q1	Q2	Q3	Q4	YTD
Operating assumption changes					
Mortality/morbidity	1	14	(148)	42	(91)
Persistency	–	(64)	105	(17)	24
Expenses	(3)	21	(30)	123	111
Other	22	95	40	(16)	141
Total	19	66	(33)	133	184
Operating experience variance					
Mortality/morbidity	(1)	(3)	21	17	34
Persistency	(46)	23	(62)	2	(82)
Expenses	5	(17)	20	(4)	5
Other	(3)	2	–	7	7
Total	(44)	5	(20)	23	(37)
Other operating variances					
Global development expense	(4)	(6)	(18)	(28)	(56)
Modelling Changes	(4)	218	(134)	79	159
One-off expenses	(28)	(16)	(11)	(27)	(82)
Other	32	6	19	75	131
Total	(4)	202	(144)	98	152
Total operating variance	(30)	273	(198)	253	299

Operating variances occur in the normal course of business as short-term experience fluctuates around the long-term assumptions. The variances described below are immaterial compared to the total embedded value.

Mortality experience increased embedded value by USD 34 million. As a result of the regular reviews of mortality around Global Life we have updated some of our assumptions. This has led to a mixture of impacts but with a negative USD (148) million from the U.S. partially offset by a positive USD 47 million from Switzerland.

Persistency experience was negative in the first three quarters of the year, but stabilised or even improved in some countries in the final quarter as a result of the recovery in the economic outlook, giving an overall negative variance of USD (82) million for the year. Revisions to persistency assumptions mainly made in the third quarter reflected the management view that persistency will revert to normal long-term levels in the future. These assumption changes led to a mixture of positive and negative impacts, giving an overall positive variance of USD 24 million.

Expense assumptions were improved in several countries to reflect the outcome of management cost-saving initiatives with an overall impact of USD 111 million. Expense experience in the year resulted in a positive variance of USD 5 million.

Other assumption changes included a benefit from a change in management rules on policyholder profit sharing rules in Switzerland, a refinement of premium assumptions for protection products of USD 41 million and a benefit of USD 31 million following the renegotiation of rebates to ZIS from fund managers.

Other operating variances totalled USD 152 million. The new CRNHR methodology increased operating earnings by an estimated USD 140 million, and the application of frictional costs to required capital (rather than available capital) increased embedded value by an estimated USD 78 million. A positive variance of approximately USD 50 million came from improved modelling of operational risk for CRNHR and the recognition of internal reinsurance in ZIS. Switzerland benefited by approximately USD 50 million from releasing some reserves and from fund management initiatives. These gains were partially offset by corrections to variable premium rate tables in the U.S. during the third quarter with a negative impact of USD (165) million.

Economic Variance

Economic variance is the difference between actual experience during the period and that implied by the economic assumptions and also includes the impact of changes in assumptions in respect of future economic experience.

The economic variance of USD 1.3 billion was due to the recovery in equity markets in many countries during the second half of the year and in addition, interest rates have generally increased since the start of the year, which has reduced the time value of options and guarantees in many countries.

Other Non Operating Variances

Other non operating variance includes the impact of legal, tax and regulatory changes in the period.

The non operating variance of USD (123) million was mainly due to the implementation of the CRNHR methodology. This allows for non-hedgeable ALM risk and reinsurance credit risk, which were not previously allowed for under the old CNMR methodology.

5. Closing Adjustments

a) Non-controlling Interests

In 2009, the adjustment to embedded value to remove non-controlling interests from the new business value is shown in "Dividends & capital movements", and was mainly due to the joint ventures in Spain. In 2008, the adjustment of USD (23) million was included within operating variance.

b) Dividends and Capital Movements

Dividends and capital movements reflect dividends paid by Global Life to the Group and capital received from the Group. Capital movements can also relate to the value of business in force in respect of acquisitions and disposals, or corporate restructuring.

c) Foreign Currency Translation Effects

Foreign currency translation effects represent the impact of adjusting values to end-of-period exchange rates.

The weakening of the U.S. dollar against the Euro, Swiss Franc and British Pound during 2009 had a positive impact on embedded value.

6. Reconciliation of IFRS Net Assets to Embedded Value

Reconciliation of Global Life IFRS shareholders' equity to embedded value	in USD billions, as of December 31	Total	
		2009	2008
		IFRS shareholders' net assets¹	14.0
Less non-controlling interests ²	(1.3)	(1.2)	
IFRS shareholders' equity net of joint ventures and non-controlling interests	12.7	10.7	
Plus IAS 19 liabilities ³	0.3	0.4	
Less Intangible assets ⁴	(5.9)	(5.7)	
<i>Deferred acquisition costs/Deferred origination costs</i>	(13.1)	(11.5)	
<i>Deferred front end fees</i>	5.5	4.7	
<i>Present value of profits of acquired insurance contracts</i>	(0.9)	(1.0)	
<i>Policyholder share of actuarial intangibles</i>	2.6	2.2	
<i>Tax on shareholder share of actuarial intangibles</i>	2.1	1.9	
<i>Goodwill</i>	(0.4)	(0.6)	
<i>Other Intangibles</i>	(1.7)	(1.4)	
Valuation differences ⁵	(0.5)	0.1	
Embedded value shareholders' net assets⁶	6.6	5.4	
Value of business in force ⁷	10.2	7.4	
Embedded value	16.8	12.8	

¹ Global Life balance sheet value

² Includes Spanish joint ventures and other non-controlling interests

³ Since IAS 19 liabilities are included in IFRS equity but not EV shareholders' net assets

⁴ Actuarial intangibles (after allowance for tax and ph sharing), goodwill and other intangibles

⁵ Unrealised gains/losses on investments, statutory vs IFRS reserving requirements

⁶ EV shareholders' net assets net of joint ventures and non-controlling interests

⁷ EV value of business in force

7. Sensitivities

Sensitivities	in USD millions, as of December 31, 2009			
	Change in embedded value			Change in new business value
	Shareholders' net assets	Value of business in force	Total	
Actual embedded value	6,554	10,198	16,752	782
Operating sensitivities				
10% increase in initial expenses and commissions	n/a	n/a	n/a	(79)
10% decrease in maintenance expenses	19	330	349	37
10% increase in voluntary discontinuance rates	–	(494)	(494)	(89)
10% decrease in voluntary discontinuance rates	–	590	590	107
5% improvement in mortality and morbidity for assurances	2	230	232	32
5% improvement in mortality and morbidity for annuities	(3)	(57)	(60)	(2)
Required capital set equal to minimum solvency capital	–	55	55	–
Economic sensitivities				
100 basis points increase in risk free yield curve	(226)	(299)	(525)	9
100 basis points decrease in risk free yield curve	115	(594)	(479)	(13)
10% fall in equity market values	(73)	(159)	(233)	(2)
10% fall in property market values	(34)	(206)	(240)	(2)
25% increase in implied volatilities for risk free yields	1	(353)	(352)	5
25% decrease in implied volatilities for risk free yields	(1)	59	58	2
25% increase in implied volatilities for equities and properties	–	(175)	(175)	–
25% decrease in implied volatilities for equities and properties	–	(36)	(36)	2

The key assumption changes represented by each of these sensitivities is given in Section 10(r).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include any impact of the assumption changes on the time value of financial options and guarantees.

The 100 basis points increase in risk free yield curve reduces the value of some products, such as term assurance, with fixed cash flows that are discounted at higher rates. This reduction is offset by the increase in the value of other products, such as those with profit sharing, due to the higher assumed investment returns on investment of net cash flows.

We have also estimated the effect on the embedded value of allowing for a liquidity premium of 10 basis points. The estimated impact is USD 26 million and has been derived from linear interpolation of the "100 basis points increase in risk free yield" sensitivity on the individual savings and annuity lines of business.

8. Life Business Included in Non-Core Businesses

The Group has written life business in Kemper Investors Life Insurance Company and in Centre operations, some of which is not managed in Global Life. The main products that have been written by these businesses outside Global Life are:

- variable annuity contracts that provide annuitants with guarantees related to minimum death and income benefits;
- disability business; and
- bank owned life insurance business.

The Group has estimated the embedded value of these businesses based on the same principles as for the Global Life business, including deductions for the time value of financial options and guarantees, frictional costs and the cost of residual non-hedgeable risk, but using more approximate models. The results are set out in the following table.

Estimated embedded value of life businesses in Non-Core Businesses	in USD billions, as of December 31	
	2009	2008
Shareholders' net assets	1.0	1.2
<i>Certainty equivalent value</i>	<i>0.1</i>	<i>(0.6)</i>
<i>Time value of financial options and guarantees</i>	<i>(0.0)</i>	<i>(0.0)</i>
<i>Frictional costs</i>	<i>(0.0)</i>	<i>(0.0)</i>
<i>Cost of residual non-hedgeable risk¹</i>	<i>(0.1)</i>	<i>(0.4)</i>
Value of business in force	(0.1)	(1.1)
Embedded value	0.9	0.2

¹ For 2008 this figure was calculated using the CNMR methodology

9. Group MCEV

The Group MCEV is presented in the following table as the Global Life covered business valued under the MCEV principles and the non-covered businesses, which include the non-core life businesses managed outside Global Life, valued as described in Section 8, and the remaining Group non-life business valued as the unadjusted IFRS net asset value.

Group MCEV, 2009	in USD billions, as of December 31, 2009	Covered	Non covered	Total
		Business MCEV	business	Group MCEV
Opening Group MCEV		12.8	11.5	24.3
<i>Opening adjustments</i>		0.0	0.0	0.0
<i>Adjusted Opening MCEV</i>		12.8	11.5	24.3
<i>Operating MCEV earnings</i>		1.9	2.5	4.4
<i>Non-operating MCEV earnings</i>		1.2	0.0	1.2
<i>Total MCEV Earnings</i>		3.1	2.5	5.6
<i>Other movements in IFRS net equity</i>		0.0	2.7	2.7
<i>Closing adjustments</i>		0.8	0.3	1.2
Closing Group MCEV		16.8	17.0	33.8

10. Embedded Value Methodology

Zurich Financial Services Group (the Group) has applied the Market Consistent Embedded Value Principles issued by the CFO Forum in October 2009, for its Embedded Value (EV) Report for the companies and business in its Global Life segment (the covered business) for the year ended December 31, 2009. This report primarily relates to Global Life, but information relating to the Non-Core Businesses is given in Section 8 and to the total Group in Section 9. The embedded value methodology adopted by the Group is based on a “bottom-up” market consistent approach to allow explicitly 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; and
- options and guarantees are valued using market consistent models calibrated to observable market prices. Where markets exhibit a limited capacity, the valuation is based on historical averages.

Embedded value represents the shareholders’ interests in the entities included in Global Life as set out in the Group’s consolidated IFRS Financial Statements. Embedded value excludes any value from future new business.

a) Covered Business

Covered business includes all business written by companies that are included in the Global Life segment, in particular:

- life and critical illness insurance;
- savings business (with profit, non-profit and unit-linked);
- pensions and annuity business; and
- long-term health and accident insurance.

For certain smaller companies, no embedded value has been calculated but these companies have been included in the embedded value at their shareholders’ equity value, as calculated in accordance with IFRS. The contribution from these companies to the embedded value is approximately 1.9% percent.

b) Reporting of Embedded Value

In line with the Market Consistent Embedded Value Principles, the embedded value is broken down into the following components:

- shareholders’ net assets, including free surplus and required capital; and,
- the value of business in force.

The results are disclosed in a format that the Group considers to be appropriate for the market consistent methodology adopted.

c) Shareholders' Net Assets

Shareholders' net assets represent the market value of net assets held in respect of the covered business, and consists of the required capital and free surplus. The level of required capital reflects the amount of capital considered by the local Directors to be appropriate to manage the business. This would be set at least at the level equal to the regulatory required capital, at which the regulator would intervene to request a capital injection and in addition, for the main territories, an adequate buffer to cover short term volatilities in solvency due to financial and non-financial risks or to achieve the capital required to maintain the desired credit rating.

The free surplus comprises the market value of shareholders' net assets allocated to the covered business in excess of the assets backing the required capital.

The shareholders' net assets are based on local statutory and regulatory accounting. Adjustments are made to the embedded value where appropriate, for example in respect of any unrealized gains attributable to shareholders. Any such adjustments are made consistently with the calculation of the value of business in force.

d) Value of Business in Force

The value of business in force is the present value of future projected profits, distributable after tax to shareholders from the covered business. It is defined as the certainty equivalent value of business in force less frictional costs, the time value of financial options and guarantees, and the cost of residual non-hedgeable risk. These components are explained below.

Certainty equivalent value is the value calculated using discount rates consistent with those applied to the underlying cash flows in the capital markets. It includes the intrinsic value but excludes the time value of financial options and guarantees which is allowed for separately, as described below.

Frictional costs reflect a deduction for the cost of holding shareholder capital. Under the Group's market consistent framework, these frictional costs represent tax in respect of future investment income on total required capital plus investment management costs. Before 2009, frictional costs applied to total available capital and the change was adopted to align with the CFO Forum's Market Consistent Embedded Value Principles. In Germany, the policyholders' share of investment income on the capital is also included.

The estimated impact of the change in frictional cost methodology at December 31, 2008 would have been to increase embedded value by USD 78 million.

For the purpose of these calculations, required capital is assumed to run off in line with existing business.

The allowance for frictional costs is included both in the value of business in force, and in the new business value. For new business, frictional costs are applied to the minimum solvency margin required to be held in respect of that business.

No allowance is made for "agency costs" as these are considered to be subjective and depend on the view of each shareholder.

Time value of financial options and guarantees represents additional costs in excess of the intrinsic value of options and guarantees which are already allowed for in the certainty equivalent value. These are based on the variability of investment returns which need to be allowed for explicitly under the Market Consistent Embedded Value Principles. The time value has been calculated on a market consistent basis using stochastic modeling techniques, and making allowance for expected management and policyholder behavior.

For products with significant guarantees, the time value has been calculated on a market consistent basis by deducting the average present value of shareholder cash flows using at least 1,000 stochastic economic simulations from the certainty equivalent value (both for the value of business in force and separately for new business value).

For most products, the average value has been calculated using Monte Carlo simulations. For a small number of products, the time value of financial options and guarantees has been derived using closed form solutions.

Where appropriate, the calculation of the time value of financial options and guarantees makes allowance for:

- dynamic actions that would be taken by management under different economic simulations, for example to implement a life business' investment strategy; and
- dynamic policyholder behavior, for example changes in surrender behavior as interest rates rise or fall, or take-up rates of guaranteed annuity options.

The **Cost of Residual Non-Hedgeable Risk (CRNHR)** has replaced, for reporting of embedded value from June 30, 2009, the previous allowance for the Cost of Non Market Risk. This is an explicit deduction for non hedgeable financial risks (non-hedgeable ALM risks, reinsurance credit risk), and non-financial risks (mortality, persistency, expenses and operational risk). The certainty equivalent value allows for the best estimate shareholder cashflows. The Cost of Residual Non-Hedgeable Risk is largely an allowance for uncertainty in shareholder cashflows, and for risks which are not already considered in the certainty equivalent value or time value of financial options and guarantees, such as operational risk. Most residual non-hedgeable risks have a symmetric impact on embedded value apart from operational risk.

It is calculated as a charge on the capital held for residual non-hedgeable risks. This is calculated according to Zurich's internal risk based capital model by applying 1 in 2000 shocks to the embedded value assumptions. To align with the MCEV Principles the risk based capital is scaled to 99.5 percent confidence level by using empirical distributions where available, or assuming probability distributions as appropriate.

The capital is projected over the lifetime of the business using appropriate risk drivers for each risk type. The present value of the risk capital is calculated by applying the swap curve as at the valuation date. The Cost of Residual Non-Hedgeable Risk allows for diversification across risk types and across geographical segments. It complies with all areas of the MCEV Principles except Guidance 9.7. This is because it allows for diversification between covered and non-covered business, which is consistent with the management view of the business and adds an estimated USD 179 million to embedded value.

A 2.5 percent cost of capital charge has been applied to the diversified present value of non-hedgeable risk based capital. This represents the risk premium that would be demanded by investors on capital exposed to non-hedgeable risks. It has been determined according to research performed by the CRO Forum which indicated that a suitable charge is in the range 2.5-4.5 percent. As the CRO Forum calculation allowed for financial distress costs and agency costs which are explicitly excluded from the embedded value calculation, the Group took the lower end of the range. The Cost of Residual Non-Hedgeable Risk varies linearly with the charge.

The estimated impact of introducing CRNHR at December 31, 2008 would have been to increase embedded value by USD 87 million.

Cost of non market risk (CNMR), the previous method that applied to the embedded value calculations in the reporting periods prior to June 30, 2009, was an explicit additional deduction from the value of in-force business, over and above the frictional costs, reflecting an allowance for the impact on shareholder value of variability in insurance, business and operational risks.

The Group's approach to the cost of non market risk was based on a valuation of the potential impacts on shareholder value of variance in certain best estimate assumptions to allow explicitly, at product level, for insurance (mortality, longevity and morbidity), business and operational risk.

The mortality, morbidity, persistency and expense assumptions used to calculate the value of business in force and new business value were best estimates based on recent past experience.

To the extent that the impact on shareholder value of variations in experience around the best estimate were symmetrical (for example, where the loss on a 10 percent increase in expenses was equal and opposite to the profit on a 10 percent reduction), and not correlated with investment markets, no further allowance for non market risk would be required. In such circumstances, the risk was considered to be diversifiable, and financial markets do not charge a risk premium for diversifiable risks.

However, in certain cases this symmetry does not hold, and the Group then considered that it was appropriate to make explicit allowance for this within the embedded value.

e) New Business

New business covers new contracts sold during the reporting period and includes recurring single premiums; new premiums written during the period on existing contracts; and variations to premiums on existing contracts where these premiums and variations have not previously been assumed as part of business in-force. Where recurring single premiums are projected over time to derive the corresponding new business value, they are treated as annual premium for the volume definition. Group Life business which is valued with a renewal assumption of the contracts is treated as annual premium.

The new business is valued as at point of sale. Explicit allowance is made for frictional costs, time value of financial options and guarantees, and cost of non residual non-hedgeable risk. New business value is valued using actual new business volumes.

The value generated by new business written during the period is the present value of the projected stream of after tax distributable profits from that business.

In certain profit sharing funds, the new business written can affect the time value of financial options and guarantees for business written in prior years. This effect is taken into account in the new business value by valuing on a marginal approach, the difference between embedded value with and without new business. This captures the effect of cross-subsidies between in-force and new business due to, for example, different interest rate guarantees operating in a shared common pool of assets.

Quarterly new business is valued on a discrete basis. New business value is calculated separately for each quarter using assumptions, both operating and economic, as of the start of the relevant quarter. New business strain is also calculated on a quarterly discrete basis, meaning that it takes account only of cash flows during that quarter and makes no allowance for any subsequent reduction in strain during the remainder of the period. Once calculated, the new business value will not change in local currency terms.

f) Asset and Liability Data

The majority of the Group's embedded value, has been calculated using a "hard close" approach. This means that all asset and liability data reflect the actual position as of the valuation date.

Germany has followed an approach where liability model points were set up in advance, using the structure of a previous run, and then projected to December 31, 2009 values, by scaling to match the expected balance sheet figures. The new business model points were set up at November 30, 2009, and scaled along the expected development of the APE.

g) Market Consistent Discounting

The Group has adopted a "bottom-up" market consistent approach for the projection and discounting of future cash flows in the calculation of the embedded value. As a result, the risks inherent in the cash flows are allowed for in a way that is consistent with the way the market is expected to allow for such risks.

In principle, this method values each cash flow using a discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a bond cash flow is valued using a bond discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate.

In practice, the Group has applied a computational method known as a “risk neutral” approach. This involves projecting the assets and liabilities using a distribution of asset returns where all asset types, on average, earn the same risk free rate.

The risk free yield curve assumptions are based on the swap curve in each major currency (U.S. dollars, Euros, British pounds and Swiss francs). For liabilities where payouts are either independent or move linearly with markets, deterministic techniques (referred to as “certainty equivalent”) have been used. In such cases, the projection and discounting are based on the same risk free yield curve.

h) Economic Scenario Generator

All operations use actual yield curves observable as of December 31, 2009 for the calculation of the certainty equivalent value of business in force.

The calculations of the time value of financial options and guarantees are based on stochastic simulations using an Economic Scenario Generator (“ESG”) provided by Barrie & Hibbert. The outputs (“simulations”) have been calibrated to conform to the economic parameters specified by the Group.

The simulations used for calculation of time value of financial options and guarantees reflect the actual yield curves and implied volatilities observable as of December 31, 2009.

Simulations are produced for the economies in the U.S., the UK, Switzerland and the Euro-Zone. In each economic area, risk free nominal interest rates are modeled using a LIBOR market model. The excess return on other asset classes relative to the total returns on risk free assets are then modeled using a multi-factor lognormal model. Hong Kong uses US dollar simulations as their principal liabilities are U.S. dollar denominated. Chile uses closed form solutions rather than simulations. The other operations not mentioned above have no significant options and guarantees. Further details are set out under “Economic assumptions” in Section 11.

i) Corporate Center Costs

Corporate Center costs that relate to covered business have been allocated to the relevant countries and included in the projected expenses.

j) Holding Companies

Holding companies that belong to Global Life have been consolidated in the embedded value at their local statutory net asset value. Related expenses are small and so have been excluded from the projection assumptions. Holding companies outside Global Life are not included in the embedded value of the covered business.

k) Consolidation Adjustments

Where a reinsurance arrangement exists between two life companies in Global Life, the value of the reinsurance is shown in the embedded value of the ceding company. This has no material impact on the reported results.

Embedded value is shown net of non-controlling interests. Where the Group has a controlling interest in a subsidiary company, the new business value and the premium information are shown gross of non-controlling interests. The non-controlled share of new business value is eliminated through “Dividends & capital movements”.

l) Debt

Where a loan exists between a company in Global Life and a Group company outside of Global Life, the loan is valued for embedded value purposes as if contracted with an external party.

m) “Look through” Principle – Service Companies

There are some companies within Global Life that provide administration and distribution services. These are valued on a “look through” basis. The results do not include any Group service companies outside Global Life.

In the UK, a multi-tie distribution company (Openwork) is included in the embedded value on a “look through” basis. After allowance for certain one-off expenses, profits and losses are attributed to new business value. Certain future revenue streams, mainly renewal commissions on business sold, are discounted and contribute to the new business value and to the value of business in force.

In Germany, the majority of distribution and administration is provided by service companies. These are valued on a “look through” basis. These companies also provide limited services to companies outside Global Life. The value of business in force and new business value reflect the services provided to companies within Global Life. Net asset value consists, however, of the full statutory equity of these service companies.

In Switzerland, an investment management company provides asset management services to pension schemes written in foundations and other pension funds. The present value of the net asset management fees, after tax, is included in the embedded value and the new business value.

n) Employee Pension Schemes

Actuarial gains and losses arising from defined benefit pension and other defined benefit post-retirement plans are recognized in full in the period in which they occur and are presented on a separate line in the statement of comprehensive income. In the Group’s consolidated IFRS financial statements, a liability is recognized for IAS 19 Employee Benefit deficits. This adjustment has not been made in the detailed embedded value described in this embedded value report. If the adjustment had been made the embedded value as of December 31, 2009 would have been lower by USD 305 million. The actuarial and economic assumptions used for this adjustment are consistent with those used for the equivalent allowance made in the Group’s consolidated IFRS financial statements.

As previously reported, expense assumptions for each life business include expected pension scheme costs in respect of future service entitlements.

o) Employee Share Options

The costs of share options granted to employees are not included in the embedded value, other than to the extent that they are allowed for in the local statutory accounts upon which the shareholders’ net assets are based. Further information on the costs of share options is given in the Group’s consolidated IFRS financial statements.

p) Change in Legislation or Solvency Regime

The impacts of changes in legislation or solvency regimes are included in economic variance for the analysis of movement.

q) Translation to Group Presentation Currency

To align embedded value reporting with the Group’s consolidated IFRS financial statements, relevant results have been converted to the Group presentation currency, U.S. dollar, using average exchange rates for the period. This applies to new business value, new business volumes (APE and PVNBP) for the current period and comparative figures for December 31, 2008. This approach has also been applied to the analysis of movement. Valuations are translated at end-of-period exchange rates.

The rates can be found in note 1 to the Consolidated Financial Statements.

r) Sensitivities

The key assumption changes represented by each of the sensitivities in Section 7 are as follows:

Operating Sensitivities

A 10 percent decrease in voluntary discontinuance rates means that, for example, a base assumption of 5 percent p.a. would decrease to 4.5 percent p.a.

A 10 percent decrease in maintenance expenses means that, for example, a base assumption of USD 30 p.a. would decrease to USD 27 p.a.

A 10 percent decrease in initial expenses and commissions was considered for new business values only.

A 5 percent improvement in mortality and morbidity assumptions for assurances means that, for example, if the base mortality assumption for assurances was 90 percent of a particular table, this would decrease to 85.5 percent.

A 5 percent improvement in mortality assumptions for annuities means that, for example, if the base mortality assumption for annuities was 90 percent of a particular table, this would decrease to 85.5 percent.

Economic Sensitivities

A 100 basis points increase and decrease (subject to a minimum of zero percent) was applied to the risk free yield curve across all durations.

A 10 percent fall in equity and property market values was assessed for embedded value only. This is not applicable for new business.

A 100 basis points increase in the discount rates means that, for example, a discount rate of 6 percent p.a. would increase to 7 percent p.a.

A 25 percent increase in implied equity and property volatilities means that, for example, a volatility of 20 percent p.a. would increase to 25 percent p.a.

A 25 percent increase in implied risk free volatilities means that, for example, a volatility of 20 percent p.a. would increase to 25 percent p.a.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include any impact of the assumption changes on the time value of financial options and guarantees.

11. Embedded Value Assumptions

Projections of future shareholder cash flows expected to emerge from covered business and for new business are determined using best estimate operating assumptions. These assumptions, including mortality, morbidity, persistency and expenses, reflect recent experience and are actively reviewed. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favorable changes in operating efficiency are not anticipated in the assumptions – in particular for expenses and persistency.

Future economic assumptions, for example, investment returns and inflation, are based on period end conditions and assumed risk discount rates are consistent with these. For new business, the future economic (and operating) assumptions are based on conditions at the start of the relevant quarter.

Details of the economic assumptions for the major economies in which Zurich Global Life carries out business can be downloaded in a spreadsheet from the Investors section at www.zurich.com.

a) Economic Assumptions

Market Consistent Framework

The Group has adopted a computational method known as “risk neutral”. With this method the key economic assumptions are:

- risk free rates;
- implied volatilities of different assets; and,
- correlations between different asset returns.

Expected asset returns in excess of the risk free rate have no bearing on the calculated embedded value other than in the expected return used for the analysis of movement. The expected return for equities comprises an equity risk premium added to the beginning of period one year swap rate. The expected return on corporate bonds is equal to the beginning of period one year swap rate plus a risk premium estimated by comparing the market yield on corporate bonds with the swap rates for equivalent durations. In addition, a reduction must be made to the yield to allow for the expected level of defaults.

Choice of “Risk Free Yield Curve”

The risk free yield curve is derived from mid-market swap rates applicable to each economy as of December 31, 2009. These curves were used to extract forward reinvestment yields that are used for all asset classes. The yield curves are consistent with the assumptions used by investment banks to derive their option prices and their use ensures consistency with the derivation of implied volatilities. They also have the advantage of being available for most of the markets in which the Group operates. Domestic yield curves are used by businesses in other countries, except Hong Kong and Argentina which use US dollar, as their liabilities are principally US dollar dominated.

Implied Asset Volatility

The Group’s embedded value model is based on market consistent assumptions. Interest volatility is derived from the implied volatility of interest rate swaptions. Swaption implied volatilities vary both by the term of the option and also the term of the underlying swap contract, a fact that is reflected in the economic scenarios. The equity volatilities are based on at-the-money forward European options on capital indices, consistent with traded options in the market. Volatility of property investments is derived from relevant historical return data for each modelled economy.

The Group did not believe that the market in the fourth quarter of 2008 represented a deep and liquid market and so chose to base its volatility assumptions for the twelve months ended 2008 on 12 month averages. For interest rate instruments, for the USD, GBP and EUR economies, the average was based on end-of-month volatilities from 2008. For the CHF interest rate volatility and equity derivatives in all economies, the average was based on end-of quarter data.

Inflation

Inflation assumptions have been derived from the yields on index linked bonds relative to the risk free yield curve, where index linked bonds exist. Elsewhere, a statistical approach based on past inflation has been used. Appropriate allowance has been made for expense inflation to exceed the assumed level of price inflation as life company expenses include a large element of salary related expenses.

Risk Discount Rate

Under the "risk neutral" approach, risk discount rates are based on the same risk free yield curves as those used to project the investment return.

For stochastic modeling, the risk discount rates are simulation specific and also vary by calendar year consistently with the projected risk free yields in each simulation.

Liquidity Premiums

The CFO Forum continues to develop suitable methodology to quantify the liquidity premium. In advance of completion of this work, the Group has chosen to continue its previous market-consistent approach with a liquidity premium of zero.

"Expected Return" for the Analysis of Movement – Investment Return Assumptions

The expected return for the analysis of movement is based on a projection from beginning of period to end-of-period. This requires assumptions regarding the investment returns expected to be achieved over the period on different asset classes. The investment return assumptions (for this purpose only) are based on the "real world" returns expected by the Group. The use of real world investment assumptions gives a more realistic basis for the expected return calculation and allows for the risk underlying each asset. Any under or over performance will be reported through economic variance.

For fixed interest assets, the "real world" investment return assumptions are based on the gross redemption yield on the assets, less an allowance for defaults where appropriate, together with an adjustment to reflect the change over the year implied in the yield curve assumptions.

For equity and property assets, the investment return assumptions are based on the 1 year swap rate at the beginning of period plus a margin to reflect the additional risk associated with investment in these asset classes.

These assumptions have been set by asset class and separately for each sub-fund in each life business in order to best reflect the actual assets held.

Participating Business

Rates of future bonus or crediting rates have been set at levels consistent with the risk neutral investment return assumptions and current bonus plans. In the UK, bonus rates have been set so as to exhaust any remaining assets in the relevant long-term funds. In certain scenarios shareholder injections may be required to meet existing guaranteed benefits and this additional cost is included in the TVOG.

In other European life businesses and in the U.S., bonuses have been set to be consistent with the investment return assumptions and with the book value approach used by these life businesses in practice. Existing practice, contractual and regulatory requirements as well as the reasonable expectations of policyholders are considered in setting bonuses.

Taxation

Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates or practices have been announced.

b) Operating assumptions

Demographic assumptions

The assumed future mortality, morbidity and lapse rates have been derived from recent operating experience and relevant industry statistics. Where operating experience or industry statistics are limited, the assumptions are derived from a best estimate of future developments and are subject to regular review as more experience emerges. Where appropriate, surrender and option take-up rate assumptions that vary according to the investment simulation under consideration have been used, based on our assessment of likely policyholder behavior.

Expense assumptions

Management expenses have been analyzed between expenses related to acquisition of new business, the maintenance of in force business and, where appropriate, one-off project costs. Future expense assumptions allow for expected levels of maintenance expenses. In addition, Corporate Center expenses relating to covered business have been allocated to business units and are reflected in assumed future expenses.

The maintenance expense assumptions allow for the expected cost of providing future service benefits in respect of the Group staff pension schemes. An adjustment to the embedded value is noted in Section 10.n for pension scheme liabilities under IAS 19 and no allowance is made in the expense assumptions for any contributions as a result of past service benefits.

No allowance has been made for future productivity improvements in the expense assumptions.

None of the life companies included in the embedded value is considered to be in a "start-up" situation and so no allowance has been made for future development expenses.

Where service companies have been valued on a look through basis, the value of profits or losses arising from these services have been included in the embedded value and new business value.

c) Dynamic decisions

To reflect more realistically the outcome of stochastic simulations, the assumptions for each simulation make allowance for the behaviors of policyholders and management actions in response to the investment conditions modeled.

In many life businesses, policyholders can exercise an option against the life company in certain circumstances, such as to surrender a policy. This leads to an increase in the assumed lapse rates when interest rates rise (or a corresponding reduction when interest rates fall). This dynamic effect in relation to lapse rates has been allowed for in the stochastic models.

The stochastic models allow, where appropriate, for management actions to change investment strategy in response to market conditions.

Appendix

Embedded value results Global Life

in USD millions, for the twelve months ended December 31

	Americas		United Kingdom	
	2009	2008	2009	2008
Embedded value information:				
Opening embedded value	2,570	2,775	2,895	4,880
Dividends & capital movements start of period	71	(6)	3	(6)
New business value Global Life	136	121	95	90
Expected contribution	222	206	253	287
Experience variance	(11)	(13)	7	7
Assumption changes	(47)	35	6	(42)
Other operating variances	(26)	4	(54)	144
Operating earnings	273	353	308	485
Economic variance	218	(347)	210	(1,040)
Other non-operating variances	(21)	(43)	(210)	(155)
Embedded value earnings	471	(37)	307	(710)
Dividends & capital movements end of period	(7)	(98)	147	(171)
Foreign currency translation effects	49	(63)	321	(1,097)
Closing embedded value	3,154	2,570	3,672	2,895
New business information:				
Annual premiums	215	190	296	378
Single premiums	438	334	4,887	4,999
Annual premium equivalent (APE)	259	223	785	878
Present value of new business premiums (PVNBP)	1,794	1,609	6,913	7,272
New business value	136	121	95	90
New business margin (as % of APE)	52.4%	54.3%	12.1%	10.2%
New business margin (as % of PVNBP)	7.6%	7.5%	1.4%	1.2%
Returns				
Expected return	8.4%	7.4%	8.7%	5.9%
Operating return	10.3%	12.8%	10.6%	10.0%
Embedded value return	17.8%	(1.3%)	10.6%	(14.6%)

	Germany		Switzerland		Ireland		Spain		Emerging Markets in Asia		Rest of the World		Global Life	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	1,627	2,086	1,284	1,895	1,086	1,217	657	457	1,328	1,174	1,371	1,451	12,818	15,935
	47	(5)	(28)	–	–	(31)	(4)	(95)	(2)	63	(15)	70	72	(12)
	144	265	24	36	69	61	111	44	128	100	75	35	782	753
	74	96	110	120	39	62	20	41	53	61	69	91	840	964
	–	–	(11)	5	14	(2)	–	(2)	(20)	(74)	(17)	(6)	(37)	(84)
	84	22	91	11	(18)	12	(15)	(31)	81	20	2	8	184	35
	97	25	71	54	(17)	16	7	37	15	6	59	30	152	316
	398	408	285	226	88	149	124	89	257	114	188	158	1,921	1,983
	398	(813)	111	(874)	50	(197)	78	(178)	136	(108)	89	(253)	1,290	(3,811)
	(28)	137	305	91	(9)	–	(15)	–	(133)	235	(12)	(11)	(123)	253
	768	(268)	701	(557)	130	(48)	187	(89)	259	240	265	(106)	3,088	(1,575)
	(109)	(111)	(15)	(164)	–	–	(47)	435	(12)	136	2	76	(41)	103
	68	(76)	68	110	36	(52)	23	(50)	104	(285)	147	(119)	815	(1,633)
	2,401	1,627	2,010	1,284	1,251	1,086	816	657	1,677	1,328	1,770	1,371	16,752	12,818
	501	633	73	75	152	199	124	71	484	452	148	120	1,993	2,118
	1,213	570	451	483	1,577	1,283	5,843	2,231	445	735	1,890	799	16,743	11,433
	622	690	118	123	310	327	709	294	528	526	336	200	3,667	3,261
	4,955	6,681	1,102	1,177	2,374	2,277	6,510	2,632	2,554	2,579	3,313	1,656	29,515	25,883
	144	265	24	36	69	61	111	44	128	100	75	35	782	753
	23.1%	38.3%	20.1%	29.4%	22.4%	18.7%	15.7%	14.9%	24.2%	19.1%	22.4%	17.6%	21.3%	23.1%
	2.9%	4.0%	2.2%	3.1%	2.9%	2.7%	1.7%	1.7%	5.0%	3.9%	2.3%	2.1%	2.6%	2.9%
	4.4%	4.6%	8.7%	6.3%	3.6%	5.2%	3.1%	11.3%	4.0%	5.0%	5.1%	6.0%	6.5%	6.1%
	23.8%	19.6%	22.7%	12.0%	8.1%	12.6%	18.9%	24.6%	19.4%	9.2%	13.9%	10.4%	14.9%	12.5%
	45.9%	(12.9%)	55.8%	(29.4%)	11.9%	(4.0%)	28.7%	(24.7%)	19.5%	19.4%	19.6%	(7.0%)	24.0%	(9.9%)

Embedded value results
Americas,
Emerging Markets
in Asia and
Rest of the World

in USD millions, for the twelve months ended December 31

	Americas					
	United States		Latin America		Total	
	2009	2008	2009	2008	2009	2008
Embedded value information:						
Opening embedded value	2,271	2,432	299	342	2,570	2,775
Dividends & capital movements start of period	69	(7)	2	1	71	(6)
New business value Global Life	100	91	36	30	136	121
Expected contribution	201	184	22	22	222	206
Experience variance	(8)	(12)	(3)	(1)	(11)	(13)
Assumption changes	(39)	45	(8)	(9)	(47)	35
Other operating variances	(74)	10	48	(6)	(26)	4
Operating earnings	179	317	94	36	273	353
Economic variance	167	(335)	52	(13)	218	(347)
Other non-operating variances	(24)	(49)	3	6	(21)	(43)
Embedded value earnings	322	(67)	149	30	471	(37)
Dividends & capital movements end of period	(7)	(87)	–	(10)	(7)	(98)
Foreign currency translation effects	–	–	49	(63)	49	(63)
Closing embedded value	2,655	2,271	499	299	3,154	2,570
New business information:						
Annual premiums	91	94	124	96	215	190
Single premiums	60	68	378	266	438	334
Annual premium equivalent (APE)	97	101	161	122	259	223
Present value of new business premiums (PVNBP)	1,013	947	781	662	1,794	1,609
New business value	100	91	36	30	136	121
New business margin (as % of APE)	102.5%	90.4%	22.1%	24.6%	52.4%	54.3%
New business margin (as % of PVNBP)	9.8%	9.6%	4.6%	4.5%	7.6%	7.5%
Returns						
Expected return	8.6%	7.6%	7.2%	6.4%	8.4%	7.4%
Operating return	7.7%	13.1%	31.2%	10.6%	10.3%	12.8%
Embedded value return	13.7%	(2.7%)	49.4%	8.6%	17.8%	(1.3%)

¹ In the 2008 embedded value report ZIS new business value included USD 7 million of development costs that were incurred centrally, these are now shown separately in Emerging Markets in Asia under Other.

	Emerging Markets in Asia								Rest of the World					
	ZIS ¹		Hong Kong		Other		Total		Italy		Other		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	1,002	830	336	344	(9)	–	1,328	1,174	539	571	831	879	1,371	1,451
	–	31	(2)	32	–	–	(2)	63	–	130	(15)	(60)	(15)	70
	112	91	16	17	–	(7)	128	100	30	26	46	10	75	35
	29	40	23	21	–	–	53	61	35	43	34	48	69	91
	(12)	(50)	(8)	(25)	–	–	(20)	(74)	(8)	(6)	(9)	(1)	(17)	(6)
	110	27	(29)	(7)	–	–	81	20	(2)	(5)	4	13	2	8
	25	17	2	(4)	(11)	(7)	15	6	1	13	58	17	59	30
	264	126	4	2	(11)	(14)	257	114	55	71	133	87	188	158
	108	(20)	28	(88)	–	–	136	(108)	156	(248)	(67)	(5)	89	(253)
	(119)	230	(15)	5	–	–	(133)	235	(16)	(8)	4	(3)	(12)	(11)
	253	336	18	(81)	(11)	(14)	259	240	196	(185)	70	79	265	(106)
	–	93	(12)	39	–	5	(12)	136	5	49	(3)	26	2	76
	105	(287)	–	2	(1)	–	104	(285)	22	(26)	125	(93)	147	(119)
	1,360	1,002	339	336	(22)	(9)	1,677	1,328	762	539	1,008	831	1,770	1,371
					–	–								
					–	–								
	410	378	74	75	–	–	484	452	81	63	67	57	148	120
	432	710	13	25	–	–	445	735	661	585	1,229	214	1,890	799
	453	449	75	77	–	–	528	526	147	122	190	78	336	200
	2,263	2,220	290	359	–	–	2,554	2,579	1,476	981	1,837	675	3,313	1,656
	112	91	16	17	–	(7)	128	100	30	26	46	10	75	35
	24.7%	20.3%	21.4%	21.6%	n/a	n/a	24.2%	19.1%	20.1%	21.1%	24.1%	12.2%	22.4%	17.6%
	4.9%	4.1%	5.6%	4.6%	n/a	n/a	5.0%	3.9%	2.0%	2.6%	2.5%	1.4%	2.3%	2.1%
	2.9%	4.7%	6.9%	5.6%	n/a	n/a	4.0%	5.0%	6.4%	6.2%	4.2%	5.8%	5.1%	6.0%
	26.3%	14.6%	1.3%	0.5%	n/a	n/a	19.4%	9.2%	10.3%	10.2%	16.3%	10.6%	13.9%	10.4%
	25.2%	39.0%	5.3%	(21.6%)	n/a	n/a	19.5%	19.4%	36.3%	(26.4%)	8.5%	9.6%	19.6%	(7.0%)

Statement by Directors

This embedded value report has been prepared in all material respects in accordance with the Market Consistent Embedded Value Principles and Guidance issued by the European Insurance CFO Forum in October 2009.

The methodology and assumptions underlying the report are described in Sections 10 and 11.

Auditor's Report on Embedded Value

February 3, 2010

To the Board of Directors of
Zurich Financial Services Ltd
Zurich

Auditor's Report on Embedded Value

We have audited the Embedded Value Report ("EV Report") for the companies and business reported in Zurich Financial Services Ltd's Global Life segment included in pages 265 to 296 of the Financial Report 2009 for the year ended December 31, 2009. The embedded value information included in the EV Report has been prepared in accordance with the Market Consistent Embedded Value ("MCEV") Principles and Guidance issued by the European Insurance CFO Forum, as described on pages 282 to 288.

The Board of Directors is responsible for the preparation of the EV Report, including the applied methodology and the assumptions used. Our responsibility is to express an opinion on whether the EV Report has been properly prepared in accordance with the MCEV Principles and Guidance.

We conducted our audit in accordance with Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the EV Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the EV Report. An audit also includes assessing the principles used and significant estimates made by the Board of Directors, as well as evaluating the adequacy of the overall presentation of the EV Report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the EV Report for the companies and business reported in Zurich Financial Services Ltd's Global Life segment for the year ended December 31, 2009 has been properly prepared in accordance with the MCEV Principles and Guidance.

This report has been prepared solely for the Board of Directors of Zurich Financial Services Ltd in accordance with the terms of our engagement letter. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown except where explicitly agreed by our prior consent in writing. This report does not extend to any financial statements of Zurich Financial Services Ltd.

PricewaterhouseCoopers AG

Patrick Shouvlin

Audit expert

Auditor in charge

Ray Kunz

Audit expert

Principal activity and review of the year

Zurich Financial Services Ltd was incorporated on April 26, 2000 and is the holding company for the Zurich Financial Services Group with a principal activity of holding subsidiary companies. The company is listed on the SIX Swiss Exchange.

In December 2009, Zurich Financial Services Group completed an important step in the rationalization of its Group holding legal structure. As part of the overall legal restructuring Zurich Group Holding (ZGH), the Group's penultimate holding company has been merged with Zurich Financial Services Ltd. To enable this transaction, Allied Zurich Limited, a 100% owned subsidiary of Zurich Financial Services Ltd, sold its 42.3% share in ZGH to Zurich Financial Services Ltd on August 19, 2009. With the removal of these holding companies from the structure, Zurich Financial Services Ltd is now the immediate holding company of Zurich Insurance Company Ltd, the Group's main operating company. These transactions resulted in a net gain of CHF 2,642 million, which is included in other financial income.

Net income for the year was CHF 4,082 million compared with CHF 2,658 million in the prior year. The increase reflects the net gain from the restructuring of ZGH and Allied Zurich Limited offset by lower dividend income from subsidiary companies.

The Annual General Meeting on April 2, 2009, approved a gross dividend of CHF 11.00 per share. This gross dividend has been recognized through shareholders' equity.

On April 17, 2009, Zurich Financial Services Ltd placed 4,800,000 new shares issued under its authorized share capital and 1,914,096 existing treasury shares, bought back under the share buy-back program authorized in 2008, with institutional investors via an accelerated bookbuild. The proceeds of CHF 1.2 billion from the accelerated bookbuild were used in connection with the funding of the 21st Century acquisition.

The issuance of shares, net income for the year and the dividend paid in 2009 resulted in an increase in shareholders' equity to CHF 20,383 million as of December 31, 2009 from CHF 16,783 million as of December 31, 2008. The Board will propose a dividend of CHF 16 per share in respect of the year 2009 for approval at the Annual General Meeting to be held on March 30, 2010.

Income statements

in CHF thousands, for the years ended December 31	Notes	2009	2008
Revenues			
Interest income		249,729	244,463
Dividend income		1,500,594	2,708,654
Other financial income	3	2,704,381	46,162
Total revenues		4,454,704	2,999,279
Expenses			
Administrative expense	4	(55,279)	(12,301)
Other financial expense	5	(306,687)	(306,534)
Tax expense	6	(10,333)	(22,407)
Total expenses		(372,298)	(341,242)
Net income		4,082,406	2,658,037

Balance sheets

Assets			Notes	2009	2008
	in CHF thousands, as of December 31				
	Non-current assets				
	Investments in subsidiaries		7	11,678,292	10,953,361
	Subordinated loans to subsidiaries		8	10,293,539	4,000,000
	Total non-current assets			21,971,831	14,953,361
	Current assets				
	Cash and cash equivalents			11,341	1,081
	Loans to subsidiaries			691,320	2,546,345
	Own shares			415,945	850,613
	Receivable from third parties			5	–
	Accrued income from subsidiaries			6,482	100,446
	Derivatives with subsidiaries			400	650
	Total current assets			1,125,493	3,499,135
	Total assets			23,097,324	18,452,497

Liabilities and shareholder's equity	Short-term liabilities				
	Loans from subsidiaries			2,086,058	1,653,549
	Other liabilities to third parties			35,632	14,828
	Other liabilities to shareholders			239	199
	Accrued liabilities to subsidiaries			15,179	–
	Accrued liabilities to third parties			400	730
	Derivatives with subsidiaries			3,585	–
	Total short-term liabilities			2,141,093	1,669,306
	Long-term liabilities				
	Long-term loans from subsidiaries			542,555	–
	Provisions			31,092	–
	Total long-term liabilities			573,647	–
	Total liabilities			2,714,740	1,669,306
	Shareholders' equity (before appropriation of available earnings)				
	Share capital		10	14,747	14,212
	Legal reserves:				
	<i>General legal reserve</i>			10,551,524	9,525,071
	<i>Reserve for treasury shares</i>		11	887,906	1,575,468
	Free reserve			3,425,820	2,738,258
	Retained earnings:				
	<i>As of January 1</i>			2,930,181	2,360,275
<i>Dividends paid</i>			(1,510,001) ¹	(2,088,131) ²	
<i>As of January 1, adjusted for appropriations</i>			1,420,180	272,144	
Net income			4,082,406	2,658,037	
Retained earnings, as of December 31			5,502,586	2,930,181	
Total shareholders' equity (before appropriation of available earnings)			20,382,584	16,783,191	
Total liabilities and shareholders' equity			23,097,324	18,452,497	

¹ Dividends paid in the year, proposed in respect of the 2008 result

² Dividends paid in the year, proposed in respect of the 2007 result

Notes to the financial statements

1. Basis of Presentation

Zurich Financial Services Ltd (the Company) presents its financial statements in accordance with Swiss law.

Unless otherwise stated all amounts in these financial statements including the notes are shown in Swiss franc thousands, rounded to the nearest thousand.

2. 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. Unrealized exchange losses are recorded in the statement of income and 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. They are carried at a value no higher than their cost price less adjustments for impairment.

c) Own shares

Own shares are held at lower of cost or market value.

3. Other financial income

Other financial income includes CHF 2,642 million net realized capital gains resulting from the restructuring of the Company's immediate subsidiary holding companies, Zurich Group Holding (ZGH) and Allied Zurich Limited completed during 2009.

4. Administrative expense

Administrative expense includes directors' fees of CHF 3.6 million for 2009 and CHF 3.5 million for 2008, see note 14 page 311, and overhead fees of CHF 10 million for 2009 and CHF 7 million for 2008.

5. Other financial expense

Other financial expense includes CHF 75 million net losses on own shares for 2009 and CHF 250 million for 2008.

6. Taxes

The tax expense consists of income, capital and other taxes.

7. Investments in subsidiaries

In December 2009, ZGH, the Group's penultimate holding company, has been merged into Zurich Financial Services Ltd. To enable this transaction, Allied Zurich Ltd., a 100% owned subsidiary of Zurich Financial Services Ltd, had already sold its 42.3% share in ZGH to Zurich Financial Services Ltd on August 19, 2009. As of December 31, 2008, Zurich Financial Services Ltd held a 57.7% interest in ZGH with a carrying value of CHF 6,355 million. As a result of the merger with ZGH, Zurich Financial Services EUB Holdings Limited is now owned directly by the Company.

Investment in subsidiaries

as of December 31	2009		2008	
	Carrying value ¹	Ownership in %	Carrying value ¹	Ownership in %
Zurich Insurance Company Ltd	11,087,485	100.00	2,750	0.06
Zurich Financial Services EUB Holding Ltd	554,754	99.90	–	0.00
Allied Zurich Limited	175	100.00	4,595,865	100.00
Zurich Group Holding	–	0.00	6,354,746	57.70
Other investments in subsidiaries	35,878	–	–	–
Total	11,678,292	–	10,953,361	–

¹ in CHF thousands

8. Subordinated loans to subsidiaries

Subordinated loans of CHF 4,000 million and CHF 6,132 million have been made to the company's subsidiary, Zurich Insurance Company Ltd.

9. Commitments and contingencies

Zurich Financial Services Ltd has provided unlimited guarantees in support of various entities belonging to the Zurich Capital Markets group of companies. In addition, Zurich Financial Services Ltd has agreed with the Superintendent of Financial Institutions, Canada, to provide additional capital in case the applicable capital adequacy tests for the Canadian business are not met and to provide assistance in case of liquidity issues.

Zurich Financial Services Ltd has entered into various support agreements and guarantees for the benefit of certain of its subsidiaries and their directors. These contingencies amounted to CHF 15,851 million as of December 31, 2009 and CHF 4,714 million as of December 31, 2008. CHF 9,373 million of CHF 15,851 million relate to guarantees in the aggregate amount of GBP 5,595 million provided to a fully owned subsidiary and some of its directors in connection with the rationalization of the Group's top legal holding structure which resulted in the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009. Furthermore, Zurich Financial Services Ltd has issued an unlimited guarantee in favour of the Institute of London Underwriters in relation to business transferred to Zurich Insurance Public Plc, from a group company, which no longer has insurance licenses.

Zurich Financial Services Ltd knows of no event that would require it to satisfy any of these guarantees or to take action under a support agreement.

10. Shareholders' equity

a) Issued share capital

As of December 31, 2009, Zurich Financial Services Ltd had 147,473,068 issued and fully paid registered shares of CHF 0.10 par value, amounting to total issued share capital of CHF 14,747,306.80. As of December 31, 2008, the share capital amounted to CHF 14,212,262.00, divided into 142,122,620 fully paid registered shares of CHF 0.10 par value.

As of December 31, 2008, Zurich Financial Services Ltd had bought back 3,750,500 of its registered shares over a second trading line within its buyback program authorized by the Board of Directors on February 13, 2008. In March 2009, the Board of Directors decided not to propose the destruction of these shares to the Annual General Meeting of shareholders but to keep the shares as treasury shares for use in connection with the funding of potential acquisitions

in the future or for employee share-based compensation. This rededication of the shares has been approved by the Swiss Takeover Board.

At the Annual General Meeting on April 2, 2009 the shareholders approved an increase in both authorized and contingent share capital to a new maximum of CHF 1,000,000.00 each, allowing for enhanced financial flexibility of the company for future capital management. On April 17, 2009, Zurich Financial Services Ltd placed 4,800,000 new shares issued under its authorized share capital and 1,914,096 existing treasury shares, bought back under the share buy-back program authorized in 2008, with institutional investors via an accelerated bookbuild. This capital increase reduced the authorized but not issued capital to CHF 520,000. The proceeds from the accelerated bookbuild were used in connection with the funding of the 21st Century acquisition completed on July 1, 2009.

During the year 2009, a total of 550,448 shares were issued to employees out of the contingent capital.

At the Annual General Meeting on April 3, 2008, the shareholders approved a share capital reduction of CHF 343,250.00 from CHF 14,554,682.00 to CHF 14,211,432.00 by cancelling 3,432,500 registered shares that were bought back under the share buy-back program announced on February 15, 2007. The effective date of the capital reduction was June 27, 2008. During the year 2008, a total of 8,300 shares were issued to employees out of the contingent capital.

b) Authorized share capital

Until April 3, 2011, the Board of Zurich Financial Services Ltd is authorized to increase the share capital by an amount not exceeding CHF 520,000.00 by issuing up to 5,200,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board determines the date of issue of such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the beginning of dividend entitlement. 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 pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or withdraw the pre-emptive rights of shareholders and to allocate them to third parties if the shares are to be used for the take-over of an enterprise, or parts of an enterprise or of participations or if issuing shares for 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.

c) Contingent share capital

Capital market instruments and option rights to shareholders

The share capital of Zurich Financial Services Ltd may be increased by an amount not exceeding CHF 1,000,000.00 by the issuance of up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each (i) by exercising of conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services Ltd or one of its Group companies in national or international capital markets; and/or (ii) by exercising option rights which are granted to current shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board of Directors is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at then current convertible bond or warrant issue conditions. The conversion rights may be exercisable during a maximum of ten years and option rights for a maximum of seven years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions, whereby for shares of Zurich Financial Services Ltd the quoted share price is to be used as a basis.

Employee participation

On February 14, 2007, the Board of Directors of Zurich Financial Services Ltd decided to allow the issuance of up to 4,000,000 shares out of the contingent share capital to employees of the Group. A respective proposal for the increase of the contingent share capital was made by the Board of Directors to the shareholders and was approved at the Annual General Meeting on April 3, 2007. On January 1, 2008, the contingent share capital, to be issued to employees of Zurich Financial Services Ltd and Group companies, amounted to CHF 320,257.90 or 3,202,579 fully paid registered shares with a nominal value of CHF 0.10 each. During 2009 and 2008, 550,448 and 8,300 shares, respectively, were issued to employees out of the contingent share capital under the program described above. As a result, on December 31, 2009 and 2008, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Financial Services Ltd and its subsidiaries, amounted to CHF 264,383.10 and CHF 319,427.90 or 2,643,831 and 3,194,279 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each. The pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board of Directors and take into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to the employees at a price lower than that quoted on the stock exchange.

11. Reserve for treasury shares

This reserve fund corresponds to the purchase value of all Zurich Financial Services Ltd shares held by companies in the Zurich Financial Services Group as shown in the table below.

Reserve for treasury shares	Number of shares 2009	Purchase value 2009 ¹	Number of shares 2008	Purchase value 2008 ¹
As of January 1	5,219,803	1,575,468	5,839,154	2,028,863
Additions during the year	1,410,162	343,345	3,750,700	1,100,609
Sales during the year	(3,360,627)	(1,030,907)	(937,551)	(304,107)
Decrease due to share cancellations			(3,432,500)	(1,249,897)
As of December 31	3,269,338	887,906	5,219,803	1,575,468
Average purchase price of additions, in CHF		243		293
Average selling price, in CHF		212		264

¹ in CHF thousands

In its meeting of February 3, 2010, the Board of Directors decided to propose to the Annual General Meeting 2010 the destruction of the remaining 1,836,404 shares from the share buyback program authorized by the Board of Directors on February 13, 2008. Since their rededication in March 2009 these shares were held as treasury shares for use in connection with the funding of potential acquisitions in the future or for employee share-based compensation plans.

12. Shareholders

The shares registered in the share ledger as of December 31, 2009, were owned by 117,331 shareholders of which 111,529 were private individuals holding 21.0% of the shares (or 12.8% of all outstanding shares), 2,047 were foundations and pension funds holding 7.9% of the shares (or 4.8% of all outstanding shares), and 3,755 were other legal entities holding 71.1% of the shares (or 43.3% of all outstanding shares).

According to the information available on December 31, 2009, no shareholder of Zurich Financial Services Ltd held more than 5% of the voting rights of the issued share capital.

Information required by art. 663c paragraph 3 of the Swiss Code of Obligations on the share and option holdings of the members of the Board of Directors and the members of the Group Executive Committee are disclosed in note 15.

13. Information on the risk assessment process

Refer to the disclosures in the Risk Review on pages 97 to 135 of this Financial Report.

14. Remuneration of the Board of Directors and the Group Executive Committee

This note sets out details of the compensation of the Board of Directors and of the members of the Group Executive Committee (GEC) in accordance with the information required by article 663bbis of the Swiss Code of Obligations. This information should be read in connection with the unaudited Remuneration Report, set out on pages 50 to 67, in which additional details of the remuneration principles and plans can be found.

The compensation paid to the Directors for their Board membership of Zurich Financial Services Ltd, the holding company of the Group, and Zurich Insurance Company Ltd is paid entirely by Zurich Financial Services Ltd. The fees for Mr de Swaan's additional Board membership in Zurich Insurance plc and for the additional Board memberships of Mrs Bies and Mr Nicolaisen in Zurich Holding Company of America (ZHCA) are paid by the respective companies. Compensation paid to the members of the GEC is not paid by Zurich Financial Services Ltd, but by the Group entities where they are employed. The compensation shown below includes the compensation that the members of the Board and the GEC received for all their functions in the Group. As the financial statements of the holding company are presented in Swiss francs, all figures are shown in Swiss francs, despite the fact that the fees paid by Zurich Financial Services Ltd to the Directors are defined in U.S. dollars. To be consistent with the figures in the unaudited Remuneration Report the totals of the remuneration paid to the members of the Board and the GEC are also presented in U.S. dollars, as set out in that report. Year-on-year comparison in Swiss francs is affected by the actual exchange rates during the year.

Remuneration of Directors

The following tables set out the total fees paid to Directors of Zurich Financial Services Ltd. All the Directors are also Directors of Zurich Insurance Company Ltd. The Directors receive a combined fee for their work in connection with Zurich Financial Services Ltd and Zurich Insurance Company Ltd. In addition, Mr. de Swaan is a member of the Board of Zurich Insurance plc in Ireland and during 2009 Mrs Bies and Mr Nicolaisen have been elected members of the Board in Zurich Holding Company of America (ZHCA). There were no changes in the fee structure in 2009 compared with 2008. A fixed portion of the fee was allocated towards the provision of sales-restricted Zurich Financial Services Ltd shares. As in 2008 the portion for the Chairman was set at USD 233,500 (CHF 254,824 for 2009 and CHF 250,846 for 2008), and the portion for the other Board of Directors at USD 68,500 (CHF 74,756 for 2009 and CHF 73,590 for 2008). The overall fees are set out in the following tables:

Directors' fees
2009

in CHF ¹	2009 ²						
	Basic Fee	Committee Fee ³	Chair Fee ⁴	U.S. Residence Fee/Other ⁵	Total Fees	Of which paid in Cash ⁶	Of which allocated in Shares ^{7,8}
M. Gentz, Chairman ⁹	763,926	–	–	–	763,926	509,102	254,824
Ph. Pidoux, Vice Chairman ⁹	360,137	–	–	–	360,137	285,381	74,756
S. Bies, Member	223,721	43,653	–	21,827 ¹⁰	289,201	214,445	74,756
V. Chu, Member	223,721	43,653	–	–	267,374	192,618	74,756
Th. Escher, Member	223,721	43,653	–	–	267,374	192,618	74,756
F. Kindle, Member	223,721	43,653	–	–	267,374	192,618	74,756
A. Meyer, Member	223,721	43,653	–	–	267,374	192,618	74,756
D. Nicolaisen, Member	223,721	43,653	32,739	21,827 ¹⁰	321,940	247,184	74,756
V.L. Sankey, Member	223,721	43,653	21,827	–	289,201	214,445	74,756
T. de Swaan, Member	223,721	43,653	21,827	54,566 ¹⁰	343,767	269,011	74,756
R. Watter, Member	223,721	43,653	–	–	267,374	192,618	74,756
Total in CHF¹¹	3,137,552	392,877	76,393	98,220	3,705,042	2,702,658	1,002,384
Total in USD	2,875,000	360,000	70,000	90,000	3,395,000	2,476,500	918,500

Directors' fees
2008

	in CHF ¹					2008 ²	
	Basic Fee	Committee Fee ³	Chair Fee ⁴	U.S. Residence Fee/Other ⁵	Total Fees	Of which paid in Cash ⁶	Of which allocated in Shares ^{7,12}
M. Gentz, Chairman ⁹	752,011	–	–	–	752,011	501,165	250,846
Ph. Pidoux, Vice Chairman ⁹	354,519	–	–	–	354,519	280,929	73,590
S. Bies, Member ¹³	163,338	31,871	–	7,968	203,177	148,598	54,579
V. Chu, Member ¹³	163,338	31,871	–	–	195,209	140,630	54,579
Th. Escher, Member	220,232	42,972	–	–	263,204	189,614	73,590
F. Kindle, Member	220,232	42,972	–	–	263,204	189,614	73,590
A. Meyer, Member	220,232	42,972	–	–	263,204	189,614	73,590
D. Nicolaisen, Member ¹⁴	220,232	42,972	29,454	10,743	303,401	229,811	73,590
V.L. Sankey, Member	220,232	42,972	21,486	–	284,690	211,100	73,590
G. Schulmeyer, Member ¹³	56,894	11,101	8,325	2,775	79,095	79,095	–
T. de Swaan, Member ¹⁵	220,232	42,972	15,935	32,408 ¹⁶	311,547	237,957	73,590
R. Watter, Member	220,232	42,972	–	–	263,204	189,614	73,590
Total in CHF¹¹	3,031,724	375,647	75,200	53,894	3,536,465	2,587,741	948,724
Total in USD	2,822,042	349,667	69,999	50,167	3,291,875	2,408,767	883,108

¹ The total fees (including the portion allocated in shares) provided to Directors by Zurich Financial Services Ltd amounted to CHF 3,705,042 for 2009 and to CHF 3,536,465 for 2008, calculated on the basis of the exchange rates at the dates of payment. These amounts, except for the fees earned by Mr de Swaan for his Board membership in Zurich Insurance plc and for the additional Board memberships of Mrs Bies and Mr Nicolaisen in Zurich Holding Company of America (ZHCA), are reflected in the income statement of the holding company. As the fees of the Directors are actually defined in U.S. dollars and the total of fees in U.S. dollars amounts to USD 3,395,000 for 2009 and to USD 3,291,875 for 2008, the average exchange rates were USD/CHF 1.0913 for 2009 and USD/CHF 1.0743 for 2008. All figures shown in Swiss francs in the above table have been translated from US dollars using the relevant average exchange rate.

² The remuneration shown in the tables does not include any business-related expenses incurred in the performance of Board members' services.

³ Committee members receive a cash fee of USD 40,000 for all Committees on which they serve, irrespective of the number. The Committees on which the Board members serve are set out in the Corporate Governance Report on page 29.

⁴ Committee chairs receive an annual fee of USD 20,000 and the chair of the Audit Committee receives an additional USD 10,000. The Committees on which the Board members serve and the chairs are set out in the Corporate Governance Report on page 29.

⁵ Directors who reside in the United States receive a fee of USD 10,000 per annum.

⁶ The cash fees are defined in U.S. dollars, but paid in the actual currencies where the Board members reside, based on the relevant exchange rate at the dates of the payment.

⁷ The shares allocated to the Directors are sales-restricted for three years.

⁸ As of June 30, 2009, Mr Gentz was allocated 1,296 shares and the other Board members 380 shares based on a full year's membership. The share price (CHF 197.10) and the exchange rate (USD/CHF 1.0942) as of June 15, 2009, were 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.

The amounts shown in the table above reflect the fixed amount in U.S. dollars (translated into Swiss francs) of the portion of the fee to be allocated in shares.

⁹ Neither the Chairman nor the Vice Chairman receive any additional fees for their Committee work.

¹⁰ In addition to the fees received as Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd, Mrs Bies, Mr Nicolaisen and Mr de Swaan earned fees for their board memberships of the following Zurich Financial Group companies:

– Mrs Bies, Mr Nicolaisen a pro rata fee of USD 10,000 for their membership on the board of Zurich Holding Company of America (ZHCA) since October 19, 2009 (based on an annual fee of USD 40,000). The amounts shown in the table also include a US Residence Fee of USD 10,000.

– Mr de Swaan earned an annual fee of USD 40,000 for his membership of the board of Zurich Insurance plc and an annual fee of USD 10,000 for being Chair of the audit committee of Zurich Insurance plc in Ireland.

¹¹ In line with applicable laws, Zurich paid the company-related portion of contributions to social security systems, which amounted to USD 80,670 (CHF 87,371) in 2009. The corresponding contributions amounted to USD 69,305 (CHF 74,454) in 2008. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above.

¹² As of June 30, 2008, Mr Gentz was allocated 861 shares and the other Board members 252 shares based on a full year's membership. The share price (CHF 284.00) and the exchange rate (USD/CHF 1.0476) as of June 15, 2008, were 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. The amounts shown in the table above reflect the fixed amount in U.S. dollars (translated into Swiss francs) of the portion of the fee to be allocated in shares.

¹³ The following Board membership changes occurred in 2008:

– Mrs Bies and Mr Chu joined the Board on April 3, 2008 and received pro rata fees in cash and shares for their Board work from that date.

– Mr Schulmeyer retired from the Board on April 3, 2008 and received a pro rata fee in cash for his Board work up to that date.

¹⁴ Mr Nicolaisen became Chairman of the Audit Committee on April 3, 2008 following the retirement of Mr Schulmeyer. He received a pro rata fee for being Chair. Prior to that he was Chairman of the Risk Committee.

¹⁵ Mr de Swaan became Chairman of the Risk Committee on April 3, 2008. He received a pro rata fee for being Chair.

¹⁶ In addition to the fees he received as a Director of Zurich Financial Services Ltd and Zurich Insurance Company Ltd, Mr de Swaan earned a pro rata fee of USD 28,111 for his membership of the board of Zurich Insurance plc from April 17, 2008 (based on an annual fee of USD 40,000). He additionally also earned a pro rata fee of USD 2,056 for being Chair of the audit committee of Zurich Insurance plc from October 16, 2008 (based on an annual fee of USD 10,000).

The Directors' fees are not pensionable. None of the Directors received any benefits-in-kind or any other compensation other than those set out in the tables above.

Except for Mr Watter none of the Directors had outstanding loans, advances or credits as of December 31, 2009 or 2008. Unrelated to his Board membership and on terms and conditions available to other customers, Mr Watter had a collateralized policy loan of CHF 2.5 million outstanding as of December 31, 2009 and 2008. The annual interest rate charged on the loan is 4%.

No benefits (or waiver of claims) have been provided to former members of the Board during the year 2009, or during the year 2008. Neither had any former member of the Board outstanding loans, advances or credits as of December 31, 2009 or 2008.

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 year 2009, nor during the year 2008. Neither had any related party of the Directors or of former members of the Board outstanding loans, advances or credits as of December 31, 2009 or 2008.

Remuneration of Group Executive Committee

The total remuneration of the members of the GEC for 2009 comprised the value of cash compensation, pensions, other remuneration and the value of the target equity grants made under the Group's Long-Term Incentive Plan in 2009 and is calculated on the same basis as in 2008. Overall compensation of the GEC members in total and the overall compensation of the highest paid executive are set out in the following tables:

All GEC members (incl. the highest paid)	in CHF million ^{1, 2} for the years ended December 31	2009 ³	2008 ⁴
		Base compensation	12.00
Cash incentive awards earned for the year		15.50	14.40
Service Costs for pension benefits ⁵		3.90	4.80
Value of other remuneration ⁶		2.30	3.10
Value of target performance share and restricted share grants ⁷		9.10	9.90
Value of target performance option grants ⁷		9.10	9.90
Total in CHF million⁸		51.90	56.60
Total in USD million as shown in the Remuneration Report		47.80	53.90

¹ The figures have been translated from U.S. dollars into Swiss francs using the relevant exchange rates throughout the year.

² The remuneration shown in the table does not include any business related expenses incurred in the performance of the GEC members' services.

³ On the basis of 11 GEC members of whom 10 served during the full year 2009.

⁴ On the basis of 12 GEC members, all of whom served during the full year 2008.

⁵ The amounts reflect the total value of pension benefits accruing to members of the GEC during 2009 and 2008, respectively, 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 takes the amount of the company contribution paid during the year. Service Costs do not include the interest cost on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.

⁶ Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under employment contracts. Benefits-in-kind have been valued using market rates.

⁷ The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100% of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in note 25 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 198.10 for 2009 and CHF 336.50 for 2008) and the valuation of the restricted share grants based on the share price on the date of the grants.

⁸ 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 USD 1.9 million (CHF 2.0 million) in 2009 and to USD 3.4 million (CHF 3.7 million) in 2008. Since the contributions are based on full earnings, whereas benefits are capped, there is not a direct correlation between the costs paid to the social security system and the benefits received by the executives.

Highest paid executive James J. Schiro, Chief Executive Officer	in CHF millions ^{1, 2} for the years ended December 31	2009	2008
		Base compensation	1.60
Cash incentive awards earned for the year		4.20	2.40
Service Costs for pension benefits ³		1.00	0.90
Value of other remuneration ⁴		0.95	0.50
Value of target performance share and restricted share grants ⁵		2.55	2.30
Value of target performance option grants ⁵		2.55	2.30
Total in CHF million		12.85	10.00
Total in USD million as shown in the Remuneration Report		11.85	9.55

¹ The figures have been translated from U.S. dollars into Swiss francs using the relevant exchange rates throughout the year.

² The remuneration shown in the table does not include any business related expenses incurred in the performance of the CEO's services.

³ The amounts reflect the total value of pension benefits, 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 takes the amount of the company contribution paid during the year. Service Costs do not include the interest cost on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.

⁴ Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under the employment contract. Benefits-in-kind have been valued using market rates.

⁵ The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100% of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in note 25 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 198.10 for 2009 and 336.50 for 2008) and the valuation of the restricted share grants based on the share price on the date of the grants.

As of December 31, 2009, and 2008, the total of loans, advances or credits outstanding from GEC members was CHF 1,073,000 and CHF 1,082,000, respectively. These loans represent mortgage loans, the terms of which are similar to those available to all employees in Switzerland. Mortgage loans are issued with a reduced interest rate of up to one percentage point less than the prevailing market interest rates on mortgage balances, up to a maximum of CHF 1,500,000. As of December 31, 2009 and 2008, the highest mortgage loan was held by Mr Lehmann (Group Chief Risk Officer), in the amount of CHF 773,000 (CHF 782,000 in 2008), which had an overall interest rate of 2.1% (2.6% in 2008).

One of the GEC members retired at the end of 2008. During 2009 one member retired at the end of April 2009 and another member retired at the end of the year. No termination payments were made.

No benefits (or waiver of claims) have been provided to former members of the GEC during the year 2009, nor during the year 2008.

Former members of the GEC 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 stated above. In this respect, one former member, Mr Eckert, held an outstanding mortgage loan of CHF 2,500,000 as of December 31, 2009 (CHF 3,000,000 as of December 31, 2008), with a reduced interest rate of 2.0% (2.5% in 2008) applying on the first CHF 1,000,000 (CHF 1,500,000 in 2008). Apart from this, no former members of the GEC had any outstanding loans, advances or credits as of December 31, 2009, and 2008.

No benefits (or waiver of claims) have been provided to related parties of GEC members or related parties of former members of the GEC during the year 2009 or 2008. Neither had any related party of GEC members or of former members of the GEC outstanding loans, advances or credits as of December 31, 2009 or 2008.

15. Shareholdings of the Board of Directors and the Group Executive Committee

Share and share option holdings of the Directors and of the members of the Group Executive Committee (GEC), who held office at December 31, 2009 and 2008, are set out below in accordance with the information required by article 663c paragraph 3 of the Swiss Code of Obligations. This information is also included in the unaudited Remuneration report, set out on pages 50 to 67 of the Financial Report in which additional details can be found.

Shareholdings of Directors

Directors' shareholdings	Number of Zurich Financial Services Ltd shares ¹ , as of December 31	Ownership of shares	
		2009	2008
	M. Gentz, Chairman	4,274	2,978
	Ph. Pidoux, Vice Chairman	2,850	2,470
	S. Bies, Member	567	187
	V. Chu, Member	567	187
	Th. Escher, Member	5,850	5,470
	F. Kindle, Member	10,850	10,470
	A. Meyer, Member	2,174	1,794
	D. Nicolaisen, Member	850	470
	V.L. Sankey, Member	2,020	1,640
	T. de Swaan, Member	850	470
	R. Watter, Member	3,818	3,438
	Total	34,670	29,574

¹ None of the Directors together with related parties to them held more than 0.5% of the voting rights as at December 31, 2009 or 2008, respectively.

All interests are beneficial, include sales-restricted shares allocated to the members as part of their fees and shares held by related parties of the Directors.

None of the Directors, nor any related party of a Director, hold any share options or conversion rights over Zurich Financial Services Ltd shares as of December 31, 2009 or 2008.

Share and share option holdings of the Group Executive Committee members

The following table sets out the actual share and share option holdings of GEC members as of December 31, 2009 and 2008. In addition to any shares acquired in the market, the numbers include vested shares, whether sales-restricted or not, and vested share options received under the Group's Long-Term Incentive Plan. However, the table does not include the share interests of the members of the GEC through their participation in the currently unvested performance shares, unvested restricted shares or unvested performance share options.

All interests are beneficial and include Zurich Financial Services Ltd shares or share options held by parties related to the GEC members. One vested option gives the right to one share with normal voting and dividend rights. Further details on the overall number of share options allocated under the Group's Long-Term Incentive Plan and the terms of the options are set out in the tables "Summary of outstanding options."

Share and vested share option holdings of the GEC members	Number of vested shares and vested share options ¹ , as of December 31	2009		2008	
		Ownership of shares	Ownership of vested options over shares ²	Ownership of shares	Ownership of vested options over shares ²
J.J. Schiro, Chief Executive Officer ³		97,426	286,165	85,726	230,415
J. Amore, Chief Executive Officer General Insurance		19,264	82,522	19,606	76,096
A. Court, Chief Executive Officer Europe General Insurance		6,722	16,515	3,062	5,696
M. Foley, Chief Executive Officer North America Commercial		6,696	11,696	4,107	3,857
M. Greco, Chief Executive Officer Global Life		2,403	5,076	492	–
P. Hopkins, Chairman of the Board of Farmers Group, Inc. & Chief Executive Officer Americas		5,932	33,662	6,678	21,184
A. Lehmann, Group Chief Risk Officer		15,174	56,257	13,066	49,871
P. O'Sullivan ⁴		n.a.	n.a.	15,848	54,315
G. Riddell, Chairman of Global Corporate & Chief Executive Officer Asia-Pacific and Middle East		16,918	52,533	12,410	44,846
M. Senn, Chief Investment Officer		11,662	31,729	6,780	16,019
P. van de Geijn ⁵		n.a.	n.a.	10,952	44,034
D. Wemmer, Chief Financial Officer		12,612	48,868	9,267	36,630
Total		194,809	625,023	187,994	582,963

¹ None of the GEC members together with parties related to them held more than 0.5% of the voting rights as at December 31, 2009 or 2008, either directly or through share options.

² The distribution of the vested options according to the grants identified in the tables "Summary of outstanding options" is shown in the table below.

³ Includes an amount of 3,800 shares as of December 31, 2009 and 2008, for Mr Schiro, which are held by family run charitable foundations.

⁴ Mr O'Sullivan retired from the GEC on April 30, 2009.

⁵ Mr van de Geijn retired from the GEC on December 31, 2008.

The following tables show how the totals of vested share options owned by GEC members as of December 31, 2009 and 2008, are distributed according to the grants identified in the tables "Summary of outstanding options."

Distribution of vested share options 2009

Number of vested share options as of December 31, 2009	Year of grant							Total
	2008	2007	2006	2005	2004	2003	2001	
J.J. Schiro	22,730	56,980	83,690	98,567	24,198	–	–	286,165
J. Amore	6,440	15,865	17,893	17,269	15,913	–	9,142	82,522
A. Court	5,585	10,930	–	–	–	–	–	16,515
M. Foley	4,293	7,403	–	–	–	–	–	11,696
M. Greco	5,076	–	–	–	–	–	–	5,076
P. Hopkins	4,830	11,899	13,420	10	3,503	–	–	33,662
A. Lehmann	6,344	11,899	13,420	15,962	8,632	–	–	56,257
G. Riddell	5,319	13,014	12,194	15,633	6,373	–	–	52,533
M. Senn	6,344	13,583	11,802	–	–	–	–	31,729
D. Wemmer	6,873	14,715	11,802	12,850	2,628	–	–	48,868
Total	73,834	156,288	164,221	160,291	61,247	–	9,142	625,023

Distribution of vested share options 2008

Number of vested share options as of December 31, 2008	Year of grant							Total
	2007	2006	2005	2004	2003	2002	2001	
J.J. Schiro	30,166	61,857	98,567	24,198	–	15,627	–	230,415
J. Amore	8,268	13,002	17,269	15,913	–	12,502	9,142	76,096
A. Court	5,696	–	–	–	–	–	–	5,696
M. Foley	3,857	–	–	–	–	–	–	3,857
M. Greco	–	–	–	–	–	–	–	–
P. Hopkins	6,201	9,752	10	3,503	–	1,718	–	21,184
A. Lehmann	6,201	9,752	15,962	8,632	5,363	3,961	–	49,871
P. O'Sullivan ¹	8,815	11,311	19,955	11,647	–	2,587	–	54,315
G. Riddell	6,782	8,861	15,633	6,373	5,694	1,503	–	44,846
M. Senn	7,342	8,677	–	–	–	–	–	16,019
P. van de Geijn ²	7,074	9,848	17,386	9,726	–	–	–	44,034
D. Wemmer	7,954	8,677	12,850	2,628	3,290	1,231	–	36,630
Total	98,356	141,737	197,632	82,620	14,347	39,129	9,142	582,963

¹ Retired from the GEC on April 30, 2009.

² Retired from the GEC on December 31, 2008.

The following tables set out additional details of the options outstanding for members of the GEC as at December 31, 2009 and 2008, respectively. Further details can be found in the unaudited Remuneration report, pages 50 to 67.

Summary of
outstanding
options 2009

as of December 31, 2009

Year of grant	Number of options vested	Number of options unvested	Total number of shares under op- tion	Exercise price per share CHF	Year of expiry
2009	–	143,228	143,228	198.10	2016
2008	73,834	82,861	156,695	336.50	2015
2007	156,288	41,061	197,349	355.75	2014
2006	164,221	–	164,221	308.00	2013
2005	160,291	–	160,291	206.40	2012
2004	61,247	–	61,247	213.25	2011
2003	–	–	–	120.50	2010
2001	9,142	–	9,142	322.30	2012
Total	625,023	267,150	892,173		

Summary of
outstanding
options 2008

as of December 31, 2008

Year of grant	Number of options vested	Number of options unvested	Total number of shares under op- tion	Exercise price per share CHF	Year of expiry
2008	–	148,154	148,154	336.50	2015
2007	98,356	99,300	197,656	355.75	2014
2006	141,737	38,181	179,918	308.00	2013
2005	197,632	–	197,632	206.40	2012
2004	82,620	–	82,620	213.25	2011
2003	14,347	–	14,347	120.50	2010
2002	39,129	–	39,129	331.10	2009
2001	9,142	–	9,142	322.30	2012
Total	582,963	285,635	868,598		

Proposed appropriation of available earnings

as of December 31	2009	2008
Registered shares eligible for dividends		
Eligible shares	147,473,068	142,122,620

in CHF thousands	2009	2008
Appropriation of available earnings as proposed by the Board of Directors		
Net income	4,082,406	2,658,037
Balance brought forward	1,420,180	272,144
Retained earnings	5,502,586	2,930,181
Dividend	(2,359,569) ²	(1,510,001) ¹
Balance carried forward	3,143,017 ²	1,420,180 ¹

¹ These figures are based on the issued share capital on April 7, 2009. The proposed dividend published in the Annual Report 2008 was CHF 1,563,349 thousand resulting in a balance carried forward of CHF 1,366,832 thousand. The difference is due to the purchase of treasury shares and a resolution of the Board of Directors on February 14, 2007, according to which, contingent capital shares for employees have been issued (as described in note 10).

Treasury shares are not entitled to dividends.

² These figures are based on the issued share capital as of December 31, 2009. They may change following a resolution of the Board of Directors dated February 14, 2007, according to which the remaining contingent capital shares for employees may be issued (as described in note 10).

Treasury shares are not entitled to dividends.

The Board of Directors proposes a dividend of CHF 16 per share to the Annual General Meeting on March 30, 2010.

If this proposal is approved, a payment of CHF 10.40 per share, after deduction of 35% Swiss withholding tax, is expected to be paid starting from April 8, 2010, free of charge and in accordance with dividend payment instructions.

Zurich, February 3, 2010

On behalf of the Board of Directors of Zurich Financial Services Ltd

Manfred Gentz

Report of the Statutory Auditor

To the General Meeting of Zurich Financial Services Ltd, Zurich

As statutory auditor, we have audited the financial statements of Zurich Financial Services Ltd, which comprise the income statement, balance sheet and notes (pages 305 to 319), for the year ended December 31, 2009.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2009 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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 (page 320) complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Richard Burger

Raphael Kissling

Audit expert

Audit expert

Auditor in charge

Zurich, February 3, 2010

Auditor's Confirmation

To the Board of Directors of Zurich Financial Services Ltd Zurich

Confirmation in respect of the authorized capital increase

According to your engagement, we have audited your report on the capital increase dated April 17, 2009 in accordance with the provisions of the Swiss Code of Obligations (CO), article 652f, para. 1.

The capital increase report is the responsibility of the Board of Directors. Our responsibility is to perform an audit on the completeness and accuracy of your report. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance as to whether the report on the capital increase was free of material error. We have performed the procedures appropriate in the circumstances. We believe that our audit provides a reasonable basis of our opinion.

In our opinion the report on the capital increase is complete and accurate.

OBT AG

Samuel Brunner

Licensed audit expert

Auditor in charge

Patrick Zahno

Licensed audit expert

Zurich, April 17, 2009

Auditor's Confirmation

To the Board of Directors of Zurich Financial Services Ltd Zurich

Confirmation in respect of the contingent capital increase

According to your engagement, we have audited the issuance of new shares during the period from January 1, 2009 to December 31, 2009 based on the resolutions of the general meetings as of October 16, 2000 and April 3, 2007 in accordance with the provisions of the Swiss Code of Obligations (CO), article 653f. para 1.

The issuance of new shares in accordance with the provisions of Zurich Financial Services Ltd's articles of incorporation is the responsibility of the Board of Directors. Our responsibility is to express an opinion whether the issuance of new shares is in accordance with the provisions of Swiss law and the articles of incorporation. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance as to whether the issuance of new shares was free of material error. We have performed the audit procedures appropriate in the circumstance. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the issuance of total 550,448 registered shares of a nominal value of CHF 0.10 per share and total amount of CHF 55,044.80 was in accordance with the provisions of the Swiss law and the articles of association.

OBT AG

Willi Holdener

Daniel Schweizer

Licensed audit expert

Licensed auditor

Zurich, January 8, 2010



Shareholder Information



Contents

Registered Share Data	328
Financial Calendar	330
Contact Information	330
Glossary	331

Shareholder Information

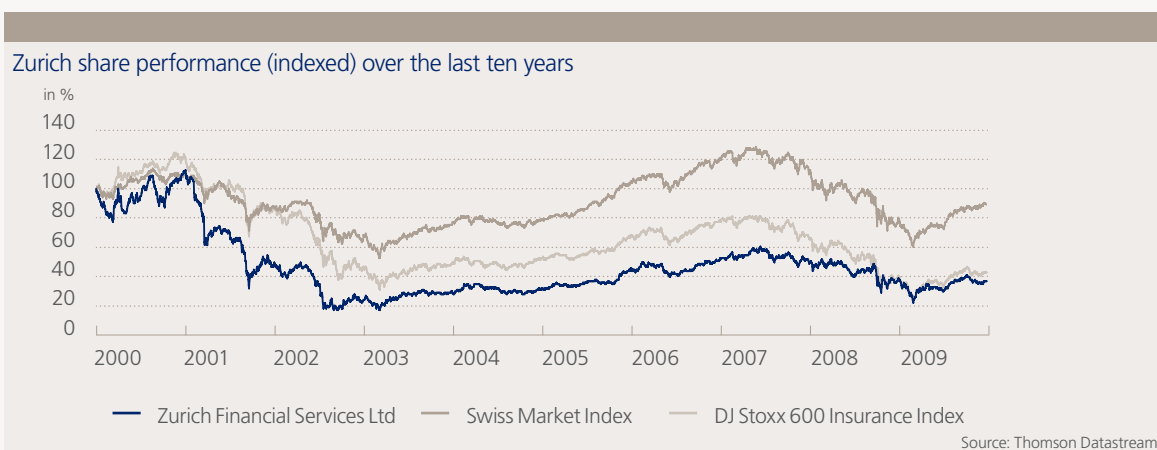
Zurich Financial Services Ltd registered share data

Key indicators	as of December 31	2009	2008
		Number of shares issued	147,473,068
Number of dividend-bearing shares ¹		147,473,068	142,122,620
Market capitalization (in CHF millions at end of period)		33,403	32,262
Authorized capital, number of shares		5,200,000	6,000,000
Contingent capital, number of shares		12,643,831	8,676,107

¹ Treasury shares are not entitled to dividends.

Per share data	in CHF	2009	2008
		Gross dividend	16.00 ¹
Basic earnings per share		24.39	23.53
Diluted earnings per share		24.21	23.35
Book value per share, as of December 31		209.27	167.92
Nominal value per share		0.10	0.10
Price at end of period		226.50	227.00
Price period high		260.00	336.50
Price period low		127.80	175.80

¹ Proposed gross dividend, subject to approval by shareholders at the Annual General Meeting 2010; expected payment date as from April 8, 2010.



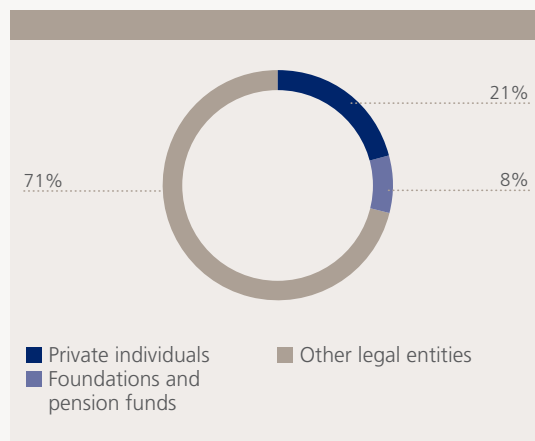
Dividend/ payout history	Financial Year	Gross amount per registered share in CHF	Payment date as from
		Dividend	2009
Dividend	2008	11.00	April 7, 2009
Dividend	2007	15.00	April 8, 2008
Dividend	2006	11.00	April 10, 2007
Dividend/nominal value reduction	2005	7.00	July 4, 2006
Nominal value reduction	2004	4.00	July 4, 2005
Nominal value reduction	2003	2.50	July 1, 2004
Nominal value reduction	2002	1.00	July 15, 2003

¹ Proposed gross dividend, subject to approval by shareholders at the Annual General Meeting 2010; expected payment date as from April 8, 2010.

Share trading

Zurich Financial Services Ltd shares are listed on the SIX Swiss Exchange and traded on the SIX Swiss Exchange Blue Chip Segment; ticker symbol: ZURN; the Swiss security number (Valorenummer) is 1107539. Trading in Zurich Financial Services Ltd shares on the Blue Chip Segment is conducted in Swiss francs.

Zurich Financial Services Ltd shareholders registered in the share ledger



The shares registered in the share ledger as of December 31, 2009, were owned by 117,331 shareholders of whom 111,529 were private individuals holding 21% of the registered shares (13% of all issued shares), 2,047 were foundations and pension funds holding 8% of the registered shares (or 5% of all issued shares), and 3,755 were other legal entities holding 71% of the registered shares (or 43% of all issued shares).

Significant shareholders

As of December 31, 2009 Zurich Financial Services Ltd is not aware of any person or institution, other than the following, who, directly or indirectly, had an interest as beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Financial Services Ltd representing 3% or more of its issued shares:

- BlackRock, Inc., 40 East 52nd Street, New York, 10022, U.S.A., along with its subsidiaries, reported as per December 15, 2009, a purchase position of 3.39% of registered Zurich Financial Services Ltd shares.
- Barclays Plc, 1 Churchill Place, London E14 5HP, United Kingdom, along with its subsidiaries, reported as per May 1, 2009, a purchase position of 3.02% of registered Zurich Financial Services Ltd shares.

Securities custody service

Zurich offers its shareholders the opportunity to deposit Zurich Financial Services Ltd registered shares free of charge at SIX SAG Ltd in Switzerland. The securities deposit regulations as well as the application form for a securities custody account can be downloaded from their Web site: www.six-sag.com

Financial calendar

Annual General Meeting 2010
March 30, 2010

Ex-dividend date
April 1, 2010

Dividend – record date
April 7, 2010

Dividend payable as from
April 8, 2010

Results Reporting for the Three Months to March 31, 2010
May 6, 2010

Investors' Day – Business Update
June 22, 2010

Half Year Results Reporting 2010
August 5, 2010

Results Reporting for the Nine Months to September 30, 2010
November 4, 2010

Publications

Business Review 2009
The Business Review contains information about Zurich's products, services and business performance, including a short summary of financial information. It is available in English, German and French.

Financial Report 2009
The Financial Report contains detailed information about Zurich's financial performance, its structure, executive bodies, risk management, corporate governance and remuneration. It is available in English, German and French with the financials in English only.



For more information please visit
www.zurich.com

Contact information

Registered Office
Zurich Financial Services Ltd
Mythenquai 2
8002 Zurich, Switzerland

Group Media Relations
Zurich Financial Services Ltd, Switzerland
Telephone: +41 (0)44 625 21 00
E-mail: media@zurich.com

Investor Relations
Zurich Financial Services Ltd, Switzerland
Telephone: +41 (0)44 625 22 99
E-mail: investor.relations@zurich.com

Share Register Services
Zurich Financial Services Ltd, Switzerland
Telephone: +41 (0)44 625 22 55
E-mail: shareholder.services@zurich.com

Corporate Responsibility
Group Government and Industry Affairs
Zurich Financial Services Ltd, Switzerland
Telephone: +41 (0)44 625 24 25
E-mail: corporate.responsibility@zurich.com

Securities Custody Service
Zurich Financial Services Ltd
Custody Accounts
c/o SIX SAG Ltd
P.O. Box, 4601 Olten, Switzerland
Telephone: +41 (0)62 311 61 45
Fax: +41 (0)62 205 39 71
Web site: www.six-sag.com

American Depositary Receipts
Zurich Financial Services Ltd has an American Depositary Receipt program with The Bank of New York Mellon (BNY). For information relating to an ADR account, please call BNY Mellon's Shareowner Services in the USA on +1-888-BNY-ADRs (1-888-269-2377) or outside the USA on +1-201-680-6825. General information on the company's ADR-program can be obtained from The Bank of New York Mellon at www.adrbnymellon.com.

Glossary

Group

Business operating profit

is a measure that is the basis on which we manage all our business units. It indicates the underlying performance of our business units by eliminating the impact of financial market volatility and other non-operational variables. Business operating profit reflects adjustments for shareholders' taxes, net capital gains on investments and impairments (except for the capital markets and banking operations included in Other Businesses and investments in hedge funds and certain securities held for specific economic hedging purposes), policyholders' share of investment results for the life businesses, non-operational foreign exchange movements, and significant items arising from special circumstances, including gains and losses on divestments of businesses. Adjusted business operating profit is adjusted for notional investment income on the difference between the average actual International Financial Reporting Standards (IFRS) equity and the average allocated IFRS equity using one global swap rate. Allocated IFRS equity is equal to a segment's pro rata share of the Group's risk-based capital at the respective period end. These measures are not a substitute for net income as determined in accordance with IFRS.

Business operating profit (after-tax) return on common shareholders' equity

indicates the level of business operating profit or loss relative to resources provided by common shareholders. It is calculated as business operating profit or loss, annualized on a linear basis and adjusted for preferred shareholder dividends and taxes, divided by the average value of common shareholders' equity on a simple basis using the value at the beginning and end of the period. Adjusted business operating profit return on common shareholders' equity is based on average IFRS Group equity and is allocated to each segment based on its share of risk-based capital.

Group investments

are those for which we bear part or all of the investment risk. They also include investments related to investment policies with discretionary participation features. Average invested assets exclude cash collateral received for securities lending. We manage our diversified Group investments portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of our Asset/Liability Management and Investment Committee.

Investments for unit-linked products

include such investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked insurance 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.

Operational debt

is a non-IFRS term referring to debt items that are excluded from ratings agency leverage calculations such as collateralized loans, debt related to banking activities and obligations to repurchase securities.

Other related intangible assets

are assets on our Global Life and Farmers Management Services balance sheets and consist of the present value of profits of acquired insurance contracts and attorney-in-fact relationships.

Return on common shareholders' equity (ROE)

is a measure that indicates the level of profit or loss relative to resources provided by common shareholders. It is calculated as net income after taxes attributable to common shareholders, annualized on a linear basis, divided by the average value of common shareholders' equity on a simple basis using the value at the beginning and end of the period.

General Insurance

The following General Insurance measures are net of reinsurance.

Net underwriting result

is calculated as the difference between earned premiums and policy fees and the sum of insurance benefits and losses and net technical expenses.

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.

Combined ratio

is a performance measure that indicates the level of claims and net technical expenses during the period relative to earned premiums and policy fees. It is calculated as earned premiums and policy fees minus the net underwriting result, divided by net earned premiums and policy fees.

Loss ratio

is a performance measure that indicates the level of claims during the period relative to earned premiums and policy fees. It is calculated as insurance benefits and losses, which include paid claims, claims incurred but not reported (IBNR) and claims handling costs, divided by earned premiums and policy fees.

Expense ratio

is a performance measure that indicates the level of technical expenses during the period relative to earned premiums and policy fees. It is calculated as the sum of net technical expenses and policyholder dividends and participation in profits, divided by earned premiums and policy fees.

Net non-technical result

includes the non-technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, other income, as well as net gains and losses on divestments of businesses and interest expense on debt.

Global 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, and options and guarantees are valued using market consistent models calibrated to observable market prices.

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 the gross written premiums and policy fees line item. 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 calculated as new business annual premiums plus 10 percent of single premiums. Present value of new business premiums (PVNBP) is calculated as the value of new business premiums discounted at the risk-free rate.

New business value, after tax

is a measure that reflects the value added by new business written during the period, including allowing 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.

Farmers

Farmers includes Farmers Management Services and Farmers Re. Farmers Management Services provides non-claims related management services to the Farmers Exchanges, prominent writers of personal lines and small commercial lines business in the U.S., which the Group manages, but does not own. Farmers Re includes all reinsurance assumed from the Farmers Exchanges by the Group.

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, which include amortization and impairments of intangible assets.

Managed gross earned premium margin

is a performance measure calculated as gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which we manage but do not own.

Disclaimer & Cautionary Statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predicated on or indicate future events, trends, plans or objectives. Forward-looking statements include statements regarding our targeted profit improvement, return on equity targets, expense reductions, pricing conditions, dividend policy and underwriting claims improvements, as well as statements regarding our 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 Financial Services Ltd or the Zurich Financial Services Group (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 our key markets; (ii) the risk of the global economic downturn and a 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; 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 Financial Services Ltd and its Group and on whether the targets will be achieved. Zurich Financial Services Ltd undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

It should be noted that past performance is not a guide to future performance.

Persons requiring advice should consult an independent 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.

The Financial Report is published in English, German and French. In the case of inconsistencies in the German and French translations, the English original version shall prevail.

Design by Addison, www.addison.co.uk

Production by Multimedia Solutions AG, Zurich, Switzerland

This document is printed on Hello Silk paper. The paper is made from 100% virgin wood fiber from well-managed forests independently certified according to the rules of the Forest Stewardship Council (FSC). It is manufactured at a mill that is certified to ISO14001 and EMAS environmental standards. The mill uses pulps that are totally chlorine-free (TCF), and some pulp is bleached using an elemental chlorine-free (ECF) process. The inks used in printing this report are all vegetable based.

Printed end of February 2010 by St Ives Westerham Press Ltd, England ISO14001, FSC certified and CarbonNeutral®.



Cert no. SGS-COC-1732
www.fsc.org
 © 1996 Forest Stewardship Council

Zurich Financial Services Group

Mythenquai 2
8002 Zurich, Switzerland
Phone +41 (0)44 625 25 25
www.zurich.com

48559-1002

Because change happenz™

